

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of operating and financial results as provided by the management of Caspian Energy Inc. ("Caspian" or "the Corporation" or "the Company") is based on currently available information. This commentary should be read in conjunction with the unaudited condensed interim consolidated financial statements and selected notes for the three months ended March 31, 2015 and the audited consolidated financial statements and notes for the years ended December 31, 2014 and 2013 along with any other documents filed on [www.sedar.com](http://www.sedar.com). This MD&A has been prepared effective May 15, 2015.

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

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

## Basis of presentation

These unaudited condensed interim consolidated financial statements, which present the Corporation's financial position for March 31, 2015 and financial performance as at and for the three months ended March 31, 2015 and 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in effect for the fiscal year beginning January 1, 2013.

On January 1, 2014, the Company adopted IAS 32 Financial Instruments: Presentation, IAS 36 Impairment of Assets and IAS 39 Financial Instruments: Recognition and Measurement. The adoption of these amendments had no impact on the Company's audited consolidated financial statements.

On July 1, 2014, the Company adopted IFRS 2 Share-based Payment, IFRS 3 Business Combinations and IAS 24 Related Party Disclosures. The adoption of these amendments had no impact on the Company's audited consolidated financial statements.

Management wishes to direct readers to Note 12 of the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2015, where the Company's 40% interest in the joint arrangement in Aral Petroleum Capital LLP is disclosed.

## Forward-looking statements and other information

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

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

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

#### **Non-IFRS measurements**

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

#### **Basis of barrel of oil equivalent**

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

#### *Business of the Company*

Caspian has a 40% joint arrangement 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 1,467 square kilometre area located in the vicinity of the Kazakh pre-Caspian basin. The Company's strategy is to focus on the operations of Aral and the significant opportunity it presents in the North Block. See **Corporate overview and developments** where the details of the joint arrangement are more fully disclosed.

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

Caspian accesses western capital markets and utilizes western technology to explore and exploit its Kazakh assets. The proceeds from its financing activities are used to finance its ongoing administrative

expenses and when necessary fund the exploration program and support pilot production in the North Block. The operational strategy, executed through Aral, of Caspian is as follows:

- To prove-up the maximum amount of reserves with the minimum number of wells
- To utilize 3-D seismic and international standards and evaluation technology
- To focus initially on the 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.

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

See "Forward-looking statements and other information".

#### **East Zhagabulak (EZ)**

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.

#### **Baktygaryn**

The Baktygaryn Area is located in the northwestern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 997 million barrels of oil in place with 274 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.

#### **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.

## 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 1,320 million barrels oil in place and 356 million barrels oil recoverable.

## Corporate overview and developments

The Corporation has put a primary focus on obtaining gas flaring/emission permits, extending the Exploration Contract in the Republic of Kazakhstan and the negotiation of an agreement with, among others, Asia Sixth Energy Resources Limited (“Asia Sixth”) pursuant to which Caspian will acquire all the remaining interests in Aral Petroleum Capital LLP, the operating entity of the East Zhagabulak oil field in Kazakhstan, not already owned by the Company.

Since the Company’s most significant activity is its joint arrangement in Aral Petroleum Capital LLP (APC), included beneath is an abbreviated description of current events and sales/production data pertinent to Aral.

Subsequent to being shut-down at the close of 2013, the East Zhagabulak field resumed production on September 19, 2014. Well 301 was the first well back on-stream, directly followed by Wells 306 and 315. Initial stabilized production rates were: Well 301- 449 Bopd, Well 306 - 475 Bopd and Well 315 - 448 Bopd. Wells 213 and 308 are potentially productive, currently awaiting remedial workovers. During 2014, the field produced a total of 97,000 barrels of oil - an average rate equal to 942 Bopd.

Due to the recent dramatic decrease in world oil price, the East Zhagabulak field was shut-in on February 2, 2015 as production was no longer an economic event. The resumption of production is contingent upon a significant increase in world oil pricing.

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

On January 30, 2015, a further meeting among these same parties was held, during which time the delivery of associated gas from the EZ field to an existing gas processing facility, located 7 kilometres distant from the field, was considered as a viable alternative to the construction of gas reinjection facilities. This alternative is currently being reviewed by the ME.

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

Aral received a four year extension for its Exploration Licence to December 2018, provided that certain additional commitments under the Contract are discharged. The approved Minimum Work Program for the Licence period contains a financial commitment for eligible expenditures equal to US \$58,303,000 - to drill wells at Aransay, Baktygaryn, North-West Alibekmola, Zhagabulak and the North Mortuk areas. On December 26, 2014, Aral and the Ministry of Energy(ME) cosigned Addendum no. 9 to the Exploration Contract, which formally extended the Contract to December 29, 2018. Due to the very recent

economic turmoil in the energy industry, Aral has made a proposal to the ME, which reduces the 2014 and 2015 exploratory expenditures undertaking, without reducing the aggregate amount over the term of the Contract, and postponed the drilling of two wells to calendar years 2016 and 2017. To date, no response has been received from the ME.

On January 10, 2014, Caspian announced that it had reached agreement with the holders of its amended and restated secured convertible debentures to amend the debentures. The conversion price was amended to the price such that, if all outstanding debentures were converted, the common shares of the Corporation issued upon the conversion would represent eighty-two and one half percent (82.5%) of the issued and outstanding common shares. Following the conversion, all debt owed to the holders was deemed paid. The deemed price of the common shares issued on the conversion will be calculated at a discount from the closing price of the common shares on the NEX of \$0.02 on January 9, 2014. In addition, there was a consolidation of the common shares on the basis of ten pre-consolidation common shares for each post-consolidation common share.

On February 20, 2014, Caspian announced the completion of its common share consolidation on the basis of one new common share of Caspian for every ten pre-consolidation common shares. The conversion of Caspian's amended and restated secured convertible debentures was also completed. An aggregate of 108,319,091 post-Consolidation common shares were issued to the holders of the debentures.

Between May 6 and May 8, 2014, Canadian securities regulatory authorities issued cease trade orders pertaining to the trading of the Company's securities as it had not filed its December 31, 2013 audited consolidated financial statements and management discussion and analysis. Caspian's securities were cease-traded by each of the ASC, the British Columbia Securities Commission and the Ontario Securities Commission between May 6 and May 8, 2014. The filings were due on April 30, 2014 and were not filed as a result of a delay in receiving audited financial statements from Aral Petroleum Capital LLP, a Kazakhstan partnership in which Caspian indirectly holds a 40% joint arrangement interest. Such filings were made on May 28, 2014 and the Company believes that it is in compliance with its regulatory filings and the cease trade orders will be lifted.

On June 24, 2014, the Company announced that it had been advised by the NEX Board of the TSX Venture Exchange that Caspian's common shares are scheduled to re-commence trading on NEX under the symbol CKZ.H at the opening of trading on June 25, 2014. Cease trade orders previously issued by the Alberta Securities Commission, the British Columbia Securities Commission and the Ontario Securities Commission have been revoked.

On July 7, 2014, the Company announced that it had entered into Loan Agreement with its principal shareholders, Meridian International Capital Fund and Firebird Global Master Fund Holdings, Ltd. and Firebird Aurora Fund, Ltd., pursuant to which Meridian and Firebird will provide short-term financing to Caspian by way of a secured convertible loan of up to US\$1.5 million. The purpose of the financing is to allow Caspian to pay certain permitted expenses including professional fees to its advisors, administrative expenses, pre-agreed salaries and fees to its directors and officers and other past due amounts. The July 2014 Loan Facility was subsequently amended on November 3, 2014 to increase the maximum amount of the loan to US\$3 million.

On July 10, 2014, the Company announced that it had entered into agreements with William Ramsay, former Chief Executive Officer and a former director of Caspian, Brian Korney, Acting Chief Executive Officer and Chief Financial Officer and a director of Caspian, and Gordon Harris, a director of Caspian. Under the agreements, Messrs. Ramsay, Korney and Harris have agreed to settle outstanding wages, consulting fees, vacation pay, termination pay, severance pay, incentive compensation, bonuses, commissions, overtime pay and any payments or claims that might be made under certain statutes in exchange for aggregate cash payments of \$475,443.33 and the issuance of 3,138,240 common shares.

On August 1, 2014, the Company announced that it had entered into an agreement with, among others, Asia Sixth Energy Resources Limited pursuant to which Caspian will acquire all the remaining interests in Aral Petroleum Capital LLP, the operating entity of the East Zhagabulak oil field in Kazakhstan, not already owned by the Company (the "SPA Transactions"). The SPA Transactions will be completed by the way of a share purchase agreement (the "Share Purchase Agreement") made among Caspian, its

wholly-owned subsidiary Caspian Energy Ltd, Asia Sixth, Groenzee B.V. (“Groenzee”), a wholly-owned subsidiary of Asia Sixth, and four other parties who will be, in connection with the transaction, terminating their respective interests in previously executed agreements to acquire interests in Aral. Under the terms of the Share Purchase Agreement, the Company will acquire, in exchange for the issuance of Caspian common shares to Asia Sixth and the Investors, all of Asia Sixth’s (and the Investors’) interests in Aral (including through Groenzee) and the debt owed by Groenzee to Asia Sixth.

### Summary of consolidated results

(\$000’s except per share and production information)	Three months ended Mar. 31 2015	Three months ended Mar. 31 2014
Oil and Gas Sales, net of royalties	1	4
Net income (loss)	(988)	(1,053)
Per share - basic	(0.01)	(0.01)
Per share - diluted	(0.01)	(0.01)
Production (Boepd)	1.1	1.4
Cash flow from operating activities	(410)	(1,192)
Per share - basic	(0.00)	(0.01)
Per share - diluted	(0.00)	(0.01)
Weighted Average Shares - Basic (2)	134,434	84,403
Weighted Average Shares - Diluted	134,434	84,403
Total assets	376	117
Total net working capital	(3,674)	(1,037)

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

(2) Due to the anti-dilutive effect of the Corporation’s net loss for the listed periods, the diluted number of shares is equal to the basic number of shares. Therefore, diluted per share amounts of the net loss and cash flow from operations are equivalent to basic per share amounts. On February 19, 2014, the Company’s shareholders approved a one-for-ten consolidation of the Company’s common shares and that consolidation is reflected retroactively in this table.

See Note 12 of the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2015, where the Company’s 40% joint arrangement in Aral Petroleum Capital LLP is fully disclosed and the table beneath.

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

Period	2Q-13	3Q-13	4Q-13	1Q-14	2Q-14	3Q-14	4Q-14	1Q-15
Oil and gas sales - Boe/d	33	56	47	233	-	49	362	-
Oil and gas sales price - per Boe	67.11	64.63	46.77	58.85	-	47.56	47.17	-
Oil and gas revenues, net	204	334	298	1,234	(52)	200	1,572	-
Operating costs	787	1,249	(836)	739	304	784	842	124
Transportation costs	14	38	-	178	(69)	(10)	127	-
Operating netback	(597)	(953)	1,082	317	(287)	(574)	603	(124)

During the above calendar years, the East Zhagabulak field is shut-in concurrent with the expiration of the gas flaring permit on December 31 and production resumes once a renewed temporary gas flaring permit is issued for the residual of the ensuing year. Renewal of the flaring permit, due to the Kazakh regulations in place and the requirement for certain permits, is a time consuming process and generally takes about six months to complete. To resume production, permits for renewed flaring and environmental emissions must be granted. Each year, the temporary flaring permit expires at the close of the calendar year.

During the third quarter of the previous fiscal year, “The Program of Development and Processing of Associated Gas in East Zhagabulak”, valid for three years duration, was granted by the necessary state bodies, which will permit continuous gas flaring during the calendar years 2014-2016, inclusive.

The Kazakh government is hesitant to permit the wasting of a natural resource. An exception to this situation is that newly drilled wells are permitted to flare gas for six months prior to having to abide by the stipulated rules.

During 2014, the field produced a total of 97,000 barrels of oil - an average rate equal to 942 Bopd.

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

The sales volumes recorded in 2Q-13 relate to oil produced during the testing of EZ #306. Production average during 4Q 2013 was 706 Bopd and much of that was inventoried. Inventoried oil was sold during the first quarter of 2014.

The East Zhagabulak field resumed production on September 19, 2014. Well 301 was the first well back on-stream, directly followed by Wells 306 and 315. Initial stabilized production rates were: Well 301- 449 Bopd, Well 306 - 475 Bopd and Well 315 - 448 Bopd. Wells 213 and 308 are potentially productive, currently awaiting remedial workovers.

Due to the recent dramatic decrease in world oil price, the East Zhagabulak field was shut-in on February 2, 2015 as production was no longer an economic event. The resumption of production is contingent upon a significant increase in world oil pricing. No product was sold during the first quarter 2015.

On May 15, 2015, Caspian announced that it had completed its acquisition of all of the remaining interests in Aral Petroleum not already owned by the Company. The transaction was completed pursuant to the share purchase agreement dated August 1, 2014, as amended November 11, 2014 between the Company, its wholly-owned subsidiary Caspian Energy Canada Limited, Asia Sixth, Groenzee, and four other parties.

### Quarterly financial information

The following table sets forth selected financial information of the Company for the eight most recently completed quarters. On February 19, 2014, the Company's shareholders approved a one-for-ten consolidation of the Company's common shares and that consolidation is reflected retroactively in this table.

(000's)	2015 Q1	2014 Q4	2014 Q3	2014 Q2
Revenue	1	2	2	2
Expenses	122	874	727	967
Net earnings (loss)	(988)	(2,215)	(731)	(849)
Per share - basic/diluted (\$/share)	(0.01)	(0.02)	(0.01)	(0.01)
Cash flow used by operating activities	410	979	1,443	75
Per share - basic/diluted (\$/share)	0.00	0.01	0.01	0.00
Weighted avge. shares outstanding	134,434	134,434	131,723	131,296
Total assets	376	78	207	39
Total liabilities	13,449	12,163	10,070	9,366
Share capital	159,903	159,903	159,910	159,715

(000's)	2013 Q1	2013 Q4	2013 Q3	2013 Q2
Revenue	4	4	4	4
Expenses	359	919	403	485
Net earnings (loss)	(1,053)	(2,322)	(623)	(2,600)
Per share - basic/diluted (\$/share)	(0.01)	(0.10)	(0.03)	(0.11)
Cash flow used by operating activities	1,192	309	436	164
Per share - basic/diluted (\$/share)	0.01	0.01	0.02	0.01
Weighted avge. shares outstanding	84,403	23,022	23,022	22,998
Total assets	117	21	127	123



Total liabilities	8,595	23,602	21,386	20,759
Share capital	159,715	143,559	143,559	143,559

**General and administrative expenses (“G&A”)**

(\$000,s)	Three months ended Mar. 31 2015	Three months ended Mar. 31 2014
Total G&A expenses	122	359

G&A for the first quarter of fiscal 2015 was lower than the comparable period in fiscal 2014 as legal fees relating to the SPA were reduced and a reversal of previously anticipated “other professional expense” was recorded. Further, during 1Q 2015 Caspian’s personnel contingent did not include the burden associated with the former CEO, whose services were terminated during the second quarter of the 2014 fiscal year.

**Finance expense**

(\$000’s)	Three months ended Mar. 31 2015	Three months ended Mar. 31 2014
Interest expense	222	337
Net foreign exchange (gain) loss	1,136	847
Interest and accretion of convertible loans	301	-
Net finance expense	1,659	1,184

Under IFRS, finance costs include financing, foreign exchange and accretion costs. Interest was incurred on the Convertible Loans and the advance from Asia Sixth. Foreign exchange losses were realized as the denomination of the Company’s advance to Aral and Convertible Loans is denominated in US dollars, which dollar fluctuates in value versus the Canadian dollar.

**Derivative fair value adjustment**

(\$000’s)	Three months ended Mar. 31 2015	Three months ended Mar. 31 2014
Derivative fair value adjustment	792	-

Pursuant to the pronouncements of IFRS, Caspian's convertible loans and convertible debentures constitute financial liabilities with embedded derivatives (which is the conversion feature of each instrument). Revaluation of the derivative components of the Company's Convertible Loans and Debentures results in unrealized gains (losses) as the fair value of the conversion option changes due to the fluctuating market value per share of the Company's common shares. The Debentures were converted into common shares of the Company on February 20, 2014. Upon conversion of the Debentures, the Company recognized a gain of \$486,000.

#### **Cash from operating activities and net loss**

In the first quarter of fiscal 2015 the Corporation recorded a net loss of \$988,000 compared to a net loss of \$1,053,000 for the same period in fiscal 2014. On an earnings per share basis, the Corporation had a \$0.01 per share loss for the three months ended March 31, 2015 which compares to the \$0.01 per share loss over that same period in 2014. For the first quarter of fiscal 2015, cash flow used in operating activities was \$410,000 (a \$782,000 decrease over the first quarter of fiscal 2014), due to changes in non-cash working capital and a reduction of general and administrative expense.

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

	Three months ended Mar. 31 2015	Three months ended Mar. 31 2014
Basic	134,434	84,403
Diluted	134,434	84,403
Income (loss) per share basic	(\$0.01)	(\$0.01)
Income (loss) per share diluted	(\$0.01)	(\$0.01)

On February 19, 2014, the Company's shareholders approved a one-for-ten consolidation of the Company's common shares and that consolidation is reflected retroactively in this table.

On February 19, 2014, the Company's shareholders approved the conversion of Debentures pursuant to which the Company issued 108,319,091 common shares on February 20, 2014.

#### **Liquidity and capital resources**

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

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

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

The Company reported a net loss of \$988,000 and negative funds generated from operating activities of \$410,000 for the quarter ended March 31, 2015. The Company had a net working capital deficiency of \$3,674,000 and a cumulative deficit equal to \$191,483,000 at period end.

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

(\$000's)	Three months ended March 31 2015	Year ended December 31 2014
Cash and cash equivalents	365	59
Accounts receivable	11	19
Derivative liability	(71)	(677)
Convertible loans	(3,911)	(2,680)
Accounts payable and accrued liabilities	(68)	(370)
Total working capital (deficit)	(3,674)	(3,649)

During the first quarter 2015, Caspian Energy Inc. held a 40 % joint arrangement in Aral Petroleum Capital LLP (Aral or APC), the operating entity in Kazakhstan, while Asia Sixth Energy Resources Limited had 60 % of Aral.

On January 10, 2014, Caspian announced that it had reached agreement with the holders of its amended and restated secured convertible debentures to amend the debentures. The conversion price was amended to the price such that, if all outstanding debentures are converted, the common shares of the Corporation issued upon the conversion would represent eighty-two and one half percent (82.5%) of the issued and outstanding common shares. Following the conversion all debt owed to the holders was deemed paid.

On July 7, 2014 the Company entered into an agreement with its principal shareholders, Meridian International Capital Fund and Firebird Global Master Fund Holdings, Ltd. and Firebird Avrora Fund, Ltd., pursuant to which Meridian and Firebird will provide short-term financing to Caspian by way of a secured convertible loan of up to US\$1.5 million, all of which was drawn and received by the Company

on July 17, 2014. The July 2014 Loan Facility was subsequently amended on November 3, 2014 to increase the maximum amount of the loan to US\$3 million.

The purpose of the financing is to allow Caspian to pay certain permitted expenses including professional fees to its advisors, administrative expenses, pre-agreed salaries and fees to its directors and officers and other past amounts due.

On July 10 and August 27, 2014 the Company entered into agreements with the former Chief Executive Officer and a former director of Caspian, the Acting Chief Executive Officer and Chief Financial Officer and a director of Caspian, and a director of Caspian. Under the agreements, the Executives agreed to settle outstanding wages, consulting fees, vacation pay, termination pay, severance pay, incentive compensation, bonuses, commissions, overtime pay and any payments or claims that might be made under certain statutes in exchange for aggregate cash payments of \$502,502 and the issuance of 3,138,240 common shares.

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

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

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

The NEX has conditionally approved the terms of the Share Purchase Agreement. The closing of the transactions contemplated therein is also subject to certain conditions including but not limited to: The execution of the financing documents providing for the USD 61.5 million secured facility; The execution of a shareholders' agreement among Caspian, Sixth Energy and Meridian governing certain matters relating to Caspian (the "Shareholders' Agreement"); The termination of previous agreements made directly or indirectly by Asia Sixth and the Investors to acquire interests in Aral; and customary regulatory approvals and other closing conditions.

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

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 stakeholders of Aral (including Caspian) have also verbally agreed not to "call" any of the advances due to them by Aral. While the Company is using its best efforts to raise financing, there is no guarantee that it will be able to do so or that Asia Sixth will not enforce the loan due to it from Aral.

Under the terms of the Exploration Contract, Aral has an obligation to create a fund of 1% of the capital cost of exploration and deposit cash in a restricted bank account. The Company's share of this account balance at March 31, 2015 and December 31, 2014 was \$304,000 and \$604,000, respectively. This Liquidation Fund is intended to be used to finance the cost of restoring the licence area upon expiration of the Exploration Contract and the Production Contract. *See also "Contractual obligations".*

## Capitalization

	May 15, 2015
Common shares outstanding	134,434,109
Options	1,004,000
Share Entitlement Agreement	2,600,000
Total	138,088,109

- (1) The Corporation has granted stock options to directors and employees of the Corporation. They have the option to acquire up to 1,004,000 common shares of the Corporation at an average exercise price of \$1.35 per share. The options vest immediately and expire from June 2015 to January 2018.*
- (2) These shares are issuable to Roger Nutt, a petrophysicist, in return for services and advice in connection with the exploitation, development and completion of eight wells in the ROK. The shares are awarded only if 2,000 and 4,000 Bopd (per well) thresholds are exceeded. The number of common shares awarded per well for exceeding 2,000 Bopd is 62,500 shares and for exceeding 4,000 Bopd is 187,500 shares.*

## Contractual obligations

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

During calendar 2014, committed expenditures aggregated USD 13.4 million and included the drilling of three wells (two relating to the 2014 program and one carry-forward from calendar 2013). Aral has incurred USD 3.0 million of qualifying expenditures of the 2014 commitment of USD 13.4 million. Unfulfilled commitments aggregate USD 10.4 million.

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.

Aral received a four year extension for its Exploration Licence to December 2018, provided that certain additional commitments under the Contract are discharged. The approved Minimum Work Program for the Licence period contains a total financial commitment for eligible expenditures equal to US \$58,303,000 - to drill wells at Aransay, Baktygaryn, North-West Alibekmola, Zhagabulak and the North Mortuk areas. On December 26, 2014, Aral and the Ministry of Energy (ME) cosigned Addendum no. 9 to the Exploration Contract, which formally extended the Contract to December 29, 2018. Due to the very recent economic turmoil in the energy industry, Aral has made a proposal to the ME, which reduces the 2014 and 2015 exploratory expenditures undertaking, without reducing the aggregate amount over the term of the Contract, and postponed the drilling of two wells to calendar years 2016 and 2017. To date, no response has been received from the ME.

Aral is required to make set expenditures under its licences or negotiate extensions where possible. Aral is currently in an agreed deferment period but there is no assurance that this period will be continued. Furthermore, management has been advised that Aral does not expect to satisfy its expenditure obligations for the 2015 calendar year. If these expenditures are not made, there is a risk that Aral's licenses will be terminated. Termination or failure to receive renewal of these licences may have a material effect on the Corporation's operations.

#### **Financial instruments and capital disclosures**

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

The Corporation does not have sufficient resources to fund its day to day operations to the end of fiscal 2015. The Corporation anticipates additional financing will come in the form of equity and/or debt financing.

#### **Related party transactions**

The Corporation has not entered into any related party transactions.

#### **Off balance sheet arrangements**

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

#### **Financial and operational risks**

##### **Prices, markets and marketing of crude oil and natural gas**

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

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

### **Interest rate risk**

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

### **Business risks**

An investment in the Corporation should be considered highly speculative due to the nature of the Corporation's involvement in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas reserves and its current stage of development. Oil and gas operations involve many risks which even a combination of experience and knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Corporation. The Company reported a net loss of \$988,000 and negative funds generated from operating activities of \$410,000 for the quarter ended March 31, 2015. The Company had a net working capital deficiency of \$3,674,000 and a cumulative deficit equal to \$191,483,000 at period end. See Note 1 to the unaudited Condensed Interim Consolidated Financial Statements.

### **Exploration, development and production risks**

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

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

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision

and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

### **Insurance**

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

### **Competition**

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

### **Permits and licenses**

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

### **Delays in business operations**

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

### **Seasonality**

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

### **Income taxes**



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

### **Third party credit risk**

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

### **Changes in legislation**

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

### **Reserve replacement**

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

### **Reserves**

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. The reserve and cash flow information represents estimates only. The reserves and estimated future net cash flow from the Corporation's oil and gas assets have been independently evaluated effective December 31, 2014 by McDaniel & Associates Consultants Ltd. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

### **Substantial capital requirements: liquidity**

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration and development and production of oil and natural gas reserves in the future. If the Corporation's revenues or reserves decline, as a result of lower oil and natural gas prices or otherwise,

the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs to replace its reserves or to maintain its production. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

#### **Additional funding requirements**

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

#### **Issuance of debt**

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

#### **Dilution**

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

#### **Environmental risks**

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

#### **Reliance on operators and key employees**

To the extent that the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the Corporation's success depends in large measure on certain key executive personnel. The loss of the services of such key personnel could have a material adverse effect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for

qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretions, integrity and good faith of the management of the Corporation.

### **Application of critical accounting estimates**

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

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

### **Internal Controls over Financial Reporting**

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

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

### **Oil and gas reserves**

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

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

### **Risks Related to the SPA Transactions**

## **Non-completion**

The Corporation cannot complete the SPA Transactions unless and until all conditions precedent in the Share Purchase Agreement are satisfied or waived, some of which are not under the control of the Corporation, or other parties to the Share Purchase Agreement. There can be no certainty, nor can the Corporation provide any assurance that these conditions will be satisfied or waived. Even if the SPA transactions are completed, they may not be completed on the terms contemplated in the Share Purchase Agreement. In addition, if for any reason the conditions precedent to the Share Purchase Agreement are not satisfied or waived or if the Share Purchase Agreement is otherwise terminated, the Corporation could suffer adverse consequences, including the loss of investor confidence, and the market price of its common shares could be adversely affected.

## **Aral's Ability to Remain Solvent**

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

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

## **Defaults under Licences**

Aral is required to make set expenditures under its licences. Aral is currently negotiating revision or extension of these expenditures for a certain period but there is no assurance that Aral will succeed with these negotiations. Furthermore, management has been advised that Aral does not expect to satisfy its expenditure obligations for the 2015 calendar year. If these expenditures are not made, there is a risk that Aral's licenses will be terminated. Termination or failure to receive renewal of these licences may have a material adverse effect on the Corporation's operations.

## **Market Reaction**

The Corporation is proposing to issue a large number of common shares in connection with the SPA Transactions. Market reaction to these issuances is unknown. It is possible that such issuances could have an adverse effect on the future trading price of the Corporation's common shares.

## **Illiquidity**

The common shares issued pursuant to the SPA Transactions will be subject to a four month restricted period under applicable securities laws, during which such common shares may not be traded unless the trades are permitted under applicable securities laws. Accordingly, the liquidity of the Corporation's common shares following the SPA Transactions may decrease significantly.

## **Potential Failure to Realize Anticipated Benefits**

The Corporation is proposing to complete the SPA Transactions to strengthen its financial position and to create the opportunity to realize certain benefits, as outlined in its management information circular dated November 12, 2014. Achieving the benefits of the SPA Transactions depends in part on successfully consolidating the business of Aral under the Corporation from Asia Sixth and Groenzee and

integrating operations and procedures in a timely and efficient manner. Further, the Corporation may encounter unexpected costs in respect of this transition process, which may partially offset the anticipated benefits of the SPA Transactions.

### **New Significant Shareholder**

If the SPA Transactions are completed, Sixth Energy will hold over 30% of the Corporation's issued and outstanding common shares. Sixth Energy's shareholdings will give it significant influence on decisions to be made by shareholders, including the ability to influence the election of directors of the Corporation as well as the approval of future transactions requiring Shareholder approval. In addition, Sixth Energy, along with Meridian, will have certain board nominee and pre-emptive rights pursuant to the Shareholders' Agreement. Sixth Energy's large shareholdings may also make the Corporation less attractive to third parties considering an acquisition of the Corporation if those third parties are not able to negotiate terms with Sixth Energy to support such an acquisition. Sixth Energy's influence may have a negative effect on the Corporation's ability to enter into significant transactions, which could have a negative effect on the share price of the Corporation relative to its peers that are not subject to the influence of such a shareholder.

### **Control of CEL, Groenzee and Aral and the Foundation Agreement**

Matters relating to the governance of CEL, Groenzee and Aral and any replacement document on termination of the foundation agreement of Aral (the "Foundation Agreement") are expected to be addressed by the Corporation's board of directors following the closing of the SPA Transactions. The requirements under the Shareholders' Agreement will reduce the authority of the Corporation's board of directors to implement various corporate governance initiatives after the termination of the Foundation Agreement. It may also result in Sixth Energy retaining control of Aral and Groenzee, together with Meridian, and control of CEL also being acquired by Sixth Energy and Meridian.

### **Security under the Aral Loan**

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

### **Outstanding Obligations of Aral**

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

### **Approval of the Government of Kazakhstan and limitation on Corporation's ability to issue securities**

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

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

Certain past issuances of securities by the Corporation did not comply in all respects with the requirements referred to above. Any enforcement of any right to terminate a subsoil use contract in relation to any such past issuances made by the Ministry of Energy of Kazakhstan would have a material adverse effect on the Corporation's business, financial condition and results of operations. In addition, a condition to closing of the SPA Transactions is that all Government of Kazakhstan consents and approvals be obtained in relation to the SPA Transactions. In connection with obtaining such consents and approvals, the Corporation will be required to disclose its share structure on a pro forma post-transaction basis.

### **Foreign Directors and Officers**

Most of the directors and officers of the Corporation reside outside of Canada. On closing of the SPA Transactions, it is expected that all of the directors and officers of the Corporation will reside outside of Canada. Substantially all of the assets of these persons are located outside of Canada. It may not be possible for investors to effect service of process against directors and officers of the Corporation who are not resident in Canada. In the event a judgment is obtained in a Canadian court against one or more directors or officers of the Corporation for violations of Canadian corporate or securities civil liability laws, it may not be possible to enforce that judgment against directors and officers of the Corporation not resident in Canada.

### **Conflicts of Interest**

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

### **Potential Undisclosed Liabilities Associated with the SPA Transactions**

Upon completion of the SPA Transactions, Aral and Groenzee will be indirect wholly-owned subsidiaries of the Corporation and will continue to have the liabilities that existed prior to completion of the SPA Transactions. There may be liabilities of Aral and Groenzee that the Corporation failed to discover or was unable to accurately assess or quantify in its due diligence.

### **Income tax accounting**

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

### **Accounting for oil and gas activities**

## **Carrying value of property, plant and equipment**

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

## **Exploration and evaluation assets**

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

## **Decommissioning liabilities**

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

## **Impairment of assets**

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

## **Share based payments**

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

## **Legal, environmental remediation and other contingent matters**

The Corporation is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When

the loss is determined it is charged to earnings. The Corporation's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.





