

Caspian Energy Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2015

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

The accompanying unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2015 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) accounting principles as issued by the IASB and are the responsibility of the Company’s management.

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

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(in thousands of Canadian dollars)

As at	March 31 2015 \$	December 31 2014 \$
Assets		
Current assets		
Cash and cash equivalents (Note 3)	365	59
Trade and other receivables	11	19
	<hr/> 376	<hr/> 78
Non-current assets		
Investment in Aral (Note 12)	–	–
Total assets	<hr/> 376	<hr/> 78
Liabilities		
Current liabilities		
Trade and other payables	68	370
Convertible loans (Note 4)	3,911	2,680
Derivative liability (Note 4)	71	677
	<hr/> 4,050	<hr/> 3,727
Non-current liabilities		
Loan payable (Note 5)	9,399	8,436
Total liabilities	<hr/> 13,449	<hr/> 12,163
Equity		
Share capital (Note 6)	159,903	159,903
Warrants (Note 7)	29	64
Contributed surplus	18,478	18,443
Deficit	(191,483)	(190,495)
Total equity	<hr/> (13,073)	<hr/> (12,085)
Total liabilities and equity	<hr/> 376	<hr/> 78

See accompanying notes to the condensed interim consolidated financial statements.

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(in thousands of Canadian dollars)

Reporting entity and going concern (Note 1)
Subsequent events (Note 13)

Approved by the Board of Directors

(signed) "Brian Korney" Director

(signed) "Michael Nobbs" Director

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

(in thousands of Canadian dollars)

For the three months ended March 31	2015	2014
	\$	\$
<hr/>		
Revenue		
Oil and natural gas revenue, net	1	4
<hr/>		
Expenses		
General and administrative	122	359
<hr/>		
Operating loss before other items	(121)	(355)
Derivative fair value adjustment (Note 4)	792	–
Gain on conversion of convertible debentures	–	486
Finance expense (Note 10)	(1,659)	(1,184)
Loss and comprehensive loss	(988)	(1,053)
<hr/>		
Loss per share (Note 9)	(0.01)	(0.01)

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(in thousands of Canadian dollars)

For the three months ended March 31	2015	2014
	\$	\$
Share capital		
Balance, January 1	159,903	143,559
Issuance of shares	–	16,156
Balance, March 31	159,903	159,715
Warrants		
Balance, January 1	64	247
Expiry of warrants	(35)	–
Balance, March 31	29	247
Contributed surplus		
Balance, January 1	18,443	18,260
Expiry of warrants	35	–
Balance, March 31	18,478	18,260
Deficit		
Balance, January 1	(190,495)	(185,647)
Loss and comprehensive loss	(988)	(1,053)
Balance, March 31	(191,483)	(186,700)
Total Equity	(13,073)	(8,478)

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)

For the three months ended March 31	2015	2014
	\$	\$
Cash flow provided by (used in)		
Operating activities		
Loss and comprehensive loss	(988)	(1,053)
Adjustments for:		
Finance expense	329	334
Derivative fair value adjustment	(792)	–
Gain on conversion of convertible debenture	–	(486)
Foreign exchange	1,335	812
Changes non-cash working capital		
Trade and other receivables	8	(3)
Trade and other payables	(302)	(796)
Net cash used in operating activities	(410)	(1,192)
Financing activities		
Share issue costs	–	(92)
Repayment of from promissory note	–	(47)
Proceeds from loan payable	–	1,424
Proceeds from convertible loans	716	–
Net cash provided by financing activities	716	1,285
Change in cash and cash equivalents	306	93
Cash and cash equivalents – January 1	59	17
Cash and cash equivalents – March 31	365	110

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015

(Unaudited)

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

1. Reporting entity and going concern

Caspian Energy Inc. (“Caspian” or the “Company”) is a publicly traded company on the NEX, a separate board of TSX Venture Exchange under the stock symbol CKZ.H. Caspian is engaged in the exploration for and development and production of oil and gas in the Republic of Kazakhstan (“ROK”). Its primary operating activities are carried out through its wholly-owned subsidiary, Caspian Energy Ltd. (“CEL”). Caspian’s registered office is located at 396 11th Avenue S.W., Calgary, Alberta, Canada.

The Company’s principal assets are a 40% interest in Aral Petroleum Capital LLP (“Aral”), held by CEL. The remaining 60% of Aral is held by Asia Sixth Energy Resources Limited (“Asia Sixth”) and its subsidiary Groenzee BV (“Groenzee”).

Through its interest in Aral, the Company has the right to explore and develop certain oil and gas properties in Kazakhstan, known as the North Block, a 2,200 square kilometre area located in the vicinity of the Kazakh pre-Caspian basin. The Company also has minor resource interests in Canada.

Going concern

These consolidated financial statements have been presented on a going concern basis. For the three months ended March 31, 2015, the Company reported a loss of \$1 million and used funds for operating activities of \$0.4 million. As at March 31, 2015, the Company had a net working capital deficiency of \$3.7 million and a cumulative deficit of \$191.5 million.

The Company’s ability to continue as a going concern is in significant doubt and is dependent upon obtaining financing to fund exploration and development activities and general and administrative expenses and on Aral achieving profitable operating results from its Kazakhstan operations. The Company is undertaking the following initiatives but there are no assurances that these initiatives will be successful:

On August 1, 2014, the Company entered into a share purchase agreement whereby the Company will acquire all of Asia Sixth’s interests in Aral, 100% of the issued and outstanding shares of Groenzee and the debt owed by Groenzee to Asia Sixth as disclosed in Note 13. As at March 31, 2015 and the date of these financial statements, the Company had not yet received the final approvals to close the transaction.

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

2. Basis of presentation

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

The Company has consistently applied the same accounting policies throughout all periods presented. These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014.

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Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015

(Unaudited)

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 15, 2015.

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Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015

(Unaudited)

3. Cash and cash equivalents

	March 31 2015	December 31 2014
Cash in CAD	191	53
Cash in USD	173	5
Cash in Pounds Sterling	1	1
	365	59

4. Convertible loans

In 2014, the Company entered into an amended loan agreement (the “Loan Facility”) with its principal shareholders, Meridian International Capital Fund (“Meridian”) and Firebird Global Master Fund Holdings, Ltd. and Firebird Avrova Fund, Ltd. (collectively, “Firebird”), pursuant to which Meridian and Firebird provided short-term financing to Caspian by way of a secured convertible loan of up to USD 3.0 million (\$3.8 million), of which USD 2.4 million was drawn and received by the Company in 2014 and the remaining USD 0.6 million was drawn down and received in the three months ended March 31, 2015.

Interest is payable on the Loan Facility at an annual rate of 12% per annum. The principal outstanding and any interest accrued thereon is payable on the earliest of (i) the later of November 30, 2014 and the termination of discussions in respect of a further transaction (Note 13) specified in the Loan Agreement, (ii) after the execution and delivery of a binding agreement with respect to such further transaction, the termination or non-fulfilment of any conditions specified in such binding agreement, and (iii) the occurrence of an event of default under the Loan Agreement. Notwithstanding the foregoing, all accrued interest will be forgiven in the event that the full principal amount outstanding is converted to equity prior to the repayment date. All liabilities under the Loan Agreement are secured by a pledge by Caspian of 100% of the equity interests in its wholly-owned subsidiary, Caspian Energy Limited.

Prior to closing of the Share Purchase Agreement described in Note 13, the principal amount of the first USD 1.5 million of principal advanced under the Loan Facility will be converted into 26,692,500 common shares at a conversion price of CAD \$0.06 per common share and the principal amount of remaining USD 1.5 million principal will be converted into 24,336,428 common shares at a conversion price of CAD \$0.07 per common share. All accrued interest will be forgiven upon conversion.

A continuity of convertible loans is as follows:

	Liability component	Derivative liability of conversion feature
Balance, December 31, 2014	2,680	677
Advances	538	186
Interest and accretion	301	–
Fair value adjustment	–	(792)

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015

(Unaudited)

Foreign exchange	392	–
Balance, March 31, 2015	3,911	71

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Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited)

The fair value of the derivative liability at initial recognition of the USD 0.6 million received in January 2015 and the USD 2.4 million received in 2014 was determined using the Black-Scholes pricing model based on the following weighted average assumptions:

	At initial recognition	March 31 2015
Risk free interest rate	0.88%	0.51%
Expected life	0.34 years	0.12 years
Expected volatility	120%	120%

5. Loan payable

In connection with the Company's sale of a 10% interest in Aral to Asia Sixth in 2011, the Company entered into a facility agreement with Asia Sixth pursuant to which Asia Sixth advanced USD 6 million in loans to Caspian. The amounts drawn under the facility bore interest at a rate of 10% per annum until December 28, 2016 and 18% per annum, compounded annually, thereafter until November 1, 2020. The loan is to be repaid with all proceeds received by the Company by way of dividends from Aral or from the sale of any asset by the Company with the balance of all principal and interest due on November 1, 2020. Pursuant to the facility agreement, the Company provided a pledge of all of its interest in Aral in favour of Asia Sixth as security for the Company's obligations under the facility.

In connection with the execution of the Share Purchase Agreement disclosed in Note 13, Asia Sixth agreed to assign the loan payable, prior to the execution of the Share Purchase Agreement, to Alpha Asia Enterprises Limited, and prior to such assignment, Asia Sixth also agreed to amend the terms of the loan with more favourable terms to the Company by: (a) fixing the interest rate at 10% per annum; (b) extending the repayment date of the loan to the earlier of four years from the closing of the Share Purchase Agreement, or if the Share Purchase Agreement is terminated, October 31, 2018; and (c) discharging all security granted by the Company to Asia Sixth in respect of the loan.

As at March 31, 2015, the Company had received total draws under the facility of USD 6.0 million (December 31, 2014 – USD 6.0 million).

As at March 31, 2015, the \$9,398,669 balance owing under the facility is comprised of \$7,585,200 of principal plus \$1,813,469 of accrued interest (December 31, 2014 – \$8,436,057 comprised of \$6,976,200 of principal plus \$1,459,857 of accrued interest).

6. Share capital

	Number of shares	Amount
Balance, December 31, 2014 and March 31, 2015	134,434,109	159,903

7. Warrants

A continuity of warrants outstanding is summarized as follows:

	Number of warrants	Weighted average exercise price	Amount
Balance, December 31, 2014	163,055	\$ 0.60	64

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Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015

(Unaudited)

Expired	(64,334)	(0.64)	(35)
Balance, March 31, 2015	98,721	\$ 0.57	29

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(Unaudited)

Information about warrants as at March 31, 2015 is summarized in the following table:

Exercise price	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
\$ 0.57	98,721	\$ 0.57	0.03

8. Share-based compensation

(a) Stock options

As at December 31, 2014 and March 31, 2015, the Company had 1,004,000 stock options outstanding. Information about options outstanding and exercisable as at March 31, 2015 is summarized in the following table:

Exercise price	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of options exercisable
\$ 0.70	250,000	0.70	2.82	250,000
\$ 0.95	250,000	0.95	2.61	250,000
\$ 1.80	204,000	1.80	1.24	204,000
\$ 1.90	200,000	1.90	2.03	200,000
\$ 2.00	100,000	2.00	0.17	100,000
	1,004,000	\$ 1.35	2.03	1,004,000

(b) Performance shares

The Company entered into an agreement on August 18, 2012 and amended in January 2013, (“the Amended Consulting Agreement”) with a petrophysicist (the “Consultant”) for the provision of consulting services in connection with the exploitation, development and completion of eight Aral wells in the Republic of Kazakhstan. Pursuant to the amended Consulting Agreement, remuneration for consulting services is performance based and the Consultant will be compensated with common shares of the Company according to certain performance criteria.

If all performance criteria are met, the Consultant would be entitled to a maximum of 2.6 million common shares of the Company comprised of 2 million Consideration Shares and 600,000 Bonus Shares. At the Company’s option, the Company can elect to satisfy all or a portion of consideration payable in cash. Any amounts elected to be paid in cash would be determined by the number of Consideration Shares or Bonus Shares payable multiplied by the market price of the Company’s common shares at the close of trading on the date the particular Consideration Shares or Bonus Shares became payable.

The fair value of performance shares was estimated to be a negligible amount and therefore no amount has been recognized in the consolidated financial statements in respect of the consulting services performed to date. As of March 31, 2015, no performance shares had been issued.

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(Unaudited)

9. Per share amounts

For the three months ended March 31	2015	2014
Net loss for the period	(988)	(1,053)
Weighted average number of shares (in thousands) – basic:		
Issued common shares at January 1	134,434	23,022
Effect of shares issued during the period, net	–	61,381
	134,434	84,403
Net loss per share – basic and diluted	(0.01)	(0.01)

The effect of stock options, performance shares, convertible loans and warrants is anti-dilutive in loss periods.

10. Finance expense

For the three months ended March 31	2015	2014
Interest and accretion on convertible loans (Note 4)	301	–
Interest expense on loan payable (Note 5)	222	158
Interest and accretion on convertible debentures	–	179
Net foreign exchange loss	1,136	847
Net finance expense	1,659	1,184

11. Guarantee in favour of Asia Sixth

In connection with the Transaction Agreements signed on June 3, 2013, the Company agreed to provide a guarantee of its 40% share of the obligations owed by Aral to Asia Sixth under the Aral Loan Agreement.

As at March 31, 2015, obligations owed by Aral to Asia Sixth under the Aral Loan Agreement totalled USD 41.2 million comprised of USD 31.2 million of existing loans (as defined by the Aral Loan Agreement) and USD 10.0 million of amounts advanced under the USD 20 million of “New Loan” portion of the Aral Loan Agreement.

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For the three months ended March 31, 2015

(Unaudited)

12. Selected financial information for Aral Petroleum Capital LLP

As at March 31, 2015 and December 31, 2014, the Company held a 40% interest in Aral, recognized in these consolidated financial statements using the equity method of accounting. As the investment is in a negative net asset position, there is no representation of the investment in the Company's consolidated financial statements. To date, the Company has not received any dividends from Aral.

(a) Aral's results of operations, assets and liabilities

Aral's functional currency is the Kazakhstani Tenge (the "Tenge"). The assets and liabilities of Aral are translated into CAD at the exchange rate at the statement of financial position date. Revenues and expenses of Aral are translated into CAD using foreign exchange rates that approximate those on the date of the underlying transaction.

A summary of Aral's results of operations for the three months ended March 31, 2015 and 2014 and Aral's assets and liabilities as at March 31, 2015 and December 31, 2014 is presented below:

For the three months ended March 31	2015	2014
Oil and natural gas revenue, net	–	3,085
General and administrative expenses	(239)	(409)
Operating and transportation expenses	(309)	(2,294)
Depletion and depreciation expense	(85)	(1,210)
Interest expense	(7,006)	(2,182)
Foreign exchange and other expenses	(4,814)	(34,824)
Loss and comprehensive loss	(12,453)	(37,834)

As at	March 31 2015	December 31 2014
Cash and cash equivalents	30	2
Other current assets	3,063	2,655
Total current assets	3,093	2,657
Exploration and evaluation assets	52,696	48,877
Property, plant and equipment	1,028	1,034
Other non-current assets	9,043	9,156
Total non-current assets	62,767	59,067
Total assets	65,860	61,724

Trade and other payables	56,108	52,104
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Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015

(Unaudited)

Current loans payable	284,424	252,621
Total current liabilities	340,532	304,725
Non-current decommissioning liability	1,351	1,253
Total liabilities	341,883	305,978

As at March 31, 2015, the carrying value of property, plant and equipment was comprised of \$1,028 (December 31, 2014 – \$1,034) for machinery, equipment and vehicles and \$nil (December 31, 2014 – \$ nil) for developed and producing oil and gas assets.

(b) Caspian's 40% interest in Aral's results of operations, assets and liabilities

A summary of the Company's 40% interest in Aral's results of operations for the three months ended March 31, 2015 and 2014 and Aral's assets and liabilities as at March 31, 2015 and December 31, 2014 is presented below:

For the three months ended March 31	2015	2014
Oil and natural gas revenue, net	–	1,234
General and administrative expenses	(96)	(164)
Operating and transportation expenses	(124)	(917)
Depletion and depreciation expense	(34)	(484)
Impairment of property, plant and equipment (i)	–	(1,202)
Interest expense	(2,802)	(873)
Foreign exchange and other expenses	(1,928)	(13,230)
Loss and comprehensive loss	(4,984)	(15,636)

As at	March 31 2015	December 31 2014
Current assets	1,237	1,063
Exploration and evaluation assets	21,078	19,551
Property, plant and equipment	411	414
Total assets	26,344	24,960
Current liabilities	136,213	121,890
Total liabilities	136,753	122,391

- (i) Based on the uncertainty surrounding the economic recoverability of Aral's proved and probable reserves given the current market and cost structure as at March 31, 2014, Caspian management reduced the carrying amount of its

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Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015

(Unaudited)

share of Aral's property, plant and equipment to a carrying amount of \$nil resulting in \$1,202 of impairment recognised in the three months ended March 31, 2014.

- (ii) As at March 31, 2015, the Company's unrecognized 40% interest of Aral's cumulative losses recognized by Aral was \$106,276 (December 31, 2014 – \$101,292).