

CASPIAN ENERGY INC.

Management's Discussion and Analysis

August 9, 2007 – The following Management's Discussion and Analysis ("MD&A") of financial results as provided by the management of Caspian Energy Inc. ("Caspian" or the "Company") should be read in conjunction with unaudited interim consolidated financial statements and selected notes for the three and six months ended June 30, 2007 and the audited consolidated financial statements and selected notes for the year ended December 31, 2006. This commentary is based upon information available to August 9, 2007.

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

1. Caspian's performance in fiscal 2007;
2. Caspian's current financial condition; and
3. Caspian's future prospects.

This MD&A complements and supplements the disclosures in our unaudited interim financial statements which have been prepared according to Canadian generally accepted accounting principles ("GAAP").

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.

FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION

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

market prices and costs; supply and demand for oil and natural gas; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; and capital expenditure programs.

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

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

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

Barrel of Oil Equivalent (BOE) – The oil and gas industry commonly expresses production volumes and reserves on a "barrel of oil equivalent" basis ("BOE") whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved analysis of results and comparisons with other industry participants. Throughout this MD&A Caspian has used the 6:1 BOE measure which is the approximate energy equivalency of the two commodities at the burner tip. BOE does not represent a value equivalency at the plant gate, which is where Caspian sells its production volumes, and therefore may be a misleading measure if used in isolation.

Cash Flow from Operations (cash flow) – This measure is considered critical within the oil and gas industry both in terms of measuring success in our historical operations and being an indicator of funding sources for on-going efforts to replace production volumes and increase reserve volumes. Canadian GAAP requires that “cash flow from operating activities” be the measurement focus. This latter term is derived from “cash flow” as defined by Caspian adjusted for the change in non-cash working capital. Caspian believes “cash flow” and “cash flow per share” to be more meaningful measures of our performance and therefore has used these terms throughout this MD&A. Accordingly, we are required to advise the reader that: (a) these are non-GAAP measure for purposes of Canadian accounting standards and (b) our determinations may not be comparable to those reported by other companies.

BUSINESS OF THE COMPANY

Caspian has a 50% interest in Aral Petroleum Capital LLP (“Aral”), which is held by Caspian Energy Ltd. (“Caspian Ltd.”), the Company’s wholly-owned subsidiary, through which it has the right to explore and develop certain oil and gas properties in the Republic of Kazakhstan (“ROK”) known as the North Block, a 3,458 square kilometre area located in the vicinity of the Kazakh pre-Caspian basin. The Company’s strategy is to focus on the operations of Aral and the significant opportunity it presents in the North Block.

Aral’s exploration and development rights in the North Block were granted pursuant to an exploration contract dated December 29, 2002 between Aral and the Ministry of Energy and Mineral Resources of the ROK (the “Exploration Contract”). Under the terms of the Exploration Contract, Aral agreed to spend at least US\$20.8 million under a minimum work program in respect of the North Block, during the initial three-year term of the contract. Eligible expenditures include such things as processing and reinterpretation of geological and geophysical data of prior years, two dimensional and three dimensional seismic surveys, drilling exploration wells, well reactivations and well surveys and testing. As discussed below, funds raised by the Company are used to discharge the obligations of Aral relating to the minimum work program. As at December 31, 2005, Aral’s financial obligation under the minimum work program had been discharged in full. The initial term of the Exploration Contract was extended for a two-year period through to December 2007, and may be extended for an additional two-year period, subject to the terms of the exploration contract. The work program extension to December 2007 includes drilling three wells to a combined total of 8,500 metres with a monetary obligation of US\$20.6 million. Aral undertook to expend US\$12.2 million by the close of calendar 2006, which undertaking was discharged.

Under the terms of a shareholders’ agreement dated June 25, 2004 among Caspian Ltd., Azden Management Limited (“Azden”) and Aral, Caspian is obligated to fund Aral’s initial work program. Further, under the terms of the shareholders’ agreement, Caspian was committed to use all reasonable commercial efforts to raise financing of US\$84.0 million (to be loaned to Aral) to fund the first stage of Aral’s exploration program under the Exploration Contract. Funds are transferred to Aral via monthly instalments.

Caspian discharged this undertaking and has advanced further funds to Aral to prosecute the exploration program. These additional capital advances are being matched by Azden, the other shareholder in the Aral joint venture. Pursuant to the Credit Agreement among Aral and Caspian, Caspian has begun charging interest at a rate equal to Canada Treasury Bills + 0.25% on its initial advance.

Terms of the Exploration Contract include a 3% royalty during the pilot phase, a 10% fee, based upon sales, after VAT (value-added tax), a 30% corporate income tax and the liability for an excess profits tax based upon a sliding scale.

Caspian accesses western capital markets and utilizes western technology to explore and exploit its Kazakh assets. The proceeds from its financing activities are used to fund the exploration program and support pilot production in the North Block. The operational strategy of the Company is as follows:

- To prove-up the maximum amount of reserves with the minimum number of wells
- To utilize 3-D seismic and international standards and evaluation technology
- To focus initially on the Zhagabulak area in the North Block, where the pilot production exists, then move to the Baktygaryn area and subsequently, other areas within the North Block
- To position the Company to maximize value to the investor through development and/or sale - farmout 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 Company's common shares trade on the Alternative Investment Market (AIM) of the London Stock Exchange and the Toronto Stock Exchange under the symbol CEK.

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 expects to validate this data through its exploration program.

The initial 3-D seismic program covering 406 square kilometres has been completed, processed and interpreted, indicating significant structures. Processing through Pre-Stack Time Migration (PSTM) of the Zhagabulak 3-D seismic data set was completed at the end of August 2005. The processing was performed by PGD-Dank (a division of Paradigm Geophysical) in Almaty, ROK. Following processing, the data set was transferred to Halliburton's Landmark Geophysical office in Moscow, Russia for interpretation. Processing through Pre-Stack Depth Migration (PSDM) was completed in

December 2005 and transferred to Landmark for interpretation. The presence of a broad, extensive structure separating Zhagabulak from neighboring producing fields has been noted and several potential drilling locations have been identified. The original producing well, EZ#213, drilled and completed during the Soviet period, was re-entered in November 2006 and perforations were added in the KT-1 reservoir. Due to different casing weights, problems were encountered with packer setting for the acid operation and consequently, only one-half of the productive zones were acidized. Despite the limits on the acidization, a significant improvement of daily production over the pre-workover rates was achieved. Well 213 is currently producing 384 BOPD, 54 BWPD, 528 MCFD with a flowing tubing pressure of 544 psig and a shut-in casing pressure of 1,970 psig on an 8.7 mm choke. A survey to determine the production contribution from the KT-1 and KT-2 intervals is planned for Q3, the results of which will be integrated into the final analysis and ranking of potential workover strategies for wells 302 and 303.

The location for the first well on the block, EZ#301, 1.1 km southwest of well EZ#213, was chosen from an earlier fast-track interpretation of the 3-D seismic data set. A contract with Nabors Drilling International was concluded in April 2005 and the well spud on July 16, 2005. The well reached a total depth of 4,846 metres on November 7, 2005, logs were run, production casing was set and testing began in mid-December. Acid treatment of the perforated intervals occurred during February 2006. Well 301 was undergoing a government mandated pressure survey in November 2006, when a production logging tool and cable were lost in the hole. During the second quarter, the tool and wire were recovered and the well has resumed production. Well 301 is currently producing 926 BOPD, 8 BWPD, 1,274 MCFD with a FTP (flowing tubing pressure) of 588 psig and a shut in casing pressure of 1,896 psig on a 12 mm choke.

A second well location, EZ#302, was drilled approximately 3.6 km southwest of EZ#301 and is structurally updip to that well. EZ#302 spud on December 25, 2005. Acidizing and testing of the well were performed following removal of the drilling rig. The well showed all indications of hydrocarbons while drilling and logging; however, the stimulation efforts failed to cause the well to flow naturally. In well 302, a workover is being evaluated to isolate the KT-1 and the lower portions of the KT-2 that exhibit higher water saturations on the logs. .

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

Further drilling in the remainder of the Zhagabulak area will be delayed while the Company focuses on shallower targets in the western side of the North Block.

The Company has initiated the development process for East Zhagabulak. While East Zhagabulak is small, a development contract will ultimately lead to commercialization. Expansion is planned as drilling in the surrounding Zhagabulak area unfolds.

Modifications to our pilot processing plant in Zhagabulak were made to increase its throughput and to improve its reliability and safety. These modifications were completed in August 2006.

Baktygaryn

The Baktygaryn Area is located in the northwestern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 863 million barrels of oil in place with 259 million barrels classified as recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but expects to validate this data through its exploration program.

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

The data was fully processed through Pre-Stack Time Migration for the above salt section and through Pre-Stack Depth Migration for the below salt section and full interpretation of this data was completed by the end of October 2006. The acquisition of the regional 2-D seismic survey covering the west and north areas of the North Block and tying into the Zhagabulak and Baktygaryn 3-D seismic surveys that was completed in March 2006 has been processed and interpreted. The interpreted data from all new seismic data acquired and from the earlier reprocessed Soviet-era 2-D seismic is being combined to create a geological model and identify additional leads and prospects across the North Block territory. This work is expected to be completed during 3Q 2007.

The Baktygaryn Area presents drilling targets in both the below salt Lower Permian and Carboniferous sections and the above salt Upper Permian and Mesozoic sections with depths ranging from approximately 400 to 2,300 metres and provides a second tier of exploration to the Company's drilling portfolio. Three locations are being permitted with target depths of 600 to 800 metres. These targets are recognized in the forms of channel sands, traps against the Kungurian salt ridges and underneath salt overhangs. The Company expects to spud its first well in this area during October 2007.

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 expects to validate this data through its exploration program.

Soviet-era seismic data interpretation, mapping and the associated shallow well drilling in these Areas yielded minor positive tests and shows of oil associated with the post-salt sediments of Jurassic, Triassic and Upper Permian ages. A review of this data has resulted in the identification of several prospects and leads ranging from 600 to 1,800 metres in trapping positions against Permian salt ridges and under-salt overhangs. Several lines from the Company's 2006 2-D seismic program were shot across certain of these leads and prospects to verify this premise. The entire vintage and modern data sets are being fully interpreted and well-to-seismic ties performed for aiding in the creation of a geological model for these Areas. The Company expects to have identified several drillable prospects by the close of 3Q 2007.

Future, potential seismic activity, pending the results of the ongoing 2-D seismic interpretation, includes a third 3-D seismic acquisition late in the fourth quarter.

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

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

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

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

Summary of Selected Quarterly Financial Results (\$)

<i>Period</i>	<i>3Q-05</i>	<i>4Q-05</i>	<i>1Q-06</i>	<i>2Q-06</i>	<i>3Q-06</i>	<i>4Q-06</i>	<i>1Q-07</i>	<i>2Q-07</i>
Oil and gas revenues	843,847	644,523	751,911	1,358,550	1,421,381	664,396	357,997	1,889,400
Operating and transportation	345,392	316,511	280,216	343,981	412,875	1,678,027	394,838	717,081
Operating income	498,455	328,012	471,695	1,014,569	1,008,506	(1,013,631)	(36,841)	1,172,319
Interest and other, net	231,438	79,250	105,308	489,540	418,131	213,312	192,682	(15,643)
General & administrative	565,679	656,711	687,371	731,052	830,002	1,025,985	604,320	984,878
Realized Foreign exchange loss(gain)	-	5,344,338	276,498	(1,150,430)	999,494	(1,133,198)	(92,329)	1,021,691
Cash flow	164,214	(5,593,787)	(386,866)	1,923,487	(402,859)	(729,403)	(356,150)	(849,893)
Interest charged on debentures	-	-	-	602,823	449,324	470,387	457,383	468,409
Interest accrued on Aral advance, net	-	-	-	-	-	-	-	748,372
Depletion, depreciation & accretion (debentures)	37,173	82,139	80,302	129,060	137,632	2,199,984	137,662	838,668
Stock-based compensation	673,354	448,903	305,689	305,689	1,182,872	590,651	595,914	1,877,803
Unrealized Foreign exchange loss (gain)	1,071,839	(1,055,812)	(378,134)	447,866	(158,997)	(283,326)	(169,974)	2,324,801
Gain on disposal	-	-	-	-	-	(83,332)	-	-
Future income taxes (recovery)	240,114	(1,034,880)	-	1,408,619	(500,612)	(604,431)	-	448,569
Net income (loss)	(1,858,266)	284,896	(397,309)	(974,273)	(1,514,083)	(3,596,534)	(1,377,135)	(6,059,772)
Net income (loss) per share basic and diluted	(0.02)	0.00	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)	(0.06)

Until the beginning of the first quarter of calendar 2006, Caspian had a temporary 100% beneficial interest in the producing well (EZ#213) of Aral until such time as Caspian Ltd.'s indirect ownership of 50% of the Exploration Contract (excluding well EZ#213)

had proved developed reserves of at least \$3,000,000 (before income tax, discounted cash flow @ 20%, constant dollar pricing). Subsequent to December 31, 2005, concurrent with the inclusion of well EZ#301 in the Company's reserve study, this threshold was reached and the 100% beneficial ownership reverted to a 50% indirect interest. Both wells in East Zhagabulak (#213 and #301) were producing during the second and third quarters of 2006. During November 2006, the scheduled workover for acidization on 213 began. Difficulties in acquiring a workover rig and acid equipment for the job due to a high level of industry activity were experienced, so that work was not completed until late December 2006. Subsequently, an operation to swab the well to recover the spent acid water resulted in re-establishing the flow during January 2007. Also, during November 2006, well 301 was due for its quarterly "pressure and flow" testing as per local regulation, but while running a PLT (production logging tool) on wireline, the line broke and the tool was lost and then, recovered during 2Q 07. The average production rate for the first quarter 2007 was 362 Bopd (181 Bopd, net) and the March 2007 rate was 435 Bopd (218 Bopd, net). During 2Q 07, the gross production rates, were April – 902 Bopd, May – 1,383 Bopd and June – 1,375 Bopd while corresponding sales rates were 150, 895 and 1,747 Bopd, respectively. Net rates are 50% of the gross rates.

Interest and other, net has decreased due to the consumption of cash by the Company's exploration program and a loss experienced in the "other" category suffered by Aral. Interest expense on the convertible debentures of \$468,409 was accrued during the second quarter. Pursuant to the Credit Agreement, executed between Caspian and Aral concerning the funds advanced to Aral by Caspian, Caspian began charging interest on the advance and has recorded a net interest income of \$748,372. Depletion, depreciation and accretion expense includes \$78,590 relating to the accretion of the discount on the convertible debentures. Stock options granted on April 4, 2007, which vested immediately, with a fair value of \$1,063,982, contributed to stock-based compensation expense. The Canadian dollar continues to fluctuate versus the British Pound Sterling and the US dollar, resulting in foreign exchange gains and/or losses.

CONTRACTUAL OBLIGATIONS

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

The minimum work program was US\$20.8 million and matured at the end of calendar 2005. As at December 31, 2005, this financial obligation was fully discharged. The work program was extended to December 2007 and includes drilling three wells to a combined total of 8,500 metres with a monetary obligation of US\$20.6 million. No additional seismic is required. The Company's calendar 2006 minimum work program with the ROK was approved for US\$12.2 million and was discharged during the first quarter 2006. The 2007 monetary obligation of USD 8.4 million has been expended.

<i>Year</i>	<i>USD (millions)</i>
2007	8.4
Total contractual obligations	8.4

CASH USED IN OPERATIONS AND LOSS FOR THE PERIOD

Cash Provided by (used in) Operations

Caspian's operations used \$849,893 of cash for the three months ended June 30, 2007 (2Q 07) and provided \$1,316,961 of cash for the three months ended June 30, 2006 (2Q 06).

	2Q 07	2Q 06
Cash provided by (used in) operations	\$ (849,893)	\$1,316,961
Basic	\$ (0.01)	\$0.01
Diluted	\$ (0.01)	\$0.01

	Six months to June 30 07	Six months to June 30 06
Cash provided by (used in) operations	\$ (623,331)	\$1,683,777
Basic	\$ (0.01)	\$0.02
Diluted	\$ (0.00)	\$0.02

Net Loss

For the three and six months ending June 30, 2007, CEK's net loss was \$6,059,772 and \$7,436,907, respectively. For the three and six months ending June 30, 2006, CEK's net loss was \$974,273 and \$1,371,582, respectively. Large non-cash items equal to \$1,877,803 (2Q 2006 - \$305,689) relating to stock-based compensation charges and \$3,346,492 (2Q 2006 - \$(702,564)) pertaining to foreign exchange losses contributed to the loss in 2Q 2007. During 2Q 2007, the Company recorded a charge of \$448,569 (2006 - \$1,408,619) pertaining to future income taxes in the Republic of Kazakhstan .

	2Q 07	2Q 06
Net loss:	\$6,059,772	\$974,273
Basic	\$0.06	\$0.01
Diluted	\$0.06	\$0.01

Sales Volumes

Presently, our oil is shipped by rail to Kaliningrad, due to its inability to meet pipeline specifications, a consequence of the lack of facilities that can desalt our feedstock and remove the mercaptans. The Company sold an average 614 Bopd (2Q 06 – 523 Bopd) at a price of \$33.81 (2Q 06 - \$28.37), per barrel, net of ROK takes, during the period ended June 30, 2007.

Under the Exploration Contract, Aral is required to pay royalties at a rate of 3% of the volume of hydrocarbons produced and sold based upon the average selling price (less transportation expenses) of the production. Aral is also obligated to allocate 10% of produced hydrocarbons to the ROK. The government is paid in cash (rather than in kind) after the production has been sold.

Net gas sales from Caspian’s Canadian non-operated production totaled \$14,993 (\$53.45 per Boe) and contributed an average 2.6 Boepd during the three month period ended June 30, 2007. The production rate was 3.2 Boepd and net gas sales were \$11,033 (\$37.46 per Boe) for the previous fiscal period.

Revenues

For 2Q 07, petroleum revenues before transportation costs and freehold royalties were \$1,892,175. For 2Q 06, petroleum revenues before transportation costs and freehold royalties were \$1,360,587.

Interest of \$1,520,836, including \$1,464,345 accrued on the advance to Aral, (2Q 06 - \$496,203) was earned during the period.

Operating Expenses

For 2Q 07, operating costs were \$560,577 (2Q 06 - \$331,185) and transportation costs were \$156,504 (2Q 06 - \$12,796). Kazakhstan operating costs aggregated \$10.02 (2Q 06 - \$6.80) per barrel and total domestic operating costs were \$11.61 (2Q 06 - \$26.92) per barrel. Transportation costs in Kazakhstan were \$2.81 (2Q 06 - \$0.27) per barrel, while the domestic segment equaled \$0.25 (2Q 06 - \$0.13) per barrel. Well workovers during 2007 served to impact operating costs in Kazakhstan. Transportation costs increased from 2006 as our Kazakh oil is no longer sold at the lease line.

Operating Netbacks

Operating netback for the three month period ended June 30, 2007 was \$1,172,319.

	Total (\$)	Per Boe (\$)
Sales, net	1,889,400	33.81
Operating costs	560,577	10.03
Transportation	156,504	2.80
Netback	1,172,319	20.98

Operating netback for the three month period ended June 30, 2006 was \$1,014,569.

	Total (\$)	Per Boe (\$)
Sales	1,358,550	28.39
Operating costs	331,185	6.92
Transportation	12,796	.27
Netback	1,014,569	21.20

General and Administrative Expenses

	2Q 07	2Q 06
Office expenses	\$14,969	\$25,942
Travel and entertainment	72,096	79,593
Salaries/benefits	340,781	240,741
Professional fees	74,502	55,421
Public listing	210,258	115,696
Aral	132,272	123,959
Directors' fees/insurance	140,000	89,700
Total expense	\$984,878	\$731,052

Significant travel expenses are incurred as the operations of the Company are centered in the ROK, a Calgary, Alberta office is maintained for financial reporting and investor relations, the CEO is resident in Portugal, the COO is an American citizen and financing activities span North America, the British Isles and Europe. Salaries and benefits relate to the remuneration packages of the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer, while professional fees are legal, audit, taxation and engineering services. Administrative expenses of \$132,272 for the period ending June 30, 2007 and \$123,959 for the period ending June 30, 2006 relating to Aral operations have been included upon consolidation. The Directors' fees/insurance charge in 2007 relates to Directors' and Officers' Liability coverage (\$85,000), which has an April

anniversary date and Directors' fees of \$55,000. The 2006 charge solely pertains to insurance.

CAPITAL EXPENDITURES

A recovery in Capital expenditures of \$4,496,504 was recorded for 2Q 07 (for 2Q 06, an expenditure of \$8,155,440 was recorded). During 2Q 07, drilling supplies of approximately \$5 million were reclassified from capital to inventory, reflecting the true nature of this category of assets. Since capital expenditures are composed of advances to Aral and the expenditure of funds by Aral, whose carrying value is denominated in US dollars, the CAD:USD exchange rate has also served to reduce the application of funds to this category of assets.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion, depreciation and accretion expense was \$760,078 (\$13.60 per Boe) for the three month period ended June 30, 2007 and \$45,959 (\$0.96 per Boe) for the quarter ended June 30, 2006. The 2Q 06 per Boe charges were relatively low due to the allocated level of costs subject to depletion, as the majority of the Company's property, plant and equipment is emerging from the pre-development stage.

LIQUIDITY AND CAPITAL RESOURCES

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

- Its business is capital intensive, requiring cash infusions on a regular basis as it seeks to grow its business.
- Its inventory of product for sale – its reserves – needs to be constantly replenished and augmented.
- It is a price taker when selling its inventory of oil and natural gas reserves.

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

Caspian's working capital at June 30, 2007 was \$9.1 million.

Dramatic growth, enhanced by the acquisition of 50% of the shares of Aral is projected for the future of Caspian. Aral has operated in Kazakhstan since December 2002 and has assembled a team of both Kazakh and international executives who have extensive

experience in the Kazakh operating and regulatory environment. See “Business of the Company”.

The Company expects to be able to fund its capital expenditure program to the end of 2007 using cash flow from operations, working capital and, to the extent required or desirable, through funds raised in the capital markets.

On March 1, 2006, Caspian announced the closing of a private placement of U.S. \$16 million principal amount, 10% interest rate, convertible debentures which mature on March 2, 2011.

On April 5, 2006, Caspian announced that it had closed an underwritten private placement to issue 19,609,000 common shares at a price of \$2.55 per share for total gross proceeds of \$50 million. Also, on this date, 50,000 common shares stock options at \$1.75 per share were exercised resulting in proceeds of \$87,500.

OUTSTANDING SHARE DATA

At August 9, 2007, the number of common shares of the Company outstanding and the number of common shares issuable pursuant to other securities of the Company outstanding are as follows:

<u>Common Shares</u>	<u>Number</u>
Outstanding	104,343,263
Issuable under options	13,328,777
Issuable under warrants	588,270
Issuable pursuant to convertible debentures	7,510,204
Issuable pursuant to debentures interest	4,984,159

BUSINESS PROSPECTS AND OUTLOOK

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

Prior to the end of the fourth quarter 2005, EZ#301 was drilled to a total depth of 4,846 metres and logged. The well was completed with the drilling rig before the rig was moved to the EZ#302 location. EZ#301 was matrix acidized and the two potentially productive hydrocarbon bearing zones were flow-tested. The lower zone (KT-2) was tested at 2,532 Bopd. The upper zone (KT-1) had difficulty maintaining an independent flow, so it was commingled with the lower zone and the well was tied-in to the

Zhagabulak production facility. Subsequently, production logs were run and it was determined that the KT-1 was producing 100 Bopd. Well 301 was undergoing a government mandated pressure survey in November 2006, when a production logging tool and cable were lost in the hole. During the second quarter, the tool and wire were recovered and the well has resumed production. Well 301 is currently producing 926 BOPD, 8 BWPD, 1,274 MCFD with a FTP (flowing tubing pressure) of 588 psig and a shut in casing pressure of 1,896 psig on a 12 mm choke.

The second exploration effort, EZ#302, was spud on December 25, 2005. Acidizing and testing of the well were performed following removal of the drilling rig. The well showed indications of hydrocarbons while drilling and logging; however, the stimulation efforts failed to cause the well to flow naturally. In well 302, a workover is being evaluated to isolate the KT-1 and the lower portions of the KT-2 that exhibit higher water saturations on the logs.

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

The original producing well, EZ#213, drilled and completed during the Soviet period, was re-entered in November 2006 and perforations were added in the KT-1 reservoir. Due to different casing weights, problems were encountered with packer setting for the acid operation and consequently, only one-half of the productive zones were acidized. Despite the limits on the acidization, a significant improvement of daily production over the pre-workover rates was achieved. Well 213 is currently producing 384 BOPD, 54 BWPD, 528 MCFD with a flowing tubing pressure of 544 psig and a shut-in casing pressure of 1,970 psig on an 8.7 mm choke. A survey to determine the production contribution from the KT-1 and KT-2 intervals is planned for Q3, the results of which will be integrated into the final analysis and ranking of potential workover strategies for wells 302 and 303.

Further drilling in the remainder of the Zhagabulak area will be delayed while the Company focuses on shallower targets in the western side of the North Block.

The Company has initiated the development process for East Zhagabulak. While East Zhagabulak is small, a development contract will ultimately lead to commercialization. Expansion is planned as drilling in the surrounding Zhagabulak area unfolds.

Ongoing petrophysical analyses of all wells penetrating the below salt reservoirs is being completed and correlations of these wells will aid in the identification of future drilling locations in the North Block. Identification and acquisition of well data within the extended territory is also being evaluated for inclusion into this process.

The Baktygaryn 3-D seismic program was completed in early November 2005. PGS-GIS, in Almaty, ROK was awarded the processing contract. Due to the presence of large salt bodies in the Baktygaryn Area, the 3-D data set was processed through PSDM (Pre-Stack Depth Migration) and interpretation of this data has been completed. PSTM (Pre-Stack Time Migration) analysis, for the above salt section has also been conducted. The acquisition of the 367 kilometre regional 2-D seismic survey covering the west and north areas of the North Block and tying into the Zhagabulak and Baktygaryn 3-D seismic surveys that was completed in March 2007 has also been processed and interpreted. The Baktygaryn 3-D program and the regional 2-D program were fully interpreted at the end of October 2006. The interpreted data from all new seismic data acquired and from the earlier reprocessed Soviet-era 2-D seismic is being combined to create a geological model and identify additional leads and prospects across the North Block territory. This work is expected to be completed during 3Q 2007.

The Baktygaryn Area presents drilling targets in both the below salt Lower Permian and Carboniferous sections and the above salt Upper Permian and Mesozoic sections with depths ranging from approximately 400 to 2,300 metres and provides a second tier of exploration to the Company's drilling portfolio. Three locations are being permitted with target depths of 600 to 800 metres. These targets are recognized in the forms of channel sands, traps against the Kungurian salt ridges and underneath salt overhangs. The Company expects to spud its first well in this area during October 2007.

Soviet-era seismic data interpretation, mapping and the associated shallow well drilling in the Itisay, Kozdesay and West Kozdesay areas, located in the southwestern portion of the North Block, yielded minor positive tests and shows of oil associated with the post-salt sediments of Jurassic, Triassic and Upper Permian ages. A review of this data has resulted in the identification of several prospects and leads ranging from 600 to 1,800 metres in trapping positions against Permian salt ridges and under-salt overhangs. Several lines from the Company's 2006 2-D seismic program were shot across certain of these leads and prospects to verify this premise. The entire vintage and modern data sets are being fully interpreted and well-to-seismic ties performed for aiding in the creation of a geological model for these Areas. The Company expects to have identified several drillable prospects by the close of 3Q 2007.

Future, potential seismic activity, pending the results of the ongoing 2-D seismic interpretation, includes a third 3-D seismic acquisition late in the fourth quarter.

ADDITIONAL DISCLOSURES

Critical Accounting Estimates

In the preparation of the financial statements, it was necessary for Caspian to make certain estimates that were critical to determining our assets, liabilities and net income. None of these estimates affect the determination of cash flow but do have a significant impact in the determination of net income. The most critical of these estimates is the

reserves estimations and the resulting effect on various income statement and balance sheet measures.

Caspian engaged an independent engineering firm to evaluate 100% of our oil and natural gas reserves and prepare a report thereon. Their report was utilized in: a) the calculations of depletion and depreciation expense, b) the application of the ceiling test, and c) the calculation of asset retirement obligations. The estimation of the reserve volumes and future net revenues set out in the report is complex and subject to uncertainties and interpretations. Judgments are based upon engineering data, projected future rates of production, forecasts of commodity prices, and the timing of future expenditures. Inevitably the estimates of reserve volumes and future net revenues will vary over time as new data becomes available and estimates of future net revenues do not represent fair market value. The impact of such revisions in 2007 was not significant.

The significant accounting policies used by the Company are disclosed in the notes to the Company's audited consolidated financial statements. 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. The following discussion outlines such accounting policies and is included in this MD&A to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported. The Company's management reviews its estimates regularly.

The following significant accounting policies outline the major policies involving critical estimates.

Proved Oil and Gas Reserves

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. The estimated quantities of proved crude oil, natural gas liquids and natural gas are derived from geological and engineering data that demonstrate with reasonable certainty the amounts that can be recovered in future years from known reservoirs under existing economic and operating conditions. Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests. The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans.

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the unit-of-production method based upon proved oil and gas

reserves. An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Withheld Costs

Certain costs related to unproved properties may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted.

Impairment of Long Lived Assets

The Company is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment.

The carrying value of the Company's petroleum and natural gas properties must not exceed their fair value. The fair value is equal to the estimated future cash flows from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long lived asset is charged to income.

Asset Retirement Obligations

Asset retirement obligations are initially measured at fair value when they are incurred, which is the discounted future value of the estimated liability. This requires an estimate to be made of the future costs of retiring the asset at the point in time the asset is acquired.

Changes in Accounting Policies

There were no changes in accounting policies during 2Q 2007.

Credit Risk Management

We are exposed to credit risk on our commodity contracts due to the potential for non-performance by the counter parties. We mitigate this risk by only dealing with well established marketing companies.

Fair Value Measurement

The carrying values of cash, cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

Related Party Transactions

There were no related party transactions during the period.

Critical Accounting Disclosure

As at the period ended June 30, 2007, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at June 30, 2007, to provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company.

As at the financial quarter ended June 30, 2007, the Chief Executive Officer and Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at June 30, 2007 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.