Caspian Energy Inc.

Interim Consolidated Financial Statements
(Unaudited)
March 31, 2009

Notice to Shareholders

For the three months ended March 31, 2009

Responsibility for Financial Statements

The accompanying unaudited interim consolidated financial statements of Caspian Energy Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these principles are set out in note 2 to the financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

Disclosure Required Under National Instrument 51-102 – "Continuous Disclosure Obligations"

The auditor of Caspian Energy Inc. has not performed a review of the unaudited interim consolidated financial statements for the three months ended March 31, 2009.

Caspian Energy Inc.

Interim Consolidated Balance Sheet
(Unaudited)

	March 31, 2009 $	December 31, 2008 $
Assets		
Current assets		
Cash and cash equivalents	4,070,896	6,423,922
Accounts receivable	621,889	11,142
Prepaids and other deposits	250,128	266,419
Inventory (note 3)	442,957	605,863
	5,385,870	7,307,346
VAT receivable (note 2)	301,590	406,519
Restricted cash (note 5)	413,530	404,681
Property, plant and equipment (note 4)	119,210,740	119,757,178
	125,311,730	127,875,724
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,592,769	7,120,361
Asset retirement obligation (note 5)	302,987	291,545
Loan payable (note 6)	3,711,346	4,339,485
Convertible debentures (note 7)	24,912,993	23,531,717
	32,520,095	35,283,108
Shareholders' Equity		
Share capital (note 8)	126,338,341	126,338,341
Contributed surplus (note 10)	15,313,290	15,311,590
Deficit	(48,859,996)	(49,057,315)
	92,791,635	92,592,616
	125,311,730	127,875,724

Going concern (note 1)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

(signed) "Gord Harris" Director (signed) "William Ramsay" Director

Caspian Energy Inc.

Interim Consolidated Statement of Income, Comprehensive Income and Deficit
(Unaudited)

	Three months ended March 31, 2009 $	Three months ended March 31, 2008 $
Revenue		
Oil and gas revenue, net	901,913	3,436,781
Interest	3,842	17,171
Other	304,586	35,607
	1,210,341	3,489,559
Expenses		
General and administrative	546,935	772,816
Accretion of convertible debentures (note 7)	105,613	75,908
Interest	629,309	493,148
Operating	567,078	1,243,631
Transportation	412,384	233,047
Stock-based compensation (note 8)	1,700	34,542
Foreign exchange gain	(2,443,354)	(1,342,080)
Depletion, depreciation and accretion	1,193,357	408,504
	1,013,022	1,919,516
Net income and comprehensive income for the period	197,319	1,570,043
Deficit – Beginning of period	(49,057,315)	(33,055,889)
Deficit – End of period	(48,859,996)	(31,485,846)
Basic income per share (note 8)	0.00	0.02
Diluted income per share (note 8)	0.00	0.02

Going concern (note 1)

See accompanying notes to consolidated financial statements.

Caspian Energy Inc.

Interim Consolidated Statement of Cash Flows
(Unaudited)

	Three months ended March 31, 2009 $	Three months ended March 31, 2008 $
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the period	197,319	1,570,043
Items not affecting cash		
Stock-based compensation	1,700	34,542
Unrealized foreign exchange gain	(2,391,156)	(1,210,894)
Depletion, depreciation and accretion	1,193,357	408,504
Accretion of convertible debentures	105,613	75,908
Interest on convertible debentures	471,762	487,374
	(421,405)	1,365,477
Changes in non-cash working capital balances	(2,374,543)	(1,782,301)
	(2,795,948)	(416,824)
Financing activities		
Loan payable	(628,139)	239,881
Restricted cash	(8,849)	(13,103)
	(636,988)	226,778
Investing activities		
Acquisition of property, plant and equipment	2,559,580	(1,500,792)
VAT receivable	104,929	-
Changes in non-cash working capital balances	(1,584,599)	760,327
	1,079,910	(740,465)
Decrease in cash and cash equivalents	(2,353,026)	(930,511)
Cash and cash equivalents – Beginning of period	6,423,922	4,373,919
Cash and cash equivalents – End of period	4,070,896	3,443,408
Interest paid and received		
Interest paid	157,547	-
Interest received	3,842	17,171

See accompanying notes to consolidated financial statements.

1 Nature of operations and going concern

Caspian Energy Inc. ("Caspian" or the "Company") is engaged in the exploration for and development and production of oil and gas in the Republic of Kazakhstan. Its primary operating activities are carried out through its wholly-owned subsidiary, Caspian Energy Ltd. ("Caspian Ltd.").

Caspian's principal assets are a 50% interest in Aral Petroleum Capital LLP ("Aral"), held by Caspian Ltd. Through its interest in Aral, Caspian has the right to explore and develop certain oil and gas properties in Kazakhstan, known as the North Block, a 3,458 square kilometre area located in the vicinity of the Kazakh pre-Caspian basin. The Company also has minor resource interests in Canada.

Aral's exploration and development rights to the North Block were granted pursuant to the terms of an exploration contract between the government of Kazakhstan and Aral (the "Exploration Contract"). The initial three-year term of the Exploration Contract was extended for a two-year period (expiring in December 2007) and a further extension of two years to December 31, 2009 has been succeeded by a three year extension to December 31, 2012 with a 2009 work commitment of US $38.9 million.

Under the terms of the Exploration Contract, Aral was obligated 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. The expenditures include processing and reinterpretation of geological and geophysical data of prior years, two dimensional and three dimensional seismic shoots and surveys, drilling exploration wells, well reactivations and well surveys and testing. The minimum work program matured at the end of calendar 2005. As of December 31, 2005, Aral's financial obligation under the minimum work program had been discharged. The work program extension to December 2008 included drilling three wells to a combined total of 8,500 metres with a monetary obligation of US $20.15 million. At December 31, 2007, Aral had contract shortfalls aggregating US $7.1 million. Management of Aral believes the Company is in compliance with its commitments under the Minimum Working Program and received authorization from the Ministry of Energy and Natural Resources and other competent bodies to carry over fulfillment of the above shortfalls to the year ending December 31, 2008. At December 31, 2008, Aral had discharged these obligations. The work commitment for 2009 aggregates US $38.9 million. At March 31, 2009, Aral had expended approximately US $2.3 million toward discharging this obligation.

Under terms of a shareholders' agreement dated June 25, 2004, among Caspian Ltd., Azden Management Limited ("Azden") and Aral, Caspian was committed to fund Aral's US $20.8 million obligation under the initial work program. This financial commitment was satisfied, in full, by the Company. In addition, Caspian Ltd. has undertaken, on a best efforts basis, to raise financing of US $84.0 million to fund Aral's operations pursuant to the Exploration Contract. At March 31, 2007, Caspian Ltd. had discharged this undertaking.

Note 1 – Nature of operations and going concern (continued)

Going concern

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles applicable to a going concern. The Company reported net income of $197,319 and funds generated from operating activities of $(2,795,948) for the period ended March 31, 2009. The Company had net working capital of $1,793,101 and a cumulative deficit equal to $48,859,996 at period end.

On March 1, 2006, the Company received US $16 million and issued 10% per annum, convertible debentures in that amount secured with Caspian Ltd. Shares. The debentures mature on March 2, 2011 and are convertible into common shares of the Company at a conversion price of $2.45 per share. The Company is required to pay interest on the principal plus any accrued, but unpaid, interest amount outstanding on a quarterly basis. Each debentures holder is entitled to receive current interest in cash, if the Company is formally notified of this circumstance within ten business days of the quarter end and the Company is obligated to pay the applicable interest within five days from quarter end. During the 2008 fiscal year, certain debentures holders requested and were paid two cash interest payments of US $357,260 pertaining to each of the first and second quarters and US $129,661 pertaining to the fourth quarter. Certain debentures holders have requested that interest totalling US $129,661 be paid in cash pertaining to the first calendar quarter of 2009. This payment has not been made. Due to the Company's limited financial resources, management has met and continues to negotiate with each of the debentures holders to negotiate settlement of the interest obligation through avenues other than cash payment. If management does not reach an agreeable alternative to cash payment and fails to make payment within the stipulated time frame, an event of default may occur pursuant to the debentures contract. If the delinquency is not remedied within 30 days of the default, the debentures holders then may formally notify the Company of such circumstance and demand payment of the delinquent interest to be made within ten business days. Failing payment by the Company, the debentures holders may demand that their principal and accrued interest be immediately paid and appoint a private Receiver to accomplish such objective. If the private receiver wishes to dispose of the property in the Republic of Kazakhstan, ministerial assent is required. The Company has not been notified as to an event of default under the debentures agreement.

If all debentures holders demand that cash interest payments be made beginning with the second quarter of 2009 and Caspian complies, the Company would be cash deficient during November 2009.

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

During the first quarter of 2009, the minimum work program was extended to December 2012 and contains a 2009 exploration commitment which aggregates US $38.9 million. Currently, Caspian does not have the cash resources to discharge its 50% share of this commitment, but is pursuing a farmout of the North Block, which may result in an up-front cash payment plus an undertaking of the exploration and development obligations of the Company by the farmor to earn a portion of Caspian's interest in the Block.

Note 1 – Nature of operations and going concern (continued)

The Company's ability to continue as a going concern is in significant doubt and is dependent upon a successful outcome to the negotiations taking place with the debentures holders and a positive conclusion to its farmout activities and to achieving profitable operating results from its Kazakhstan operations..

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Such adjustments could be material.

2 Significant accounting policies

The consolidated financial statements of Caspian are stated in Canadian dollars and have been prepared in accordance with Canadian GAAP.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments with an initial maturity date of three months or less.

Inventory

Inventory is recorded at the lower of cost calculated using the weighted average method, and net realizable value. Cost comprises direct materials, and where applicable, direct labour costs and those overheads which have been incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Joint ventures

The Company's oil and gas exploration and development activities are conducted mainly in Kazakhstan through its 50% interest in Aral and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Note 2 – Significant accounting policies (continued)

VAT receivable

At March 31, 2009, Aral did not expect to currently claim VAT and thus classified it as non-current. At December 31, 2007, the Company assessed it could have claimed VAT recoverable during the ensuing twelve months, since test oil production was expected to increase in 2008; accordingly VAT reclaimable was classified as current and included in prepaid and other assets.

Property, plant and equipment

a) Capitalized costs

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment and overhead charges directly related to exploration and development activities. Proceeds from the sale of oil and gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would change the rate of depletion and depreciation by 20% or more, in which case, a gain or loss would be recorded.

b) Depletion, depreciation and amortization

The capitalized costs are depleted and depreciated using the unit-of-production method based on proven petroleum and natural gas reserves, as determined by independent consulting engineers. Oil and natural gas liquids reserves and production are converted into equivalent units of natural gas based on relative energy content on a ratio of six thousand cubic feet of gas to one barrel of oil. Significant development projects and expenditures on exploration properties are excluded from calculation of depletion prior to assessment of the existence of proved reserves.

Other property, machinery and equipment are recorded at historical cost. Depreciation is calculated on a straight-line basis at the following annual rates:

Buildings	8%
Machinery and equipment	8%
Vehicles	7%
Other fixed assets	10%

Note 2 – Significant accounting policies (continued)

c) Ceiling test

The Company follows the Canadian accounting guideline on full cost accounting. In applying the full cost guideline, Caspian calculates its ceiling test for each cost centre by comparing the carrying value of oil and natural gas properties and production equipment to the sum of undiscounted cash flows expected to result from Caspian's proved reserves. If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying value of oil and gas properties and production and equipment to the estimated net present value of future cash flows from proved plus probable reserves using a risk-free interest rate and expected future prices. Any excess carrying value above the net present value of the future cash flows is recorded as a permanent impairment.

d) Unproved property

Costs of acquiring and evaluating unproven properties are initially excluded from costs subject to depletion, until it is determined whether or not proved reserves are attributable to the properties or, in the case of major development projects, commercial production has commenced, or impairment has occurred. Impairment occurs whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When proven reserves are determined or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion for that country's cost centre.

e) Asset retirement obligation

Caspian records the fair value of asset retirement obligations ("ARO") as a liability in the period in which it incurs a legal obligation to restore an oil and gas property, typically when a well is drilled or other equipment is put in place. The associated asset retirement costs are capitalized as part of the carrying amount of the related asset and depleted using a unit-of-production method over the life of the proved reserves. Subsequent to initial measurement of the obligations, the obligations are adjusted at the end of each reporting period to reflect the passage of time and changes in estimated future cash flows underlying the obligation. Actual costs incurred on settlement of the ARO are charged against the ARO.

Income taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value amount on the balance sheet are used to calculate future income tax assets and liabilities. Future income tax assets and liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Note 2 – Significant accounting policies (continued)

Stock-based compensation

The Company grants options to purchase common shares to employees and directors under its stock option plan. Under this standard, future awards are accounted for using the fair value of accounting for stock-based compensation. Under the fair value method, an estimate of the value of the option is determined at the time of grant using a Black-Scholes option-pricing model. The fair value of the option is recognized as an expense and contributed surplus over the vesting period of the option. Proceeds received on exercise of stock options, along with amounts previously included in contributed surplus, are credited to share capital.

Revenue recognition

Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses will be recognized in the same period in which the related revenue is earned and recorded.

Measurement uncertainty

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for asset retirement obligations and the amounts used for ceiling test calculations are based on estimates of reserves and future costs. The Company's reserve estimates are reviewed annually by an independent engineering firm. The amounts disclosed relating to fair values of stock options issued are based on estimates of future volatility of the Company's share price, expected lives of options, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty.

Loss per share

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the treasury stock method whereby the weighted average number of shares is adjusted for the dilutive effect of options. The Company applies the treasury stock method for the calculation of diluted net loss per share whereby the effect of the "in the money" instruments such as stock options and warrants affect the calculation. The treasury stock method assumes that the proceeds from the exercise are used to repurchase common shares of the Company at the weighted average market price during the year.

Note 2 – Significant accounting policies (continued)

Financial instruments

Fair values

The fair values of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, convertible debentures, loan payable and stock based compensation approximate their carrying values due to their short-term maturity.

Credit risk

Substantially all of the Company's accounts receivable are due from companies in the oil and gas industry and are subject to the normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the associated credit risks.

Foreign currency

All operations are considered financially and operationally integrated. Results of operations are translated to Canadian dollars, using average rates for revenues and expenses, except depreciation which is translated at the rate of exchange applicable to the related assets. Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are recorded in the statement of loss.

Capital disclosures

The Company discloses the objectives, policies and processes for how it manages its capital. It also discloses qualitative data about what the entity regards as capital; and whether the Company has complied with any capital requirements and if not, the consequences of such non-compliance.

Future accounting changes

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS"). Caspian will be required to adopt IFRS for the year beginning January 1, 2011. The application of IFRS in Canada and particularly to the oil and gas industry requires further clarification and as a result the effect of the IFRS adoption on the Company's accounting policies and reporting standards and practices has not yet been determined.

3 Inventory

	March 31, 2009 $	December 31, 2008 $
Oil inventory	148,548	497,967
Fuel	6,588	7,607
Construction materials	3,146	3,145
Spare parts	5,542	5,688
Other materials	279,133	91,456
	442,957	605,863

4 Property, plant and equipment

	March 31, 2009 $	December 31, 2008 $
Petroleum and natural gas assets	129,204,407	128,586,585
Other assets	3,191,203	3,306,522
	132,395,610	131,893,107
Accumulated depletion and depreciation	(13,184,870)	(12,135,929)
	119,210,740	119,757,178

Excluded from the depletable base of oil and gas assets at March 31, 2009 are unproved properties of $87,288,584 (December 31, 2008 – $78,061,478).

The Company applied the ceiling test to its capitalized assets at March 31, 2009 and December 31, 2008 and determined that there was no impairment of such carrying costs.

	WTI Crude oil price $US/bbl
2009	60.00
2010	71.40
2011	83.20
2012	90.20
2013	97.40

The prices increase by 2% for years thereafter.

During the period ended March 31, 2009, the Company capitalized $88,167 (December 31, 2008 – $307,823) of general and administrative expenses related directly to exploration and development activities.

5 Asset retirement obligation

The Company records the fair value of asset retirement obligations as a liability in the period in which it incurs the legal obligation.

The asset retirement obligation results from net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at March 31, 2009 is $325,582, which will be incurred between 2014 and 2019. A credit-adjusted risk-free rate of 16.5% was used to calculate the fair value of the asset retirement obligations, and an inflation factor of 19.0%.

A reconciliation of the asset retirement obligation is provided below:

	March 31, 2009 $	**December 31, 2008 $**
Opening balance	291,545	252,279
Liabilities incurred	-	-
Accretion	11,462	39,266
Change in estimate	(20)	-
Closing balance	302,987	291,545

Under the terms of the Exploration Contract (note 1), the Company is required to create a fund to finance actual future restoration costs, equal to 1% of the capital costs of exploration. At March 31, 2009 and December 31, 2008, $413,530 and $404,681, respectively have been placed in a restricted bank account related to the funding requirement.

6 Loan payable

Pursuant to the Participants Agreement By and Among Azden Management Limited and Caspian Energy Ltd. and Aral Petroleum Capital Limited Liability Partnership, subsequent to reaching the US $84 million threshold on advances by Caspian to Aral, Caspian and Azden shall jointly finance, in equal proportions, the next stages of exploration by Aral. As at March 31, 2009, $7,422,692 had been advanced by Azden to Aral and is recorded as a loan payable in Aral's accounts. Caspian's proportionate share of this liability is $3,711,346.

7 Convertible debentures

On March 1, 2006, the Company received US $16 million and issued 10% per annum, convertible debentures in a like amount secured with Caspian Ltd. shares. The debentures mature on March 2, 2011 and are convertible at any time and from time to time into common shares of the Company at a conversion price of $2.45 per share. The Company may repay the principal amount of the debentures, in whole or in part, or require conversion into common shares of the Company if the volume-weighted average trading price of the common shares, for 40 consecutive trading days, is at least $4.08.

	Face amount $	Fair value of conversion option $	Accretion $	Interest $	Carrying value $
Debentures issued, opening balance	20,599,272	(1,483,805)	1,037,524	3,378,726	23,531,717
Accretion of discount	-	-	105,613	-	105,613
Translation adjustment	(296,171)	-	-	1,100,072	803,901
Interest accrual	-	-	-	471,762	471,762
Balance – March 31, 2009	20,303,101	(1,483,805)	1,143,137	4,950,560	24,912,993

8 Share capital

Authorized

Unlimited number of voting common shares, without stated par value

Issued

	Number of shares	Amount $
Issued and outstanding as at December 31, 2007 and 2006	104,343,263	121,470,892
Warrants expired (i)	-	946,508
Rights offering (ii)	17,390,543	4,347,636
Share issue costs (iii)	-	(426,695)
Issued and outstanding as at March 31, 2009 and December 31, 2008	121,733,806	126,338,341

Note 8 – Share capital (continued)

i) On April 5, 2008, 588, 270 broker warrants, with fair value of $945,508, which entitled the holder to purchase one common share at a price of $2.77 expired unexercised.

ii) A Rights Offering, which closed May 28, 2008, placed 17,390,543 units at a price of $0.25 per unit. Each unit comprised one common share in the Company and one-half of on share purchase warrant.

iii) Share issue costs have not been tax-effected as there is no guarantee of the Company's future profitability.

Stock options

The Company has a stock option plan (the "Plan") under which it may grant options to directors, officers and employees for the purchase of up to 15% of the number of common shares from time to time. Options are granted at the discretion of the board of directors. The exercise price, vesting period and expiration period are also fixed at the time of grant at the discretion of the Board of Directors in accordance with terms of the Plan.

Changes to the Company's stock options are summarized as follows:

	Number of options	Weighted average option price $
Balance – December 31, 2006	11,059,932	1.64
Granted	2,668,845	0.88
Expired	(400,000)	2.15
Balance – December 31, 2007	13,328,777	1.47
Granted	2,322,082	0.36
Balance – March 31, 2009 and December 31, 2008	15,650,859	1.31
Exercisable – March 31, 2009	15,650,859	1.31

Note 8 – Share capital (continued)

The following is a summary of stock options outstanding and exercisable as at March 31, 2009:

	Options outstanding		Options exercisable	
Range of exercise price $	**Options outstanding**	**Weighted average remaining contractual life in years**	**Weighted average exercise price $**	**Options exercisable**
0.36	2,322,082	4.5	0.36	2,322,082
0.75	2,079,090	0.7	0.75	2,079,090
0.86	800,000	3.1	0.86	800,000
0.89	1,868,845	3.3	0.89	1,868,845
1.25	1,043,433	2.7	1.25	1,043,433
1.34	900,000	3.0	1.34	900,000
1.61	843,271	1.5	1.61	843,271
1.75	1,100,000	1.5	1.75	1,100,000
2.00	1,050,000	1.0	2.00	1,050,000
2.15	3,644,138	0.7	2.15	3,644,138
	15,650,859		1.31	15,650,859

Per share amounts

The weighted average number of common shares outstanding during the period ended March 31, 2009 of 121,733,806 (December 31, 2008 – 114,729,943 shares) was used to calculate loss per share amounts.

In computing diluted loss per share, no shares were added to the weighted average number of common shares outstanding during the period ended March 31, 2009 (December 31, 2008 – nil) as they are anti-dilutive.

Warrants

8,695,262 share purchase warrants are outstanding at March 31, 2009. Each warrant is exercisable at an exercise price of $0.45 until the earlier of May 28, 2011 or 30 days following the receipt of a notice from the Company that the closing price of the shares for any 20 consecutive trading days exceeded $0.75.

9 Stock-based compensation

Options granted to both employees and non-employees are accounted for using the fair value method. The fair value of common share options granted in the period ended March 31, 2009 was estimated to be $nil as at the grant date using a Black-Scholes option-pricing model and the following assumptions:

Risk free interest rate	4.11 – 4.27%
Expected life	5 year average
Expected volatility	84 – 122%
Expected dividend yield	0%

The estimated fair value of the options is amortized to expense and credited to contributed surplus over the option vesting period on a straight-line basis.

10 Contributed surplus

	March 31, 2009 $	**December 31, 2008 $**
Balance – Beginning of period	15,311,590	14,467,311
Stock options issued to employees, officers and directors	1,700	844,279
Balance – End of period	15,313,290	15,311,590

The term and vesting conditions of each option may be fixed by the board when the option is granted, but the term cannot exceed 5 years from the date upon which the option is granted.

The options granted to directors, officers and employees may be exercised over five years from the date of granting and expire from time to time to June 2013.

The debentures are convertible into common shares of the Company at a price of $2.45 per share and mature on March 31, 2011.

11 Commitments and contingencies

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 obligation was fully discharged. The work program extension to December 2007 included drilling three wells to a combined total of 8,500 metres with a monetary obligation of US $20.15 million. No additional seismic was required. The work program extension to December 2009 includes drilling seven wells to a combined total of 8,500 metres with a monetary obligation of US $19.085 million. The Company's calendar 2006 minimum work program with the Republic of Kazakhstan was approved for US $12.2 million and was discharged during 2006. The Company's calendar 2007 work program was approved for US $8.4 million with amendment for another US $23.7 million). At December 31, 2007, Aral had contract shortfalls aggregating US $7.1 million. Management of Aral believed the Company was in compliance with its commitments under the Minimum Working Program and received authorization from the Ministry of Energy and Natural Resources and other competent bodies to carry over fulfillment of the above shortfalls to the year ending December 31, 2008. At December 31, 2008, Aral had discharged these obligations.

During the first quarter of 2009, the minimum work program was extended to December 2012 and contains a 2009 exploration commitment which aggregates US $38.9 million. Currently, Caspian does not have the cash resources to discharge its 50% share of this commitment, but is pursuing a farmout of the North Block, which will result in an up-front cash payment plus an undertaking of the exploration and development obligations of the Company by the farmor to earn a portion of Caspian's interest in the Block. A request for an extension of three years (through year 2012) of the exploration period for the North Block contract has been approved by applicable government regulatory bodies. At March 31, 2009, Aral had expended approximately US $2.3 million toward discharging the 2009 work commitment obligation.

The Company's principal business activities through Aral are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Company's assets and operations could be at risk in the event of negative changes in the political and business environment.

Under the Exploration Contract, Aral is required to pay royalties at a rate of 3% of the volume of hydrocarbons produced and sold based upon the average selling price (less transportation expenses) of the production. Aral is also obligated to allocate 10% of produced hydrocarbons to the ROK. Aral believes that in accordance with the Exploration Contract, the test production phase is excluded from the burden of royalties and that royalties are payable only at the experimental-industrial phase or when a Production Contract is concluded. If Aral's perspective is incorrect and rejected by Kazakh tax authorities, additional taxes and fines approximating $1.74 million may be levied. At March 31, 2009, unpaid royalties aggregate US $819,000.

Note 11 – Commitments and contingencies (continued)

Kazakh tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes which may be retroactive. Further the interpretation of tax and transfer pricing legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. Non-compliance with Kazakhstan tax laws and regulations can lead to the imposition of substantial additional taxes, penalties and interests. Tax period remain open to review by the Kazakh tax authorities for five years. Whilst there is a risk that the Kazakh tax authorities may challenge the policies applied, including those relating to transfer pricing, management believes that they would be successful in defending any such challenge. Accordingly, at March 31, 2009, no provision for potential tax liabilities had been recorded (December 31, 2008 – no provision).

Under the terms of the Exploration Contract, historical costs amount to US $15,787 thousand of which the Company has paid US $101 thousand. The unpaid amount relates to historical costs for the North block. Management believes that the Company will enter into a Production Contract only in relation to the areas of the North block that will have commercial reserves. Management believes that it is unlikely that the Company will be required to pay the full amount of remaining historical costs but may be required to pay a portion thereof related to the Production Contract area as agreed upon in any such Production Contract. The Exploration Contract specifies that the terms of payment for such costs will be agreed upon in a Production Contract.

12 Financial instruments

Caspian's financial instruments included in the consolidated balance sheet are comprised of cash and cash equivalents, restricted cash, accounts receivable and accounts payable. The fair values of these financial instruments approximate their carrying amounts due to the short-term nature of the instruments. A substantial portion of Caspian's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

A substantial portion of Caspian's activities are settled in foreign currencies and consequently, the Company is subject to fluctuations in currency translation rates.

The liability and equity components of the convertible debentures are presented separately in accordance with their substance. The liability component is accreted to the amount payable at maturity by way of a charge to earnings using the effective interest method.

There is presently significant liquidity risk in that the Company will not be able to meet its financial obligations as they come due (refer to Note 1). The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company's cash and cash equivalents are invested in business accounts, which are available upon demand for the Company's requirements. Cash and cash equivalents are not invested in any asset backed deposits/investments.

Note 12 – Financial instruments (continued)

The Company operates in Kazakhstan through its joint venture investment in Aral Petroleum Capital LLP (Aral). Like other foreign entities operating there, the Company is subject to currency exchange controls administered by the Republic of Kazakhstan (ROK). A significant portion of the Company's funding structure for its Kazakh operations consists of advancing loans to its Kazakh incorporated joint venture and it is possible the Company may not be able to acceptably repatriate such funds once the joint venture is able to repay the loans or repatriate other funds such as operating profits should any develop.

The following are the contractual maturities of financial liabilities:

	Carrying amount $	Contractual cash flow $	2009 $	2010 $	2011 $
Accounts payable and accrued liabilities	3,592,769	3,592,769	3,592,769	-	-
Loan payable	3,711,346	3,711,346	-	-	-
Convertible debentures	24,912,993	24,912,993	-	-	24,912,993

At March 31, 2009, the Company had working capital of $1,793,101.

The Company's existing sources of financing and expected cash flow from operating activities are not sufficient to meet: (i) the repayment of the Loan payable of $3,711,346, which has no specified repayment terms; and (ii) the Convertible Debentures plus accrued interest, totalling $24,912,993 on March 31, 2009, which mature on March 2, 2011.

Caspian, through Aral, has a contractual commitment to expend USD 10.5 million during calendar 2009 to discharge its exploration obligations pursuant to its exploration license with the ROK. To fund this circumstance, the Company is pursuing a farmout of the North Block, which will result in an up-front cash payment plus an undertaking of the exploration and development obligations to earn a portion of the Company's interest.

Caspian prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Petroleum and natural gas production and prices are monitored regularly to provide current cash flow estimates.

Market risk is the risk that changes in market prices, such as commodity prices and interest rates, will affect the Company's net earnings or the value of the financial instruments. The objective of market risks management is to manage and control exposures within acceptable limits, while maximizing returns. Caspian may utilize derivative instruments to manage market risk. The Company had no financial derivative contracts at March 31, 2009.

Note 12 – Financial instruments (continued)

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Lower commodity prices reduce the Company's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives. The Company had no financial derivative contracts at March 31, 2009.

13 Capital Management

The Company's general policy is to maintain a sufficient capital base in order to manage its business effectively with the goal of increasing the value of its assets and thus its underlying share value. The Company's objectives when managing capital are to maintain financial flexibility to meet financial obligations; to facilitate growth; and to optimize the use of capital sources to provide an appropriate investment return to its shareholders.

Caspian strives to properly exploit its current asset base and to acquire top quality assets. To that end, the Company is not averse to maintaining a high ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality.

The capital structure of the Company is as follows:

	March 31, 2009	**December 31, 2008**
Total shareholders' equity	$92,791,635	$92,592,616
Total shareholders' equity as a % of total capital	78%	77%
Working capital	$1,606,116	$186,985
Total indebtedness	$28,624,339	$27,871,202
Total debt as a % of total capital	23%	23%
Total Capital	$119,210,740	$119,757,178

14 Segmented information

The Company's activities are conducted in two geographic segments: Canada and Kazakhstan. All activities relate to exploration for and development of petroleum and natural gas.

			March 31, 2009
	Canada	**Kazakhstan**	**Total**
	$	**$**	**$**
Revenue			
Oil and gas revenue, net	732	901,181	901,913
Interest	3,842	-	3,842
Other	-	304,586	304,586
	4,574	1,205,767	1,210,341
Expenses			
General and administrative	417,050	129,885	546,935
Accretion of convertible debentures	105,613	-	105,613
Interest	629,309	-	629,309
Operating	7,562	559,516	567,078
Transportation	22	412,362	412,384
Stock-based compensation	1,700	-	1,700
Foreign exchange gain	(1,943,643)	(499,711)	(2,443,354)
Depletion, depreciation and accretion	5,000	1,188,357	1,193,357
	(777,387)	1,790,409	1,013,022
Net income (loss) for the period	781,961	(584,642)	197,319
Assets			
Current assets	2,945,916	2,439,954	5,385,870
Restricted cash	-	413,530	413,530
VAT receivable	-	301,590	301,590
Property, plant and equipment, net	22,923	119,187,817	119,210,740
	2,968,839	122,342,891	125,311,730
Liabilities	25,251,838	7,268,257	32,520,095

Note 14 – Segmented information (continued)

			March 31, 2008
	Canada	**Kazakhstan**	**Total**
	$	**$**	**$**
Revenue			
Oil and gas revenue, net	10,119	3,426,662	3,436,781
Interest	17,171	-	17,171
Other	-	35,607	35,607
	27,290	3,462,269	3,489,559
Expenses			
General and administrative	638,389	134,427	772,816
Accretion of convertible debentures	75,908	-	75,908
Interest	493,148	-	493,148
Operating	2,497	1,241,134	1,243,631
Transportation	71	232,976	233,047
Stock-based compensation	34,542	-	34,542
Foreign exchange loss (gain) loss	(3,470,453)	2,128,373	(1,342,080)
Depletion, depreciation and accretion	1,250	407,254	408,504
	(2,224,648)	4,144,164	1,919,516
Net income (loss) for the period	2,251,938	(681,895)	1,570,043
Assets			
Current assets	2,936,310	6,186,237	9,122,547
Restricted cash	-	266,235	266,235
Property, plant and equipment, net	27,923	127,777,731	127,805,654
	2,964,233	134,230,203	137,194,436
Liabilities	19,659,649	12,101,380	31,761,029