CASPIAN ENERGY INC.

Management's Discussion and Analysis

May 11, 2009 – 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 the unaudited interim consolidated financial statements and selected notes for the three months ended March 31, 2009 and the audited consolidated financial statements and notes for the years ended December 31, 2008 and 2007. This commentary is based upon information available to May 11, 2009.

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:

Caspian's performance in fiscal 2009;

Caspian's current financial condition; and

Caspian's future prospects.

This MD&A complements and supplements the disclosures in our unaudited interim consolidated 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. 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, as these terms provide useful information to investors and management as they are an indicator of the Company's profitability and ability to fund future capital expenditures. Therefore, Caspian has used these terms throughout this MD&A. Accordingly, we are required to advise the reader that: (a) these are non-GAAP measures for purposes of Canadian accounting standards, which do not have any standardized meanings prescribed by GAAP and (b) our determinations are unlikely to 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$20.9 million under a minimum work program in respect of the North Block, during the initial three-year term of the contract. Eligible expenditures include such things as processing and reinterpretation of geological and geophysical data of prior years, two dimensional and three dimensional seismic surveys, drilling exploration wells, well reactivations and well surveys and testing. As discussed below, funds raised by the Company are used to discharge the obligations of Aral relating to the minimum work program. As at December 31, 2005, Aral's financial obligation under the minimum work program had been discharged in full. Further, Aral undertook to expend US$12.2 million by the close of calendar 2006, which undertaking was also discharged. The initial term of the Exploration Contract was extended for a two-year period through to December 2007, and subsequently through December 2009. The work program extension to December 2007 included drilling three wells to a combined total of 8,500 metres with a monetary obligation of US$20.6 million. The 2008 work program

commits the Company to undertake US$8.5 million of exploration expenditures prior to the close of the calendar year and the 2009 work program – US$10.6 million. As at December 31, 2007, Aral had incurred US$119.7 million in charges related to the work commitments of the Minimum Working Program agreed with the ROK competent bodies. At that point, shortfalls under the Work Commitments aggregated 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 having incurred US$138.5 million in charges related to the work commitments of the Minimum Working Program. During the first quarter of 2009, Aral's request for a three year extension (through December 2012) to the exploration period for the North Block contract was approved by the Kazakh Ministry of Energy and Mineral Resources. Concurrent with the extension, the 2009 minimum work commitment was increased from US$10.5 million to US$38.9 million.

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 were 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. This inter-company charge eliminates upon consolidation of the two entities.

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.

In accordance with Kazakhstani tax legislation Aral is required to pay royalties in relation to the volume of oil produced. However, management of Aral believes that in accordance with the Exploration Contract the test production phase is not subject to royalties and that Aral will be liable to pay royalties only at the experimental-industrial phase or when the Production Contract is signed. Management of Aral has based this belief upon its communications to date with Kazakhstani authorities, in connection with which, no indications have been made that such royalties are payable. Should tax authorities consider Aral's position as incorrect, additional taxes and fines may be imposed. Accordingly, at March 31, 2009 no provision for royalties has been recorded by Aral. Unpaid royalties at this point aggregate US$819,000 and the previously mentioned additional fines and taxes

that could be levied would bring the aggregate to US$1.74 million.

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

To prove-up the maximum amount of reserves with the minimum number of wells

To utilize 3-D seismic and international standards and evaluation technology

To focus initially on the Zhagabulak area in the North Block, where the pilot production exists, then move to the 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 aforementioned strategies relate to future events and performance and are subject to uncertainties that may dictate a future change in strategy or cause actual results of the Company's operations to differ. See "Forward-Looking Statements and Other Information".

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

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

remain open longer.

See “Forward-Looking Statements and Other Information”.

During 2008, the Company’s common shares traded on the Alternative Investment Market (AIM) of the London Stock Exchange and the Toronto Stock Exchange under the symbol CEK.

On February 3, 2009, Caspian announced that it was cancelling its AIM listing effective March 3, 2009. The Company took these steps as part of its efforts to reduce ongoing overhead costs in light of the current oil prices and given the recent minimal trading volume in its common shares on AIM. Holders of the Caspian common shares continue to be able to trade their common shares through the facilities of the Toronto Stock Exchange following March 3, 2009.

East Zhagabulak (EZ)

The Zhagabulak Area is located in the southeastern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 642 million barrels of oil in place with 193 million barrels classified as recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but is seeking to validate this data through its exploration program.

The initial 3-D seismic program covering 406 square kilometres has been completed, processed and interpreted, indicating significant structures. Processing through Pre-Stack Time Migration (PSTM) of the Zhagabulak 3-D seismic data set was completed at the end of August 2005. The processing was performed by PGD-Dank (a division of Paradigm Geophysical) in Almaty, ROK. Following processing, the data set was transferred to Halliburton’s Landmark Geophysical office in Moscow, Russia for interpretation. Processing through Pre-Stack Depth Migration (PSDM) was completed in December 2005 and transferred to Landmark for interpretation. The presence of a broad, extensive structure separating Zhagabulak from neighboring producing fields has been noted and several potential drilling locations have been identified. The original producing well, EZ#213, drilled and completed during the Soviet period, was re-entered in November 2006 and perforations were added in the KT-1 reservoir. Due to different casing weights, problems were encountered with packer setting for the acid operation and consequently, only one-half of the productive zones were acidized. Despite the limits on the acidization, a significant improvement of daily production over the pre-workover rates was achieved. On August 31, during a 24 hour test, before field shut-in: 210 Bo, 45 Bw, 286 Mcfd, FTP 250, SICP 1,588, flow line pressure 88 psig at an 8.7 mm choke. On November 3, 2008 a 24 hour test was conducted with the following results: 196 Bo (barrels of oil), 101 Bw (barrels of

water), 274 Mcfd (thousand cubic feet of gas per day), FTP (flowing tubing pressure) 250, SICP(shut-in casing pressure) 1,720, flow line pressure 110 psig at an 8.7 mm choke. Well 213 flowed for 22 days after the field was brought back on-line, but died on November 14, 2008 due to a high water-cut, believed to result from a cross-flow of water to the producing zone from other strata, when the well was shut-in. Beginning in April 2009, EZ#213 is flowing intermittently averaging 11 Bopd, 4 Bwpd and 13 Mcfd. Artificial lift options are currently being assessed for price and delivery.

The location for the first well on the block, EZ#301, 1.1 km southwest of well EZ#213, was chosen from an earlier fast-track interpretation of the 3-D seismic data set. A contract with Nabors Drilling International was concluded in April 2005 and the well spud on July 16, 2005. The well reached a total depth of 4,846 metres on November 7, 2005, logs were run, production casing was set and testing began in mid-December. Acid treatment of the perforated intervals occurred during February 2006. Well 301 was undergoing a government mandated pressure survey in November 2006, when a production logging tool and cable were lost in the hole. During the second quarter 2007, the tool and wire were recovered and the well resumed production. On August 31, during a 24 hour test, before field shut-in: 545 Bo, 14 Bw, 743 Mcfd, FTP 309, SICP 1,793, flow line pressure 118 psig at a 12.0 mm choke. On November 3, 2008 a 24 hour test was conducted with the following results: 560 Bo (barrels of oil), 17 Bw (barrels of water), 779 Mcfd (thousand cubic feet of gas per day), FTP (flowing tubing pressure) 338 psig, SICP(shut-in casing pressure) 1,911, flow line pressure 121 psig at a 12.0 mm choke. During March 2009 EZ#301 was flowing 284 Bopd, 7 Bwpd and 382 Mcfd with a flowing tubing pressure of 338 psig on a 12 mm choke. The flow rate had decreased since the November test due to a suspected asphaltene build-up in the flowline which increased the back-pressure in the flowline from 176 psig, in early February 2009, to 322 psig in March. Remedial actions were undertaken and the flowline was purged with xylene in early April, reducing the back-pressure and restoring the well to 521 Bopd, 13 Bwpd and 640 Mcfd with a flowing tubing pressure of 300 psig on a 12 mm choke.

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

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

combined test of both intervals yielded water with small amounts of oil, while the separate test on the KT-1 yielded water. In well 303 a workover is proposed to isolate and test intervals separately to identify which perforations are producing water.

The East Zhagabulak field was temporarily shut-in on August 31, 2008 upon expiration of the term of the gas flaring permit. The field resumed production on October 24, 2008, after receipt of the new flare permit, but was shut in again for three days at the beginning of December, due to the expiration of the pilot production approval. The Author's Control Report (ACR) was approved on December 5, 2008 and the field was brought back on line on that date. In conjunction with the ACR, the pilot production period was approved and extended through December 2009.

Prior to shut-in, East Zhagabulak field total production averaged 764 Bopd, 73 Bwpd and 1,065 Mcfd, from wells 213 and 301. During the shutdown, anodes were installed in all vessels and tanks at the East Zhagabulak Facility for corrosion protection purposes.

The award of the contract for the FEED (Front End Engineering and Design) Study for the East Zhagabulak Gas Utilization Program has been delayed, while alternative options are being considered.

The Company has initiated the development process for East Zhagabulak. The preparation of the official State Reserves Report for East Zhagabulak is complete and was approved by the government on October 16, 2008. The preparation of the Technology Scheme, which outlines the detailed plan of development of the field, was completed on December 8, 2008. Supported by the completed and approved Reserves Report and Technology Scheme an application for a development contract for the field is being prepared. Work continues with the local engineering firm KazNIPIMunaigas on an amended version of the Technology Scheme. The completion of the report has been delayed until the end of 2009 to coincide with expiration of the pilot production approval and the anticipated receipt of the development contract.

Further drilling activity is planned following the approval of the East Zhagabulak development contract. Any failure or delay in receiving approval of the East Zhagabulak development contract would delay or terminate any such drilling plans accordingly. See "Forward-Looking Statements and Other Information".

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 seeks to validate this data through its exploration program.

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

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

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

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

The first post-salt well identified from the Baktygaryn 3-D survey, Baktygaryn #703, was spud on March 17, 2008, reached total depth of 2,521 metres on June 15, 2008 and was rig-released on June 19, 2008. Numerous drilling delays were experienced due to deviation problems in the salt and anhydrite section and mechanical failures of the drill string. The object of the vertical well was to secondarily, test Triassic sandstones downdip on a faulted structure and primarily, Upper Permian sandstones in a trap below a Permian salt diaper overhang. The well encountered excellent reservoir quality sandstones in the Triassic, but due to the downdip location of the well, no hydrocarbons were found. Seismic anomalies that supported the presence of a hydrocarbon trap in the Upper Permian, below a salt overhang, were proven by drilling to be inter-bedded claystones and anhydrite. No

reservoirs in the Upper Permian were encountered and the well was plugged and abandoned.

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

Aral has decided to release the drilling rig following plugging operations to further evaluate the portfolio of existing prospects identified in the block.

Itisay, Kozdesay and West Kozdesay

These three Areas are located in the southwestern portion of the North Block and collectively, are viewed as one prospect. The Government of Kazakhstan has estimated that these Areas contain 567 million barrels oil in place and 170 million barrels recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but seeks to validate this data through its exploration program.

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

leads and prospects in the post-salt sediments identified on vintage maps and seismic in three areas in the south western portion of the North Block, known as Itisay, Kozdesay and West Kozdesay have been confirmed and in addition several new leads and drillable prospects have been identified in trapping positions against Permian salt ridges and under salt overhangs.

Other Areas Within The North Block

Following are some of the other exploration areas within the North Block and their reserve estimates as put forth by the Government of Kazakhstan. Again, Caspian neither accepts nor denies these estimates, but seeks to validate this data through its exploration program: Tashir – 126 million barrels oil in place and 38 million barrels recoverable, Bulash – 116 million and 35 million, respectively, and Shegelshy – 90 million and 31 million, respectively. The grand totals estimated by the Kazakh Government for all prospects in the North Block are 899 million barrels oil in place and 274 million barrels oil recoverable.

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

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

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

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

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

Farm-out negotiations for the disposition of a partial interest in either the North Block or the East Zhagabulak field with several potential partners have been undertaken, as are

financing discussions with potential lenders.

Summary of Selected Quarterly Results ($ - except sales volumes)

Period2Q-073Q-074Q-071Q-082Q-083Q-084Q-081Q-09Oil and gas –Boe/d468539498505329285116325Oil and gas sales price – per Boe 44.35 41.85 45.26 74.81 112.27 85.02 14.26 30.83 Oil and gas revenues 1,889,400 2,074,923 1,946,798 3,436,781 3,363,412 2,231,533 151,486 901,913 Cash flow *(849,893)65,943(7,422,236)1,365,477 349,338(194,528)(4,065,285)(421,405) Cash flow from operating activities(1,268,402)251,254(7,533,790)(416,824)662,7351,264,951(3,131,229)(2,795,948)Net and comprehensive income (loss)(6,059,771) (2,295,252)(3,476,530)1,570,043(1,219,004)634,396(17,386,559)197,319Net and comprehensive income (loss) per share basic and diluted(0.05)(0.02)(0.05)0.02(0.01)0.01(0.15)0.00* See "Forward-Looking Statements and Other Information"

The original producing well, EZ#213, drilled and completed during the Soviet period, and the second well EZ#301, which reached a total depth of 4,846 metres on November 7, 2005 and began production shortly thereafter, temporarily shut-in during November 2006 and back on-line during the second quarter 2007, have both suffered expected primary production declines, due to loss of energy in the reservoir. EZ#213 ceased production on November 14, 2008 due to a high water-cut, believed to result from a cross-flow of water to the producing zone from other strata, when the well was shut-in. Beginning in April 2009, EZ#213 is flowing intermittently averaging 11 Bopd, 4 Bwpd and 13 Mcfd. Artificial lift options are currently being assessed for price and delivery for both wells.

Beginning during the first quarter 2008, the Company began selling oil in the export market and receiving an international price, while prior to this point, the majority of production was sold in the domestic marketplace at a much lower unit price.

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

The large decrease in cash flow during the fourth quarter 2007 is attributable to realized foreign exchange losses of $7,638,484. Unrealized foreign exchange losses of $2,324,801 during the second quarter 2007 contributed to the large loss during that period. During the fourth quarter of 2008, large unrealized foreign exchange losses and depletion charges resulted in an approximate $17.4 million loss. The Canadian dollar continues to fluctuate dramatically versus the British Pound Sterling and the US dollar, resulting in both realized and unrealized foreign exchange gains and/or losses in virtually every quarter, materially affecting the corresponding net income (loss). Net income (loss), over the eight quarters, also varies due to the stock-based compensation charge, which is tied to the date of stock option grants, which generally vest on the date of grant. General and administrative expense was approximately $500,000 higher in the fourth quarter of 2008 due to increased Kazakh charges in the areas of salaries, travel and professional services. An allowance for

Fiscal Year	Minimum Work Program

the collection of VAT receivable in Kazakhstan was made in the approximate amount of $2.5 million at 2008 year end.

Prior to the first quarter 2008, interest expense on the convertible debentures was capitalized to principal and formed part of the debentures; however, beginning with 1Q 08, certain of the Company's debentures holders have requested that the interest earned on their holdings be paid in cash affecting cash flow in these quarters.

See "Forward-Looking Statements and Other Information".

CONTRACTUAL OBLIGATIONS

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

The minimum work program was US$20.9 million and matured at the end of calendar 2005. As at December 31, 2005, this financial obligation was fully discharged. The work program was extended to December, 2007 and included drilling three wells to a combined total of 8,500 metres. During the third quarter of this fiscal year, the work program was extended to December 2009 and contains a 2009 exploration commitment which aggregates US$10.5 million. As at December 31, 2007, Aral had incurred US$119.7 million in charges related to the work commitments of the minimum working program agreed with the ROK competent bodies. At this point, shortfalls pursuant to the work commitments aggregated 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 having incurred US$138.5 million in charges related to the work commitments of the Minimum Working Program. During the first quarter of 2009, Aral's request for a three year extension (through December 2012) to the exploration period for the North Block contract was approved by the Kazakh Ministry of Energy and Mineral Resources. Concurrent with the extension, the 2009 minimum work commitment was increased from US$10.5 million to US$38.9 million.

Set forth below is a summary reconciliation of the minimum work program requirements of Aral under the Exploration Contract as at March 31, 2009:

Fiscal Year	Minimum Work Program (US $000's)	Amount Paid to Date (US $000's)	Shortfall (Overpayment) (US $000's)
2003	5,642.4	550.6	5,091.8
2004	9,707.9	14,333.3	(4,625.4)
2005	20,914.4	23,961.7	(3,047.3)
2006	58,371.2	54,034.6	4,336.6
2007	32,159.1	26,867.9	5,291.2
2008	9,049.4	18,751.9	(9,702.5)
2009	38,870.0	2,322.7	36,547.3
Total	174,714.4	140,822.7	33,891.7

CASH PROVIDED BY (USED IN) OPERATIONS AND NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD

Cash Provided by (Used in) Operations

Caspian's operations used $421,405 of cash for the three months ended March 31, 2009 and provided $1,365,477 of cash for the three months ended March 31, 2008. The large decrease in cash flow over the 2008 fiscal period is attributable to decreased oil and gas operations' net revenues. The average sales rate decreased from 505 Bopd to 325 Bopd.

	1Q 09	1Q 08
Cash provided by (used in) operations*	$(421,405)	$1,365,477
Basic	$(0.00)	$0.01
Diluted	$(0.00)	$0.01

* See "Forward-Looking Statements and Other Information"

Cash Provided by (Used in) Operating Activities in accordance with GAAP

	1Q 09	1Q 08
Cash provided by (used in) operating activities	$(2,795,948)	$(416,824)
Basic	$(0.02)	$(0.00)
Diluted	$(0.02)	$(0.00)

Changes in non-cash working capital equal to $(2,374,543) and $(1,782,301), respectively in the 2009 and 2008 fiscal periods added to the figures in the asterisked table result in the GAAP disclosure.

Net Income and Comprehensive Income

For 1Q 2009, net income and comprehensive income was $197,319 (1Q 2008 – 1,570,043). Foreign exchange gains of $2,443,354 (1Q 08 – $1,342,080) together with interest expense of $629,309 (1Q 08 - $487,374) on the convertible debentures and increased depletion and transportation charges, contribute to this amount - the remaining components being primarily operating costs and general and administrative expenses.

	1Q 09	1Q 08

Net and comprehensive income:	$197,319	$1,570,043
Basic	$0.00	$0.02
Diluted	$0.00	$0.02

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 325 Bopd (1Q 08 – 505 Bopd) at a price of $30.83 (1Q 08 - $74.81), per barrel, net of ROK takes, during the quarter ended March 31, 2009.

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. Unpaid royalties at this point aggregate US$819,000.

Gas sales from Caspian's Canadian non-operated production totaled $732 (1Q 08 - $12,363).

Revenues

For 1Q 2009, revenues before transportation costs were $901,913. For 1Q 2008, revenues before transportation costs were $3,436,781. During 2009, not only did the average sales rate decrease from 505 Bopd in 2008 to 325 Bopd, but the average price per barrel decreased from $74.81 to $30.83, due to the volatility of international oil markets.

Interest has decreased due to the consumption of cash by the Company's exploration program and a reduction in international borrowing/lending rates. Interest of $3,842 (1Q 08 - $17,171) was earned from the short-term investment of the Company's cash reserves. None of the Company's cash reserves is invested in Asset Backed Commercial Paper (ABCP).

Operating Expenses

For 1Q 09, operating costs were $567,078 (1Q 08 - $1,243,631) and transportation costs were $412,384 (1Q 08 - $233,047). Operating costs aggregated $19.39 (1Q 08 - $27.07) per barrel. Well workovers during both 2009 and 2008 significantly contributed to the unit burden. Transportation costs were $14.10 (1Q 08 - $5.07) per barrel and increased dramatically from 2008 as our oil is no longer sold at the lease line and export levies apply

to oil entering the international marketplace.

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Operating Netbacks
Operating netback for the quarter March 31, 2009 was $(77,549).

	Total ($)	Per Boe ($)
Sales, net	901,913	30.83
Operating costs	567,078	19.39
Transportation	412,384	14.10
Netback	(77,549)	(2.66)

Operating netback for the quarter ended March 31, 2008 was $1,960,103.

	Total ($)	Per Boe ($)
Sales, net	3,436,781	74.81
Operating costs	1,243,631	27.07
Transportation	233,047	5.07
Netback	1,960,103	42.67

General and Administrative Expenses

	1Q 09	1Q 08
Office expenses	$11,229	$13,367
Travel and entertainment	33,453	40,621
Salaries/benefits	266,351	330,131
Professional fees	39,147	82,563
Public listing	66,870	95,206
Aral	129,885	134,428
Insurance	-	76,500
Total expense	**$546,935**	**$772,816**

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, Asia 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 $129,885 for the period ending March 31, 2009 and $134,428 for the period ending March 31, 2008 relating to Aral operations have been included upon consolidation. Of this inclusion $69,101 relate to salaries (1Q 08 - $66,561), $16,919 relate to professional services (1Q 08 - $7,386), $10,681 relate to social taxes (1Q 08 – 20,288), $9,143 relates to travel (1Q 08 - $7,163) with the residual in both fiscal periods being comprised of general office expenses. General and administrative expenses were lower in 1Q 09 than in the corresponding fiscal period of the previous year, due to a voluntary undertaking by the officers to reduce their compensation, deferring retrieval to the successful completion of a farmout/sale of the North Block, the cancellation of the AIM listing and a delay in the renewal of directors and officers' insurance.

CAPITAL EXPENDITURES

Capital expenditures of $(2,559,580) for 1Q 09 (1Q 08 - $1,500,792) were incurred. Capital expenditures are composed of advances to Aral and the expenditure of funds by Aral.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion, depreciation and accretion expense was $1,193,357 ($40.80 per Boe) for the quarter ended March 31, 2009 and $408,504 ($8.89 per Boe) for the quarter ended March 31, 2008. The per Boe increase in this expense is a consequence of inclusion of previously omitted portion of the petroleum and natural gas property in the depletable base.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Its inventory of product for sale – its reserves – needs to be constantly replenished and augmented.

It is a price taker when selling its inventory of oil and natural gas reserves.

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

The Company reported net income of $197,319 and negative funds generated from operating activities of $2,795,948 for the quarter ended March 31, 2009. The Company had net working capital of $1,793,101 and a cumulative deficit equal to $48,859,996 at the quarter 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 $2.45 per share. The Company is required to pay interest on the principal plus any accrued, but unpaid, interest amounts outstanding on a quarterly basis. Each debentures holder is entitled to receive current interest in cash, if the Company is formally notified of this circumstance within ten business days of the quarter end and the Company is obligated to pay the applicable interest within five days from quarter end. During the 2008 fiscal year, certain debentures holders requested and were subsequently paid two cash interest payments of US$ 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 conclude 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 occurs 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. To dispose of 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 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.

The Company's ability to continue as a going concern is in substantial doubt and is dependent upon a successful outcome to negotiations taking place with the debentures holders and a positive conclusion to its farmout activities.

See also "Contractual Obligations".

On April 17, 2008, the Company announced a Rights Offering, which was subsequently significantly oversubscribed and raised gross proceeds of $4,347,635, through subscriptions for 17,390,543 units at a price of $0.25 per unit. The Offering closed May 28, 2008. Each unit comprised one common share in Caspian and one-half of one share purchase warrant. 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 Caspian that the closing price of the Shares for any 20 consecutive trading days exceeded $0.75.

Caspian must rely on access to debt and capital markets to supplement internally generated cash flow to fund its capital commitments on a go-forward basis and to finance its growth plans. The Company's current expenditures are subject to future uncertainty and there can be no assurance that Caspian will be successful in obtaining the funds required to meet its capital needs on a timely basis or, if successful, that the terms will be advantageous to Caspian. See "Forward-Looking Statements and Other Information".

OUTSTANDING SHARE DATA

At May 11, 2009 the number of common shares of the Company outstanding and the number of common shares issuable pursuant to other securities of the Company outstanding are as follows:

Common Shares	Number
Outstanding	121,733,806
Issuable under options	16,198,304
Issuable pursuant to convertible debentures	8,037,527
Issuable pursuant to share purchase warrants	8,695,262
Issuable pursuant to debentures interest	5,334,118

BUSINESS PROSPECTS AND OUTLOOK

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

forth below.

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, productions logs were ran and it was determined that the KT-1 was producing 100 Bopd. Well 301 is currently flowing 284 Bopd, 7 Bwpd and 382 Mcfd with a flowing tubing pressure of 338 psig on a 12 mm choke. The flow rate has decreased since the November test due to a suspected asphaltene build-up in the flowline which has increased the back-pressure in the flowline from 176 psig, in early February 2009, to 322 psig in March.. Remedial actions were undertaken and the flowline was purged with xylene in early April, reducing the back-pressure and restoring the well to 521 Bopd, 13 Bwpd and 640 Mcfd with a flowing tubing pressure of 300 psig on a 12 mm choke.

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 has been prepared to isolate the KT-II and the lower portions of the KT-I that exhibit higher water saturations on the logs.

The third 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. In well 303 a workover is being written to isolate intervals and test separately to identify which perforations are producing water.

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 flowed for 22 days after the field was brought back on-line, but died on November 14, 2008 due to a high water-cut, believed to result from a cross-flow of water to the producing zone from other strata, when the well was shut-in. Beginning in April 2009, EZ#213 is flowing intermittently averaging 11 Bopd, 4 Bwpd and 13 Mcfd. Artificial lift options are currently being assessed for price and

delivery.

The East Zhagabulak field was shut-in on August 31, 2008 upon expiration of the term of the gas flaring permit. Although the Amended Gas Utilization Program was ready for presentation and defense to the Gas Working Committee at the Ministry of Energy, ROK, the defense was postponed as the Ministry was unavailable during September, 2008. The Program was successfully defended on October 3, 2008 and approval was received for the continuation of flaring through the end of calendar 2009. The field resumed production on October 24, 2008, after receipt of the new flare permit, but was shut in again for three days at the beginning of December, due to the expiration of the pilot production approval. The Author's Control Report (ACR) was approved on December 5, 2008 and the field was brought back on line on that date. In conjunction with the ACR, the pilot production period was approved and extended through December 2009.

Prior to shut-in, East Zhagabulak field total production averaged 764 Bopd, 73 Bwpd and 1,065 Mcfd, from wells 213 and 301. During the shutdown, anodes were installed in all vessels and tanks at the East Zhagabulak Facility for corrosion protection purposes. On November 3, 2008 a 24 hour test was conducted on EZ#213, with the following results: 196 Bo (barrels of oil), 101 Bw (barrels of water), 274 Mcfd (thousand cubic feet of gas per day), FTP (flowing tubing pressure) 250, SICP(shut-in casing pressure) 1,720, flow line pressure 110 psig at an 8.7 mm choke. Also, on November 3, 2008, a 24 hour test was conducted on EZ#301, with the following results: 560 Bo (barrels of oil), 17 Bw (barrels of water), 779 Mcfd (thousand cubic feet of gas per day), FTP (flowing tubing pressure) 338, SICP(shut-in casing pressure) 1,911, flow line pressure 121 psig at a 12.0 mm choke.

The award of the contract for the FEED (Front End Engineering and Design) Study for the East Zhagabulak Gas Utilization Program has been delayed, while alternative options are being considered.

The Company has initiated the development process for East Zhagabulak. The preparation of the official State Reserves Report for East Zhagabulak is complete and was approved by the government on October 16, 2008. The preparation of the Technology Scheme, which outlines the detailed plan of development of the field, was completed on December 8, 2008. Supported by the completed and approved Reserves Report and Technology Scheme an application for a development contract for the field is being prepared. Work continues with the local engineering firm KazNIPIMunaigas on an amended version of the Technology Scheme. The completion of the report has been delayed until the end of 2009 to coincide with expiration of the pilot production approval and the anticipated receipt of the development contract.

Further drilling activity is planned following the approval of the East Zhagabulak development contract. Any failure or delay in receiving approval of the East Zhagabulak would delay or terminate any such drilling plans accordingly. See "Forward-Looking

Statements and Other Information".

Ongoing petrophysical analyses of all wells penetrating the below salt reservoirs is being completed and correlations of these wells is expected to aid in the identification of future drilling locations in the North Block. Identification and acquisition of well data within the extended territory is also be 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.

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

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

The first post-salt well identified from the Baktygaryn 3-D survey, Baktygaryn #703, was spud on March 17, 2008, reached total depth of 2,521 metres on June 15, 2008 and was rig-released on June 19, 2008. Numerous drilling delays were experienced due to deviation problems in the salt and anhydrite section and mechanical failures of the drill string. The object of the vertical well was to secondarily, test Triassic sandstones downdip on a faulted structure and primarily, Upper Permian sandstones in a trap below a Permian salt diaper overhang. The well encountered excellent reservoir quality sandstones in the Triassic, but due to the downdip location of the well, no hydrocarbons were found. Seismic anomalies that supported the presence of a hydrocarbon trap in the Upper Permian, below a salt overhang, were proven by drilling to be inter-bedded claystones and anhydrite. No reservoirs in the Upper Permian were encountered and the well was plugged and

abandoned.

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

Aral released the drilling rig following plugging operations to further evaluate the portfolio of existing prospects identified in the block.

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. Interpretation of most of the regional 2006 2-D seismic survey covering the west and north areas of the North Block has been completed. The interpreted data from all new seismic data acquired and from the earlier reprocessed Soviet-era 2-D seismic was combined to create a geological model and identify additional leads and prospects across the North Block territory. As a result of this work, some of the earlier leads and prospects in the post-salt sediments identified on vintage maps and seismic in three areas in the south western portion of the North Block, known as Itisay, Kozdesay and West Kozdesay have been confirmed and in addition several new leads and drillable prospects have been identified in trapping positions against Permian salt ridges and under salt overhangs.

The relatively shallow post salt targets at Baktygaryn offer a completely new series of opportunities for the Company. The 3-D and 2-D seismic data have enabled several new prospects to be identified.

The Company's work program extension, with the ROK, to December 2007 was extended for an additional two-year period, subject to the terms of the original exploration contract. The 2008 work program committed the Company to undertake US$8.5 million of exploration expenditures prior to the close of that calendar year. A request for an extension of three years (through year 2012) of the exploration period for the North Block contract

has been approved by the Ministry of Energy and Mineral Resources with additional work program commitments. The 2009 work program commitment was increased from US $10.5 million to US$38.9 million.

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

Farm-out negotiations for the disposition of a partial interest in either the North Block or the East Zhagabulak field with several potential partners have been undertaken, as are financing discussions with potential lenders.

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, totaling $24,912,993 on March 31, 2009, which mature on March 2, 2011.

Caspian, through Aral, has a contractual commitment to expend USD 38.9 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.

See "Contractual Obligations".

ADDITIONAL DISCLOSURES

Recent Accounting Pronouncements

The Canadian Institute of Chartered Accountants ("CICA") proposes to implement International Financial Reporting Standards ("IFRS") as part of Canadian GAAP. The adoption of IFRS in Canada will result in significant changes to current Canadian GAAP and to financial reporting practices followed by Caspian. IFRS accounting standards are scheduled to be implemented for years beginning after December 31, 2010. Caspian will be required to adopt the standard for the year beginning January 1, 2011. Currently, the application of IFRS in Canada and particularly to the oil and gas industry requires further clarification and as a result the effect of IFRS adoption on the Company's accounting policies and reporting standards and practices is not presently determinable. The Company is currently in the process of researching and developing an implementation strategy to adopt IFRS.

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 2009 and 2008 was not significant.

The significant accounting policies used by the Company are disclosed in the notes to the Company's unaudited interim 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.

Further accounting policies include:

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.

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.

CHANGES IN ACCOUNTING POLICIES

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 in the oil and gas industry requires further clarification and as a result the effect of IFRS adoption on the Company's accounting policies and reporting standards and practices has not yet been determined.

EVALUATION OF DISCLOSURE CONTROLS

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

For the quarter ended March 31, 2009 the CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and have concluded that such controls and procedures were not effective because of the material weaknesses described in Management's Report on Internal Control over Financial Reporting.

MANAGEMENT REPORT ON INTERNAL CONTROL

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

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

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

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

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

A material weakness in internal controls is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected on a timely basis by the Company.
We note, however, that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues including instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our control systems may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected and could be material and require a restatement of our financial statements.

Caspian proportionately consolidates the results of its 50% shareholdings in the Kazakh joint-venture, Aral Petroleum Capital LLP (Aral), with its own financial data. Aral is audited by the same firm of external auditors as Caspian; however, management of Caspian has limited the scope of design of its DC&P and ICFR to exclude controls, policies and procedures of Aral. To help mitigate the impact of this weakness and to ensure quality financial reporting, Caspian relies upon supervisory controls exercised by Aral management and their undertaking to maintain appropriate policies, procedures and systems of internal control to ensure Aral's reporting practices and accounting and administrative procedures are appropriate, consistent and cost-effective.

ARAL PETROLEUM CAPITAL LLP

Balance Sheet - At March 31, 2009

(in Canadian dollars)

	March 31, 2009	December 31, 2008
ASSETS		
Total current assets	4,280,978	8,302,583
Total non-current assets	122,921,454	123,139,294
TOTAL ASSETS	127,202,432	131,441,877
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Total current liabilities	14,277,479	21,272,970
Total non-current liabilities	125,115,017	122,403,403
Total shareholders' equity (deficit)	(13,622,367)	(13,991,039)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	127,202,431	131,441,877

ARAL PETROLEUM CAPITAL LLP

Statement of Operations – For the quarter ended March 31, 2009

(in Canadian dollars)

	2009	2008
Revenue	3,494,033	2,930,219
Total Expenses	3,125,361	4,031,585
Operating Income/(Loss)	368,372	(1,101,366)

Due to the Company's size, and its inability to segregate incompatible functions among its employees, there are inherent weaknesses in the Company's internal controls to provide reasonable assurance regarding the reliability of financial reporting. As the Company has a limited number of personnel, management has concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties. This weakness has the potential to result in material misstatements in the Company's financial statements and should also be considered a weakness in its disclosure controls and procedures. Management has concluded that taking into account the present stage of the Company's development and the best interests of its shareholders, the Company does not have sufficient size and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, there are supervisory controls exercised by management and audit committee oversight.

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