Caspian Energy Inc.

Interim Consolidated Financial Statements
(Unaudited)
March 31, 2010

Notice to Shareholders

For the three months ended March 31, 2010

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, 2010.

Caspian Energy Inc.

Interim Consolidated Balance Sheet
(Unaudited)

	March 31, 2010 $	December 31, 2009 $
Assets		
Current assets		
Cash and cash equivalents	765,052	1,475,891
Accounts receivable	297,312	586,373
Prepaids and other deposits	222,053	186,779
Inventory (note 3)	563,818	578,879
	1,848,235	2,827,922
VAT receivable (note 2)	114,236	78,505
Restricted cash (note 5)	355,577	346,578
Property, plant and equipment (note 4)	73,110,254	73,840,642
	75,428,302	77,093,647
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,568,454	4,762,506
Asset retirement obligation (note 5)	262,865	259,089
Loan payable (note 6)	3,087,684	3,156,025
Convertible debentures (note 7)	21,010,497	21,814,266
	28,929,500	29,991,886
Shareholders' Equity		
Share capital (note 8)	129,841,877	129,121,013
Warrants to purchase common shares (note 9)	319,780	254,772
Contributed surplus (note 10)	15,361,465	15,361,465
Deficit	(99,024,320)	(97,635,489)
	46,498,802	47,101,761
	75,428,302	77,093,647

Going concern (note 1)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

_____ Director _____ Director

Caspian Energy Inc.

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

	Three months	Three months
	March 3	March 3
		$
Revenue		
Oil and gas revenue, net	492,410	901,913
Interest	(14,827)	3,842
Other	(430)	304,586
	477,153	1,210,341
Expenses		
General and administrative	547,848	546,935
Accretion of convertible debentures (note 7)	86,113	105,613
Interest	590,507	629,309
Operating	380,305	567,078
Transportation	251,982	412,384
Stock-based compensation (note 8)	-	1,700
Foreign exchange gain	(784,771)	(2,443,354)
Depletion, depreciation and accretion	794,000	1,193,357
	1,865,984	1,013,022
Net income (loss) and comprehensive income (loss) for the period	(1,388,831)	197,319
Deficit – Beginning of period	(97,635,489)	(49,057,315)
Deficit – End of period	(99,024,320)	(48,859,996)
Basic income (loss) per share (note 8)	(0.01)	0.00
Diluted income (loss) per share (note 8)	(0.01)	0.00

Going concern (note 1)

See accompanying notes to consolidated financial statements.

Caspian Energy Inc.

Interim Consolidated Statement of Cash Flows
(Unaudited)

	Three months March 3	Three months March 3
Cash provided by (used in)		
Operating activities		
Net income (loss) and comprehensive income (loss) for the period	(1,388,831)	197,319
Items not affecting cash		
Stock-based compensation	-	1,700
Unrealized foreign exchange gain	(762,859)	(2,391,156)
Depletion, depreciation and accretion	794,000	1,193,357
Accretion of convertible debentures	86,113	105,613
Interest on convertible debentures	590,506	471,762
	(681,071)	(421,405)
Changes in non-cash working capital balances	192,035	(2,374,543)
	(489,036)	(2,795,948)
Financing activities		
Loan payable	-	(628,139)
Restricted cash	(8,999)	(8,849)
	(8,999)	(636,988)
Investing activities		
Acquisition of property, plant and equipment	(59,834)	2,559,580
VAT receivable	(35,731)	104,929
Changes in non-cash working capital balances	(117,239)	(1,584,599)
	(212,804)	1,079,910
Decrease in cash and cash equivalents	(710,839)	(2,353,026)
Cash and cash equivalents – Beginning of period	1,475,891	6,423,922
Cash and cash equivalents – End of period	765,052	4,070,896
Interest paid and received		
Interest paid	-	157,547
Interest received	-	3,842

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 to December 31, 2012 with a 2010 work commitment of US $24.5 million.

Going concern

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. The Company reported a net loss of $1,388,831 and funds used in operating activities of $489,036 for the quarter ended March 31, 2010. The Company had a net working capital deficiency of $2,720,219 and a cumulative deficit equal to $99,024,320 at 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 $1.75 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 debenture 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 be paid in cash pertaining to the first nine months of 2009. This payment was not made. Following negotiations with the holders of the debentures to identify alternative means by which interest payments owing under the Debentures may be satisfied in lieu of cash, the Company amended the terms of the debentures to provide for the satisfaction of quarterly interest payments due thereunder as follows:

a) Satisfaction of the interest payments of US$130,644 due for the quarter ended March 31, 2009 in the form of Common Shares, calculated based upon a deemed price of $0.03669 per share, being a 10% discount to the VWAP (volume weighted average price) of the Common Shares on the TSX for such quarter;

b) Satisfaction of the interest payments of US$521,613 due for the quarter ended June 30, 2009 in the form of Common Shares, calculated based upon a deemed price of $0.06057 per share, being a 10% discount from the VWAP per Common Share on the TSX from July 14 to July 21, 2009, inclusive;

c) Satisfaction of the interest payments of $US527,345 due for the quarter ended September 30, 2009 in the form of Common Shares, calculated based upon a deemed price of $0.0652059 per share, being a 10% discount from the VWAP per Common Share on the TSX from July 1 to September 30, 2009, inclusive;

d) Satisfaction of the interest payments of $520,874 due for the quarter ended December 31, 2009 in the form of Common Shares, calculated based upon a deemed price of $0.082191 per share, being a 10% discount from the VWAP per Common Share on the TSX from October 1 to December 31, 2009, inclusive.

e) At the discretion of the holders of Debentures, the quarterly interest payments for the quarter ended June 30, 2010 may be satisfied either in cash or by the issuance of Common Shares valued at a 10% discount to the VWAP of the Common Share on the TSX for the particular quarter in question; and

f) In consideration of their agreement to accept Common Shares in lieu of cash payments in satisfaction of interst owing under the Debentures for any particular quarter, the Company shall also issue to the particular holder of the Debentures making such election such number of share purchase warrants that is equal to 10% of the aggregate number of Common Shares so used to such Debenture holder for such quarter, each such warrant entitling the holder thereof to purchase one additional Common Share at an exercise price equal to the deemed value of the Common Shares issued in satisfaction of the interest owing for such quarter (ie. 10% discount to the VWAP for the particular quarter), for a period of two years.

The foregoing proposals do not impact the payment of interest for any quarters subsequent to June 30, 2010, which will continue to remain subject to the original Debenture terms providing for the Debenture holders to elect to receive Common Shares in lieu of cash interest payments for such periods at the deemed price.

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 contained an unapproved 2009 exploration commitment which aggregated US $38.9 million. On November 25, 2009, during a Zapkaznedra ITD Technical Council (the regulatory body) session, the Council decreed that the Aral Petroleum Capital LLP Updated Work Program has financial obligations of US $21.4 million. Aral has a 2009 deficiency in qualifying expenditures equal to US $11.0 million, which the Council has agreed to defer to future periods. Also, the Exploration Period was extended for three years to December 29, 2012 with a cumulative expenditures obligation of US $50.4 million. On February 5, 2010, during a further session, the Council decreed that the Updated Work Program for 2010 shall have financial obligations of US $24.5 million. At March 31, 2010 Aral had expended US $2.5 million toward discharging these obligations.

On February 23, 2010, the Company announced that it had entered into an agreement to sell a 10% interest in Aral Petroleum Capital LLP to AsiaStar Petroleum Limited. Caspian currently holds an aggregate 50% interest in Aral, which it operates as a joint venture together with Azden Management Limited. The sale of 10% of Aral equates to a disposition of 20% of Caspian's total interest in Aral. The agreement is subject to a number of conditions precedent that must be satisfied during the following three months in order for the transaction to close, and also remains subject to the receipt of all regulatory approvals including without limitation the approval of the government of Kazakhstan.

As part of the transaction, it will be AsiaStar's responsibility to secure US $80million in debt financing for Aral for further exploration and development. If AsiaStar is able to arrange this debt financing, this transaction will achieve several strategic imperatives. It will provide the funding necessary to develop the East Zhagabulak field, phase one of which envisages the immediate drilling of development wells. It will provide the funding required for a sustained exploratory drilling campaign in the Greater Zhagabulak, Baktygaryn, and Urikhtau areas, among others. Finally, it should ensure that Caspian will not have to provide additional funds for the activity in the North Block in the near term.

AsiaStar has also agreed to enter into a facility agreement with Caspian which will provide for an advance up to US $6million in loans to Caspian in three, US $2million tranches over a two year period. These loans will have a ten year term, and will bear interest at a rate of 10% per annum during the first five years and 18% per annum during the second five years. The loans are to be repaid from dividends received by Caspian from Aral.

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 AsiaStar and to achieving profitable operating results from its Kazakhstan operations. These are no assurances that these initiatives will be successful.

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.

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%

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 liability.

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.

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.

Financial instruments

The financial instrument standard establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets "held-to maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest rate method of amortization, net of any impairment. The methods used by the Company in determining fair value of financial instruments are unchanged during the year.

Cash and cash equivalents are designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Cash equivalents are highly liquid with original maturities of three months or less.

Restricted cash, accounts receivable, VAT receivable with fixed or determinable payments that are not quoted in an active market are designated as "loans and receivables". Accounts payable and accrued liabilities, loan payable, and convertible debentures are designated as “other financial liabilities”.

For financial assets and financial liabilities that are not classified as held for trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to the fair value initially recognized for that financial instrument. These costs are expensed to earnings using the effective interest rate method.

i) Fair values

The fair values of cash and cash equivalents, restricted cash, deposits, 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.

ii) 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.

Adoption of new accounting policies

Section 3855, "Financial instruments - Recognition and Measurement" has been amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. This Section has also been amended to change the categories into which a debt instrument is required or permitted to be classified; change the impairment model for held-to-maturity investments to the incurred credit loss model of impaired loans; and, require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. Such amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. This amendment has no significant impact to the interim consolidated financial statements.

Section 3862, "Financial Instruments — Disclosures" has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The consolidated financial statements contain disclosures related to the adoption of these amendments.

In January 2009, the CICA approved EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. This standard did not have a material impact on the interim consolidated financial statements.

The Company categorizes its financial assets and liabilities using a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements for these assets and liabilities. The fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair values of assets and liabilities in Level 2 are based on inputs other than Level 1 quoted prices that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). The fair values of Level 3 assets and liabilities are not based on observable market data. The disclosure of the fair value hierarchy excludes financial assets and liabilities where book value approximates fair value due to the liquid nature of the asset of liability.

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, 2010 $	December 31, 2009 $
Oil inventory	434,207	454,274
Other materials	129,612	124,605
	563,819	578,879

4 Property, plant and equipment

	March 31, 2010 $	December 31, 2009 $
Petroleum and natural gas assets	129,449,289	129,477,391
Other assets	3,655,475	3,562,761
	133,104,764	133,040,152
Accumulated depletion and depreciation	(59,994,510)	(59,200,510)
	73,110,254	73,839,642

The depletion and ceiling test calculation have excluded the costs of unproved properties of $30,977,839 (2009 – $34,429,392) and included future development costs of US $17,124,000 (2009 – US $8,505,500).

The Company applied a ceiling test to its petroleum and natural gas assets at March 31, 2010 and determined that there was no impairment of the carrying costs.

	WTI Crude oil price $US/bbl
2010	80.00
2011	83.60
2012	87.40
2013	91.30
2014	95.30

The prices increase by 2% for years thereafter.

During the quarter ended March 31, 2010, the Company capitalized $41,549 (December 31, 2009 – $321,287) of general and administrative expenses related directly to exploration and development activities.

Assets held for sale

On February 3, 2010, the Company announced that it had entered into an agreement to sell a 10% interest in Aral. The sale of 10% of Aral equates to a disposition of 20% of Caspian's total interest (see note 1). These capitalized costs had a carrying value of $18,460,160. Although these capitalized costs have a fair value of US$7 million, Caspian is only receiving US$1 in proceeds and as a result the full $18,460,160 in carrying value was considered to be impaired, during fiscal 2009.

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, 2010 is $336,154 which will be incurred between 2014 and 2019. A credit-adjusted risk-free rate of from 12.9% to 16.5% was used to calculate the fair value of the asset retirement obligations, and an inflation factor of between 7% and 19%.

A reconciliation of the asset retirement obligation is provided below:

	March 31, 2010 $	December 31, 2009 $
Opening balance	259,089	291,545
Liabilities incurred	-	-
Accretion	9,013	42,857
Change in estimate	(5,237)	(75,313)
Closing balance	262,865	259,089

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, 2010 and December 31, 2009, $355,577 and $346,578, respectively have been placed in a restricted bank account related to the funding requirement.

6 Loan payable

As at March 31, 2010 and December 31, 2009, $6,175,368 and $6,312,050 respectively, 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 $3,156,025.

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 $1.75 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. As at March 31, 2010, the fair value of the convertible debentures approximates the carrying value of the instruments. The fair value is measured using rates that the Company currently expect to borrow which are unobservable inputs (Level 3).

On December 1, 2009, amendments to the terms of the Company's US$16,000,000 aggregate principal amount of secured convertible debentures due March 2, 2011 were approved by the Company's shareholders. Following negotiations with the holders of the debentures to identify alternative means by which interest payments owing under the debentures could be satisfied in lieu of cash, the Company amended the terms of the debentures to provide for the satisfaction of quarterly interest payments due thereunder as follows:

a) satisfaction of the interest payments of US$2,187,131 in the form of common shares, calculated based upon a deemed price ranging from $0.03669 to 0.2183106 per share, being a 10% discount to the VWAP (volume weighted average price) of the common shares on the TSX for the related quarters;

b) at the discretion of the holders of debentures, interest payments for the quarter ended June 30, 2010 may be satisfied either in cash or by the issuance of common shares valued at a 10% discount to the VWAP of the common shares on the TSX for the particular quarter in question; and

c) in consideration of their agreement to accept common shares in lieu of cash payments in satisfaction of interest owing under the debentures for any particular quarter, the Company shall also issue to the particular holder of the debentures making such election such number of share purchase warrants that is equal to 10% of the aggregate number of common shares so issued to such debenture holder for such quarter, each such warrant entitling the holder thereof to purchase one additional common share at an exercise price equal to the deemed value of the common shares issued in satisfaction of the interest owing for such quarter (i.e. 10% discount to the VWAP for the particular quarter), for a period of two years.

The foregoing proposals do not impact the payment of interest for any quarters subsequent to June 30, 2010, which will continue to remain subject to the original debenture terms providing for the debenture holders to elect to receive common shares in lieu of cash interest payments for such periods at the deemed price.

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	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 December 31, 2008	121,733,806	126,338,341
Issued pursuant to Convertible Debentures interest obligation (iv)	23,188,931	2,782,672
Issued and outstanding as at December 31, 2010	144,922,737	129,121,013
Issued pursuant to Convertible Debentures interest obligation (v)	6,553,311	720,864
Issued and outstanding as at March 31, 2010	151,476,048	129,841,877

i) On April 5, 2008, 588, 270 broker warrants, with fair value of $946,508, 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.

iv) On December 23, 2009, the Company issued 23,188,931 common shares and 2,318,893 share purchase warrants. The exercise prices of the common shares and share purchase warrants range from $0.03669 per share to $0.0652059 per share. See note 7. These common shares were valued at the trading price at the time of issuance.

v) On January 5, 2010, the Company issued 6,553,311 common shares and 655,322 share purchase warrants. The exercise prices of the common shares and share purchase warrants $0.082191 per share. See note 7. These common shares were valued at the trading price at the time of issuance.

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 exercise price $
Balance – December 31, 2007	13,328,777	1.47
Granted	2,322,082	0.36
Balance –December 31, 2009	15,650,859	1.31
Granted	547,445	0.36
Expired	(7,273,228)	1.65
Balance – December 31, 2009 and March 31, 2010	8,925,076	0.97
Exercisable – December 31, 2009 and March 31, 2010	8,925,076	0.97

The following is a summary of stock options outstanding and exercisable as at March 31, 2010:

	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	2,669,527	3.2	0.36	2,669,527
0.86	700,000	1.9	0.86	700,000
0.89	1,868,845	2.0	0.89	1,868,845
1.25	1,043,433	1.5	1.25	1,043,433
1.34	900,000	1.6	1.34	900,000
1.61	843,271	0.2	1.61	843,271
1.75	900,000	0.2	1.75	900,000
	8,925,076		0.97	8,925,076

Per share amounts

The weighted average number of common shares outstanding during the period ended March 31, 2010 of 151,111,975 (2009 – 121,733,806 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 quarter ended March 31, 2010 (2009 – nil) as they are anti-dilutive.

Warrants

On April 5, 2008, 588,270 broker warrants, with a fair value of $946,508, which entitled the holder to purchase one common share at a price of $2.77, expired unexercised.

8,695,272 share purchase warrants, at an exercise price of $0.45, are outstanding at December 31, 2010. Each warrant is exercisable 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.

On December 23, 2009, the following shares purchase warrants were issued pursuant to the convertible debenture (see note 7). These warrants are exercisable until December 23, 2011:

445,030 warrants with a fair value of $49,908 are exercisable at $0.03669 per share

995,517 with a fair value of $109,040 are exercisable at $0.06057 per share

878,346 with a fair value of $95,824 are exercisable at $0.0652059 per share

The fair value of share purchase warrants was estimated to be $0.11 as at the grant date using the Black-Scholes model with the following assumptions:

Risk free interest rate	1.6
Expected life	2%
Expected volatility	224%
Expected dividend yield	0%

On January 5, 2010, the following shares purchase warrants were issued pursuant to the convertible debenture (see note 7). These warrants are exercisable until January 5, 2010:

655,322 warrants with a fair value of $65,008 exercisable at $0.082191 per share.

The fair value of share purchase warrants was estimated to be $0.10 as at the grant date using the Black-Scholes model with the following assumptions:

Risk free interest rate	4.0
Expected life	2%
Expected volatility	210%
Expected dividend yield	0%

9 Stock-based compensation

Options granted to both employees and non-employees are accounted for using the fair value method. No common share options were granted in the quarter ended March 31, 2010.

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

10 Contributed surplus

	March 31, 2010 $	December 31, 2009 $
Balance – Beginning of period	15,361,465	15,311,590
Stock options issued to employees, officers and directors	-	49,875
Balance – End of period	15,361,465	15,361,465

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 $1.75 per share and mature on March 31, 2011.

11 Commitments and contingencies

Pursuant to the Exploration Contract, the Company is required to fulfill its work program. During the first quarter of 2009, Aral's request for a three year extension (through December 2012) to the exploration period of the North Block contract was approved by all required ROK regulatory bodies. Concurrent with the extension, the proposed 2009 minimum work commitment was increased from US $10.5 million to US $38.9 million. On November 25, 2009, during a Zapkaznedra ITD Technical Council (the regulatory body) session, the Council decreed that the Aral Petroleum Capital LLP Updated Work Program has financial obligations of US $21.4 million. Aral has a 2009 deficiency in qualifying expenditures equal to US $11.0 million, which the Council has agreed to defer to future periods. Also, the Exploration Period was extended for three years to December 29, 2012 with a cumulative expenditures obligation of US $50.4 million. On February 5, 2010, during a further session, the Council decreed that the Updated Work Program for 2010 shall have financial obligations of US $24.5 million. At March 31, 2010, Aral had discharged US $2.5 million of these obligations.

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 $1.34 million may be levied.

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 periods 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, 2010, no provision for potential tax liabilities had been recorded (December 31, 2009 – no provision).

Under the terms of the Exploration Contract, historical costs amount to CAN $517,000. The unpaid amount relates to historical costs for the North block. Management believes that Aral will enter into a Production Contract only in relation to the areas of the North block that will have commercial reserves. Upon execution of the Production Contract such amount becomes payable.

In 2008, Aral was obliged to prepare and agree a gas utilization program ("Program") with the Ministry. The final gas utilization program was approved and agreed with the Ministry on October 3, 2008. According to the Program, Aral was obliged to install all required equipment by the end of 2009, otherwise gas flared during the period from October 3, 2008 till December 31, 2009 would be recognized as gas flared above the limits with consequent fines and penalties and no further gas glaring permitted. The total capital expenditure commitments are equal to CAD$13 million. On July 2, 2009, Aral conducted a meeting with the Ministry regarding the fulfillment of the Program. As result of this meeting, Aral was allowed to postpone the installation of the required equipment till December 31, 2010.

12 Financial instruments

Caspian's financial instruments included in the consolidated balance sheet are comprised of cash and cash equivalents, restricted cash, accounts receivable, deposits 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.

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). It is possible the Company may not be able to acceptably repatriate such funds once the joint venture is able to generate operating profits should any develop.

The following are the contractual maturities of financial liabilities:

	Carrying An	**Contractual Cash**		
Accounts payable and accrued liabilities	4,568	4,568	4,568	
Loan payable	3,037	3,037	3,037	
Convertible debentures	21,010,	21,010,		21,010,

At March 31, 2010 the Company had negative working capital of $2,720,219.

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 $3,087,684 which has no specified repayment terms; and (ii) the Convertible Debentures plus accrued interest, totalling $21,010,497 on March 31, 2010 which mature on March 2, 2011.

Caspian, through Aral, has a contractual commitment to expend US $24.5 million during calendar 2010 to discharge its exploration obligations pursuant to its exploration license with the ROK, of which US $2.5 million had been expended to March 31, 2010.

On February 23, 2010, the Company announced that it had entered into an agreement to sell a 10% interest in Aral Petroleum Capital LLP to AsiaStar Petroleum Limited. Caspian currently holds an aggregate 50% interest in Aral, which it operates as a joint venture together with Azden Management Limited. The sale of 10% of Aral equates to a disposition of 20% of Caspian's total interest in Aral. The agreement is subject to a number of conditions precedent that must be satisfied during the following three months in order for the transaction to close, and also remains subject to the receipt of all regulatory approvals including without limitation the approval of the government of Kazakhstan.

As part of the transaction, it will be AsiaStar's responsibility to secure US $80million in debt financing for Aral for further exploration and development. If AsiaStar is able to arrange this debt financing, this transaction will achieve several strategic imperatives. It will provide the funding necessary to develop the East Zhagabulak field, phase one of which envisages the immediate drilling of development wells. It will provide the funding required for a sustained exploratory drilling campaign in the Greater Zhagabulak, Baktygaryn, and Urikhtau areas, among others. Finally, it should ensure that Caspian will not have to provide additional funds for the activity in the North Block in the near term.

AsiaStar has also agreed to enter into a facility agreement with Caspian which will provide for advance up to US $6million in loans to Caspian in three, US $2million tranches over a two year period. These loans will have a ten year term, and will bear interest at a rate of 10% per annum during the first five years and 18% per annum during the second five years. The loans are to be repaid from dividends received by Caspian from Aral.

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, 2010.

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, 2010.

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,	**December 31, 2009 $**
Total shareholders' equity	46,498,	47,101,
Total shareholders' equity as a % of total capital		
Working capital (deficiency)	(2,720,219)	(1,934,584)
Total indebtedness	24,098,	24,970,
Total debt as a % of total capital		
Total Capital	73,110,	73,840,

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, 2010
	Canada	**Kazakhstan**	**Consolidated**
	$	**$**	**$**
Revenue			
Oil and gas revenue, net	6,149	486,261	492,410
Interest	-	(14,827)	(14,827)
Other	-	(430)	(430)
	6,149	471,004	477,153
Expenses			
General and administrative	415,405	132,443	547,848
Accretion of convertible debentures	86,113	-	86,113
Interest	590,507	-	590,507
Operating	11,702	368,603	380,305
Transportation	10	251,972	251,982
Stock-based compensation	-	-	-
Foreign exchange (gain) loss	2,182,468	(2,967,239)	(784,771)
Depletion, depreciation and accretion	1,250	792,750	794,000
	3,287,455	(1,421,471)	1,865,984
Income (loss) before income taxes	(3,281,306)	1,892,475	(1,388,831)
Assets			
Current assets	613,585	1,234,650	1,848,235
Restricted cash	-	355,577	355,577
VAT	-	114,236	114,236
Property, plant and equipment, net	17,923	73,092,331	73,110,254
	631,508	74,796,794	75,428,302
Liabilities	21,245,826	7,683,674	28,929,500

			March 31, 2009
	Canada	**Kazakhstan**	**Consolidated**
	$	**$**	**$**
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) loss	(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
Income (loss) before income taxes	781,961	(584,642)	197,319
Future income tax recovery	-	-	-
Net income (loss) for the year	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	-	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

15 Subsequent events

On April 15, 2010, the Company issued 2,271,177 common shares and 227,116 share purchase warrants, at an exercise price of $0.2183106 pursuant to the convertible debentures interest obligation. See note 7. The common shares were valued at the trading price of $0.26 per share and the share purchase warrants were valued at $50,723 using the Black-Scholes model.