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CHAPARRAL RESOURCES INC

Form 10-Q

May 14, 2004

FORM 10-Q  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0 - 7261

CHAPARRAL RESOURCES, INC.

-----  
(Exact Name of Registrant as Specified in Its Charter)

Delaware

84-0630863

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

-----  
(I.R.S. Employer  
Identification No.)

2 Gannett Drive, Suite 418  
White Plains, New York 10604  
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (866) 559-3822

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

As of May 10, 2004 the Registrant had 38,209,502 shares of its common stock, par value \$0.0001 per share, issued and outstanding.

CHAPARRAL RESOURCES, INC.  
FORM 10-Q

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MARCH 31, 2004

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### Part I - Summarized Financial Information

#### Item 1 - Financial Statements

##### Chaparral Resources, Inc. Consolidated Condensed Balance Sheets (In Thousands)

	March 31, 2004 (Unaudited)	December 31, 2003
	-----	-----
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,193	\$ 2,639
Accounts receivable:		
Oil sales receivable	366	215
VAT receivable	3,081	2,907
Prepaid expenses	3,826	1,940
Prepaid expenses to affiliates	536	1,296
Crude oil inventory	42	544
	-----	-----

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Total current assets	13,044	9,541
Long- term deposits	215	--
Materials and supplies	2,482	3,188
Property, plant and equipment:		
Oil and gas properties, full cost:		
Properties subject to depletion	125,694	118,347
Properties not subject to depletion	2,325	2,942
	-----	-----
	128,019	121,289
Other Property, plant and equipment	10,508	9,408
	-----	-----
	138,527	130,697
Less - accumulated depreciation, depletion, and amortization	(48,754)	(44,758)
	-----	-----
Property, plant and equipment, net	89,773	85,939
Total assets	\$ 105,514	\$ 98,668
	=====	=====

See accompanying notes.

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Chaparral Resources, Inc.  
Consolidated Condensed Balance Sheets (continued)  
(In Thousands)

	March 31, 2004 (Unaudited)	Dece
	-----	-----
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 9,223	\$
Accounts payable to affiliates	1,281	
Accrued liabilities:		
Accrued compensation	286	
Other accrued liabilities	1,297	
Current income tax liability	--	
Accrued interest payable	924	
Current portion of loans payable to affiliates	14,000	
	-----	
Total current liabilities	27,011	
Accrued production bonus	242	
Loans payable to affiliates	21,393	
Deferred tax liability	3,488	
Minority interest	5,701	
Long-term assets retirement obligation	875	
Stockholders' equity:		
Common stock - authorized, 100,000,000 shares of \$0.0001 par value; issued and outstanding, 38,209,502 shares as of March 31, 2004 and December 31, 2003	4	
Capital in excess of par value	107,226	
Preferred stock - 1,000,000 shares authorized, 925,000 shares		

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undesignated. Issued and outstanding - none	--	
Accumulated deficit	(60,426)	
Total stockholders' equity	46,804	
Total liabilities and stockholders' equity	\$ 105,514	\$

See accompanying notes.

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Chaparral Resources, Inc.  
Consolidated Condensed Statements of Operations (Unaudited)  
(In Thousands, Except Share Data)

	For the Three Months Ended	
	March 31, 2004	March 31, 2003
Revenue	\$ 15,609	\$ 7,100
Costs and expenses:		
Transportation costs	3,153	1,100
Operating expenses	2,210	1,100
Depreciation and depletion	4,386	2,100
Advisory fee	75	
Accretion expense	25	
General and administrative	1,649	1,100
Total costs and expenses	11,498	6,400
Income from operations	4,111	1,100
Other income (expense):		
Interest income	45	
Interest expense	(1,234)	(1,100)
Minority interest	(1,066)	
Currency exchange loss	(80)	
Gain/(Loss) on disposition of assets	--	
Income/(Loss) before income taxes and cumulative effect of change in accounting principle	1,776	
Income tax expense	1,142	
Income/(Loss) before cumulative effect of change in accounting principle	634	
Cumulative effect of change in accounting principle, net of tax	--	1,100
Net income available to common Stockholders	\$ 634	\$
Basic and diluted earnings per share:		
Income/(Loss) per share before cumulative effect of change in accounting principle	\$ 0.02	\$
Cumulative effect of change in accounting principle	--	
Net income per share	\$ 0.02	\$

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Weighted average number of shares outstanding (basic and diluted)

38,209,502

38,209

See accompanying notes.

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Chaparral Resources, Inc.  
Consolidated Condensed Statements of Cash Flows (Unaudited)  
(In Thousands)

	For the Three Months Ended	
	March 31, 2004	March 31, 2003
Cash flows from operating activities		
Net income	\$ 634	\$ 49
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	4,386	2,438
Loss/(gain) on disposition of furniture and fixtures	--	8
Cumulative effect of change in accounting principal	--	(1,018)
Deferred income taxes	431	--
Accretion expense	25	14
Amortization of note discount	109	59
Minority interest	1,066	518
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(325)	(333)
Prepaid expenses	(1,341)	(63)
Crude oil inventory	112	(545)
Increase (decrease) in:		
Accounts payable and accrued liabilities	903	1,208
Accrued interest payable	148	106
Accrued production bonus	52	39
Net cash provided by operating activities	\$ 6,200	\$ 2,480
Cash flows from investing activities		
Additions to property, plant, and equipment	\$(1,100)	\$ (207)
Capital expenditures on oil and gas properties	(5,252)	(3,744)
Materials and supplies inventory	706	(986)
Net cash used by investing activities	\$(5,646)	\$(4,937)

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Chaparral Resources, Inc.  
Consolidated Condensed Statements of Cash Flows (continued) (Unaudited)  
(In Thousands)

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	For the Three Months Ended	
	March 31, 2004	March 31, 2003
Cash flows from financing activities		
Proceeds from loans from affiliates	\$ 2,000	\$ --
Net cash provided by financing activities	\$ 2,000	\$ --
Net increase (decrease) in cash and cash equivalents	\$ 2,554	\$ (2,457)
Cash and cash equivalents at beginning of period	2,639	4,295
Cash and cash equivalents at end of period	\$ 5,193	\$ 1,838
Supplemental cash flow disclosure		
Interest paid	\$ 1,045	\$ 1,109
Income taxes paid	\$ 713	\$ --
Supplemental schedule of non-cash investing and financing activities		
Non-cash additions to oil and gas properties	\$ 1,432	\$ --

See accompanying notes.

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Chaparral Resources, Inc  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

1. General

Chaparral Resources, Inc. ("Chaparral") was incorporated in the state of Colorado on January 13, 1972, principally to engage in the exploration, development and production of oil and gas properties. Chaparral focuses substantially all of its efforts on the exploration and development of the Karakuduk Field, an oil field located in the Central Asian Republic of Kazakhstan. In 1999, Chaparral reincorporated from Colorado to Delaware.

The consolidated financial statements include the accounts of Chaparral and its greater than 50% owned subsidiaries, Closed Type JSC Karakudukmunay ("KKM"), Central Asian Petroleum (Guernsey) Limited ("CAP-G"), Korporatsiya Mangistau Terra International ("MTI"), Road Runner Services Company ("RRSC"), Chaparral Acquisition Corporation ("CAC"), and Central Asian Petroleum, Inc. ("CAP-D"). Chaparral owns 80% of the common stock of CAP-G directly and 20% indirectly through CAP-D. Hereinafter, Chaparral and its subsidiaries are collectively referred to as the "Company." All significant inter-company transactions have been eliminated.

As of March 31, 2004, Chaparral owns a 60% interest in KKM, a Kazakhstan Joint Stock Company of Closed Type. KKM was formed to engage in the exploration, development, and production of oil and gas properties in the Republic of

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Kazakhstan. KKM's only significant investment is in the Karakuduk Field, an onshore oil field in the Mangistau region of the Republic of Kazakhstan. On August 30, 1995, KKM entered into an agreement with the Ministry of Oil and Gas Industry for Exploration, Development and Production of Oil in the Karakuduk Oil Field in the Mangistau region of the Republic of Kazakhstan (the "Agreement"). KKM's rights and obligations regarding the exploration, development, and production of underlying hydrocarbons in the Karakuduk Field are determined by the Agreement.

KKM's rights to the Karakuduk Field may be terminated under certain conditions specified in the Agreement. The term of the Agreement is 25 years commencing from the date of KKM's registration. The Agreement can be extended to a date agreed between the Ministry of Energy and Mineral Resources and KKM as long as production of petroleum and/or gas is continued in the Karakuduk Field.

KKM is owned jointly by CAP-G (50%), MTI (10%) and KazMunayGaz JSC ("KMG") (40%). In May 2002, Chaparral increased its ownership in KKM from 50% to 60% through the acquisition of 100% of the outstanding stock of MTI, a Kazakh company. KMG, the national petroleum company of Kazakhstan, is owned by the government of the republic of Kazakhstan.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Reference should be made to the relevant notes to the financial statements for both Chaparral and KKM included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

The information furnished herein was taken from the books and records of the Company without audit. However, such information reflects all adjustments, which are, in the opinion of management, normal recurring adjustments necessary for the fair statement of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for any future interim period or for the year.

### Use of Estimates

Application of generally accepted accounting principles requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of proved oil and gas reserve quantities and the application of the full cost method of accounting exploration and production activities requires management to make numerous estimates and judgments. The change in the estimate of oil and gas reserves as January 1, 2004, offset by the increase in future estimated development cost, reduced the Company's effective depletion rate by \$.32 per barrel from \$6.18 per barrel to \$5.86 per barrel during the three months ending March 31, 2003 and 2004, respectively.

### 2. Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued

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Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB 51." The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities") and how to determine when and which business enterprise (the "primary beneficiary") should consolidate the variable interest entity. This new model for consolidation applies to an entity in which either (i) the equity investors (if any) do not have a controlling financial interest; or (ii) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that the primary beneficiary, as well as all other enterprises with a significant variable interest in a variable interest entity, make additional disclosures. Certain disclosure requirements of FIN 46 were effective for financial statements issued after January 31, 2003.

In December 2003, the FASB issued FIN No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46-R") to address certain FIN 46 implementation issues. The effective dates and impact of FIN 46 and FIN 46-R are as follows:

(i) Special purpose entities ("SPEs") created prior to February 1, 2003. Chaparral must apply either the provisions of FIN 46 or early adopt the provisions of FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003.

(ii) Non-SPEs created prior to February 1, 2003. Chaparral is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.

(iii) All entities, regardless of whether a SPE, that were created subsequent to January 31, 2003. The provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003. Chaparral is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.

The adoption of the provisions applicable to SPEs and all other variable interests obtained after January 31, 2003 did not have a material impact on the Company's consolidated financial position or results of operations.. In addition, the adoption of FIN 46-R on March 15, 2004 had no effect on the Company's consolidated financial position or results of operations.

The Emerging Issues Task Force ("EITF") was deliberating on EITF No. 04-2 "Whether Mineral Rights Are Tangible or Intangible Assets" and EITF No. 03-S "Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil and Gas Companies." The issue was whether Statements of Financial Accounting Standards ("SFAS") 142 requires registrants to reclassify costs associated with mineral rights, including both proved and unproved leasehold acquisition costs, as intangible assets in the balance sheet, apart from other capitalized oil and gas property costs. Historically, the Company and other oil and gas companies have included the cost of these oil and gas leasehold interests as part of oil and gas properties and provided the disclosures required by SFAS No. 69, "Disclosures about Oil and Gas Producing Activities". In March 2004, the EITF released a consensus on EITF Issue No. 04-2 that stated mineral rights are tangible assets. Additionally, the FASB has issued guidance that would amend SFAS 141 and 142 to exclude mineral rights from the definition of intangible assets.



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Chaparral Resources, Inc  
Notes to Consolidated Condensed Financial Statements (continued)  
(Unaudited)

### 3. Going Concern

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has a working capital deficiency as of March 31, 2004 and there are uncertainties relating to the Company's ability to meet projected cash flow requirements through 2004. In addition, a number of oil producers within Kazakhstan are required to supply a portion of their crude oil production to the local refineries to meet domestic energy needs, which generates substantially less revenue than oil sold on the export market. During the first quarter ended March 31, 2004, the Company's export quota has been limited to approximately 87% of the Company's production available for sale. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

The Company is seeking to alleviate these conditions by; (i) increasing cash flows available from the sale of crude oil production from the Karakuduk Field. The Company expects to finance the development of the Karakuduk Field primarily through the production and sale of crude oil. The Company plans to increase its daily production by commissioning the water injection facilities, installing further pumps, and drilling an additional 12 wells this year. Accordingly, management expects production to increase from approximately 8,000 barrels, average daily production for the three months ended March 31, 2004, to approximately 13,000 barrels of oil per day by year-end 2004; (ii) obtaining 100% export of all hydrocarbons produced from the Karakuduk Field, as provided under the terms of the Agreement, through discussions with the Government of Kazakhstan. On July 17, 2003, the Company took the first step towards the commencement of arbitration proceedings in Switzerland for the breach of the Agreement by the Government of Kazakhstan by initiating a required three-month period of consultation with the Government. The Government indicated an interest in trying to resolve this matter during the consultation period. Although the consultation period has expired, the Company continues to seek an amicable resolution with the Government on this matter rather than proceeding with arbitration. If the matter cannot be resolved in a satisfactory manner, the Company has, however, reserved the right to commence formal arbitration proceedings pursuant to its contractual arrangements with the Government; and (iii) The Company is also trying to obtain additional debt financing to cover any deficiencies which may occur in the near term, including extending the KKM's credit facility with JSC Kazkommertsbank ("Kazkommertsbank") or implementing a revolving line of credit to meet short-term working capital needs.

No assurances can be provided, however, that oil production will be increased and that if arbitration is instituted, it will be successful or that if successful, the Company will be able to enforce the award in Kazakhstan, or that the Company will be able to export 100% or a significant portion of its production and that the Company will be able to obtain additional financing and cash flow from operations to meet working capital requirements in the future.

### 4. Prepaid Expenses

The breakdown of Prepaid expenses is as follows:

Description	March 31, 2004	December 31, 2003
-------------	-------------------	----------------------

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-----	(Thousands)	(Thousands)
	-----	-----
Prepaid transportation costs to KTO	\$ 536	\$1,296
Advanced payments for materials and supplies	2,301	1,616
Prepaid insurance	195	210
Prepaid taxes	1,203	--
Other prepaid expenses	127	114
	-----	-----
Total prepaid expenses	\$4,362	\$3,236
	=====	=====

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Chaparral Resources, Inc  
Notes to Consolidated Condensed Financial Statements (continued)  
(Unaudited)

4. Prepaid Expenses (continued)

Prepaid transportation costs represent prepayments to CJSC KazTransOil ("KTO"), a 100% subsidiary of KMG, for export tariffs necessary to sell oil on the export market, which is expensed in the period the related oil revenue is recognized. Advanced payments for materials and supplies represent prepayments for general materials and supplies to be used in the development of the Karakuduk Field.

5. Asset Retirement Obligation

Effective January 1, 2003, the Company changed its method of accounting for asset retirement obligations in accordance with FASB Statement No. 143, Accounting for Asset Retirement Obligations. Previously, the Company used an amount equal to the undiscounted cash flows associated with the asset retirement obligation ("ARO") in determining depreciation, depletion, and amortization ("DD&A") rates. Under the new accounting method, the Company now recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of a fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

The cumulative effect of the change on prior years resulted in a gain of \$1.02 million, net of tax of \$436,000, or \$0.02 per share, which is included in income for the three months ended March 31, 2003.

Since 1995, the business of Chaparral has been the development of the Karakuduk Field. The Company is still in the early stages of development and continues to develop the field by drilling additional wells, expansion of its oil storage capacity, installation of additional gathering and processing facilities, and the full implementation of the central processing facility. The Company is legally required under the Agreement to restore the field to its original condition. The Company recognized the fair value of its liability for an asset retirement obligation as of January 1, 2003 in the amount of \$516,000 and capitalized that cost as part of the cost basis of its oil and gas properties and depletes it using the units of production method over proved reserves.

On February 12, 2003, the Company commenced a new drilling campaign to further develop and commercially produce the oil reserves in the Karakuduk Field. As a result of the new drilling campaign, the Company revised its estimate of retirement costs to include expected additions to the Karakuduk Field during 2003 and 2004. This change in estimate did not result in any charge to income

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for the periods ended March 31, 2004 and 2003. The following table describes all changes to the Company's asset retirement obligation liability:

	March 31, 2004 (In Thousands)	March 31, 2003 (In Thousands)
Asset retirement obligation at beginning of period	\$804	\$ --
Liability recognized in transition	--	516
Accretion expense	25	14
Revision in estimated cash flows	46	28
Asset retirement obligation at end of period	\$875	\$558

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Chaparral Resources, Inc  
Notes to Consolidated Condensed Financial Statements (continued)  
(Unaudited)

### 6. Loans from Affiliates

#### CAIH Note

In May 2002, the Company borrowed \$4 million from Central Asian Industrial Holdings, N.V. ("CAIH") in exchange for a three year note bearing interest at 12% per annum (the "CAIH Note"). Along with the CAIH Note, CAIH received a warrant to purchase 3,076,923 shares of the Company's common stock at \$1.30 per share (the "CAIH Warrant"). The CAIH Note was recorded net of a \$2.47 million discount, based on the fair market value of the CAIH Warrant. The discount is amortized using the effective interest rate over the life of the CAIH Note. The principal balance of the CAIH Note is due on May 10, 2005 and accrued interest is payable quarterly.

In June 2002, the Company prepaid \$2 million of the \$4 million outstanding principal balance of the CAIH Note. As a result, the Company recognized an extraordinary loss on the early extinguishment of debt of \$1.22 million from the write-off of 50% of the unamortized discount on the CAIH Note. The Company recognized \$170,000 in interest expense on the CAIH Note for the three months ended March 31, 2004, including \$61,000 of interest on outstanding principal and \$109,000 in discount amortization. Comparably, the Company recognized \$118,000 in interest expense on the CAIH Note for the three months ended March 31, 2003, including \$59,000 of interest on outstanding principal and \$59,000 in discount amortization.

In March 2004, the Company re-borrowed the \$2 million prepaid in June 2002, re-establishing the original principal balance of the CAIH note. All terms of the original promissory note remain in effect.

#### KKM Credit Facility

In May 2002, KKM established a five-year, \$33 million credit line ("KKM Credit Facility") with Kazkommertsbank, an affiliate of CAIH. The KKM Credit Facility consists of a \$30 million non-revolving line and a \$3 million revolving line, both of which were fully borrowed by KKM in May 2002. The Company recognized

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\$1.13 million and \$1.16 million of interest expense on the KKM Credit Facility for the three months ended March 31, 2004 and 2003, respectively.

The non-revolving portion of the KKM Credit Facility accrues simple interest at an annual rate of 14% and is repayable over a five-year period with final maturity in May 2007. Accrued interest is payable quarterly, beginning in December 2002, and KKM began making quarterly principal payments in May 2003. As of March 31, 2004, the Company has repaid \$3 million in principal and the Company and Kazkommertsbank have agreed to defer the principal payment of \$1 million until May 31, 2004. The principal payment of \$1 million was originally due on February 6, 2004 together with \$983,000 in interest. The Company paid the \$983,000 interest on February 6, 2004. A principal payment of \$2 million and interest of \$945,000 due on May 6, 2004 under the non-revolving portion of the KKM Credit Facility was effected on May 6, 2004.

The revolving portion of the KKM Credit Facility accrues simple interest at an annual rate of 14%. The revolver is loaned to KKM for short-term periods up to one year, but KKM has the right to re-borrow the funds through May 2006 with final repayment due in May 2007. The initial \$3 million revolving loan to KKM was subject to a three month term. The principal balance was repaid in July 2002 and KKM immediately re-borrowed another \$3 million with a maturity date of July 31, 2003. KKM repaid the \$3 million due on July 31, 2003 and exercised its right to re-borrow another \$3 million with a maturity date of August 8, 2004. In addition, on December 30, 2003, Kazkommertsbank increased the revolving portion of the KKM Credit Facility from \$3 million to \$5 million. On the same date, KKM borrowed the additional \$2 million to finance ongoing operations. The additional \$2 million accrued interest at 14% and principal and interest is due in full on June 30, 2004. All amounts due in 2004 under the revolving portion of the KKM Credit Facility are classified as current as of March 31, 2004. Accrued interest on the revolving loan is payable at maturity, except as noted.

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Chaparral Resources, Inc  
Notes to Consolidated Condensed Financial Statements (continued)  
(Unaudited)

### 6. Loans from Affiliates (continued)

The original KKM Credit Facility included repayment terms of three years and four years for the non-revolving and revolving portions of the KKM Credit Facility, respectively, with an option to extend the final maturity date for repayment of the entire KKM Credit Facility to five years. KKM exercised the option to extend the repayment term to five years for the entire KKM Credit Facility as of May 2002.

The Company is subject to certain pledges, covenants, and other restrictions under the KKM Credit Facility, including, but not limited to, the following:

- (i) CAP-G pledged its 50% interest in KKM to Kazkommertsbank as collateral for the KKM Credit Facility;
- (ii) Chaparral has provided a written guarantee to Kazkommertsbank that it will repay the KKM Credit facility in the event KKM fails to do so;
- (iii) KKM may not incur additional indebtedness or pledge its assets to another party without the written consent of Kazkommertsbank; and
- (iv) KKM may not pay dividends without the written consent of Kazkommertsbank.

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The KKM Credit Facility stipulates certain events of default, including, but not limited to, KKM's inability to meet the terms of the KKM Credit Facility, KKM's failure to meet its obligations to third parties in excess of \$100,000, and the Company's involvement in legal proceedings in excess of \$100,000 where an adverse judgment against the Company occurs or is expected to occur. If an event of default does occur and is not waived by the lender, Kazkommertsbank has a right to call the KKM Credit Facility immediately due and payable and/or exercise its security interest by enforcing its collateral right on the Company's shares in KKM. Furthermore, in the event of a material adverse change in the financial or credit markets, Kazkommertsbank has a right to unilaterally alter any terms and conditions of the KKM Credit Facility, including the rate of interest, by written request. KKM may either agree to the amended terms or repay the outstanding KKM Credit Facility within 10 days of notification.

The maturity schedule of the Company's indebtedness as of March 31, 2004, is as follows:

During	Principal Amount Due
-----	
2004	12,000,000
2005	12,000,000
2006	8,000,000
2007	4,000,000
-----	
Total	\$ 36,000,000

### 7. Income Taxes

Income tax expense as reported entirely relates to foreign income taxes provided on the Company's operations within the Republic of Kazakhstan. KKM's principal agreement with the government of the Republic of Kazakhstan for the exploration, development and production of oil in the Karakuduk Field specifies the income taxes and other taxes applicable to KKM, which is subject to the tax laws of the Republic of Kazakhstan. The Company has used the best estimates available to determine its current and deferred tax liabilities within Kazakhstan.

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Chaparral Resources, Inc  
Notes to Consolidated Condensed Financial Statements (continued)  
(Unaudited)

### 8. Operating Leases

The Company entered into a sublease agreement extending from March 2000 through November 2003. At the expiration date of the lease, the Company moved its registered office from Houston to New York. In addition, the Company entered into a new 6 month lease agreement for reduced office space at a new location in Houston; as of March 31, 2004 this lease was renewed for a further 6 months. The Company also maintains an executive office in Almaty, Kazakhstan. The Almaty office is subleased from Nasikhat, an affiliate of Kazkommertsbank, for approximately \$3,000 per month renewable at the Company's option on September 1, 2004. As of March 31, 2004, the Company's future minimum annual lease payments through the contractual term of these leases are \$23,000, all due in 2004.

### 9. Capital Commitments

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As of March 31, 2004, the Company has a drilling contract with KazMunayGas-Drilling ("KMGD"), an affiliate of KMG, for one development drilling rig currently operating in the Karakuduk Field. The rig is contracted through December 31, 2004. The minimum payments under the drilling contract with KMGD for 2004 are \$5.52 million. The Company's other drilling and operations related contracts can either be cancelable within 30 days or are on a call-off (as required) basis.

The Company has no other significant commitments other than those incurred during the normal performance of the work program to develop the Karakuduk field.

### 10. Related Party Transactions

In 2003, the Company approved a one-year agreement with OJSC Kazkommerts Securities ("KKS"), an affiliate of Kazkommertsbank. The agreement is effective as of January 7, 2003 and provides for KKS to assist the Company's senior management with financial advisory and investment banking services. In consideration for these services KKS received a monthly fee of \$25,000 (the "Advisory Fee").

Kazkommerts Policy, an affiliate of Kazkommertsbank, is the major insurer of KKM oil and gas activities. The current insurance policy expires in November 2004.

KKM has a contract to transport 100% of its oil sales through the pipeline owned and operated by KTO, a wholly owned subsidiary of KMG, the 40% minority shareholder in KKM. The rates for transportation are in accordance with those approved by the government of the Republic of Kazakhstan. Currently, the use of the KTO pipeline system is the only viable method of exporting KKM's production. As KTO notifies KKM of the export sales allocated to KKM on a monthly basis, KTO controls both the volume and transportation cost of export sales.

KKM makes a prepayment for crude transportation based upon the allocation of export sales received from KTO. This prepayment includes pipeline costs charged by the operators of the Russian and Ukrainian pipeline systems and are dependent upon the point of sale of KKM's exports. For the three months ended March 31, 2004, KKM paid \$2.3 million to KTO and \$3.1 million, including change in prepaid transportation to KTO, were recognized as transportation costs for sales during the first quarter of 2004. At March 31, 2004, KKM had a prepayment balance of \$536,000 with KTO in respect of sales to be made in April 2004. Comparably for the three months ended March 31, 2003, KKM paid \$1.0 million to KTO and \$1.6 million, including change in prepaid transportation to KTO, were recognized as transportation costs for sales during the period. At December 31, 2003, KKM had a prepayment balance of \$1.3 with KTO in respect of sales to be made in January 2004.

KTO charges KKM for associated costs of oil storage within their pipeline system, sales commission, and customs clearance fees in respect to export sales. KTO also provides KKM with water through the Volga Water pipeline. Amounts recognized for these services during the three months ended March 31, 2004 and 2003 were \$92,000 and \$69,000. Remaining outstanding as of March 31, 2004 and March 31, 2003 were balances of \$157,000 and \$78,000 respectively.

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### 10. Related Party Transactions (continued)

As mentioned above, KKM has a drilling contract with KMGD for one development drilling rig currently operating in the Karakuduk Field. The rig is contracted through December 31, 2004.

The total amounts of the transactions with the above related companies for the three months ended March 31, 2004 and 2003 are as follows:

	2004 (Thousands)	2003 (Thousands)
Kazkommerts Policy	\$ 177	\$ 125
KKS	\$ 75	\$ 75
KTO	\$ 3,162	\$ 1,650
KMGD	\$ 1,232	\$ 363

Accounts Payable Balance to affiliates as of March 31, 2004 December 31, 2003

	2004 (Thousands)	2003 (Thousands)
Kazkommerts Policy	\$ 73	\$ 48
KKS	\$ 75	\$ --
KTO	\$ 157	\$ 97
KMGD	\$ 976	\$ 998
	\$ 1,281	\$ 1,143
	=====	=====

The loans with Kazkommertsbank and CAIH are disclosed in Note 6 and the drilling contract with KMGD is described in Note 9, the lease with Nasikhat is described in Note 8, and prepaid transportation to KTO in Note 4.

### 11. Contingencies

#### Taxation

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The existing legislation with regard to taxation in the Republic of Kazakhstan is constantly evolving as the Government manages the transition from a command to a market economy. Tax and other laws applicable to the Company are not always clearly written and their interpretation is often subject to the opinions of the local or main State Tax Service. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

#### Basis of Accounting

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KKM maintains its statutory books and records in accordance with U.S. generally accepted accounting principles ("GAAP") and calculates taxable income or loss using the existing Kazakh tax legislation in effect on August 30, 1995, the date the Agreement was signed. The Company considers these accounting methods correct under the terms of the Agreement. The Republic of Kazakhstan currently requires companies to comply with Kazakh accounting regulations and to calculate tax profits or losses in accordance with these regulations as well as the prevailing tax law.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

1. Liquidity and Capital Resources

General Liquidity Considerations

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Going Concern:  
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Our financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have a working capital deficiency as of March 31, 2004 and there are uncertainties relating to our ability to meet projected cash flow requirements through 2004. In addition, a number of oil producers within Kazakhstan are required to supply a portion of their crude oil production to the local refineries to meet domestic energy needs, which generates substantially less revenue than oil sold on the export market. During the first quarter ended March 31, 2004, our export quota has been limited to approximately 87% of our production available for sale. These conditions raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

We are seeking to alleviate these conditions by; (i) increasing cash flows available from the sale of crude oil production from the Karakuduk Field. We expect to finance the development of the Karakuduk Field primarily through the production and sale of crude oil. We plan to increase our daily production by implementation of the water injection facilities, installation of further pumps, and the drilling of an additional 12 wells this year. Accordingly, we expect production to increase from approximately 8,000 barrels, average daily production for the three months ended March 31, 2004, to approximately 13,000 barrels of oil per day by year-end 2004; (ii) obtaining 100% export of all hydrocarbons produced from the Karakuduk Field, as provided under the terms of the Agreement, through discussions with the Government of Kazakhstan. On July 17, 2003, we took the first step towards the commencement of arbitration proceedings in Switzerland for the breach of the Agreement by the Government of Kazakhstan by initiating a required three-month period of consultation with the Government. The Government indicated an interest in trying to resolve this matter during the consultation period. Although the consultation period has expired, we continue to seek an amicable resolution with the Government on this matter rather than proceeding with arbitration. If the matter cannot be resolved in a satisfactory manner, we have, however, reserved the right to commence formal arbitration proceedings pursuant to its contractual arrangements with the Government; and (iii) we are also trying to obtain additional debt financing to cover any deficiencies which may occur in the near term, including extending the KKM's credit facility with Kazkommertsbank or implementing a revolving line of credit to meet short term working capital needs.

No assurances can be provided, however, that oil production will be increased and that if arbitration is instituted, it will be successful or that if successful, we will be able to enforce the award in Kazakhstan, or that we will be able to export 100% or a significant portion of its production and that



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the we will be able to obtain additional financing and cash flow from operations to meet working capital requirements in the future.

### Liquidity and Capital Resources

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We expect to finance the continued development of the Karakuduk Field primarily through cash flows from the sale of crude oil and external financing as necessary. We have agreed with Kazkommertsbank to defer a principal payment of \$1 million originally due on February 6, 2004, under the non-revolving portion of the KKM Credit Facility, until May 31, 2004.

In the first quarter of 2004 two drilling rigs were in operation. One rig drilled 4 production wells (including one well under completion), and the other rig drilled two water supply wells. Two workover rigs also were in operation during the period completing wells, installing and repairing pumps and converting wells from producers to water injectors. A fifth production well was also spudded prior to the end of the quarter.

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As of March 31, 2004, our well stock had risen from 45 producing wells as of December 31, 2003 to 48 producing wells. Of the 48 producing wells, two wells were under completion and two wells were shut-in. During the first quarter 2004, one producing well was converted to water injection making a total of 5 water injection wells, of which one was operational with four awaiting commissioning of the water injection facility. The water injection facility was commissioned during April 2004. In addition, as of March 31, 2004, the water supply well count had risen to 5 water source wells from 3 water source wells as of December 31, 2003.

During the first quarter of 2004 we converted 9 wells to artificial lift (8 using sucker rod pumps and 1 using electrical submersible pumps)

As of May 10, 2004, our daily oil production is approximately 8,500 barrels per day from 45 of the 49 productive wells in the field. The remaining 4 wells are shut-in for various reasons including completion operations, installation of additional gathering lines / equipment, bottom hole pressure readings, formation pressure surveys, and additional workover, water injection and stimulation operations to bring wells on production.

For the remaining nine months of 2004, we plan to increase our daily production by putting into operation the water injection facility, installing further pumps, and drilling an additional 12 wells. Accordingly, management expects the Karakuduk Field production to increase from approximately 8,000 barrels, average daily production for the three months ended March 31, 2004, to approximately 13,000 barrels of oil per day by year-end 2004, having drilled a total of 16 additional wells in the year.

We successfully initiated a "pilot" reservoir pressure maintenance program during 2003 by the injection of water into one well. We witnessed a favorable increase in the reservoir pressure on surrounding well production performance.

In December 2003, our production peaked at over 12,000 barrels of oil per day and daily production averaged over 11,000 barrels of oil per day for the month. For the full implementation of the reservoir pressure maintenance program and to ensure that gasification of the reservoir and reservoir pressure decline is not accelerated due to delays in the implementation of this program, we have taken a number of preventative measures in this regard so that ultimate reservoir

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recovery will not be negatively affected. We have reduced choke sizes and shut in a number of wells for pressure monitoring and analysis purposes. Until the reservoir pressure maintenance program has been fully implemented, we cannot fully maximize well productivity. As a result, our oil production decreased from 11,000 barrels per day average during December 2003 to our current level of approximately 8,500 barrels per day as of May 10, 2004.

While the reservoir pressure maintenance program was commissioned during April 2004, we do not anticipate a tangible benefit in terms of increased production levels until the third quarter of 2004.

Our short and long-term liquidity is also impacted by local oil sales obligations imposed on oil and gas producers within Kazakhstan to supply local energy needs (the domestic market does not permit world market prices to be obtained, resulting in approximately \$10 to \$12 lower cash flow per barrel), and our ability to obtain export quota necessary to sell our crude oil production on the international market. Under the terms of the Agreement, we have a right to export, and receive export quota for 100% of the production from the Karakuduk Field. The Government has not allocated sufficient export quota to allow us to sell all of our available crude oil production on the world market. We are taking steps to reduce our local market obligations and to obtain an export quota that will enable us to sell all of our crude oil production. On July 17, 2003, we took the first step towards the commencement of arbitration proceedings in Switzerland for the breach of the Agreement by the Government of Kazakhstan by initiating a required three-month period of consultation with the Government. Although the consultation period has expired, we continue to seek an amicable resolution with the Government on this matter rather than proceeding with arbitration. If the matter can not be resolved in a satisfactory manner, we have, however, reserved our right to commence formal arbitration proceedings pursuant to our contractual arrangements with the Government.

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No assurances can be provided, however, that if arbitration is instituted, it will be successful or that if successful, Chaparral will be able to enforce the award in Kazakhstan, or that we will be able to export 100% or a significant portion of its production and that we will be able to obtain additional financing and cash flow from operations to meet working capital requirements in the future.

### Capital Commitments and Other Contingencies

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As of March 31, 2004, the Company has a drilling contract with KMG for one development drilling rig currently operating in the Karakuduk Field. The rig is contracted through December 31, 2004. The minimum payments under the drilling contract with KMGD for 2004 are \$5.52 million. The Company's other drilling and operations related contracts can either be cancelable within 30 days or are on a call-off (as required) basis.

The Company has no other significant commitments other than those incurred during the normal performance of the work program to develop the Karakuduk field.

Our operations may be subject to other regulations by the government of the Republic of Kazakhstan or other regulatory bodies responsible for the area in which the Karakuduk Field is located. In addition to taxation, customs declarations and environmental controls, regulations may govern such things as drilling permits and production rates. Drilling permits could become difficult to obtain or prohibitively expensive. Production rates could be set so low that

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they would make production unprofitable. These regulations may substantially increase the costs of doing business and may prevent or delay the starting or continuation of any given exploration or development project.

All regulations are subject to future changes by legislative and administrative action and by judicial decisions. Such changes could adversely affect the petroleum industry in general, and us in particular. It is impossible to predict the effect that any current or future proposals or changes in existing laws or regulations may have on our operations.

### 2. Results from Operations

Results of Operations for the Three Months Ended March 31, 2004 Compared to the Three Months Ended March 31, 2003

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Our operations for the three months ended March 31, 2004 resulted in a net income of \$634,000 compared to a net income of \$49,000 as of March 31, 2003. The \$585,000 increase in our net income primarily relates to the net of higher sales revenue and related operating expenses as a result of higher sales volumes, offset by the absence in the first quarter of 2004 of the one time gain, the result of the adoption of SFAS 143, reported in the first quarter of 2003.

Revenues. Revenues were \$15.6 million for the first quarter of 2004 compared with \$7.81 million for the first quarter of 2003. The \$7.8 million increase is the result of higher oil export sales quota received during the first quarter 2004 and higher oil prices received during the first quarter 2004 as compared to the same period of 2003. During the first quarter 2004, we sold approximately 721,000 barrels of crude oil, recognizing \$15.6 million, or \$21.65 per barrel, in revenue. Comparably, we sold approximately 364,000 barrels of crude oil, recognizing \$7.81 million in revenue, or \$21.47 per barrel, for the first quarter 2003.

Transportation and Operating expenses. Transportation costs for the first quarter 2004 were \$3.15 million, or \$4.37 per barrel, and operating costs associated with sales were \$2.21 million, or \$3.07 per barrel. Comparatively, transportation costs for the first quarter 2003 were \$1.66 million, or \$4.57 per barrel, and operating costs associated with sales were \$1.12 million, or \$3.08 per barrel. The decrease in transportation cost is caused by lower volumes held in the pipeline pending sale, while operating costs per barrel remained at the same level.

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Depreciation and Depletion. Depreciation and depletion expense was \$4.38 million for the first quarter of 2004 compared with \$2.44 million for the first quarter of 2003. The \$1.94 million increase is the result of higher oil volumes sold net of slightly lower effective depletion rates during the first quarter 2004. During the first quarter 2004, the Company recognized a total amortization expense of \$4.22 million or \$5.86 per barrel, compared to \$2.25 million or \$6.18 per barrel in depletion expense for the first quarter 2003. The decrease in the effective depletion rate of \$0.32 per barrel is due to additions to the Company's estimated proved oil and gas reserves partially offset by an increase in capital expenditures for the development of the field for future years.

Estimates of our proved oil and gas reserves are prepared by an independent engineering company in accordance with guidelines established by the Securities and Exchange Commission ("SEC"). Those guidelines require that reserve estimates

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be prepared under existing economic and operating conditions with no provisions for increases in commodity prices, except by contractual arrangement. Estimation of oil and gas reserve quantities is inherently difficult and is subject to numerous uncertainties. Such uncertainties include the projection of future rates of production, export allocation, and the timing of development expenditures. The accuracy of the estimates depends on the quality of available geological and geophysical data and requires interpretation and judgment. Estimates may be revised either upward or downward by results of future drilling, testing or production. In addition, estimates of volumes considered to be commercially recoverable fluctuate with changes in commodity prices and operating costs. Our estimates of reserves are expected to change as additional information becomes available. A material change in the estimated volumes of reserves could have an impact on the DD&A rate calculation and the financial statements

Interest Expense. Interest expense increased from \$1.12 million for the first quarter 2003 to \$1.23 million for the first quarter 2004, due to higher financing costs as a result of additional temporary borrowings for operational purposes and less capitalized interest. Interest expense for the quarter ended March 31, 2004 reflects a loan discount of \$109,000 and is net of capitalized interest of \$68,000. Comparably, interest expense for the quarter ended March 31, 2003 reflects an additional loan discount of \$59,000 and is net of capitalized interest of \$152,000.

General and Administrative Expense. General and administrative costs increased from \$1.41 million for the three months ended March 31, 2003 to \$1.64 million for the three months ended March 31, 2004. The increase of \$230,000 is due to higher payroll costs and higher travel costs.

Cumulative effect of change in accounting principal. As a result of the adoption of SFAS 143, the company recognized a gain of \$1.02 million as a cumulative effect of change in accounting principal for the first quarter 2003, absent in the first quarter of 2004.

### 3. Commodity Prices for Oil and Gas

Our revenues, profitability, growth and value are highly dependent upon the price of oil. Market conditions make it difficult to estimate prices of oil or the impact of inflation on such prices. Oil prices have been volatile, and it is likely they will continue to fluctuate in the future. Various factors beyond our control affect prices for oil, including supplies of oil available worldwide and in Kazakhstan, the ability of OPEC to agree to maintain oil prices and production controls, political instability or armed conflict in Kazakhstan or other oil producing regions, the price of foreign imports, the level of consumer demand, the price and availability of alternative fuels, the availability of transportation routes and pipeline capacity, and changes in applicable laws and regulations.

### 4. Inflation

We cannot control prices received from our oil sales and to the extent we are unable to pass on increases in operating costs, we may be affected by inflation. The devaluation of the Tenge, the currency of the Republic of Kazakhstan, can significantly decrease the value of the monetary assets that we hold in Kazakhstan as well as our assets in that country that are based on the Tenge. KKM retains the majority of its cash and cash equivalents in U.S. dollars, but KKM's statutory tax basis in its assets, tax loss carry-forwards, and VAT receivables are all denominated in Tenge and subject to the effects of devaluation. Local tax laws allow basis adjustments to offset the impact of inflation on statutory tax basis assets, but there is no assurance that any adjustments will be sufficient to offset the effects of inflation in whole or in

part. If not, KKM may be subject to much higher income tax liabilities within Kazakhstan due to inflation and or devaluation of the local currency. Additionally, devaluation may create uncertainty with respect to the future business climate in Kazakhstan and to our investment in that country. As of March 31, 2004, the exchange rate was 138.88 Tenge per U.S. Dollar compared to 144.22 as of December 31, 2003.

#### 5. Critical Accounting Policies

The preparation of the Company's consolidated financial statements requires the Company to make estimates, assumptions and judgments that affect the Company's assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The Company bases these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information it believes are reasonable. Actual results may differ from these estimates under different conditions. For a full description of the Company's critical accounting policies, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2003 Annual Report on Form 10-K.

#### 6. Special Note Regarding Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q constitute "forward-looking statements." Forward-looking statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "estimates," "believes," "predicts," "potential," "likely," or "continue," or by the negative of such terms or comparable terminology. Forward-looking statements are predictions based on current expectations that involve a number of risks and uncertainties. Actual events may differ materially. In evaluating forward-looking statements, you should consider various factors, including the risks discussed above. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that these statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements, and you are encouraged to exercise caution in considering such forward-looking statements. Unless otherwise required by law, we are not under any duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results.

#### Item 3 - Quantitative and Qualitative Disclosures About Market Risks

##### Foreign Currency

The functional currency is the U.S. Dollar. All transactions arising in currencies other than U.S. dollars, including assets, liabilities, revenue, expenses, gains, or losses are measured and recorded into U.S. dollars using the exchange rate in effect on the date of the transaction.

Cash and other monetary assets held and liabilities denominated in currencies other than U.S. dollars are translated at exchange rates prevailing as of the balance sheet date (138.88 and 144.22 Kazakh Tenge per U.S. Dollar as of March 31, 2004 and December 31, 2003, respectively). Non-monetary assets and liabilities denominated in currencies other than U.S. dollars have been translated at the estimated historical exchange rate prevailing on the date of the transaction. Exchange gains and losses arising from translation of non-U.S.

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dollar amounts at the balance sheet date are recognized as an increase or decrease in income for the period.

The devaluation of the Tenge, the currency of the Republic of Kazakhstan, can significantly decrease the value of the monetary assets that we hold in Kazakhstan as well as our assets in that country that are based on the Tenge. KKM retains the majority of cash and cash equivalents in U.S. dollars in bank accounts within Kazakhstan, but KKM's statutory tax basis in its assets, tax loss carry-forwards, and VAT receivables are all denominated in Tenge and subject to the effects of devaluation. Local tax laws allow basis adjustments to offset the impact of inflation on statutory tax basis assets, but there is no assurance that any adjustments will be sufficient to offset the effects of inflation in whole or in part. If not, KKM may be subject to much higher income tax liabilities within Kazakhstan due to inflation and/or devaluation of the local currency. Additionally, devaluation may create uncertainty with respect to the future business climate in Kazakhstan and to our investment in that country.

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The Tenge is not a convertible currency outside of the Republic of Kazakhstan. The translation of tenge denominated assets and liabilities in these financial statements does not indicate Chaparral could realize or settle these assets and liabilities in U.S. dollars.

### Commodity Prices for Oil

Our revenues, profitability, growth and value are highly dependent upon the price of oil. Market conditions make it difficult to estimate prices of oil or the impact of inflation on such prices. Oil prices have been volatile, and it is likely they will continue to fluctuate in the future. Various factors beyond our control affect prices for oil, including supplies of oil available worldwide and in Kazakhstan, the ability of OPEC to agree to maintain oil prices and production controls, political instability or armed conflict in Kazakhstan or other oil producing regions, the price of foreign imports, the level of consumer demand, the price and availability of alternative fuels, the availability of transportation routes and pipeline capacity, and changes in applicable laws and regulations.

In addition, under the terms of our Agreement with the government of the Republic of Kazakhstan, the Company has the right to export, and receive export quota for, 100% of the production from the Karakuduk Field. However, oil producers within Kazakhstan are required to supply a portion of their crude oil production to the local market to meet domestic energy needs. Local market oil prices are significantly lower than prices obtainable on the export market. For the period ended March 31, 2004, the company sold 96,000 barrels of crude oil, or 13% of its total oil sales, to the local market, compared to 24,000 barrels, or 6%, during the quarter ended March 31, 2003. Local market prices obtained by the Company are approximately \$10 to \$12 per barrel below export market prices, net of transportation costs. We have attempted, in accordance with our Agreement, to effect the 100% export of all hydrocarbons produced from the Karakuduk Field, through discussions with the Government of Kazakhstan. We plan to continue to work with the Government to increase our export quota and minimize or eliminate future local sales requirements. The Company is considering whether to initiate arbitration proceedings in Switzerland for the breach of the Agreement by the Government of Kazakhstan. However, no assurances can be provided that we will be able to export 100% or a significant portion of our production and that our cash flow from operations will be sufficient to meet working capital requirements in the future, which may require us to seek additional debt or equity financing in order to continue to develop the

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Karakuduk Field.

### Item 4 - Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the periodic reports we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules of the SEC. We carried out an evaluation as of March 31, 2004, under the supervision and the participation of our management, including our chief executive officer and chief financial officer, of the design and operation of these disclosure controls and procedures pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings.
- (b) Changes in internal controls over financial reporting. There have been no significant changes in internal controls over financial reporting or other factors subsequent to December 31, 2003.

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### Part II- Other Information

#### Item 6 - Exhibits and Reports on Form 8-K

- (a) Exhibits
- \*31(a) CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*31(b) CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*32(a) CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*32(b) CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

#### (b) Reports on Form 8-K

We filed a Current Report on Form 8-K, dated January 9, 2004 to report that Richard J. Moore had resigned as Chaparral's Vice President-Finance and Chief Financial Officer. Mr. Moore was replaced by Jonathan S. Wood, currently the Finance Director of KKM, who assumed the title of Vice President-Finance and Chief Financial Officer of Chaparral.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 14, 2004

Chaparral Resources, Inc.

By: /s/ Nikolai D. Klinchev

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Nikolai D. Klinchev  
Chief Executive Officer

By: /s/ Jonathan S. Wood

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Jonathan S. Wood,  
VP Finance and Chief Financial Officer  
(Principal Financial and Accounting Officer)

By: /s/ Miguel C. Soto

-----  
Miguel C. Soto,  
Treasurer and Financial Controller