CHAPARRAL RESOURCES INC
Form 10-K
April 15, 2002

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the fiscal year ended December 31, 2001.

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.)

16945 Northchase Drive, Suite 1620
Houston, Texas 77060
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (281) 877-7100

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $.0001 Per Share
(Title of Class)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES |X| NO |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

As of April 1, 2002, the aggregate market value of registrant's voting common stock, par value $.0001 per share, held by non-affiliates was $5,992,083.

As of April 1, 2002, registrant had 14,283,801 shares of its common stock, par value $.0001 per share, issued and outstanding.

PART I

ITEM 1. BUSINESS

Our Business

Chaparral Resources, Inc. is an independent oil and gas exploration and production company. Our strategy is to acquire and develop foreign oil and gas projects in emerging markets, specifically targeting fields with previously discovered reserves, which have never been commercially produced or could be materially enhanced by our management team and technical expertise.

Through two of our significant subsidiaries, Central Asian Petroleum (Guernsey), Ltd., a Guernsey company ("CAP-G"), and Central Asian Petroleum, Inc., a Delaware company ("CAP-D"), we own a 50% interest in Closed Type JSC Karakudukmunay ("KKM"), a Kazakh joint stock company that holds a governmental license to develop the Karakuduk Oil Field. Shell Capital, Incorporated ("Shell Capital"), Chaparral's primary creditor, owns a 40% interest in the distributable profits of CAP-G. All references to "Chaparral," "we," "us," and "our" refer to Chaparral Resources, Inc., its subsidiaries, and its 50% interest in KKM, unless indicated otherwise.

Since 1995, the business of Chaparral has been the development of the Karakuduk Field, a 16,900 acre oil field in the Republic of Kazakhstan. The domestic oil and gas assets of Chaparral were divested during 1996 and 1997 to help fund the development of the Karakuduk Field. The government of the former Soviet Union discovered the Karakuduk Field in 1972 and drilled 22 exploratory and development wells, none of which were produced commercially. KKM began to aggressively develop the Karakuduk Field in early 2000, re-establishing oil production from a majority of the existing wells and drilling a total of 23 new wells through September 2001. KKM intends to fully develop and commercially produce the oil reserves in the Karakuduk Field.

The other stockholders of KKM are KazakhOil, the national petroleum company of the Republic of Kazakhstan, and a private Kazakhstan joint stock company. KazakhOil owns a 40% interest in KKM and the private Kazakh joint stock company owns the remaining 10%. The government of Kazakhstan indirectly owns 40% of KKM through KazakhOil's direct ownership interest. Because we only control a 50% interest in KKM, we must seek the approval of one of the other two stockholders before KKM can take any major action, such as approving KKM's annual budget and work program, employing experts, appointing and removing KKM's management, and approving KKM's material operations and activities. If we are unable to obtain the approval of one of these stockholders, the operations of KKM may come to a standstill.

Currently, the Karakuduk Field is our only oil field. We have no other significant subsidiaries besides CAP-G and CAP-D.

Crude Oil Sales

We derive all of our revenue through the production and sale of crude oil from the Karakuduk Field. We are in the early stages of development and only began generating revenue from the sale of crude oil during 2000. Crude oil production and related sales, however, have increased materially from 2000 to 2001. KKM recognized $36.57 million in revenue in 2001 from the sale of approximately 2.18 million barrels of crude oil. In 2000, KKM recorded $16.97 million in revenue based upon sales of approximately 765,000 barrels of crude oil. Our financial information relating to operations in the Karakuduk Field is disclosed in the financial statements for KKM and the consolidated financial statements for Chaparral, both of which are included as part of this Annual Report on Form 10-K.

KKM sells the majority of its crude oil on the export market to Shell Trading International Limited ("STASCO"), an affiliate of Shell Capital. STASCO is responsible for approximately 90% of KKM's oil sales revenue in 2001. KKM has a long-term crude oil sales agreement with STASCO for the sale of 100% of KKM's oil production on the export market. STASCO accepts title of KKM's crude oil at various delivery points outside of Kazakhstan. KKM is responsible for obtaining export quotas and all other permissions from Kazakhstan, Russia, or other relevant jurisdictions necessary to transport and deliver KKM's oil production to STASCO. STASCO is responsible for nominating and coordinating an oil tanker, if necessary, and arranging for the resale/marketing of the crude oil purchased. The crude oil sales agreement with STASCO is effective through 2004, and is renewable thereafter for successive 12-month periods. STASCO may terminate the

crude oil sales agreement if KKM does not nominate a sale for six consecutive months, KKM enters into a sales agreement with a third-party, we cease to own at least 50% of KKM, or the loan with Shell Capital is terminated or repaid. KKM may terminate the crude oil sales agreement if the loan is repaid in full or STASCO fails to pay amounts due to KKM.

The sales price to be received by KKM under the crude oil sales agreement are based upon various factors, including the point of delivery, current market oil prices, the volume and quality of the crude oil delivered, the size and type of tanker utilized (if any), and applicable flat tanker rates (if any). KKM pays STASCO a commission on each oil sale, calculated on a sliding scale based upon total annual crude oil quantities delivered: $0.15 per barrel up to 5 million barrels, $0.10 per barrel from 5 to 10 million barrels, and $0.05 per barrel beyond 10 million barrels. All other prices/costs utilized in the sales price formula are from published sources or are actual costs incurred.

There are six delivery points under the crude oil sales agreement, including three preferred port facilities on the Black Sea (Novorossiisk, Odessa, and Ventspills) and three onshore pipeline facilities (Dudkovce, Feyeshlitke, and Adamovo). KKM must use its best efforts to deliver crude oil to one of the three port locations. All of KKM's export oil sales to date have been delivered to the Ukranian port of Odessa. The minimum deliverable quantity is approximately 460,000 barrels of crude oil for the port locations and 22,000 barrels for the pipelines. KKM has a contractual right to deliver undersized cargoes to the port facilities, subject to additional freight charges, if a tanker is loaded below its tonnage capacity. Third-party sellers, however, may offset capacity shortages in the tanker, with STASCO's approval.

Sales prices at the port locations are based upon quoted Urals crude oil prices from Platt's Crude Oil Marketwire, net of published freight charges published in both Platt's Dirty Tanker Wire and the Worldscale Tanker Nominal Freight Scale. Payment is made by STASCO within 30 days of receipt of the final bill of lading and KKM's invoice for the sale, unless otherwise agreed by both parties. Sales prices received from pipeline deliveries equal the sales price received by STASCO from their third party buyers of KKM's crude oil. STASCO negotiates the best price possible and passes on the proceeds, net of their applicable sales commission and incidental expenses, to KKM. Payment for onshore pipeline sales is made on the earlier of 45 days or the date STASCO agrees to a sales price with the third party buyer.

Shell Capital Services Limited, acting as facility agent, has notified us that Shell Capital's loan with Chaparral is in default, demanded Chaparral accelerate the repayment of the loan, and has initiated legal proceedings against Chaparral and CAP-G to enforce Shell Capital's rights under the loan, which Chaparral and CAP-G are contesting. See Item 3 - Legal Proceedings. KKM, however, has continued to sell its crude oil on the export market to STASCO per the terms of the crude oil sales agreement. If Chaparral is able to refinance the loan with a third-party, the crude oil sales agreement may be terminated by either KKM or STASCO.

The government of the Republic of Kazakhstan requires oil producers within Kazakhstan 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. In 2001, the government required KKM to sell approximately 375,000 barrels of crude oil, or 17% of its total oil sales, to the local market, compared to 161,000 barrels, or 21%, during 2000. Local market prices obtained by KKM are approximately $7 to $10 per barrel below export market prices, net of transportation costs. We have attempted to effect the 100% export of all hydrocarbons produced from the Karakuduk Field through informal discussions with the government of Kazakhstan. While we have been successful in lowering the quantities of local sales required, we have been unable to entirely eliminate our local market obligation. We plan to continue to work with the government to minimize or eliminate KKM's future local sales requirements. If we are unsuccessful, however, we may be required to initiate legal proceedings within Kazakhstan or make a claim under our political risk insurance policy for the breach of our agreement by the government of Kazakhstan. We can provide no assurances that legal proceedings within Kazakhstan would be successful, or that any potential insurance proceeds available under the political risk policy would fully offset losses incurred due to additional local sales requirements. Additionally, the initiation of formal legal proceedings could lead to more material restrictions of our contractual rights, including our right to develop the Karakuduk Field or sell any of our crude oil production on the export market. The future loss of revenue from local sales may be significant enough to prevent us from generating a profit from the Karakuduk Field or generate enough cash flow to meet our working capital needs. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

Risks of Oil and Gas Activities

The current market for oil is characterized by instability. This instability has caused fluctuations in world oil prices in recent years and there is no assurance of any price stability in the future. The production and sale of oil from the Karakuduk Field may not be commercially feasible under market conditions prevailing in the future. The price we receive for our oil may not be sufficient to generate revenues in excess of our costs of production or provide sufficient cash flow to meet our working capital requirements.

We are uncertain about the prices at which we will be able to sell oil that we produce. Our estimated future net revenue from oil sales is highly dependent on the price of oil, as well as the amount of oil produced. The volatility of the energy market makes it difficult to estimate future prices of oil. Various factors beyond our control affect these prices. These factors include:

- domestic and worldwide supplies of oil;

o the ability of the members of the Organization of Petroleum Exporting Countries, or OPEC, to agree to and maintain oil price and production controls;

o political instability or armed conflict in oil-producing regions;

o the price of foreign imports;

o the level of consumer demand;

o the price and availability of alternative fuels;

o the availability of pipeline capacity; and

o changes in existing federal regulation and price controls.

It is likely that oil prices will continue to fluctuate as they have in the past. Current oil prices are not representative of oil prices in either the near or long-term. We do not expect oil prices to maintain current price levels and do not base our capital spending decisions on current market prices.

No assurances can be given that we will be able to successfully develop, produce, and market the oil reserves underlying the Karakuduk Field or elsewhere. The development of oil reserves inherently involves a high degree of risk, even though the reserves are proved. Our risks are increased because our activities are concentrated in areas where political or other unknown circumstances could adversely affect commercial development of the reserves. Costs necessary to acquire, explore, and develop oil reserves are substantial. No assurances can be given we will recover the costs incurred to acquire and develop the Karakuduk Field. If the costs incurred exceed our revenues, our operations will not be profitable. Furthermore, if we fail to generate sufficient cash flow from operations to meet our working capital requirements or other long-term debt obligations, we may lose our entire investment in the Karakuduk Field, which is currently pledged as collateral to Shell Capital under the terms of the loan. See Item 3 - Legal Proceedings.

The development of oil reserves is a high risk endeavor and is frequently marked by unprofitable efforts, such as:

o drilling unproductive wells;

o drilling productive wells which do not produce sufficient amounts of oil to return a profit; and

o production of developed oil reserves which cannot be marketed or cannot be sold for adequate market prices.

There are many additional risks incident to drilling for and producing oil and gas. These risks include blowouts, cratering, fires, equipment failure and

accidents. Any of these events could result in personal injury, loss of life and environmental and/or property damage. If such an event does occur, we may be held liable and we are not fully insured against these risks. In fact, many of these risks are not insurable. The occurrence of such events that are not fully covered by insurance may require us to pay damages, which would reduce our profits. As of April 1, 2002, we have not experienced any material losses due to these events.

Risks of Foreign Operations

Our ability to develop the Karakuduk Field is dependent on fundamental contracts with governmental agencies in Kazakhstan, including KKM's "Agreement with the Ministry of Energy and Natural Resources for Exploration, Development, and Production of Oil in the Karakuduk Oil Field" and KKM's petroleum license with the government allowing KKM to operate and develop the Karakuduk Field. Kazakhstan is a relatively new country and, as is inherent in such developing markets, there is some uncertainty as to the status of Kazakh law and the stability of the country and the region.

The laws of the Republic of Kazakhstan govern our operations and a number of our significant agreements. As a result, we may be subject to arbitration in Kazakhstan or to the jurisdiction of the Kazakh courts. Even if we seek relief in the courts of the United States, we may not be successful in subjecting foreign persons to the jurisdiction of those courts.

The exportation of oil from Kazakhstan depends on access to transportation routes, particularly the Russian pipeline system. Transportation routes are limited in number, and access to them is regulated and restricted. If any of our agreements relating to oil transportation or marketing are breached, or if we are unable to renew such agreements upon their expiration, we may be unable to transport or market our oil. Also, a breakdown of the Kazakhstan or Russian pipeline systems could delay or even halt our ability to sell oil. Any such event would result in reduced revenues.

Obtaining the necessary quotas and permissions to export production through the Russian pipeline system can be extremely difficult, if not impossible in some circumstances. Our agreements with the government of the Republic of Kazakhstan grant us the right to export, and to receive export quota. However, we cannot provide any assurances that we will receive export quota or any other approvals required to export and deliver our production in the future.

KKM has entered into marketing service agreements with KazakhOil and KazTransOil JSC, the state owned pipeline transportation company, whereby KazakhOil and/or KazTransOil will assist KKM with export oil sales under the crude oil sales agreement. The services provided include assistance in obtaining export quotas from the government of the Republic of Kazakhstan, consulting on procedures required for the nomination and delivery of oil sales, obtaining other necessary approvals and permissions, and preparation of relevant documentation. KKM utilized the services of KazTransOil to facilitate export oil sales during 2001 and expects to continue to do so in the future. In February 2002, KazakhOil and KazTransOil merged into a new government owned entity, KazMunayGaz.

Political Risk Insurance

In order to counteract some of these potential difficulties, we obtained political risk insurance through the Overseas Private Investment Corporation ("OPIC"), covering 90% of the book value of our investment in KKM up to a maximum of $50.0 million. The annual premium for the maximum OPIC coverage available to Chaparral is $1.05 million, payable in quarterly installments. Our OPIC policy provides coverage for acts, which could be committed against us by the government of the Republic of Kazakhstan or other parties in times of severe political instability. The OPIC policy generally provides the following types of risk coverage:

- Currency Inconvertibility. Currency restrictions, which might be imposed by the government of the Republic of Kazakhstan to prevent or defer our recovery of our investment in the Karakuduk Field, including revoking KKM's right to retain U.S. dollar proceeds from oil sales outside of Kazakhstan or to convert local currency into U.S. dollars for repayment of our investment;

- Expropriation. Acts attributable to the government of the Republic of Kazakhstan that are violations of international law or an abrogation, repudiation or material breach of our agreements with the government. In order to qualify for coverage, the act of expropriation must continue without interruption for at least six months and prevent us

from exercising our fundamental rights under our agreements, exercising control over our investment the Karakuduk Field, or recovering our investment in the Karakuduk Field;

- Political Violence. The loss or impairment of our investment due to politically motivated violent acts, including war, revolution, insurrection, or politically motivated civil strife, terrorism and sabotage; and

- Interference with Operations. The loss or impairment of our investment due to political violence lasting more than six months.

While the OPIC policy provides significant political risk coverage, it does not address political risks outside of the Republic of Kazakhstan or cover every contingency within Kazakhstan. The OPIC policy does not cover commercial risks, whatsoever. If social, political, or economic strife in the region hinder KKM or our operations in a manner that is not covered by our OPIC policy, we will bear the full burden of any resulting loss or damage. If we do have a future claim under the OPIC policy, we may be required to assign all or a portion of our rights to the Karakuduk Field to OPIC before any insurance payments will be made. The OPIC policy only covers 90% of our book value of our investment in KKM, but there is no assurance any proceeds received will cover 90% of our actual losses incurred or be sufficient to cover our outstanding indebtedness repayable to our creditors.

Environmental Regulations

We must comply with laws of the Republic of Kazakhstan and international requirements that regulate the discharge of materials into the environment. Furthermore, both our loan and our OPIC political risk insurance policy require that we comply with the World Bank's environment, health, and safety guidelines for onshore oil and gas development. Environmental protection and pollution control could, in the future, become so restrictive as to make production unprofitable. Furthermore, we may be exposed to potential claims and lawsuits involving such environmental matters as soil and water contamination and air pollution. We are currently in compliance with all local and international environmental requirements and are closely monitored by the environmental authorities of the Republic of Kazakhstan. We have not made any material capital expenditures for environmental control facilities and have no plans to do so in the foreseeable future.

Competition

We compete in all areas of the exploration and production segment of the oil and gas industry with a number of other companies. These companies include large multinational oil and gas companies and other independent operators with greater financial resources and more experience than Chaparral. We do not hold a significant competitive position in the oil industry. We compete both with major oil and gas companies and with independent producers for, among other things, rights to develop oil and gas properties, access to limited pipeline capacity, procurement of available materials and resources, and hiring qualified local and international personnel.

Employees

As of April 1, 2002, Chaparral had 6 full-time employees. KKM had 170 employees and retains independent contractors on an as needed basis through Chaparral. We believe that our relationship with our employees and consultants is good.

Corporate Information

Chaparral was incorporated under the laws of the State of Colorado in 1972. In 1999, Chaparral completed a 60 to 1 reverse stock split and reincorporated under the laws of the State of Delaware.

Our address is 16945 Northchase Drive, Suite 1620, Houston, Texas 77060, and our telephone number is (281) 877-7100.

Special Note Regarding Forward-Looking Statements

Some of the statements in this Annual Report on Form 10-K 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 in "Risks of Oil and Gas Activities" and "Risks of Foreign Operations." 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 Annual Report on Form 10-K to conform these statements to actual results.

ITEM 2. PROPERTIES

Properties

The Karakuduk Field is located in the Mangistau Region of the Republic of

Kazakhstan. The license to develop the Karakuduk Field covers an area of approximately 16,900 acres and is effective for a 25 year term, which may be extended by production. KKM entered an agreement to develop the Karakuduk Field with Kazakhstan's Ministry of Energy and Natural Resources in 1995.

The Karakuduk Field is geographically located, approximately 227 miles northeast of the regional capital city of Aktau, on the Ust-Yurt Plateau. The closest settlement is the Say-Utes Railway Station approximately 51 miles southeast of the field. The ground elevation varies between 590 and 656 feet above sea level. The region has a dry, continental climate, with fewer than 10 inches of rainfall per year. Mean temperatures range from minus 25 degrees Fahrenheit in January to 100 degrees Fahrenheit in July. The operating environment is similar to that found in northern Arizona and New Mexico in the United States.

The Karakuduk Field structure is an asymmetrical anticline located on the Aristan Uplift in the North Ustyurt Basin. Oil was discovered in the structure in 1972, when Kazakhstan was a republic of the former Soviet Union, from Jurassic age sediments between 8,500 and 10,000 feet. The former Soviet Union drilled 22 exploratory and development wells to delineate the Karakuduk Field, discovering the presence of recoverable oil reserves. The productive area of the Karakuduk Field is estimated to contain a minimum of eight separate productive horizons present in the Jurassic formation. None of the original wells were ever placed on commercial production prior to KKM obtaining the rights to the Karakuduk Field.

The Karakuduk Field is approximately 18 miles north of the main utility corridor, which includes the Makat-Mangishlak railroad, the Mangishlak-Astrakghan water pipeline, the Beyneu-Uzen high voltage utility lines, and the Uzen-Atrau-Samara oil and gas pipelines. KKM, according to its agreements with the Republic of Kazakhstan, has a right to use the existing oil export pipeline and related utilities. KKM also has a contract with KazTransOil granting KKM the right to use the export pipeline for transportation of crude oil to local and export markets, subject to transit quota restrictions, and as a temporary storage facility until the produced hydrocarbons are sold by KKM.

As of April 1, 2002, KKM has 36 productive wells in the Karakuduk Field, including 23 new wells and 13 re-completions of previously existing delineation wells. The 36 wells include 29 wells currently producing approximately 7,300 barrels of oil per day and 7 which are shut-in for various reasons, including the installation of additional gathering lines and well equipment and additional workover and stimulation operations. Another shut-in well is being considered for future use as an injection well for a pilot waterflood project. KKM implemented an aggressive drilling program during 2000, drilling a total of 12 development wells and re-completing 4 delineation wells using a combination of two drilling rigs and a workover rig. During 2001, KKM drilled an additional 10 development wells and re-completed 7 delineation wells. An additional exploratory well and 2 re-completions were conducted prior to 2000. KKM has successfully completed every well drilled to date. Oil has been recovered from the originally identified J-1, J-2, J-4, J-8, and J-9 formations, along with new discoveries in the J-6, J-7 and J-10 horizons.

KKM's daily oil production has been limited due to various facility constraints and lack of working capital to fund field operations. KKM is working to alleviate all facility constraints through expansion of its oil storage capacity, installation of additional gathering and processing facilities, commissioning of the oil sales pipeline and completion of the central processing facility. Crude oil production is currently being processed at a pilot facility and trucked to the KKM pump station adjacent to the export pipeline. The pump station is approximately 18 miles from the Karakuduk Field and was placed in service in April 2000. KKM has finished construction of an 18-mile pipeline, capable of transporting up to 18,000 barrels of oil per day to the export pipeline terminal. Test production was successfully delivered through the pipeline to the export pipeline pumping station in April 2002. The pipeline is currently being commissioned and is expected to be operational by mid-2002. Until the pipeline is fully operational, KKM will continue to truck oil production to the pump station at the export pipeline. Maximum crude oil trucking capacity has been approximately 8,500 barrels of oil per day. KKM also expects to commission its central processing unit by mid-2002, with further expansion through 2003 in order to improve its produced water processing capability in the field.

KKM currently has one workover rig operating in the Karakuduk Field. KKM had two drilling rigs in operation in 2001, one of which was released in April 2001 and the other in October 2001. KKM expects to renew its drilling program in the latter part of 2002 if Chaparral is able to refinance its loan with Shell Capital and adequate financial resources are available to continue the development of the Karakuduk Field. The workover rig is expected to continue operations throughout 2002, performing standard well maintenance, re-completions of existing wells, and down-hole pump installations. We estimate up to 71 new wells will be required to fully develop the Karakuduk Field, of which 20 would eventually be converted into water injection wells. The planned development program includes a pressure maintenance operation that our management believes will enhance ultimate recovery.

KKM completed a 3-D seismic study in early 2001, which we have, and will continue, to use to optimize location of wells (both producers and injectors) and further define the possible total productive capacity of the Karakuduk Field.

Chaparral has pledged its investment in KKM and the Karakuduk Field as collateral for its loan with Shell Capital. Shell Capital Services Limited, acting as facility agent, has notified us that the loan with Shell Capital is in default, demanded Chaparral accelerate the repayment of the loan, and has initiated legal proceedings against Chaparral and CAP-G to enforce Shell Capital's rights under the loan, which Chaparral and CAP-G are contesting. See Item 3 - Legal Proceedings.

See also Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reserves

As of December 31, 2001, the Karakuduk Field has total estimated proved reserves of approximately 29.92 million barrels, net of government royalty, of which we have a proportional equity interest in approximately 14.96 million barrels, based upon our 50% equity interest in KKM. The reserve disclosure is based upon a reserve study of the Karakuduk Field conducted by Ryder Scott, including data available subsequent to December 31, 2001.

No reserve estimates have been filed with any Federal authority or other agency since January 1, 2001.

Net Quantities of Oil and Gas Produced

The following table summarized sales volumes, sales prices and production cost information for our net oil and gas production for each of the three years ended December 31, 2001:

	As of the Year Ended December 31,		
	1999	2000	2001
Net sales volumes			
Oil (bbls)	29,625	382,500	1,092,000
Gas (mcf)	--	--	--
Average sales price			
Oil (per bbl)	$ --	$ 22.18	$ 16.75
Gas (per mcf)	$ --	$ --	$ --
Average production cost (per bbl)	$ --	$ 4.81	$ 2.40

KKM did not sell any commercial quantities of crude oil prior to 2000. Average sales revenue, net of transportation costs, was approximately $17.98 and $12.95 per barrel for the years ended December 31, 2000 and 2001, respectively. For the same periods, the average transportation costs per barrel were approximately $4.20 and $3.80, respectively.

Net oil production represents our 50% equity interest in KKM's production, but does not reflect our right under the agreement with the government of the Republic of Kazakhstan to receive 65% of KKM's cash flow from oil sales, net of royalty, on a quarterly basis until our loan to KKM has been fully repaid. The remaining 35% of net cash flows is used by KKM to meet capital and operating expenditures. We may waive receipt of quarterly loan repayments, in whole or in part, to provide KKM with additional working capital.

KKM sold some quantities of test production prior to the commercial viability of our investment in the Karakuduk Field, which are not reported as part of the required disclosures for the Statement of Financial Accounting Standards No. 69 ("SFAS 69"), Disclosures About Oil and Gas Producing Activities, or included in the table above. Our share of KKM's sales of test production during 1999 totaled 162,325 barrels of oil, which were accounted for on a cost recovery basis. The average sales price per barrel received by KKM was $7.00, net of transportation costs.

Productive Wells and Acreage

As of December 31, 2001, we had interests in 36 gross productive oil wells (18 net oil wells), and no producing gas wells. There were no multiple completion wells. Production was from 16,900 gross acres, of which 5,000 acres are developed (2,500 net developed acres).

Undeveloped Acreage

As of December 31, 2001, 5,000 acres in the Karakuduk Field are undeveloped (2,500 net undeveloped acres).

Drilling Activity

During the three years ended December 31, 2001, our net interests in exploratory and development wells drilled were as follows:

Year Ended December 31,	Exploratory Wells, Net		Development Wells, Net	
	Productive	Dry	Productive	Dry
1999	.5	--	--	--
2000	1.5	--	6.5	--
2001	.5	--	8.0	--

All wells are located in the Republic of Kazakhstan.

Present Activities

KKM is not currently engaged in drilling activities, but expects to renew its drilling program during the latter part of 2002 if it can resolve its current legal dispute with Shell Capital and obtain the working capital necessary to renew drilling operations. See Item 3 - Legal Proceedings.

ITEM 3. LEGAL PROCEEDINGS

On January 15, 2002, Shell Capital Services Limited, acting as facility agent, initiated proceedings against Chaparral in the United Kingdom with the High Court of Justice, Queen's Bench Division. Shell Capital Services alleges in its lawsuit that Chaparral is liable to Shell Capital in the amount of approximately $37.31 million, including accrued and unpaid interest under the terms of the loan. Shell Capital Services further alleges that Chaparral is in default of the loan for the following: failure to pay outstanding principal and interest due on the bridge loan totaling $3.34 million on or before September 30, 2001, failure to achieve project completion by September 30, 2001, failure to settle certain accounts payable within 90 days, failure to maintain listing of Chaparral's common stock on the Nasdaq SmallCap Market, failure to pay approximately $1.68 million in interest and $1.0 million in principal due on the loan as of December 31, 2001, and failure to pay a $24,000 agency fee due to Shell Capital Services on January 1, 2002. As a result of the foregoing alleged defaults, Shell Capital Services claims that the entire outstanding principal balance of the loan, plus accrued interest, fees and other costs associated with the loan is due and payable. Chaparral has filed a notice of its intention to defend the proceedings in the High Court of Justice. Shell Capital Services filed a motion for summary judgment on March 1, 2002, which has tentatively been scheduled for a July 8, 2002 hearing date with the High Court of Justice.

On February 7, 2002, Shell Capital Services filed an application in the Royal Court of Guernsey Ordinary Court for the compulsory winding up of CAP-G pursuant to Section 94 of the Companies (Guernsey) Law, 1994. Shell Capital Services alleges that CAP-G owes Shell Capital approximately $37.31 million as a co-obligor with Chaparral under the terms of Chaparral's loan with Shell Capital. Shell Capital Services' claims in the Guernsey proceeding are the same as those alleged in the English proceeding against Chaparral, discussed above. CAP-G has filed a response to the Application for Winding Up and has requested the Royal Court to defer the winding up proceedings pending resolution of the proceedings filed by Shell Capital Services against Chaparral in the High Court of Justice in England, on the grounds that CAP-G is a guarantor rather than a co-obligor so that any liability it may have is derivative from that of Chaparral. A hearing has yet to be scheduled in the Royal Court of Guernsey regarding CAP-G's request for deferral of the winding up application.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during the fiscal quarter ended December 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is currently quoted on the OTC Bulletin Board under the symbol "CHAR.ob". As of April 1, 2002, we had 1,822 stockholders of record of our common stock. No dividend has been paid on our common stock, and there are no plans to pay dividends in the foreseeable future.

The following table shows the range of high and low bid prices for each quarter during our last two calendar years ended December 31, 2001 and 2000, as reported by the National Association of Securities Dealers, Inc.:

	Price Range	
Fiscal Quarter Ended	High	Low
March 31, 2000	$15.19	$8.00
June 30, 2000	9.00	5.88
September 30, 2000	10.50	3.38
December 31, 2000	8.13	3.25
March 31, 2001	4.50	2.81
June 30, 2001	3.30	2.00
September 30, 2001	2.50	1.10
December 31, 2001	2.15	1.50

In August 2001, our common stock was delisted from the Nasdaq SmallCap Market for failure to comply with Nasdaq Marketplace Rules 4350(i)(1)(A), 4350(i)(1)(B) and 4350(i)(1)(D)(ii), which required Chaparral obtain stockholder approval prior to the conversion of its 8% Non-Negotiable Subordinated Convertible Promissory Notes, or notes, into 11,690,259 shares of its common stock on September 21, 2000 and the issuance of 1,612,903 shares of common stock on October 30, 2000. Nasdaq also cited a violation of its annual meeting requirement. The Nasdaq Listing Qualifications Panel did not, however, cite any public interest concerns as a basis for its determination.

Chaparral's common stock is also subject to the rules and regulations of the SEC concerning "penny stocks." The SEC's rules and regulations generally define a penny stock to be an equity security that is not listed on Nasdaq or a national securities exchange and that has a market price of less than $5.00 per share, subject to certain exceptions. The SEC's rules and regulations require broker-dealers to deliver to a purchaser of penny stock a disclosure schedule explaining the penny stock market and the risks associated with it. Various sales practice requirements are also imposed on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally institutions). In addition, broker-dealers must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account.

We did not sell any securities since October 1, 2001, which were not registered under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

	As of or for the Year End December 31, (In Thousands of US Dolla		
	2001	2000	1999
Oil and gas sales	--	--	--
Total revenues	--	--	--
Equity in income (loss) from investment	$ 4,616	$ 2,827	$ (1,849)
Net loss	(16,215)	(26,803)	(5,163)
Net loss per common share	(1.16)	(6.01)	(5.63)
Working capital (deficit)	(39,357)	(601)	(2,941)
Total assets	69,037	70,156	41,303
Long-term obligations and redeemable preferred stock	3,900	26,528	14,776
Stockholders' equity	25,361	41,926	22,851
Other Data			
Present value of proved reserves	40,344	70,281	61,312
Proved oil reserves (bbls)	14,961	16,523	10,071
Proved gas reserves (mcf)	--	--	--

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Liquidity and Capital Resources

General Liquidity Considerations

Going Concern

Our financial statements have been presented on the basis Chaparral is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We are responsible for providing 100% of the funding for the development of the Karakuduk Field not provided from oil sales or third party sources. We have recognized recurring operating losses, have a working capital deficiency as of December 31, 2001, and there are uncertainties relating to our ability to meet projected cash flow requirements through 2002. In addition, Shell Capital Services Limited, acting as facility agent, has notified Chaparral that it is in default under its loan with Shell Capital and has issued a notice of acceleration demanding that Chaparral repay the outstanding principal balance, plus all interest and other fees, payable under the loan. Shell Capital Services Limited also initiated legal proceedings against both Chaparral and CAP-G, which both Chaparral and CAP-G are defending. If we are unable to successfully defend against the legal actions of Shell Capital Services Limited or raise the capital necessary to refinance the loan, the result will most likely be the loss of our investment in the Karakuduk Field.

We are seeking to alleviate these conditions through the restructuring of Chaparral and refinancing of the loan with Shell Capital. In April 2002, Chaparral executed a letter of intent with Central Asian Industrial Holdings, N.V., or CAIH, regarding a possible $12 million capital investment into Chaparral and an amount of debt that is to be determined, in exchange for approximately 60% of Chaparral's common stock. The transaction is subject to a number of conditions precedent, including the approval of Shell Capital, the negotiation and execution of a definitive agreement with CAIH, and the approval of the boards of directors and shareholders of both companies. Chaparral plans to use the capital infusion and debt from CAIH to restructure the loan. The terms of the restructuring would include the cancellation of the common stock warrants held by Shell Capital, CAP-G's reacquisition of the 40% net profits interest held by Shell Capital, waiver of all outstanding defaults including project completion, and adjusting the interest rate on the restructured loan to an undetermined rate below the current interest rate being charged by Shell Capital. Chaparral and CAP-G will continue to contest the legal actions of Shell Capital Services Limited unless and until such time as a transaction with CAIH can be consummated. We cannot provide any assurance, however, that the loan with Shell Capital will be refinanced with CAIH or any other party and, if so, whether the loan would be refinanced on terms and conditions favorable to Chaparral.

Liquidity and Capital Resources

We are presently engaged in the development of the Karakuduk Field, which requires substantial cash expenditures for drilling costs, well completions, workovers, oil storage and processing facilities, pipelines, gathering systems, plant and equipment (generators, pumps, communications, etc.) and other field facilities. We have invested approximately $60.0 million in the development of the Karakuduk Field and have drilled or re-completed 36 productive wells, including 17 wells during 2001. Total capital expenditures for 2001 were approximately $24.85 million in comparison to total capital expenditures of $28.38 million incurred in 2000. Capital expenditures are estimated to be at least $60.0 to $80.0 million for the period from 2002 through 2005, including drilling approximately 37 more wells through this time period.

We expect to finance the continued development of the Karakuduk Field primarily through cash flows from the sale of crude oil. During the twelve months ended December 31, 2001, KKM sold approximately 2.18 million barrels of crude oil for $28.28 million, net of transportation costs. As of April 1, 2002, daily production, net of royalty, is approximately 7,300 barrels per day from 29 of the 36 productive wells in the field. The remaining 7 wells are shut-in for various reasons, including installation of additional gathering lines and well equipment and additional workover and well stimulation operations to bring wells on to primary production. Another shut-in well is being considered for future use as an injection well for a pilot waterflood project.

KKM's maximum daily production is also restrained by certain field facility constraints, which KKM is attempting to alleviate through the expansion of oil storage capacity, installation of additional gathering and processing facilities, commissioning of an oil sales pipeline, installation of down hole pumps for artificial lift, and completion of the central processing facility. Crude oil production is currently being processed at a pilot facility and trucked to the KKM pump station adjacent to the export pipeline. The pump station is approximately 18 miles from the Karakuduk Field and was placed in service in April 2000. KKM has finished constructing an 18-mile pipeline, capable of transporting up to 18,000 barrels of oil per day to the export pipeline terminal. Test production was successfully delivered through the pipeline to the export pipeline pumping station in April 2002. The pipeline is currently being commissioned and is expected to be operational by mid-2002. Until the pipeline is fully operational, KKM will continue to truck oil production to the pump station at the export pipeline. Maximum crude oil trucking capacity has been approximately 8,500 barrels of oil per day. KKM also expects to commission its central processing unit by mid-2002, with further expansion through 2003 in order to improve its produced water processing capability in the field.

In the short-term, we expect to maintain net daily production of approximately 7,300 barrels of oil per day through the second quarter of 2002 as these various restrictions are addressed. No assurances may be provided, however, that production constraints will be alleviated as expected, due to potential factors such as delays in obtaining necessary regulatory approvals, inaccessibility of contractors and materials needed for construction, and adequate working capital to timely fund field operations.

Our highest operational priority in the short-term is to refinance the loan with Shell Capital and obtain additional working capital necessary to alleviate production constraints in order to obtain a level of operational cash flow sufficient to fund our future cash requirements. We anticipate up to $8.5 million in additional working capital will be necessary to achieve this objective. Chaparral and KKM have also initiated cost reduction measures to avoid incurring any unnecessary overhead or operating expenses. Primarily, KKM has suspended drilling operations as of October 2001 to allow the development of the facilities program to continue in order to process current and future productive capacity. This will also allow further analysis of available geological data to most efficiently complete the development of the Karakuduk Field. Subject to refinancing the loan with Shell Capital (see below), we expect drilling operations to resume in the latter part of 2002.

Our short and long-term operational liquidity is also impacted by local oil sales obligations, imposed by the government of Kazakhstan on oil and gas producers to supply local energy needs. Under the terms of our agreement with the government, KKM has a right to export, and receive export quota for, 100% of the production from the Karakuduk Field. However, in 2001, the government required KKM to sell approximately 375,000 barrels of crude oil, or 17% of its total oil sales, to the local market, compared to 161,000 barrels, or 21%, during 2000. Local market prices obtained by KKM are approximately $7 to $10 per barrel below export market prices, net of transportation costs. We have attempted to effect the 100% export of all hydrocarbons produced from the Karakuduk Field through informal discussions with the government of Kazakhstan. While we have been successful in lowering the quantities of local sales required, we have been unable to entirely eliminate our local market obligation. We plan to continue to work with the government to minimize or eliminate KKM's future local sales requirements. If we are unsuccessful, however, we may be required to initiate legal proceedings within Kazakhstan or make a claim under our political risk insurance policy for the breach of our agreement by the government of Kazakhstan. We can provide no assurances that legal proceedings within Kazakhstan would be successful, or that any potential insurance proceeds available under the political risk policy would fully offset losses incurred due to additional local sales requirements. Additionally, the initiation of formal legal proceedings could lead to more material restrictions of our contractual rights, including our right to develop the Karakuduk Field or sell any of our crude oil production on the export market. The future loss of revenue from local sales may be significant enough to prevent us from generating a profit from the Karakuduk Field or generate enough cash flow to meet our working capital needs.

Shell Capital loan

As of April 1, 2002, our most significant outstanding indebtedness is our loan with Shell Capital. We entered into the loan in November 1999, to provide us with up to $24.0 million of financing for the development of the Karakuduk Field. Chaparral borrowed $21.5 million under the loan as of December 31, 2000 and the remaining $2.5 million as of May 2001.

The loan accrues interest at an annual rate of LIBOR plus 17.75%, compounding quarterly prior to project completion, which consists of various financial and technical milestones in the development of the Karakuduk Field.

Prior to project completion, an interest amount, equal to an annual rate of LIBOR plus .50%, is payable quarterly to Shell Capital. The annual interest rate is reduced to LIBOR plus 12.75% after project completion. The remaining unpaid interest is added to the loan balance at the end of each quarter. After project completion, all quarterly interest on the outstanding loan is fully due and payable at the end of each calendar quarter.

In May 2001, the loan was amended to provide Chaparral with up to $8.0 million in uncommitted working capital as a bridge loan, which could be drawn down in increments of $250,000 through August 31, 2001, at the sole discretion of Shell Capital. We borrowed a total of $3.15 million under the bridge loan through August 31, 2001. The principal borrowed under the bridge loan accrues interest at LIBOR plus 17.75% and is subject to an arrangement fee of 2%. Interest payments in the amount of LIBOR plus .50% are due at the end of each month the bridge loan is outstanding. All unpaid interest is added to the outstanding principal balance on each repayment date. The outstanding principal of the bridge loan, plus all accrued interest, was due on or before September 30, 2001.

As an incentive for Chaparral to repay the bridge loan or refinance the entire loan (including the bridge loan), Chaparral's board of directors approved CAP-G's issuance of Series A Preferred shares to Shell Capital. Per the terms of the amendment, if Chaparral failed to repay or refinance the bridge loan on or before September 30, 2001, the Series A Preferred shares automatically convert and entitle Shell Capital to 40% of the distributable profits of CAP-G. CAP-G did not have any distributable profits as of April 1, 2002.

Chaparral did not reach project completion on or before September 30, 2001. Chaparral had previously requested that Shell Capital waive or revise the project completion definition due to our belief that the production levels and certain technical requirements of project completion were unattainable and not necessary or prudent in the time frame specified under the loan. Shell Capital, however, refused to waive or revise the project completion definition. As a result of Chaparral's failure to timely repay the bridge loan, Shell Capital's Series A Preferred shares in CAP-G converted as of October 1, 2001, entitling Shell Capital to 40% of the distributable profits of CAP-G.

In October 2001, Chaparral received a notice of default from Shell Capital, notifying us that the following events of default had occurred under the loan: failure to pay outstanding principal and interest due on the bridge loan totaling $3.34 million on or before September 30, 2001, failure to pay interest due on the loan totaling approximately $189,000 on September 28, 2001, failure to achieve project completion by September 30, 2001, failure to settle certain accounts payable within 90 days, KKM's failure to obtain Shell Capital's approval prior to entering a short-term debt arrangement, and failure to maintain listing of Chaparral's common stock on one of the major stock exchanges (i.e. Nasdaq, NYSE, or AMEX). Chaparral subsequently repaid the default interest as of September 30, 2001 on both the loan and the bridge loan, and KKM repaid the short-term indebtedness obtained without Shell Capital's approval.

In January 2002, Chaparral received a second notice of default under the loan, along with a notice accelerating the payment of $37.29 million in outstanding principal, interest, and other fees and expenses due under our existing loans with Shell Capital. Shell Capital Services Limited, as facility agent, also initiated legal proceedings against Chaparral in the United Kingdom and against CAP-G in the Isle of Guernsey to enforce Shell Capital's rights under the loan. Chaparral and CAP-G are contesting the actions of Shell Capital in their respective jurisdictions. See Item 3 - Legal Proceedings.

The second default notice stipulated various events of default in addition to those previously disclosed above, including the Company's failure to pay approximately $1.68 million in interest and $1.0 million in principal due on the loan as of December 31, 2001, failure to pay a $24,000 agency fee due to Shell Capital Services Limited on January 1, 2002, Chaparral's failure to pay franchise taxes due on or before December 1, 2001, and KKM's failure to timely pay local salaries due in Kazakhstan. The franchise taxes and KKM local salaries were subsequently paid.

The acceleration notice demands that Chaparral immediately pay the entire outstanding principal amount plus all interest and other fees payable under the loan, or Shell Capital Services Limited, as facility agent, will pursue available remedies under the loan. Such remedies include taking ownership of Chaparral's investment in the Karakuduk Field. Furthermore, Shell Capital has applied the default interest rate allowed under the loan of LIBOR plus 19.75%, compounded daily, against the principal and interest due for the bridge loan as of September 30, 2001, and the principal and interest payments due on the loan as of January 1, 2002. The remaining balance of the loan accrued interest at LIBOR plus 17.75% through January 14, 2002 and began accruing interest at the default rate of LIBOR plus 19.75%, compounded on a daily basis, thereafter.

In April 2002, Chaparral executed a letter of intent with CAIH regarding a possible $12 million capital investment into Chaparral and an amount of debt that is to be determined, in exchange for approximately 60% of our common stock. The transaction is subject to a number of conditions precedent, including the approval of Shell Capital, the negotiation and execution of a definitive agreement with CAIH, and the approval of the boards of directors and shareholders of both companies. Chaparral plans to use the capital infusion and debt from CAIH to restructure the loan. The terms of the restructuring would include the cancellation of the common stock warrants held by Shell Capital, CAP-G's reacquisition of the 40% net profits interest held by Shell Capital, waiver of all outstanding defaults including project completion, and adjusting the interest rate on the restructured loan to an undetermined rate below the current interest rate being charged by Shell Capital. Chaparral and CAP-G are contesting the legal actions of Shell Capital Services Limited unless and until such time as a transaction with CAIH can be consummated. We cannot provide any assurance, however, that the loan with Shell Capital will be refinanced with CAIH or any other party and, if so, the loan would be refinanced on terms and conditions favorable to Chaparral.

The failure of Chaparral to refinance the loan, including the waiver of all existing defaults and the re-acquisition of Shell Capital's 40% interest in CAP-G, will most likely result in the loss or significant impairment of our investment in the Karakuduk Field.

Capital Commitments and Other Contingencies

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 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 will have on our operations.

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.

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 cash and cash equivalents in U.S. dollars in an offshore bank account outside of Kazakhstan, but KKM's statutory tax basis in its assets, tax loss carryforwards, 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 December 31, 2001, the exchange rate was 150.20 tenge per U.S. dollar.

Critical Accounting Policies

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. In addition, alternatives can exist among various accounting methods. In such cases, the choice of accounting method can also have a significant impact on reported amounts.

Our determination of proved oil and gas reserve quantities, the application of the full cost method of accounting for KKM's exploration and production activities, and the application of standards of accounting for derivative instruments and hedging activities require management to make numerous estimates and judgments.

Investment in KKM and Other Oil and Gas Property Costs - Chaparral accounts for its investment in KKM using the equity method. We follow the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with the acquisition, exploration and development of oil and gas properties, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimated proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized cost to be amortized.

In addition, the capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate of the future net cash flows from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

Reserves - Estimates of our proved oil and gas reserves are prepared by Ryder Scott, an independent petroleum engineering firm, in accordance with guidelines established by the SEC. Those guidelines require that reserve estimates 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 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.

Derivative Financial Instruments and Hedging Activities - We account for our investment in derivative financial instruments in accordance with SFAS 133, Accounting for Derivative Financial Instruments and Hedging Activities, as amended. As a result, we recognize all derivative financial instruments in our financial statements at fair value, regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are recognized periodically in income or in shareholders' equity as a component of comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are reported in income.

2. Results from Operations

Results of Operations Year Ended December 31, 2001 Compared to
Year Ended December 31, 2000

We account for our investment in KKM using the equity method.

Our operations for the year ended December 31, 2001 resulted in a net loss of $16.22 million compared to a net loss of $26.80 million as of December 31, 2000. The $10.58 million decrease in our loss from operations primarily relates to decreases in interest charges from non-recurring transactions incurred during 2000 in our attempt to finance the development of the Karakuduk Field, net of associated increases in general and administrative costs and the impact of the adoption of FSAS 133, Accounting for Derivative Instruments and Hedging Activities during 2001. Equity income from our investment in KKM increased by $1.79 million due to KKM's increase in the production and sale of crude oil during the period.

Interest expense decreased from $27.03 million in 2000 to $14.45 million in 2001. Interest expense for the current period reflects $10.01 million recognized on our loan with Shell Capital, including $6.91 million in interest on outstanding principal and $3.10 million in discount amortization, of which $2.42 million was expensed in the fourth quarter of 2001 upon the receipt of notices of default and acceleration from Shell Capital. Additionally, we recognized $4.37 million in interest expense due to the transfer of a 40% interest in the distributable profits of CAP-G to Shell Capital for failure to repay the bridge loan to Shell Capital on or before September 30, 2001. Comparatively, during 2000, we incurred $5.29 million in interest expense on the loan and $909,000 in amortization of associated debt issuance costs. Approximately $3.48 million was reclassified to the principal balance of the loan as of December 31, 2000. See Note 7 to our consolidated financial statements for the year ended December 31, 2001.

Interest expense for the period ended December 31, 2000 also reflects a non-recurring, non-cash interest charge of approximately $20.34 million recognized upon the conversion of $20.85 million of notes into 11,690,259 shares of our common stock at a conversion price of $1.86 per share. The conversion feature of the notes was a "beneficial conversion feature" as addressed in EITF 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios. EITF 98-5 required the recognition of additional interest expense equal to the face value of the notes, net of original discount of $506,000, upon conversion. See Note 8 to our consolidated financial statements for the year ended December 31, 2001.

As a result of the adoption of SFAS 133, we recognized a loss of $2.52 million as a cumulative effect of change in accounting principal and an additional loss of $237,000 for the year ended December 31, 2001 to record the derivatives at their fair value as of the end of the period. See Note 5 to our consolidated financial statements for the year ended December 31, 2001.

Interest income decreased $478,000 to $1.45 million in 2001, compared to $1.93 million in 2000. The decrease was primarily due to lower interest rates during 2001. The loan with KKM accrues interest at an annual rate of LIBOR plus 1%. The average interest rate charged during 2000 was approximately 7.3% compared to approximately 5.1% during 2001.

General and administrative costs increased from $3.69 million as of December 31, 2000 to $4.33 million as of December 31, 2001. The $637,000 change was principally due to an approximate $682,000 increase in insurance expense including additional OPIC political risk insurance premiums of $271,000, and additional amortization of transportation risk insurance of $411,000, which was fully amortized during the fourth quarter of 2001 due to the current status of the Shell Capital loan. See Notes 6 and 7 to our consolidated financial statements for the year ended December 31, 2001.

Depreciation and depletion expense increased $332,000 from $421,000 in 2000 to $753,000 in 2001, due to additional depletion of acquisition costs of our investment in KKM. Our depletion expense was $730,000 in 2001 compared to $403,000 in 2000, resulting from increased production from the Karakuduk Field.

Our equity income from investment was $4.62 million in 2001, compared to $2.83 million in 2000. The net change of $1.79 million was the result of increased crude oil production and sales by KKM during 2001, partially offset by a decrease in crude oil prices during the same period. KKM sold 2.18 million barrels of crude oil in 2001, generating revenues of $36.58 million, or $16.75 per barrel, compared to sales of approximately 765,000 barrels of crude oil in 2000, generating $16.97 million, or $22.18 per barrel. From 2000 to 2001, KKM increased crude oil sales by 185%, generating a corresponding increase in oil sales revenue of 116%. Transportation costs were $8.30 million in 2001, or $3.80 per barrel, compared to $3.21 million in 2000, or $4.20 per barrel, reflecting a decrease of transportation costs on a per barrel basis of approximately 9.5%. Operating costs increased in aggregate from 2000 to 2001, with current year operating costs of $5.25 million, or $2.40 per barrel, compared to $3.68 million, or $4.81 per barrel, in the prior period. The approximate 50% decrease in operating cost per barrel is due to the significant increase in crude oil production during the period in relation to field level operating costs necessary to achieve such production increases. Our equity income from investment also reflects the elimination of $1.45 million of intercompany interest income on the loan to KKM. See Notes 4 and 15 to our consolidated financial statements for the year ended December 31, 2001.

Results of Operations Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

We account for our investment in KKM using the equity method.

Our operations for the year ended December 31, 2000 resulted in a net loss of $26.80 million compared to a net loss of $5.16 million as of December 31, 1999. The $21.64 million increase in net loss relates to interest charges and associated increases in general and administrative costs incurred in 2000 in our efforts to finance the development of the Karakuduk Field. As a partial offset to these additional expenses, we recognized equity income from our investment in KKM due to KKM's significant increase in the production and sale of crude oil during the year.

Interest expense increased from $523,000 in 1999 to $27.03 million in 2000, primarily due to interest charges on our convertible notes and financing costs of our loan with Shell Capital. Approximately $20.34 million of interest expense was a non-cash charge recognized upon the September 2000 conversion of $20.85 million of notes into 11,690,259 shares of our common stock at a conversion price of $1.86 per share. The conversion feature of the notes was a "beneficial conversion feature" as addressed in EITF 98-5, whereby a portion of the proceeds received from the notes was allocable to the conversion feature contained therein. The value assigned to the conversion feature was determined as the difference between the market price of our common stock on the date of issuance and the conversion price, multiplied by the number of shares to be received upon conversion, which was approximately $120 million. As the conversion price contained in the notes was substantially below the market price, the value under the above formula significantly exceeded the net proceeds from the notes. Under EITF 98-5, the discount assigned to the conversion feature is limited to the total proceeds allocated to the convertible instrument. Accordingly, upon conversion of the notes, we recorded additional interest expense and additional paid in capital equal to $20.34 million, the face amount of the notes net of original discount. An additional $1.24 million in interest expense was incurred on the notes in 2000, from discount amortization and accrued interest on the notes through the date of conversion. We had accrued a total of $126,000 in interest expense on the notes as of December 31, 1999. See Note 8 to our consolidated financial statements for the year ended December 31, 2001.

During 2000, we borrowed $21.50 million under our Shell Capital loan, recognizing $4.38 million in interest expense on the loan and $909,000 in amortization of associated debt issuance costs. Approximately $3.48 million was reclassified to the principal balance of the loan as of December 31, 2000. We did not have any interest charges associated with the loan during 1999. See Note 7 to our consolidated financial statements for the year ended December 31, 2001.

Interest income increased $1.24 million to $1.93 million in 2000, compared to $692,000 in 1999. The increase was primarily due to additional financing of KKM's operations in Kazakhstan and recognition of additional interest income of $232,000 from the application of EITF 99-10, Percentage Used to Determine the Amount of Equity Method Losses.

General and administrative costs increased from $2.39 million as of December 31, 1999 to $3.69 million as of December 31, 2000. The $1.3 million increase was due to approximately $1.0 million in insurance expense from premiums on our OPIC political risk insurance policy and amortization of transportation risk insurance required by Shell Capital as part of the loan. Both the OPIC and transportation risk insurance policies were executed in 2000.

The remaining increase in general and administrative costs was associated with maintaining the Shell Capital loan and heightened operational activity in the Karakuduk Field. See Note 6 to our consolidated financial statements for the year ended December 31, 2001.

Depreciation and depletion expense increased $390,000 from $31,000 in 1999 to $421,000 in 2000, due to additional depletion of acquisition costs of our investment in KKM. Our depletion expense was $403,000 in 2000 compared to $9,000 in 1999, based on the increase in oil production from the Karakuduk Field.

Our equity income from investment was $2.83 million in 2000, compared to an equity loss of $1.85 million in 1999. The net change of $4.68 million was the result of several factors. During 2000, KKM sold approximately 765,000 barrels of crude oil, recognizing $16.97 million, or $22.18 per barrel, in revenue. Transportation costs associated with 2000 sales were $3.21 million, or $4.20 per barrel. Operating costs associated with 2000 sales were $3.68 million, or $4.81 per barrel. KKM did not have any commercial oil sales prior to 2000, therefore there are no comparable oil sales revenue or operating costs from prior periods. We recognized $683,000 of additional equity losses during 1999 due to the application of EITF 99-10. All of these losses were recaptured during 2000. Our equity income from investment also reflects the elimination of $1.44 million of intercompany interest income on the loan to KKM. See Note 4 to our consolidated financial statements for the year ended December 31, 2001.

During 2000, we paid $4.0 million for put contracts to sell 1,562,250 barrels of North Sea Brent crude. We amortized the hedge contracts ratably over the period the underlying contracts expire, recognizing $482,000 in hedging losses as of December 31, 2000. See Note 5 to our consolidated financial statements for the year ended December 31, 2001.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to various market risks, including interest rate risk and commodity price risk.

Shell Capital Services Limited, acting as facility agent, has notified Chaparral that it is in default under its loan with Shell Capital and has issued a notice of acceleration as of January 14, 2002, demanding that Chaparral immediately repay the outstanding principal balance, plus all interest and other fees, payable under the loan. Shell Capital Services Limited also initiated legal proceedings against both Chaparral and CAP-G, which both Chaparral and CAP-G are defending. If we are unable to successfully defend against the legal actions of Shell Capital Services Limited or raise the capital necessary to refinance the loan, the result will most likely be the loss of our investment in the Karakuduk Field. See Item 3 - Legal Proceedings.

The loan is subject to a variable default interest rate based upon LIBOR plus 19.75%. As of December 31, 2001, the outstanding loan balance subject to interest was approximately $34.90 million. During 2001, the high, low, and average interest rates applicable against the loan were 24.27%, 20.34%, and 22.25%, respectively. The loan is more fully described under "Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations - Shell Capital Loan."

To partially hedge the risk of a drop in commodity prices, we entered the hedge agreement as part of the loan, paying $4.0 million for put contracts to sell approximately 1.56 million barrels of North Sea Brent crude in February 2000. We had remaining put contracts to sell approximately 1.37 million barrels of North Sea Brent crude as of December 31, 2000, 753,000 which expired ratably during 2001 at a rate of 62,750 barrels per month at a weighted average exercise price of $19.54 per barrel. The remaining 621,000 barrels expire ratably from January 2002 through December 2002 at a rate of 51,750 barrels per month at a weighted average exercise price of $17.68 per barrel. During 2001, the high, low, and average price of the hedge agreement was $762,000, $234,000, and $475,000, respectively. As of December 31, 2001, the put contracts had a fair market value of $762,000. We do not expect to recover any material future economic value from the hedge contracts before the put contracts expire as of December 31, 2002, based on the current market price of crude oil in comparison to the strike price of the outstanding put contracts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 14(a) for a list of the Financial Statements and the supplementary financial information included in this report following the signature page.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

As of April 1, 2002, the following table sets forth the names and ages of our directors and executive officers of Chaparral, the principal offices and positions with Chaparral held by each person and the date such person became a director or executive officer. The executive officers are elected annually by the board of directors. Executive officers serve terms of one year or until their death, resignation or removal by the board of directors. The present term of office of each director will expire at the next annual meeting of stockholders. Each executive officer will hold office until his successor duly is elected and qualified, until his resignation or until he is removed in the manner provided by our bylaws.

Name of Director or Officer and Position in Chaparral	Since	Age	Principal Occupation During t
John G. McMillian Co-Chairman and Chief Executive Officer	1997	75	Mr. McMillian has served as the Chairman o Chief Executive Officer since January 1999 since May 1999. From May 1997 to January 1 director of Chaparral. Mr. McMillian serve Chief Executive Officer of Allegheny & Wes and gas company, from 1987 to 1995. Mr. Mc Company, a major supplier of natural gas, Chief Executive Officer from 1973 to 1983. was the owner, Chairman and Chief Executiv a boat manufacturing company. McMillian ha Excalibur Technologies and as a member of
James A. Jeffs	1999	50	Mr. Jeffs has served as the Co-Chairman of 1999. Since 1994, Mr. Jeffs has served as Investment Officer for The Whittier Trust management company, with substantial oil a 1994, Mr. Jeffs was a Senior Vice Presiden Mr. Jeffs was the Chief Investment Officer N.A., a trust and investment management co Jeffs was Chief Investment Officer and Sen Services of America, a trust and investmen to 1992 and served as President and Chief Management, an institutional investment ma period.

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Name of Director or Officer and Position in Chaparral	Since	Age	Principal Occupation During t
David A. Dahl Director	1997	40	Mr. Dahl served as Secretary of Chaparral Currently, Mr. Dahl is the President of Wh gas exploration and production company, a 1997. Since 1996, Mr. Dahl has also served Ventures, LLC, a private investment entity Vice President of Whittier Trust Company, company.
Ted Collins, Jr. Director	1997	63	Mr. Collins has been the President of Coll private investment company, since June 200 was the President of Collins & Ware, Inc., company. From 1982 to 1988, Mr. Collins wa Gas Co., an oil and gas company. Beginning Collins was an Executive Vice President an Petroleum Co., an oil and gas company. Mr. of Directors of Hanover Compression Compan
Richard L. Grant Director	1998	47	Mr. Grant is the President and Chief Execu LLC, an importer of liquefied natural gas, September 2000. Since September 1998, Mr. of the same Company. Mr. Grant served in v Gas Company, the largest natural gas distr including President, from September 1988 t

			President and General Counsel, from 1986 t and legal counsel for the Cincinnati Gas & 1986.
Michael B. Young Treasurer and Controller	1998	33	Mr. Young has been the Treasurer, Controll Accounting Officer of Chaparral since Febr February 1998, he was a Tax Manager in the Arthur Andersen LLP, an accounting firm.
Alan D. Berlin Secretary	1997	61	Since 1995, Mr. Berlin has been a partner Berlin & Vrooman, LLP. He was engaged in t over five years prior to joining Aitken Ir of Chaparral from January 1996 to August 1 served the Company in the same position. F the President of the International Divisio held various other positions with Belco Pe

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon a review of the Forms 3 and 4 and any amendments furnished to Chaparral during our fiscal year ended December 31, 2001, and Form 5 and any amendments furnished to Chaparral with respect to the same fiscal year, we believe that our directors, officers, and greater than 10% beneficial owners complied with all applicable Section 16 filing requirements.

ITEM 11. EXECUTIVE COMPENSATION

The following table shows the compensation paid by Chaparral for services rendered by Mr. McMillian who is currently the Chief Executive Officer and Co-Chairman of the Board, Mr. Jeffs who is currently Co-Chairman of the Board, and Mr. Young, who is the Treasurer, Controller, and Principal Financial and Accounting Officer of Chaparral. There were no other executive officers of Chaparral whose annual salary and bonus exceeded $100,000 during the fiscal year ended December 31, 2001.

Summary Compensation Table.

		Annual Compensation			Long-Term Compen	
					Awards	
Name and Annual Principal Position	Year	Salary	Bonus	Other Annual Compensation	Restricted Stock Awards ($)	Securitie Underlyin Options/SAR
John G. McMillian Chief Executive Officer (1/99 to Present)	2001	$162,000(1)	--	--	--	--
	2000	$137,500	--	--	--	--

James A. Jeffs Co-Chairman (1/99 to Present)	2001	$162,000(2)	--	--	--	--
Michael B. Young	2001	$162,000	--	--	--	--
Treasurer and	2000	$150,000	--	--	--	--
Controller	1999	$ 89,167	$42,500(3)	--	--	--

1. Mr. McMillian received cash compensation of $114,750 in December 31, 2001. The remaining $47,250 has been recorded in Chaparral's financial statements as accrued compensation.
2. Mr. Jeffs' did not receive any cash compensation during the year 2001. The outstanding balance of $162,000 has been recorded in Chaparral's financial statements as accrued compensation.
3. Mr. Young received $42,500 in cash bonuses during 1999.

Options/SAR Grants.

For the fiscal year ended December 31, 2001, we did not grant any options.

Aggregated Option/SAR Exercises and Year-End Option/SAR Value Table.

	Number of Securities Underlying Unexercised Options/SARs at December 31, 2001		Value of Unexercised In-the-Mone Options/SARs at December 31, 2001	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Michael B. Young	1,167	--	--	--

Additionally, no options were exercised in fiscal year 2001.

Director Interlocks.

During our last fiscal year, Messrs. Jeffs, who is the Co-Chairman of the Board, and Dahl served on the Compensation Committee of the Board and acted as officers or directors to Whittier Ventures or one of its affiliates. Mr. Jeffs is a Vice President of Whittier Ventures and a Director of Whittier Energy Company. Mr. Dahl is President of both Whittier Ventures and Whittier Energy

Company. Whittier Ventures currently owns approximately 16.23% of the outstanding common stock.

Compensation of Directors.

During the fiscal year ended December 31, 2001, Chaparral implemented a standard compensation arrangement for its directors, including providing $1,500 in compensation to each director for each board or committee meeting attended and paying each director $2,500 quarterly for serving on Chaparral's board.

Stock Performance Graph

Comparison of Five Year Cumulative Total Return

The following line graph compares the total returns (assuming reinvestment of dividends) of common stock, the Nasdaq Market Index and the SIC Code Index for the five year period ending December 31, 2001.

	1996	1997	1998	1999	2000
CHAPARRAL RESOURCES, INC.	100.00	228.56	31.43	12.00	5.52
SIC CODE INDEX	100.00	101.56	81.35	99.37	126.24
NASDAQ MARKET INDEX	100.00	122.04	172.13	303.59	190.82

Board Compensation Committee Report on Executive Compensation

Insider Participation In Compensation Decisions
And Compensation Committee
Report On Executive Compensation

The Compensation Committee of our board of directors determines the compensation of the executive officers named in the Summary Compensation Table included as part of "Item 11 - Executive Compensation." The Compensation Committee will furnish the following report on executive compensation in connection with the Annual Meeting:

Compensation Philosophy

As members of the Compensation Committee, it is our duty to administer the executive compensation program for Chaparral. The Compensation Committee is responsible for establishing appropriate compensation goals for the executive officers of Chaparral, evaluating the performance of such executive officers in meeting such goals and making recommendations to the Board with regard to

executive compensation. Chaparral's compensation philosophy is to ensure that executive compensation be directly linked to continuous improvements in corporate performance, achievement of specific operations, financial and strategic objectives, and increases in shareholder value. The Compensation Committee regularly reviews the compensation packages of Chaparral's executive officers, taking into account factors which it considers relevant, such as business conditions within and outside the industry, Chaparral's financial performance, the market composition for executives of similar background and experience, and the performance of the executive officer under consideration. The particular elements of Chaparral's compensation programs for executive officers are described below.

Compensation Structure

The base compensation for the executive officers of Chaparral named in the Summary Compensation Table is intended to be competitive with that paid in comparable situated industries, taking into account the scope of responsibilities and internal relationships. The goals of the Compensation Committee in establishing Chaparral's executive compensation program are:

- to compensate the executive officers of Chaparral fairly for their contributions to Chaparral's short-term and long-term performance; and
- to allow Chaparral to attract, motivate and retain the management personnel necessary to Chaparral's success by providing an executive compensation program comparable to that offered by companies with which Chaparral competes for management personnel.

The elements of Chaparral's executive compensation program are annual base salaries, annual bonuses and equity incentives. The Compensation Committee bases its decisions on the scope of the executive's responsibilities, a subjective evaluation of the executive's performance and the length of time the executive has been in the position.

In June 2001, Chaparral's stockholders approved the 2001 Stock Incentive Plan, which sets aside 2.14 million shares of Chaparral's common stock for issuance to Chaparral's officers, directors, employees, and consultants. Chaparral has not made any grants under the 2001 Stock Incentive Plan as of December 31, 2001.

Executive Compensation Deductibility

Chaparral intends that amounts paid under Chaparral's compensation plans generally will be deductible compensation expenses. The Compensation Committee does not currently anticipate that the amount of compensation paid to executive officers will exceed the amounts specified as deductible according to Section 162(m) of the Internal Revenue Code of 1986.

Compensation Committee Interlocks and Insider Participation

No executive officer or director of Chaparral serves as an executive officer, director, or member of a compensation committee of any other entity, for which an executive officer, director, or member of such entity is a member of the Board or the Compensation Committee of the Board. There are no other interlocks.

Compensation Committee
of the Board of Directors,

Richard L. Grant, Chairman
James A. Jeffs
David A. Dahl

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of April 1, 2002, with respect to our directors, named executive officers and each person who is known by us to own beneficially more than 5% of our common stock, and with respect to shares owned beneficially by all of our directors and executive officers as a group. The address for all of our directors and executive officers of Chaparral is 16945 Northchase Drive, Suite 1620, Houston, Texas 77060.

Name of Beneficial Owner	Position	Amount and Nature o Beneficial Ownershi (1)
Allen & Company Incorporated 711 Fifth Avenue New York, New York 10022	--	5,732,823(2
Whittier Ventures, LLC 1600 Huntington Drive South Pasadena, California 91030	--	2,319,169(3
Capco Resources, Ltd. 444 5th Avenue SW Suite 2240 Calgary, Alberta Canada T2P2T8	--	1,612,903
Shell Capital Incorporated 910 Louisiana Suite 500 Houston, Texas 77002	--	1,785,455(4
John G. McMillian	Co-Chairman of the Board and Chief Executive Officer	386,303(5
James A. Jeffs	Co-Chairman of the Board	2,329,498(6
David A. Dahl	Director	2,320,587(7
Ted Collins, Jr.	Director	--
Richard L. Grant	Director	--
Judge Burton B. Roberts	Former Director	--(8
Michael B. Young	Treasurer & Controller	1,835(9
All current directors and executive officers as a group (eight persons)	--	2,722,306(1

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* Represents less than 1% of the shares of Common Stock outstanding.

(1) Beneficial ownership of common stock has been determined for this purpose

in accordance with Rule 13d-3 under the Exchange Act, under which a person is deemed to be the beneficial owner of securities if such person has or shares voting power or investment power with respect to such securities, has the right to acquire beneficial ownership within 60 days or acquires such securities with the purpose or effect of changing or influencing the control of Chaparral.

(2) In accordance with Rule 13d-3(d)(1)(i)(A), includes 48,284 shares underlying warrants to purchase shares of Common Stock. Allen & Company is a wholly owned subsidiary of Allen Holding Inc., and, consequently, Allen Holding may be deemed to beneficially own the shares beneficially owned by Allen & Company. Does not include shares owned directly by officers and stockholders of Allen Holding and Allen & Company with respect to which Allen Holding and Allen & Company disclaim beneficial ownership. Officers and stockholders of Allen Holding and Allen & Company may be deemed to beneficially own shares of the common stock reported to be beneficially owned directly by Allen Holding and Allen & Company.

(3) In accordance with Rule 13d-3(d)(1)(i)(A), includes 334 shares underlying currently exercisable warrants and 8,334 shares underlying a currently exercisable option.

(4) In accordance with Rule 13d-3(d)(1)(i)(A), includes 1,785,455 shares underlying a warrant.

(5) In accordance with Rule 13d-3(d)(1)(i)(A), includes 417 shares underlying a currently exercisable option and 417 shares underlying a currently exercisable warrant.

(6) In accordance with Rule 13d-3(d)(1)(i)(A), includes 2,304,523 shares beneficially owned by Whittier Ventures, 334 shares underlying currently exercisable warrants owned by Whittier Ventures, 5,820 shares owned by Whittier Energy Company, 158 shares owned by Whittier Opportunity Fund, and 8,334 shares underlying currently exercisable options owned by Whittier Opportunity Fund. Mr. Jeffs has no pecuniary interest in the shares beneficially owned by Whittier Ventures, Whittier Energy Company, and Whittier Opportunity Fund, however, as Vice President of Whittier Ventures, and Director of Whittier Energy Company, Mr. Jeffs has voting power and investment power over such shares and, thus, may be deemed to beneficially own such shares.

(7) In accordance with Rule 13d-3(d)(1)(i)(A), includes 1,251 shares underlying currently exercisable options owned by Mr. Dahl, 2,304,523 includes shares beneficially owned by Whittier Ventures, 334 shares underlying currently exercisable warrants owned by Whittier Ventures, 5,820 shares owned by Whittier Energy Company, 158 shares owned by Whittier Opportunity Fund and 8,334 shares underlying currently exercisable options owned by Whittier Opportunity Fund. Mr. Dahl has no pecuniary interest in the shares beneficially owned by Whittier Ventures, Whittier Energy Company, or Whittier Opportunity Fund, however, as the President of Whittier Ventures and Whittier Energy Company, Mr. Dahl has voting power and investment power over such shares and, thus, may be deemed to beneficially own such shares.

(8) Judge Roberts resigned as a director of Chaparral effective January 18, 2002.

(9) Includes 668 shares owned by Mr. Young and 1,167 shares underlying currently exercisable options.

(10) Includes the shares as described in Notes (5) through (8) above. In addition, it includes 167 shares owned by Alan D. Berlin, the Secretary of Chaparral and 417 shares underlying a presently exercisable option owned by Mr. Berlin.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In May 2001, Chaparral's loan with Shell Capital was amended to provide Chaparral with up to $8.0 million in uncommitted working capital as a bridge loan, which could be drawn down in increments of $250,000 through August 31, 2001, at the sole discretion of Shell Capital. We borrowed a total of $3.15

million under the bridge loan through August 31, 2001. The principal borrowed under the bridge loan accrues interest at LIBOR plus 17.75% and is subject to an arrangement fee of 2%. Interest payments in the amount of LIBOR plus .50% are due at the end of each month the bridge loan is outstanding. All unpaid interest is added to the outstanding principal balance on each repayment date. The outstanding principal of the bridge loan, plus all accrued interest, was due on or before September 30, 2001.

As an incentive for Chaparral to repay the bridge loan or refinance the entire loan (including the bridge loan), Chaparral's board of directors approved CAP-G's issuance of Series A Preferred shares to Shell Capital. Per the terms of the amendment, if Chaparral failed to repay or refinance the bridge loan on or before September 30, 2001, the Series A Preferred shares automatically convert and entitle Shell Capital to 40% of the distributable profits of CAP-G. CAP-G did not have any distributable profits as of April 1, 2002.

Chaparral did not reach project completion on or before September 30, 2001. Chaparral had previously requested that Shell Capital waive or revise the project completion definition due to our belief that the production levels and certain technical requirements of project completion were unattainable and not necessary or prudent to perform in the time frame specified under the loan. Shell Capital, however, refused to waive or revise the project completion definition. As a result of Chaparral's failure to timely repay the bridge loan, Shell Capital's Series A Preferred shares in CAP-G converted as of October 1, 2001, entitling Shell Capital to 40% of the distributable profits of CAP-G.

In October 2001, Chaparral received a notice of default from Shell Capital, notifying us that the following events of default had occurred under the loan: failure to pay outstanding principal and interest due on the bridge loan totaling $3.34 million on or before September 30, 2001, failure to pay interest due on the loan totaling approximately $189,000 on September 28, 2001, failure to achieve project completion by September 30, 2001, failure to settle certain

accounts payable within 90 days, KKM's failure to obtain Shell Capital's approval prior to entering a short-term debt arrangement, and failure to maintain listing of Chaparral's common stock on one of the major stock exchanges (i.e. Nasdaq, NYSE, or AMEX). Chaparral subsequently repaid the default interest as of September 30, 2001 on both the loan and the bridge loan, and KKM repaid the short-term indebtedness obtained without Shell Capital's approval.

In January 2002, Chaparral received a second notice of events of default under the loan, along with a notice accelerating the payment of $37.29 million in outstanding principal, interest, and other fees and expenses due under our existing loans with Shell Capital. Shell Capital Services Limited, as facility agent, also initiated legal proceedings against Chaparral in the United Kingdom and against CAP-G in the Isle of Guernsey to enforce Shell Capital's rights under the loan. Chaparral and CAP-G are contesting the actions of Shell Capital in their respective jurisdictions.

The second default notice stipulated various events of default in addition to those previously disclosed above, including the Company's failure to pay approximately $1.68 million in interest and $1.0 million in principal due on the loan as of December 31, 2001, failure to pay a $24,000 agency fee due to Shell Capital Services Limited on January 1, 2002, Chaparral's failure to pay franchise taxes due on or before December 1, 2001, and KKM's failure to timely pay local salaries due in Kazakhstan. The franchise taxes and KKM local salaries were subsequently paid.

The acceleration notice demands that Chaparral immediately pay the entire outstanding principal amount plus all interest and other fees payable under the loan, or Shell Capital Services Limited, as facility agent, will pursue available remedies under the loan. Such remedies include taking ownership of Chaparral's investment in the Karakuduk Field. Furthermore, Shell Capital has applied the default interest rate allowed under the loan of LIBOR plus 19.75%, compounded daily, against the principal and interest due for the bridge loan as of September 30, 2001, and the principal and interest payments due as of January 1, 2002. The remaining balance of the loan accrued interest at LIBOR plus 17.75% through January 14, 2002 and began accruing interest at the default rate of LIBOR plus 19.75%, compounded on a daily basis, thereafter.

During the year ended December 31, 2001, Chaparral paid Shell Capital approximately $986,000 in interest out of a total of $6.91 million interest accrued on the principal balance of the loan during the same period.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

Table of Contents

(a)(2) Financial Statement Schedules

All schedules for which a provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(b) Current Reports on Form 8-K

No reports on Form 8-K were filed by Chaparral Resources, Inc. for the quarter ended December 31, 2001.

(c) Exhibits.

Exhibit No.	Description and Method of Filing
*2.1	Stock Acquisition Agreement and Plan of Reorganization dated April 12, 1995 between Chaparral Resources, Inc., and the Shareholders of Central Asian Petroleum, Inc.
*2.2	Escrow Agreement dated April 12, 1995 between Chaparral Resources, Inc., the Shareholders of Central Asian Petroleum, Inc. and Barry W. Spector.
*2.3	Amendment to Stock Acquisition Agreement and Plan of Reorganization dated March 10, 1996 between Chaparral Resources, Inc., and the Shareholders of Central Asian Petroleum, Inc.
3.1	Certificate of Incorporation, dated April 21, 1999, incorporated by reference to Chaparral Resources, Inc.'s Notice and Definitive Schedule 14A dated April 21, 1999.
3.2	Bylaws, dated April 21, 1999, incorporated by reference to Annex IV to our Notice and Definitive Schedule 14Adated April 21, 1999.
4.1	Written Resolutions of the Shareholders of Central Asian Petroleum (Guernsey) Limited dated May 30, 2001, authorizing the issuance of Series A Preferred Shares in Central Asian Petroleum (Guernsey) Limited, incorporated by reference to Exhibit 4.1 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, filed with Securities and Exchange Commission on August 14, 2001.
10.1	Agreement dated August 30, 1995 for Exploration Development and Production of Oil in Karakuduk Oil Field in Mangistan Oblast of the Republic of Kazakhstan between Ministry of Oil and Gas Industries of

the Republic of Kazakhstan for and on Behalf of the Government of the Republic of Kazakhstan and Joint Stock Company of Closed Type Karakuduk Munay Joint Venture, incorporated by reference to Exhibit 10.17 to Chaparral Resources, Inc.'s Annual Report on Form 10-K for the fiscal year ended November 30, 1996, filed with the Securities and Exchange Commission on April 15, 1997.

10.2	License for the Right to Use the Subsurface in the Republic of Kazakhstan, incorporated by reference to Exhibit 10.18 to Chaparral Resources, Inc.'s Annual Report on Form 10-K for the fiscal year ended November 30, 1996, filed with the Securities and Exchange Commission on April 15, 1997.
10.3	Amendment dated September 11, 1997, to License for Right to Use the Subsurface in the Republic of Kazakhstan, incorporated by reference to Exhibit 10.2 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, filed with the Securities and Exchange Commission on November 7, 1997.
10.4	Amendment to License for the Right to Use the Subsurface in the Republic of Kazakhstan, dated December 31, 1998, incorporated by reference to Exhibit 10.25 to Chaparral Resources, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1998, filed with the Securities and Exchange Commission on April 15, 1999.
10.5	Letter from the Agency of the Republic of Kazakhstan on Investments to Central Asian Petroleum (Guernsey) Limited dated July 28, 1999 regarding License for Right to Use the Subsurface in the Republic of Kazakhstan, incorporated by reference to Exhibit 10.5 to Chaparral Resources, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the Securities and Exchange Commission on March 30, 2000.
*10.6	Warrant Certificate entitling Allen & Company to purchase up to 1,022,000 shares of Common Stock of Chaparral Resources, Inc.

Exhibit No.	Description and Method of Filing
10.7	Form of Warrant issued to Black Diamond Partners LP, Clint D. Carlson, John A. Schneider, Victory Ventures LLC, Whittier Energy Company and Whittier Ventures LLC in connection with loans made by them to Chaparral Resources, Inc. in November and December 1996 and to Black Diamond Partners LP, Clint D. Carlson, Whittier Energy Company and Whittier Ventures LLC in July 1997 in connection with the same loans, incorporated by reference to Exhibit 10.3 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, filed with the Securities and Exchange Commission on August 15, 1997.
10.8	Warrant Certificate entitling Allen & Company Incorporated to purchase up to 900,000 shares of Common Stock of Chaparral Resources, Inc., incorporated by reference to Exhibit 10.1 to Chaparral Resources, Inc.'s Current Report on Form 8-K/A dated October 31, 1997, filed with the Securities and Exchange Commission on December 9, 1997.

10.9 Agreement dated March 31, 1998, effective as of November 4, 1997, between Chaparral Resources, Inc. and Allen & Company Incorporated, incorporated by reference to Exhibit 10.33 to Chaparral Resources, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1997, filed with the Securities and Exchange Commission on April 6, 1998.

10.10 Warrants issued to Allen & Company, Incorporated and John G. McMillian, incorporated by reference to Exhibit 10.2 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, filed with the Securities and Exchange Commission on August 19, 1998.

10.11 1998 Incentive and Non-statutory Stock Option Plan, incorporated by reference to Exhibit 10.24 to Chaparral Resources, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1998, filed with the Securities and Exchange Commission on April 15, 1999.

10.12 Credit Support and Pledge Agreement between Whittier Ventures, LLC and Chaparral Resources, Inc. dated July 2, 1998, incorporated by reference to Exhibit 10.1 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, filed with the Securities and Exchange Commission on November 19, 1998.

10.13 Warrants issued to Whittier Ventures, LLC, incorporated by reference to Exhibit 10.2 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, filed with the Securities and Exchange Commission on November 19, 1998.

10.14 $24,000,000 Loan Agreement dated as of November 1, 1999, incorporated by reference to Exhibit 10.1 to Chaparral Resources, Inc.'s Current Report on 8-K dated October 25, 1999, filed with the Securities and Exchange Commission on November 17, 1999.

10.15 Supplemental Agreement, dated February 10, 2000, among Shell Capital Limited, Shell Capital Services Limited, Chaparral Resources, Inc., Central Asian Petroleum (Guernsey) Limited, Closed Type JSC Karakudukmunay and Central Asian Petroleum, Inc., incorporated by reference to Exhibit 10.19 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.16 CRI-CAP(G) Loan Agreement, dated February 7, 2000, between Chaparral Resources, Inc. and Central Asian Petroleum (Guernsey) Limited, incorporated by reference to Exhibit 10.13 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

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Exhibit No.	Description and Method of Filing
10.17	CAP(G)-KKM Loan Agreement, dated February 7, 2000, between Closed Type JSC Karakudukmunay and Central Asian Petroleum (Guernsey) Limited, incorporated by reference to Exhibit 10.16 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.18 Accounts Agreement, dated February 8, 2000, among Chaparral Resources, Inc., Central Asian Petroleum (Guernsey) Limited, Closed Type JSC Karakudukmunay, Shell Capital Services Limited, ABN Amro Bank N.V., London Branch and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.1 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.19 Security Trust Deed, dated February 7, 2000, among Chaparral Resources, Inc., Central Asian Petroleum (Guernsey) Limited, Central Asian Petroleum, Inc., Closed Type JSC Karakudukmunay, Shell Capital Services Limited and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.17 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.20 CRI Accounts Assignment, dated February 7, 2000, between Chaparral Resources, Inc. and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.2 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.21 CAP(G) Accounts Assignment, dated February 7, 2000, between Chaparral Resources, Inc. and The Law Debenture Trust Corporation, p.l.c., incorporated by reference to Exhibit 10.3 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.22 KKM Accounts Assignment, dated February 7, 2000, between Closed Type JSC Karakudukmunay and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.4 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.23 CRI-CAP(D) Pledge Agreement, dated February 7, 2000, between Chaparral Resources, Inc. and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.11 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.24 CRI-CAP(G) Charge Over Shares, dated February 7, 2000, between Chaparral Resources, Inc. and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.14 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.25 CAP(D)-CAP(G) Charge Over Shares, dated February 7, 2000, between Central Asian Petroleum, Inc. and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.15 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

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Exhibit No.	Description and Method of Filing
10.26	KKM Pledge Agreement, dated February 7, 2000, between Central Asian

Petroleum (Guernsey) Limited and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.12 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.27 CRI Assignment, dated February 8, 2000, between Chaparral Resources, Inc. and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.5 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.28 CAP(G) Assignment, dated February 7, 2000, between Central Asian Petroleum (Guernsey) Limited and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.6 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.29 KKM Assignment, dated February 7, 2000, between Closed Type JSC Karakudukmunay and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.7 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.30 Assignment of Insurance Proceeds, dated February 7, 2000, between Chaparral Resources, Inc. and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.8 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.31 KKM Assignment of Insurances, dated February 7, 2000, between Closed Type JSC Karakudukmunay and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.9 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.32 Assignment of Reinsurance, dated February 8, 2000, among Closed Type JSC Karakudukmunay, Kazakinstrakh JSC, Schwarzmeer und Ostsee Insurance Co. Limited (Sovag) U.K. and The Law Debenture Trust Corporation p.l.c., incorporated by reference to Exhibit 10.10 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.33 Warrant Agreement, dated February 8, 2000, between Chaparral Resources, Inc. and Shell Capital Limited, incorporated by reference to Exhibit 10.18 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.34 Technical Services Agreement, dated February 8, 2000, Shell Capital Services Limited and Closed Type JSC Karakudukmunay, incorporated by reference to Exhibit 10.20 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

10.35 Contract of Insurance No. 158, dated December 29, 1999, between the Overseas Private Investment Corporation and Chaparral Resources, Inc., incorporated by reference to Exhibit 10.21 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.

Exhibit No.	Description and Method of Filing
10.36	Amendment No. 1 to Contract of Insurance No. F158, dated as of February 4, 2000, between the Overseas Private Investment Corporation and Chaparral Resources, Inc., incorporated by reference to Exhibit 10.22 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.
10.37	Trade Confirmation, dated February 11, 2000, between Deutsche Bank AG New York and Chaparral Resources, Inc., incorporated by reference to Exhibit 10.23 to Chaparral Resources, Inc.'s Current Report on 8-K dated February 14, 2000, filed with the Securities and Exchange Commission on March 22, 2000.
10.38	Crude Oil Sale and Purchase Agreement dated as of November 1, 1999, between Closed Type JSC Karakuduk Munay and Shell Trading International Limited, incorporated by reference to Exhibit 10.1 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, filed with the Securities and Exchange Commission on November 19, 1999.
10.39	Commercial Services Agreement between Shell Trading International Limited and Closed Type Karakudukmunay, JSC, dated November 1, 1999, incorporated by reference to Exhibit 10.67 to Chaparral Resources, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the Securities and Exchange Commission on March 30, 2000.
10.40**	Letter from Ryder Scott Company Petroleum Engineers to Chaparral Resources, Inc. regarding reserve estimates of the Karakuduk Field as of December 31, 2001, dated April 10, 2001.
10.41	Amended and Restated Warrant Agreement, dated April 18, 2001, between Chaparral Resources, Inc. and Shell Capital Limited, incorporated by reference to Exhibit 10.1 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, filed with the Securities and Exchange Commission on May 15, 2001.
10.42	Amendment Agreement between Chaparral Resources, Inc. Central Asian Petroleum (Guernsey) Limited, Closed Type JSC Karakudukmunay, Central Asian Petroleum, Inc., Shell Capital Services Limited, and Shell Capital Inc., dated May 31, 2001, incorporated by reference to Exhibit 10.1 to Chaparral Resources, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, filed with the Securities and Exchange Commission on August 14, 2001.
10.43**	2001 Stock Incentive Plan approved by the stockholders of Chaparral Resources, Inc. on June 21, 2001.
21	Subsidiaries of the Registrant, incorporated by reference to Exhibit 21 to Chaparral Resources, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1997, filed with the Securities and Exchange Commission on April 6, 1998.

* These exhibits, previously incorporated by reference to Chaparral's reports under file number 0-7261, have now been on file with the Commission for more

than 5 years and are not filed with this Annual Report. We agree to furnish these documents to the Commission upon request.

** Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CHAPARRAL RESOURCES, INC.,
a Delaware corporation

By /s/ John G. McMillian

John G. McMillian
Co-Chairman and Chief Executive Officer
(Principal Executive Officer)

By /s/ Michael B. Young

Michael B. Young
Treasurer and Controller
(Principal Financial and Accounting Officer)

Dated: April 15, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Date	Name and Title	Signature
April 15, 2002	Ted Collins, Jr., Director	/s/ Ted Collins, J
April 15, 2002	David A. Dahl, Director	/s/ David A. Dahl
April 15, 2002	James A. Jeffs, Co-Chairman	/s/ James A. Jeffs
April 15, 2002	Richard L. Grant, Director	/s/ Richard L. Gra
April 15, 2002	John G. McMillian, Co-Chairman and Chief Executive Officer	/s/ John G. McMill

Consolidated Financial Statements

Chaparral Resources, Inc.

For the Three Years ended December 31, 2001 with
Reports of Independent Auditors

Chaparral Resources, Inc.

Consolidated Financial Statements

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Report of Independent Auditors

The Board of Directors and Stockholders
Chaparral Resources, Inc.

We have audited the accompanying consolidated balance sheets of Chaparral Resources, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, cash flows, and changes in stockholders' equity for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chaparral Resources, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred recurring operating losses, has a working capital deficiency as of December 31, 2001, and there are uncertainties relating to the Company and its equity investee's ability to meet projected cash flow requirements through 2002. In addition, the Company's primary creditor has notified the Company that it is in default of their loan and has issued a notice of acceleration thereby demanding immediate repayment of all outstanding principal and accrued interest. Furthermore, the creditor has initiated legal proceedings against the Company for the purposes of obtaining control over the Company's interest in its equity method investee, the Company's primary asset. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans and other factors in regard to these matters are also described in Note 2. 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.

/s/ Ernst & Young LLP

Ernst & Young LLP

Houston, Texas
April 12, 2002

CHAPARRAL RESOURCES, INC
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	December 31, 2001	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 174	$ 604
Accounts receivable	--	30
Receivable from affiliate (Note 12)	--	265
Prepaid expenses	245	202
Total current assets	419	1,101
Investment in KKM and other oil and gas property costs - full cost method Republic of Kazakhstan (Note 4):	67,806	64,902
Furniture, fixtures and equipment	109	91
Less: accumulated depreciation	(64)	(41)
	45	50
Other Assets		
Hedge agreement (Note 5)	762	3,518
Other (Note 6)	5	585
Total other assets	767	4,103
Total assets	$ 69,037	$ 70,156

See accompanying notes.

CHAPARRAL RESOURCES, INC
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	December 31, 2001	200
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 536	$
Accrued liabilities:		
Accrued compensation	449	
Other accrued liabilities	144	
Redeemable preferred stock, current portion (Note 10)	2,000	-
Accrued interest payable	1,745	
Shell Capital loan, current portion (Note 7)	34,902	
Total current liabilities	39,776	1,
Shell Capital loan, net of discount (Note 7)	--	20,
Redeemable preferred stock (Note 10)- cumulative, convertible, Series A 75,000 designated, 50,000 issued and outstanding, at stated value, $5.00 cumulative annual dividend, $6,000,000 redemption value	3,900	5,
Stockholders' equity (Note 9):		
Common stock - authorized, 100,000,000 shares of $0.0001 par value; issued and outstanding, 14,283,801 and 14,283,634 shares as of December 31, 2001 and 2000, respectively	1	
Capital in excess of par value	94,061	94,
Preferred stock - 1,000,000 shares authorized, 925,000 shares undesignated. Issued and outstanding - none	--	-
Accumulated deficit	(68,701)	(52,
Total stockholders' equity	25,361	41,
Total liabilities and stockholders' equity	$ 69,037	$ 70,

See accompanying notes.

CHAPARRAL RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Share Data)

	Year Ended December 31, 2001	2000

Revenue	$ --	$ --
Costs and expenses:		
Depreciation and depletion	753	421
General and administrative	4,330	3,693
	5,083	4,114
Loss from operations	(5,083)	(4,114)
Other income (expense):		
Interest income	1,454	1,932
Interest expense	(14,446)	(27,031)
Write-off of note receivable (Note 3)	--	--
Equity in income (loss) from investment (Notes 4 and 15)	4,616	2,827
Hedge losses (Note 5)	(237)	(482)
Other	--	65
	(8,613)	(22,689)
Loss before cumulative effect of change in accounting principle	(13,696)	(26,803)
Cumulative effect of change in accounting principle	(2,519)	--
Net loss	$ (16,215)	$ (26,803)
Cumulative annual dividend accrued		
Series A Redeemable Preferred Stock	(250)	(250)
Discount accretion		
Series A Redeemable Preferred Stock	(100)	(100)
Net loss available to common stockholders	$ (16,565)	$ (27,153)
Basic and diluted earnings per share:		
Loss per share before cumulative effect of change in accounting principle	$ (0.98)	$ (6.01)
Cumulative effect of change in accounting principle	$ (0.18)	$ --
Net loss per share	$ (1.16)	$ (6.01)
Weighted average number of shares outstanding (basic and diluted)	14,283,788	4,516,032

See accompanying notes.

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CHAPARRAL RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31,		
	2001	2000	1
Cash flows from operating activities			
Net loss	$(16,215)	$(26,803)	$
Adjustments to reconcile net loss to net cash used in operating activities:			
Equity loss (income) from investment	(4,616)	(2,827)	
Depreciation, depletion, and amortization	1,333	591	
Gain on the sale of oil and gas properties	--	(75)	
Loss on disposition of furniture and fixtures	--	8	
Provision for doubtful accounts	--	--	
Write-off of note receivable	--	--	
Hedge losses	237	482	
Reversal of long term accrued compensation	--	--	
Stock issued for services and bonuses	--	23	
Stock options issued for services and bonuses	--	--	
Interest expense from transfer of net profits interest	4,369	--	
Interest expense attributable to beneficial conversion	--	20,340	
Interest expense converted into capital stock	--	898	
Amortization of debt issuance cost	3,102	909	
Amortization of note discount	--	464	
Cumulative effect of change in accounting principal	2,519	--	
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	295	(272)	
Prepaid expenses	(43)	(91)	
Note and related accrued interest receivable	--	--	
Accrued interest on advances to KKM	(1,452)	(1,904)	
Interest payments from KKM	5,799	--	
Hedge agreement	--	(4,000)	
Other	--	(753)	
Increase (decrease) in:			
Accounts payable	293	(802)	
Accrued interest and other liabilities	1,676	(26)	
Accrued compensation	103	(112)	
Interest expense reclassified as principal on the Shell Capital loan	4,272	3,481	
Net cash provided/(used) in operating activities	1,672	(10,469)	

See accompanying notes.

CHAPARRAL RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December	
	2001	2000
Cash flows from investing activities		

Additions to furniture, fixtures and equipment	$ (18)	$ (18)
Investment in and advances to KKM and other oil and gas property costs	(7,734)	(22,422)
Proceeds from sale of interest in oil and gas properties - domestic	--	75
Net cash used in investing activities	(7,752)	(22,365)
Cash flows from financing activities		
Net proceeds from notes payable	$ --	$ 10,806
Net proceeds from Shell Capital loan	5,650	21,500
Repayment of notes payable	--	--
Debt issuance cost	--	(2,415)
Restricted cash	--	578
Net proceeds from private placement	--	2,946
Net cash provided by financing activities	5,650	33,415
Net increase (decrease) in cash and cash equivalents	(430)	581
Cash and cash equivalents at beginning of period	604	23
Cash and cash equivalents at end of period	$ 174	$ 604
Supplemental cash flow disclosure		
Interest paid	$ 986	$ 888
Income taxes paid	--	--
Supplemental schedule of non-cash investing and financing activities		
Principal of notes converted into capital stock	$ --	$ 20,846
Discount recognized on loan for issuance of stock warrant to Shell Capital	--	1,175
Discount recognized for note issued with detachable stock warrants	--	--

See accompanying notes.

CHAPARRAL RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)

	Common Stock		Capital in Excess of Par Value	Stock Subscription Receivable	U Re Sto
	Shares	Amount			
Balance at December 31, 1998	972,980	$ --	$ 47,611	$ (506)	$
Capital stock issued for services	5,861	--	246	--	

Amortization of restricted stock awards	--	--	--	--	
Capital stock issued for fractional shares after reverse stock split	1,473	--	--	--	
Warrants earned	--	--	--	506	
Cumulative dividend Series A Redeemable Preferred Stock	--	--	--	--	
Discount accretion on redeemable preferred stock	--	--	--	--	
Net loss	--	--	--	--	
Balance at December 31, 1999	980,314	--	47,857	--	
Adjustment of capital stock outstanding	(9)	--	--	--	
Capital stock issued for services	167	--	--	--	
Capital stock issued in private placement	1,612,903	--	2,946	--	
Amortization of restricted stock awards	--	--	--	--	
Conversion of debentures into capital stock	11,207,187	1	20,845	--	
Conversion of accrued interest into capital stock	483,072	--	898	--	
Interest expense attributable to beneficial conversion	--	--	20,340	--	
Shell warrants issued	--	--	1,175	--	
Cumulative Dividend Series A Redeemable Preferred Stock	--	--	--	--	
Discount accretion on redeemable preferred stock	--	--	--	--	
Net loss	--	--	--	--	
Balance at December 31, 2000	14,283,634	1	94,061	--	
Capital stock issued for services	167	--	--	--	
Cumulative dividend Series A Redeemable Preferred Stock	--	--	--	--	
Discount accretion on redeemable preferred stock	--	--	--	--	
Net loss	--	--	--	--	
Balance at December 31, 2001	14,283,801	$ 1	$ 94,061	$ --	$

See accompanying notes.

CHAPARRAL RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies and Organization

Organization, Principles of Consolidation, and Basis of Presentation

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 oilfield 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 100% owned subsidiaries, Central Asian Petroleum (Guernsey) Limited ("CAP-G"), 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. As discussed in Note 7, Shell Capital Incorporated ("Shell Capital") owns a 40% interest in the distributable profits of CAP-G. Hereinafter, Chaparral and its subsidiaries are collectively referred to as "the Company." All significant intercompany transactions have been eliminated.

CAP-G owns a 50% interest in Closed Type JSC Karakudukmunay ("KKM"), a Kazakhstan joint stock company, which holds the rights for the exploration, development and production of oil in the Karakuduk Field in Western Kazakhstan. KKM is owned jointly by CAP-G (50%), KazakhOil JSC ("KazakhOil") (40%) and a private Kazakhstan joint stock company (10%). KazakhOil, the national petroleum company of Kazakhstan, is owned by the Government of the Republic of Kazakhstan. The Company shares control of KKM through participation on KKM's Board of Directors.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments purchased with an original maturity of three months or less.

Investment in KKM and Other Oil and Gas Property Costs

The Company accounts for its investment in KKM using the equity method. The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with the acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimated proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized cost to be amortized.

1. Summary of Significant Accounting Policies and Organization (continued)

In addition, the capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate of the future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

Beginning in the fourth quarter of 1999, the Company began applying EITF 99-10, Percentage Used to Determine the Amount of Equity Method Losses, to determine equity method income and losses recognized from it's investment in KKM. The Company's policy is to recognize equity losses based on its applicable ownership level in KKM's common stock, advances, interest receivable, and other investments to which the equity method losses are being applied. Future equity income, if any, is recaptured by the Company to the extent disproportionate equity method losses were recognized in prior periods. The Company recognized approximately $683,000 in additional equity losses during 1999 due to the application of EITF 99-10, all of which were recaptured as additional equity income during 2000.

Revenue Recognition

Revenues and their related costs are recognized upon delivery of commercial quantities of oil production produced from proved reserves, in accordance with the accrual method of accounting. Losses, if any, are provided for in the period in which the loss is determined to occur.

Depreciation of Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost and are depreciated using the straight-line method over estimated useful lives, which range from three to seven years.

Loss Per Common Share

Basic loss per common share is calculated by dividing net loss, after deducting preferred stock dividends and discount on Redeemable Preferred Stock that is accreted directly to the accumulated deficit, by the aggregate of the weighted average shares outstanding during the period. Diluted loss per common share considers the dilutive effect of the average number of common stock equivalents that are outstanding during the period.

1. Summary of Significant Accounting Policies and Organization (continued)

Loss Per Common Share (continued)

Diluted loss per share is not presented because the exercise of "in the money" stock options and stock warrants, and the effect of the conversion of the Company's Redeemable Preferred Stock, into the Company's common stock are anti-dilutive. The Company had 32,367 "in the money" stock warrants convertible into the Company's common stock for each of the three years ended December 31, 2001.

New Accounting Standards

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This standard provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. This statement, as amended by SFAS No. 137 and 138, is effective for years beginning after June 15, 2000. The Company adopted SFAS 133 on January 1, 2001.

As a result of adoption of SFAS 133, the Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are recognized periodically in income or in shareholders' equity as a component of comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are reported in income. The Company's put contracts entered into as part of the loan agreement (the "Loan") with Shell Capital, do not qualify for hedge accounting under SFAS 133. Therefore, effective January 1, 2001, the Company adjusted the carrying value of the contracts to their fair value of $999,000, recognizing a loss from the cumulative effect of adoption of approximately $2.52 million. See Note 5.

During 2001, the FASB issued the following pronouncements, which have potential future accounting implications for the Company:

SFAS 141, Accounting for Business Combinations, requires the use of the purchase method of accounting for all business combinations and provides new criteria to determine whether an acquired intangible asset should be recognized. SFAS 141 applies to all business combinations initiated after June 30, 2001 and to all business combinations accounted for by the purchase method that are completed after June 30, 2001.

SFAS 142, Accounting for Goodwill and Intangible Assets, requires that goodwill as well as other intangible assets with indefinite lives be tested annually for impairment. SFAS 142 is effective for fiscal years beginning after December 15, 2001.

SFAS 143, Accounting for Asset Retirement Obligations, requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002.

SFAS 141 and 142 will not apply to the Company unless it enters into a future business combination. The Company is currently assessing the impact of SFAS 143 on its financial condition and results of operations and is unsure if the effect of the future adoption of SFAS 143, if any, will be material to the Company's financial results.

Fair Value of Financial Instruments

All of the Company's financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, and notes payable, have fair values which approximate their recorded values as they are either short-term in nature or carry interest rates which approximate market rates.

Use of Estimates

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

Risks and Uncertainties

The ability of KKM to realize the carrying value of its assets is dependent on being able to develop, transport and market hydrocarbons. Currently, exports from the Republic of Kazakhstan are restricted since they are dependent on limited transport routes and, in particular, access to the Russian pipeline system. Domestic markets in the Republic of Kazakhstan do not permit world market prices to be obtained. Management believes, however, that over the life of the project, transportation restrictions will be alleviated and prices will be achievable for hydrocarbons extracted to allow full recovery of the carrying value of its assets.

2. 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 incurred recurring operating losses in previous years, has a working capital deficiency as of December 31, 2001, and there are uncertainties relating to the Company and KKM's ability to meet projected cash flow requirements through 2002. In addition, Shell Capital Services Limited, acting as facility agent, has notified the Company that it is in default of the Loan and has issued a notice of acceleration demanding that the Company immediately repay the outstanding principal balance, plus all interest and other fees, payable under the Loan. Shell Capital Services Limited has also initiated legal proceedings against both Chaparral and CAP-G, which both Chaparral and CAP-G are defending. If the Company is unable to defend against the legal actions of Shell Capital Services Limited or raise the capital necessary to refinance the Loan, the results will most likely be the loss of the Company's investment in the Karakuduk Field. See Note 7 regarding the status of the Loan.

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.

2. Going Concern (continued)

The Company is attempting to alleviate these issues through the restructuring of the Company and refinancing of the Loan with Shell Capital. In April 2002, the Company executed a letter of intent with Central Asian Industrial Holdings N.V. ("CAIH") regarding a possible $12 million capital investment into the Company and an amount of debt that is to be determined, in exchange for approximately 60% of the Company's common stock. The transaction is subject to a number of conditions precedent, including the approval of Shell Capital, the negotiation and execution of a definitive agreement with CAIH, and the approval of the boards of directors and shareholders of both companies. The Company plans to use the capital infusion and debt from CAIH to restructure the Loan. The terms of the proposed restructuring would include the cancellation of the Shell Warrant, CAP-G's re-acquisition of the 40% net profits interest held by Shell Capital, waiver of all outstanding defaults including project completion, and adjusting the interest rate on the restructured Loan to an undetermined rate below the current interest rate being charged by Shell Capital. The Company and CAP-G will continue to contest the legal actions of Shell Capital Services Limited unless and until a transaction with CAIH can be consummated.

3. Notes Receivable

In September 1998, the Company advanced $1.01 million to a third-party drilling contractor, Challenger Oil Services, PLC ("Challenger") to ready a drilling rig for use by KKM in the Karakuduk Field. In April 1999, the owner of the drilling rig operated by Challenger, Oil & Gas Exploration Company Cracow, Ltd. ("OGECC"), terminated its contract with Challenger. As a result of the termination of the contract between Challenger and OGECC, KKM terminated the drilling contract between KKM and Challenger, and arbitration proceedings were instituted in accordance with the terms of the drilling contract.

In February 2000, the Company, KKM, Challenger, and OGECC reached a mutual settlement and release (the "Settlement") for all parties involved. The Settlement required KKM to pay outstanding accrued liabilities to Challenger for prior work performed totaling $1.34 million. The Company also agreed to fully discharge the note receivable from Challenger to the Company. Due to the Settlement, the Company fully impaired the note, plus accrued interest of $51,000, during the fourth quarter of 1999.

4. Investment in KKM and Other Oil and Gas Property Costs

The Company's oil and gas properties and investments include investments in KKM's common stock, advances to KKM, acquisition costs for CAP-G, and other capitalizable costs allowed under the full cost method of accounting. Accumulated depletion has been netted against the gross capitalized costs, along with accumulated equity income or loss from investment.

The Company is currently depleting costs associated with its acquisition costs and other capitalizable costs under the units-of-production method. The rate used for depletion reflects the ratio of KKM's current period production divided by KKM's total proved reserves. These amounts represent the Company's costs to acquire the right to develop the oil and gas reserves underlying the Company's equity interest in KKM and, accordingly, are depleted as the reserves are produced.

Advances to and interest due from KKM are to be recovered through payments resulting from KKM's sale of future crude oil production. KKM's agreement with the government of the Republic of Kazakhstan provides for quarterly repayments equal to 65% of gross revenues, net of government royalties. The Company, at its own discretion, may defer receipt of quarterly repayments to maintain working capital within KKM. During 2001, the Company received $5.8 million in investment recovery from KKM.

KKM began commercial production of its crude oil reserves in November 1999, upon the Company's execution of the Loan with Shell Capital. Consequently, the Company recorded it's equity interest in KKM's proved reserves and began recording depletion expense on it's depletable acquisition costs in 1999. The Company recognized $730,000, $403,000, and $9,000 in depletion expense for the years ended December 31, 2001, 2000, and 1999, respectively.

CHAPARRAL RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Investment in KKM and Other Oil and Gas Property Costs (Continued)

Costs capitalized to Oil and Gas Properties and Investments consist of:

	December 31, 2001	2000
Investment in KKM and Other Oil and Gas Property Costs:		
Investments in KKM common stock	$ 100	$ 1
Advances to and interest due from KKM	58,674	55,2
Acquisition costs	6,244	10,6
Other capitalizable costs	1,097	1,0
Total gross oil and gas investments	66,115	67,0
Equity income (loss)	2,833	(1,7
Accumulated depletion	(1,142)	(4
Total oil and gas properties and investment	$ 67,806	$ 64,9

The condensed financial statements of KKM are as follows:

	December 31, 2001	2000
Condensed balance sheet		
Current assets	$ 4,331	$ 5,2
Non-current assets (primarily oil and gas properties, full cost method)	67,117	52,7
Current liabilities	15,589	9,7
Non-current liabilities		
Loan payable to related party	58,438	58,6
Other non-current liabilities	1,496	
Charter capital	200	2
Accumulated deficit	(4,275)	(10,6
Condensed income statement		
Revenues	$ 36,575	$ 16,9
Other costs and expenses	(30,248)	(15,5
Net income	$ 6,327	$ 1,4

CHAPARRAL RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Hedge Agreement

As a condition of the Loan, the Company paid $4 million for put contracts to sell approximately 1.56 million barrels of North Sea Brent crude (the "Hedge Agreement") to hedge price risk of future sales of oil production from the Karakuduk Field. The exercise prices of the various put contracts in the Hedge Agreement range from $22.35 to $17.25 per barrel, with monthly expiration dates beginning in October 2000 and ending in December 2002. The contracts are evenly spread between October 2000 to December 2001 (62,750 barrels per month) and between January 2002 to December 2002 (51,750 barrels per month). During 2000, the Company amortized the Hedge Agreement ratably over the period the underlying contracts expired, recognizing $482,000 in hedging losses as of December 31, 2000.

As discussed in Note 1, the Company adopted SFAS 133 on January 1, 2001, which requires derivative financial instruments to be recorded at their fair value. Accordingly, the Company recognized a $2.52 million loss from the cumulative effect of change in accounting principle upon adoption. In addition, the Company recognized $237,000 in losses for the twelve months ended December 31, 2001 to record the Hedge Agreement at its fair value as of that date in accordance with SFAS 133. As of December 31, 2001 the market value of the Hedge Agreement was $762,000.

6. Other Assets

In March 2000, the Company paid $750,000 to Shell Capital for a beneficial interest in Shell Capital's policy for transportation risk insurance, covering certain circumstances whereby KKM would be unable to export crude oil production outside of the Republic of Kazakhstan through the existing pipeline routes currently available. In the event coverage under Shell Capital's policy is triggered, proceeds from the policy would go to the benefit of the Company for use in making principal and interest payments required under the Loan. The Company recognized $580,000 and $170,000 in amortization relating to the transportation risk insurance premium for the periods ended December 31, 2001 and 2000, respectively. The Company fully recognized the unamortized balance in 2001 due to the default status of the Loan and the Company's receipt of an acceleration notice for the Loan from Shell Capital in January 2002. See Note 7 for further discussion regarding the Loan.

7. Shell Capital Loan

The Company's Loan with Shell Capital consists of the following:

	December 31, 2001	December 31, 2000
Principal drawdowns under the Loan	$ 24,000	$ 21,500
Principal drawdowns under the Bridge Loan	3,150	--
Interest expense capitalized as principal	7,752	3,480
Unamortized debt issuance costs	--	(3,102)
Total Shell Capital Loan	$ 34,902	$ 21,878
Shell Capital Loan, current portion	$ 34,902	$ 900
Shell Capital Loan, long-term portion	$ --	$ 20,978

7. Shell Capital Loan (continued)

Accrued interest payable to Shell Capital as of December 31, 2001 is $1.75 million. Interest expense for the twelve months ended December 31, 2001 totaled $10.01 million, including $6.91 million of interest on outstanding principal and $3.10 million in discount amortization. Interest expense for the twelve months ended December 31, 2000 totaled $5.29 million, including $909,000 in discount amortization.

In November 1999, the Company entered into the Loan with Shell Capital, to provide up to $24 million of financing to partially fund the development of the Karakuduk Field. CAP-D, CAP-G, and KKM signed the Loan as co-obligors, assuming certain obligations to Shell Capital and to Chaparral, as the borrower. The Company had borrowed the entire $24 million available under the Loan as of May 2001, including $21.5 million borrowed during the year ended December 31, 2000.

The Loan accrues interest at an annual rate of the London Interbank Offered Rate ("LIBOR") plus 17.75%, compounding quarterly prior to project completion, which consists of various financial and technical milestones in the development of the Karakuduk Field ("Project Completion"). Prior to Project Completion, an interest amount, equal to annual rate of LIBOR plus .50%, is payable quarterly to Shell Capital. The annual interest rate is reduced to LIBOR plus 12.75% after Project Completion. The remaining unpaid interest is added to the Loan balance at the end of each quarter. After the deadline for Project Completion, all quarterly interest on the outstanding Loan is fully due and payable by the Company at the end of each calendar quarter.

In May 2001, the Loan was amended to provide the Company with up to $8.0 million in uncommitted working capital, which could be drawn down in increments of $250,000 through August 31, 2001, at the sole discretion of Shell Capital (the "Bridge Loan"). The Company borrowed a total of $3.15 million under the Bridge Loan through August 31, 2001. The principal borrowed under the Bridge Loan accrues interest at LIBOR plus 17.75% and is subject to an arrangement fee of 2%. Interest payments in the amount of LIBOR plus .50% are due at the end of each month the Bridge Loan is outstanding. All unpaid interest is added to the outstanding principal balance on each repayment date. The outstanding principal of the Bridge Loan, plus all accrued interest, was due on or before September 30, 2001.

The Company incurred $4.01 million in debt issuance costs related to the Loan, comprised of up-front fees paid to Shell Capital, legal fees of Shell Capital and the Company, the value of the Shell Warrant on the date of grant, and miscellaneous financing fees and set-up charges. The Company recorded the debt issuance costs as a discount to the Loan, amortizable over the life of the Loan.

As an incentive for the Company to repay the Bridge Loan or refinance the entire Loan (including the Bridge Loan), Chaparral's board of directors approved CAP-G's issuance of Series A Preferred shares to Shell Capital. Per the terms of the amendment, if the Company failed to repay or refinance the Bridge Loan on or before September 30, 2001, the Series A Preferred shares automatically convert and entitle Shell Capital to 40% of the distributable profits of CAP-G.

The Company did not reach Project Completion on or before September 30, 2001. The Company had previously requested that Shell Capital waive or revise the Project Completion definition due to the Company's belief that the production levels and certain technical requirements of Project Completion were unattainable and not necessary or prudent in the time frame specified under the Loan. Shell Capital, however, refused to waive or revise the Project Completion definition.

7. Shell Capital Loan (continued)

In October 2001, the Company received a notice of default from Shell Capital, stipulating that the following events of default had occurred under the Loan: failure to pay outstanding principal and interest due on the Bridge Loan totaling $3.34 million on or before September 30, 2001, failure to pay interest due on the Loan totaling approximately $189,000 on September 28, 2001, failure to achieve Project Completion by September 30, 2001, failure to settle certain accounts payable within 90 days, KKM's failure to obtain Shell Capital's approval prior to entering a short-term debt arrangement, and failure to maintain listing of the Company's common stock on one of the major stock exchanges (i.e. Nasdaq, NYSE, or AMEX). The Company subsequently repaid the default interest as of September 30, 2001 on both the Loan and the Bridge Loan, and KKM repaid the short-term indebtedness obtained without Shell Capital's approval.

As a result of the Company's failure to timely repay the Bridge Loan, Shell Capital's Series A Preferred shares in CAP-G converted as of October 1, 2001, entitling Shell Capital to 40% of the distributable profits of CAP-G. The Company recorded an additional loan discount of $4.37 million, equal to 40% of the Company's unamortized costs of acquiring its equity interest in CAP-G, which is estimated to approximate the fair value of the net profits interest transferred to Shell Capital. The discount was fully recognized as interest expense on September 30, 2001, the maturity date of the Bridge Loan. The Company did not record an expense during 2001 related to Shell Capital's 40% net profits interest, as CAP-G did not have any distributable net profits as of December 31, 2001.

In January 2002, the Company received a second notice of events of default under the Loan, along with a notice accelerating the payment of $37.29 million in outstanding principal, interest, and other fees and expenses due under the Company's existing loans with Shell Capital. Shell Capital Services Limited, as facility agent, also initiated legal proceedings against the Company in the United Kingdom and against CAP-G in the Isle of Guernsey to enforce Shell Capital's rights under the Loan. Chaparral and CAP-G are contesting the actions of Shell Capital in their respective jurisdictions.

The second default notice stipulated various events of default in addition to those disclosed above, including the Company's failure to pay approximately $1.68 million in interest and $1.0 million in principal due on the Loan as of December 31, 2001, failure to pay a $24,000 agency fee due to Shell Capital Services Limited on January 1, 2002, the Company's failure to pay franchise taxes due on or before December 1, 2001, and KKM's failure to timely pay local salaries due in Kazakhstan. The franchise taxes and KKM local salaries were subsequently paid.

The acceleration notice demands that the Company immediately pay the entire outstanding principal amount plus all interest and other fees payable under the Loan, or Shell Capital Services Limited, as facility agent, will pursue available remedies under the Loan. Such remedies include taking ownership of the Company's investment in the Karakuduk Field. Furthermore, Shell Capital has applied the default interest rate allowed under the Loan of LIBOR plus 19.75%, compounded daily, against the principal and interest due for the Bridge Loan as of September 30, 2001, and the principal and interest payments due on the Loan as of January 1, 2002. The remaining balance of the Loan accrued interest at LIBOR plus 17.75% through January 14, 2002 and began accruing interest at the default rate of LIBOR plus 19.75%, compounded on a daily basis, thereafter.

Due to the outstanding notices of default and acceleration notice from Shell Capital, the Company has recorded the entire outstanding principal balance of the Loan as a current liability in the Company's financial statements for the year ended December 31, 2001. Furthermore, the Company expensed the unamortized balance of debt issuance costs relating to the Loan, totaling $2.42 million, during the fourth quarter of 2001.

CHAPARRAL RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Shell Capital Loan (continued)

In April 2002, the Company executed a letter of intent with CAIH regarding a possible $12 million capital investment into the Company and an amount of debt that is to be determined, in exchange for approximately 60% of the Company's common stock. The transaction is subject to a number of conditions precedent, including the approval of Shell Capital, the negotiation and execution of a definitive agreement with CAIH, and the approval of the boards of directors and shareholders of both companies. The Company plans to use the capital infusion and debt from CAIH to restructure the Loan. The terms of the proposed restructuring would include the cancellation of the Shell Warrant, CAP-G's re-acquisition of the 40% net profits interest held by Shell Capital, waiver of all outstanding defaults including Project Completion, and adjusting the interest rate on the restructured Loan to an undetermined rate below the current interest rate being charged by Shell Capital. The Company and CAP-G are contesting the legal actions of Shell Capital Services Limited and will continue to do so unless and until such time as a transaction with CAIH can be consummated.

8. Notes Payable

In September 2000, the Company converted 8% Non-negotiable Convertible Subordinated Promissory Notes (the "Notes") with an aggregate principal amount of $20.85 million, plus accrued interest of $898,000, into 11,690,259 shares of the Company's common stock at a conversion price of $1.86 per share. Prior to conversion, the Notes carried an unamortized discount of $281,000. Originally, the conversion provision of the Notes was subject to shareholder approval, but the Company's board of directors authorized management to obtain approval from the holders of the Notes to amend the terms of the Notes to allow immediate conversion into the Company's common stock. The Company obtained approval from such holders and the Notes were converted on September 21, 2000. The board of directors decision to amend the terms of the Notes to allow immediate conversion was based upon several factors, including funding the working capital requirements of the Company and to comply with the requirements of the Loan.

The Notes consisted of $10.04 million of the Company's Notes issued during the fourth quarter of 1999 and $10.81 million issued during 2000, including Notes totaling $3.3 million in January and February, $3.0 million in August, and $4.51 million in September 2000, respectively. The Notes were issued to various related parties and other non-affiliated investors. Notes issued to related parties totaled $14.69 million, including $9.83 million to Allen & Company, Incorporated ("Allen"), $4.05 million to Whittier Ventures, LLC ("Whittier), $662,000 to Mr. John McMilllian, the Co-Chairman and Chief Executive Officer of the Company, and $150,000 to a relative of Mr. James Jeffs, the Co-Chairman of the Company.

In exchange for the Notes, the Company received $15.56 million in cash and canceled $5.29 million in promissory notes issued previously in 1999, plus accrued interest thereon, to Allen ($3.83 million), Whittier ($1.05 million), and Mr. McMillian ($412,000).

The conversion feature of the Notes was a "beneficial conversion feature" as addressed in EITF 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, whereby a portion of the proceeds received from the Notes is allocable to the conversion feature contained therein. The value assigned to the conversion feature is determined as the difference between the market price of the Company's common stock on the date of issuance and the conversion price, multiplied by the number of shares to be received upon conversion, which was approximately $120.0 million. As the conversion price contained in the Notes was substantially below the market price, the value under the above formula significantly exceeds the net proceeds from the Notes. Under EITF 98-5, the discount assigned to the conversion feature is limited to the total proceeds allocated to the convertible instrument. Accordingly, upon conversion of the Notes, the Company recorded additional interest expense and additional paid in capital equal to $20.34 million, the face amount of the Notes net of original discount.

The $10.04 million in Notes outstanding as of December 31, 1999 were recorded net of a $464,000 unamortized discount.

8. Notes Payable (continued)

In August 2001, the Company's common stock was delisted from the Nasdaq SmallCap Market for failure to comply with Nasdaq Marketplace Rules 4350(i)(1)(A), 4350(i)(1)(B) and 4350(i)(1)(D)(ii), which required the Company to obtain stockholder approval prior to the conversion of its Notes into 11,690,259 shares of its common stock in September 2000 and the issuance of 1,612,903 shares of common stock in October 2000. Nasdaq also cited a violation of its annual meeting requirement. The Nasdaq Listing Qualifications Panel did not, however, cite any public interest concerns as a basis for its determination. The Company's common stock is being traded on the OTC Bulletin Board.

9. Common Stock

General

1989 Stock Warrant Plan

During 1989, the Board of Directors approved a stock warrant plan for key employees and directors. The Company reserved 19,583 shares of its common stock for issuance under the plan. The warrants must be granted and exercised within a 10-year period ending April 30, 1999. Immediately following approval of the plan by the Board of Directors, warrants for 19,583 shares were granted with an exercise price of $16.80 per share. Warrants for 1,667, 3,750, and 1,667 shares were exercised for values of $28,000, $63,000, and $28,000 during 1997, 1996, and 1995, respectively. The remaining 12,500 warrants expired on April 30, 1999.

1998 Incentive and Non-statutory Stock Option Plan

On June 26, 1998, the stockholders approved the 1998 Incentive and Non-statutory Stock Option Plan (the "1998 Plan"), pursuant to which up to 50,000 options to acquire the Company's common stock may be granted to officers, directors, employees, or consultants of the Company and its subsidiaries. The stock options granted under the 1998 Plan may be either incentive stock options or nonstatutory stock options. The 1998 Plan has an effective term of ten years, commencing on May 20, 1998. The Company has not granted any options under the 1998 Plan as of December 31, 2001.

2001 Stock Incentive Plan

In June 2001, the Company's stockholders approved the 2001 Stock Incentive Plan, which sets aside a total of 2.14 million shares of the Company's common stock for issuance to the Company's officers, directors, employees, and consultants. The Company has not made any grants under the 2001 Stock Incentive Plan as of December 31, 2001.

Non-Qualified Stock Options

During 1999, stock options to purchase 542 shares of the Company's common stock granted to various employees and consultants of the Company expired. The expired options had exercise prices ranging between $60 and $90 per share.

Common Stock Offerings and Common Stock Warrant Issuances

During late 1996, the Company issued notes totaling $1.85 million to various investors. In connection with the notes, the Company issued a total of 7,708 warrants to purchase shares of the Company's common stock at an exercise price of $15 per share. The Company issued 5,626 warrants upon issuance of the notes. An additional 2,082 warrants were issued on May 31, 1997, when the notes were not repaid on or before such date. The 5,625 warrants issued in 1996 expired during 1999. The remaining 2,082 warrants expired on May 31, 2000.

9. Common Stock (Continued)

During February 1997, the Company entered into a severance agreement with Paul V. Hoovler, a former Chief Executive Officer and President of the Company, pursuant to which Mr. Hoovler received warrants to purchase 1,667 shares of the Company's common stock at an exercise price of $51 per share and warrants to purchase 1,667 shares of the Company's common stock at an exercise price of $75 per share. The 3,334 warrants expired on February 2001.

In January 1998, the Company, granted 500 shares of the Company's common stock to an employee of the Company, which 500 shares vested ratably on January 30, 1999, 2000, and 2001, respectively. The Company recognized $45,000 as compensation expense, amortized over the vesting period of the grants.

On October 30, 1998, the Company issued warrants to purchase 3,334 shares of the Company's common stock at an exercise price of $60, exercisable through January 02, 1999, to settle the lawsuit filed against the Company by Heartland, Inc. of Wichita and Collins & McIlhenny, Inc. on November 14, 1997. The Company recorded legal settlement expense of $34,000, equal to the fair market value of the warrants issued on the date of grant. On January 3, 1999, the 3,334 warrants expired.

Pursuant to the terms of the employment agreement between the Company and Dr. Jack A. Krug, the former President and Chief Operating Officer of the Company, Dr. Krug received 3,333 shares on January 15, 1999. Effective as of September 30, 1999, the Company issued Dr. Krug an additional 2,361 shares of the Company's common stock pursuant to his resignation from the Company. The Company recorded the grants at their intrinsic value of $246,000.

The conversion of the Company's Notes in September 2000 resulted in the issuance of 11,690,259 shares of the Company's common stock (see Note 8), a portion of which were issued to certain affiliates of the Company who were holders of the Notes. Affiliates receiving shares as a result of the conversion include Allen (5,561,166 shares), Whittier (2,255,004 shares), Mr. McMillian (378,364 shares), and a relative of Mr. Jeffs (85,140 shares).

In October 2000, the Company issued 1,612,903 shares of the Company's common stock to Capco Resources, Ltd. ("Capco") in exchange for $3.0 million, or $1.86 per share. Shell Capital approved the transaction. Capco Energy, Inc., an affiliate of Capco, was also a holder of two of the Company's Notes with an aggregate principal amount of $750,000, which were converted, along with accrued interest thereon, into 427,113 shares of the Company's common stock in September 2000. The Company recorded the stock issuance net of issuance costs of $54,000, or $2.95 million.

In connection with finalizing the Loan, the Company issued to Shell Capital a warrant to purchase up to 15% of the Company's outstanding common stock (the "Shell Warrant"), subject to certain anti-dilution provisions. The Shell Warrant is exercisable for a period of 5 years beginning on the earlier of Project Completion or September 30, 2001. Furthermore, the Shell Warrant is non-transferable and contains certain registration rights. On the date of grant, the Shell Warrant represented 147,072 shares of the Company's common stock at an exercise price of $15.45 per share. The fair market value of the Shell Warrant on the date of grant, $1.18 million, was recorded as a discount of the Loan, amortizable as interest expense over the life of the Loan. The fair market value of the Shell Warrant was estimated as of February 14, 2000, the date of initial drawdown under the Loan, using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 6.61%, dividend yield of 0%, volatility factors of the expected market price of the Company's common stock of 1.27, and a weighted average life expectancy of the warrants of 3.5 years. After consideration of the conversion of the Company's Notes on September 21, 2001 and the issuance of the Company's common stock to Capco, both dilutive events, the Shell Warrant represents 1,785,455 shares of the Company's common stock at an exercise price of $9.79 per share.

9. Common Stock (Continued)

SFAS 123 Disclosure. SFAS 123 requires that pro forma information regarding net income and earnings per share be determined as if the Company had accounted for its employee stock options under the fair value method as defined in SFAS 123. The fair value for the options issued during is estimated at the date of grant using the Black-Scholes option pricing model by using weighted average assumptions, volatility factors of the expected market price of the Company's common stock, and the weighted average life expectancy of the options. The Company did not issue any options during 1999, 2000, or 2001.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option's vesting period. The Company's pro forma information follows:

	Year Ended December 31, 2001	2000	1999
Net loss under APB 25	$(16,215)	$(26,803)	$ (5,163)
Effect of SFAS 123	--	--	(108)
Pro forma net loss	$(16,215)	$(26,803)	$ (5,271)
Pro forma basic and diluted Earnings per share	$ (1.16)	$ (6.01)	$ (5.75)

CHAPARRAL RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Common Stock (Continued)

A summary of the Company's stock option activity and related information for the periods ended follows:

	Shares Under Option	Weighted Average Exercise Price	Weig Ave Fair
Unexercised options outstanding - December 31, 1998	58,058	$67.80	
Options Cancelled	(542)	$83.80	
Unexercised options outstanding - December 31, 1999	57,516	$67.73	
Options Cancelled	-		
Unexercised options outstanding - December 31, 2000	57,516	$67.73	
Options Cancelled	-		

Unexercised options outstanding - December 31, 2001	57,516	$67.73
Price range $123.00-$145.80 (Average life of 1.15 years)	1,342	$132.16
Price range $80.40-$90.00 (Average life of 0.69 years)	26,016	$89.82
Price range $43.20-$60.00 (Average life of 0.68 years)	30,158	$45.81
Exercisable options		
December 31, 1999	57,309	$67.64
December 31, 2000	57,516	$67.73
December 31, 2001	57,516	$67.73

CHAPARRAL RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Common Stock (Continued)

The following table summarizes all common stock purchase warrant activity:

	Number of Stock Warrants	Exercise Price Range
Outstanding, December 31, 1998	75,908	$ 0.0006 - $210
Expired	(21,459)	$ 15 - $60
Outstanding, December 31, 1999	54,449	$ 0.0006 - $210
Granted	1,785,455	$ 9.79
Expired	(2,082)	$ 15
Outstanding, December 31, 2000	1,837,822	$ 0.0006 - $210
Expired	(3,334)	$ 51 - $75
Outstanding, December 31, 2001	1,834,488	$ 0.0006 - $210

The following table summarizes the price ranges of all common stock purchase warrants outstanding as of December 31, 2001:

Number of Warrants	Exercise Price
16,667	$ 210.00
1,785,455	$ 9.79

15,333	$ 0.60
17,033	$ 0.0006
1,834,488	$0.0006 - $210

10. Redeemable Preferred Stock and Related Common Stock Warrants

In November 1997, the Company entered into a Subscription Agreement ("Agreement") with an unaffiliated investor to purchase 225,000 shares of the Company's designated Series A, B, and C Redeemable Preferred Stock, for $100 per share. As of December 31, 1997, the investor had purchased 50,000 shares of the Company's Series A Redeemable Preferred Stock for $5 million. In March 1998, the Company and the investor mutually released each other from any further obligations. The Company is not required to issue any additional preferred stock under the Agreement and the investor has no obligation to provide funds to the Company in exchange for such stock.

The Series A Redeemable Preferred Stock is convertible and accrues an annual, cumulative dividend of $5 per share. The dividends are payable semi-annually on May 31 and November 30, as declared by the Company's Board of Directors. As of December 31, 2001, dividends in arrears relating to the Series A Redeemable Preferred Stock were $1 million. The Company has increased the carrying value of the Series A Redeemable Preferred Stock by $1 million by accreting $250,000 in 2001, 2000, 1999, and 1998, respectively, directly to accumulated deficit.

10. Redeemable Preferred Stock and Related Common Stock Warrants (Continued)

The number of shares of common stock issuable upon conversion of each share of Series A Redeemable Preferred Stock is determined by dividing $100 by the conversion price of the preferred stock. The conversion price is subject to recalculation if, and when, the Company issues additional common stock or common stock equivalents to obtain additional equity or debt financing. The Company has issued common stock and common stock warrants in both equity and debt financing transactions. Adjusted for these transactions, the conversion price as of December 31, 2001 was $10.55 per share (rounded), equivalent to 9.48 shares of common stock for each share of Series A Redeemable Preferred Stock.

The Series A Redeemable Preferred Stock has voting privileges identical to the Company's common stock. The total number of votes allowed to the holders of the Series A Redeemable Preferred Stock is equal to the number of shares of common stock the Series A Redeemable Preferred Stock could be converted into on the specific date of record. As of December 31, 2001, the 50,000 shares of Series A Redeemable Preferred Stock were convertible into 473,890 shares of common stock.

The Series A Redeemable Preferred Stock has preferential liquidation rights over the Company's common stock. In the event of liquidation or dissolution of the Company, any assets available for distribution to the Company's stockholders will first be distributed to the holders of the Series A Redeemable Preferred

Stock up to each redeemable preferred share's liquidation value. The liquidation value equals $100 per share, plus all unpaid dividends in arrears.

The Series A Redeemable Preferred Stock is subject to mandatory redemptions, beginning on November 30, 2002. As of December 31, 2001, the schedule of redemptions of the stated value, plus any unpaid dividends, is as follows:

Year	Amount
2002	$2,000,000
2003	$2,000,000
2004	$2,000,000
Total	$6,000,000

Allen, a significant stockholder of the Company, acted as placement agent in connection with the Agreement. Allen elected to receive its fees in the form of warrants to purchase 15,000 shares of the Company's common stock that were all originally exercisable through November 25, 2002, at an exercise price of $0.60 per share. The 15,000 warrants were recorded at their fair value of $2.27 million. Out of the 15,000 warrants issued to Allen, 3,333 directly relate to the issuance of 50,000 shares of the Series A Redeemable Preferred Stock. The 3,333 warrants were recorded as issuance costs of $500,000, reducing the $5.0 million proceeds from Series A Redeemable Preferred Stock. The remaining 11,667 warrants, discussed below, were recorded as a stock subscription receivable. The basis difference of $500,000 upon issuance of the Series A Redeemable Preferred Stock is being accreted directly to accumulated deficit for the period through the redemption date. The Company increased the carrying value of the Series A Redeemable Preferred Stock by $100,000 in 2001, 2000, 1999, and 1998, respectively, to reflect the accretion of the issuance costs.

10. Redeemable Preferred Stock and Related Common Stock Warrants (Continued)

In an agreement dated March 31, 1998, the Company agreed to allow Allen to retain, subject to certain performance criteria, the warrants to purchase 11,667 shares of the Company's common stock related to the subscriptions not received under the original terms of the Agreement. Accordingly, the unearned warrants held by Allen were fully restricted from exercise unless Allen assisted the Company in raising $17.5 million in additional capital or alternative financing on acceptable terms to the Company on or before November 25, 1999. For each $1,500 of additional capital raised, a warrant to purchase one share of common stock is deemed earned by Allen.

During 1998, Allen assisted the Company in raising an additional $12.5 million in equity capital. As a result, 8,334 of the 11,667 warrants became unrestricted and $1.26 million was transferred from stock subscription receivable to additional paid-in-capital. During 1999, Allen contributed an additional $5.83 million in exchange for the Company's Notes, earning the final 3,333 in restricted warrants. The Company recognized the remaining stock subscription receivable of $506,000 as a discount to the Company's Notes issued in 1999.

If the Company completes the transaction with CAIH, it is anticipated that the Company will fully redeem the Series A Preferred Stock currently outstanding.

11. Income Taxes

The following is a summary of the provision for income taxes:

	Year Ended December 31, 2001	2000	1999
Income tax benefit computed at federal statutory rate	$(5,675)	$(9,381)	$(1,807)
Non-deductible interest associated with convertible notes	--	7,551	--
Expiration of NOL carryforwards	663	518	330
Other	7	90	112
Change in asset valuation allowance	5,005	1,222	1,365
Income taxes	$ --	$ --	$ --

CHAPARRAL RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Income Taxes (continued)

The components of the Company's deferred tax assets and liabilities are as follows:

	Year Ended December 31, 2001	2000
Deferred tax assets:		
Oil and gas assets	$ 400	$ 141
Amortization of derivatives	1,133	--
Compensation and accrued expenses	786	--
Capital loss on transfer of net profits interest	1,529	--
Net operating loss carryforwards	10,550	9,253
Valuation allowance	(14,398)	(9,394)
Deferred tax assets	$ --	$ --

As of December 31, 2001, the Company has estimated tax loss carryforwards of $29.5 million of which $27.35 million are domestic losses for federal income tax purposes and $2.15 million are foreign losses related to the Company's investment in KKM. These carryforwards will expire at various times between 2002 and 2020. The Company also has unused statutory depletion carryforwards, which have an unlimited duration, of approximately $639,000. The 2000 difference between the income tax benefit calculation of the statutory and effective rate is primarily due to the disallowance of interest expense associated with the Company's Notes converted in September 2000, including a $20.34 million interest charge due to the application of EITF 98-5. Other permanent book/tax differences for the years 2001, 2000, and 1999 include expiration of net operating loss carryforwards, adjustments for stock compensation and disallowance of meals and entertainment expenses.

The Company has cumulative book losses of $68.70 million. Cumulative book/tax differences of approximately $39.2 million primarily relates to the disallowance of $21.58 million in interest expense incurred on the Company's Notes, $1.4 million in accrued dividends and discount accretion of the Company's Series A Redeemable Preferred Stock booked directly to retained earnings, $1.14 million in disallowed depletion expense, $3.24 million in disallowed amortization on derivatives, and $4.37 million on disallowed interest expense on the transfer of the 40% net profits interest to Shell Capital. The remaining difference relates to adjustments for stock based compensation, meals & entertainment, and expired tax net operating losses from prior periods.

The conversion of the Company's Notes during 2000 into common stock resulted in an ownership change under Section 382 of the Internal Revenue Code, which may significantly limit the Company's use of its net operating tax loss carryforwards.

The Company did not record any deferred tax assets or income tax benefits for net operating losses as of December 31, 2001. The Company's only significant asset is its 50% interest in KKM. Therefore, the Company has taken a 100% valuation allowance against any resulting deferred tax asset due to such carryforwards.

12. Other Related Party Transactions

Effective January 1, 2000, Chaparral entered into an agreement to provide management services to KKM for a fee of $170,000 per month, to be recovered from KKM on a current basis from proceeds from oil sales. The receivable from affiliate represents 100% of accrued management fees and reimbursable expenses, net of payments received from KKM through December 31, 2000. The reimbursable expenses include costs paid by the Company on behalf of KKM.

13. Operating Leases

During 1999, the Company relocated its offices within the Houston area. The Company assigned and was fully released from its existing obligations under the non-cancelable operating lease in effect as of December 31, 1998. The Company entered into a short-term sublease extending from September 1, 1999 through March 31, 2000.

The Company entered into a new sublease agreement extending from March 2000 through November 2003. The Company's future minimum annual lease payments through the term of the lease are as follows:

Year	Amount
2002	$ 60,000
2003	$ 55,000
2004	$ -
2005	$ -

The Company's rental expense for 2001, 2000, and 1999, was approximately $77,000, $60,000, and $93,000, respectively.

14. Commitments and Contingencies

In January 2000, the Company obtained binding political risk insurance coverage from the Overseas Private Investment Corporation ("OPIC"). The OPIC policy's maximum coverage amount electable by the Company is $50.0 million, which requires a quarterly premium of $262,500. The Company is required to maintain political risk insurance until the Loan is fully repaid. As of December 31, 2001, the Company has paid a total of $1.92 million in premiums and had bound OPIC coverage of $50 million through January 30, 2002.

15. KKM Financial Statements

Due to the significance of the Company's equity investee, the Company has attached audited financial statements for KKM. Reflected in the financial statements are management fees of $2.04 million charged by the Company to KKM for each of the three years ended December 31, 2001. These amounts are exclusive of any local withholding tax, which may be accrued by KKM. Also, the financial statements include interest on the note payable to the Company from KKM in the amounts $2.90 million, $3.35 million, and $1.71 million for the years ended December 31, 2001, 2000, and 1999, respectively.

SUPPLEMENTAL INFORMATION - DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES-UNAUDITED

The following supplemental information regarding the oil and gas activities of the Company is presented pursuant to the disclosure requirements promulgated by the Securities and Exchange Commission (the "SEC") and Statement of Financial Accounting Standards ("SFAS") No. 69, Disclosures About Oil and Gas Producing Activities.

The following estimates of reserve quantities and related standardized measure of discounted net cash flows are estimates only, and are not intended to reflect realizable values or fair market values of the Company's reserves. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than producing oil and gas properties. Additionally, the price of oil has been very volatile and downward changes in prices can significantly affect quantities that are economically recoverable. Accordingly, these estimates are expected to change as future information becomes available and these changes may be significant.

KKM sold 2.18 million barrels of crude oil in 2001, of which 375,000 barrels were sold on the local market. Prices received on local market sales were substantially lower than world market prices prevailing at that time. KKM has an existing agreement to sell 100% of its production on the export market for world market prices and a right to export 100% of its production under the terms of agreement with the government. However, the Company expects the government to continue to require KKM to sell up to 20% of its future crude oil production to the local market. Therefore, year-end prices used for the standardized measure of discounted net cash flows for 1999, 2000, and 2001 reflect the assumption that 20% of KKM's production will be sold on the local market for a substantially lower net oil price.

Proved reserves are estimated reserves of crude oil and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those expected to be recovered through existing wells, equipment and operating methods.

The standardized measure of discounted future net cash flows is computed by applying year-end prices of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expenses. The estimated future net cash flows are then discounted using a rate of 10% a year to reflect the estimated timing of the future cash flows.

As discussed in Note 14, the Company has attached the audited financial statements of KKM. Those financial statements should be reviewed in conjunction with the following disclosures with respect to the Company's proportionate interest in KKM's oil and gas producing activities.

SUPPLEMENTAL INFORMATION - DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES-UNAUDITED
(IN THOUSANDS)

Proven Oil and Gas Reserve Quantities
(All within the Republic of Kazakhstan)

	Oil Reserves (bbls.)	Gas Reserves (Mcf.)
Company's proportional interest in KKM's proved developed and undeveloped reserves		
Balance December 31, 1999	10,071	--
Balance December 31, 2000	16,523	--
Balance December 31, 2001	14,961	--

Capitalized Costs Relating to Oil and Gas Producing Activities

(All within the Republic of Kazakhstan)

	Year Ended December 31, 2001	2000	199
Company's share of equity method investee's net capitalized cost	$33,530	$25,894	$12,
	=======	=======	====

Cost Incurred in Oil and Gas Property Acquisition, Exploration, and Development Activities (All within the Republic of Kazakhstan)

	Year Ended December 31, 2001	2000	1999
Company's share of equity method investee's costs of property acquisition, exploration, and development	$12,446	$13,602	$ 3,7
	=======	=======	=====

SUPPLEMENTAL INFORMATION - DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES-UNAUDITED

Results of operations for producing activities
(All within the Republic of Kazakhstan)

	Year Ended December 31, 2001	2000	1999
Company's share of equity method investee's results from operations for producing activities	$ 6,090	$ 3,241	$ --
	========	=======	=====

Standardized Measure of Discounted Future Net Cash Flows

The following are the principal sources of changes in the standardized measure of discounted future net cash flows:

	Year Ended December 31, 2001	2000	1999

Company's share of equity method investee's standardized measure of discounted future cash flows	$ 40,344	$ 70,281	$ 61,

SUPPLEMENTAL INFORMATION - SELECTED QUARTERLY FINANCIAL DATA - UNAUDITE
(All Amounts in Thousands)

2001 Quarterly Information

	For the Three Months E		
	March 31, 2001	June 30, 2001	September 2001
Operating expenses	$ (1,134)	$ (1,368)	$ (1,1
Other income (loss)	(565)	(75)	(4,5
Loss before cumulative effect of change in accounting principle	(1,699)	(1,443)	(5,7
Cumulative effect of change in accounting principle	(2,519)	--	--
Net loss	$ (4,218)	$ (1,443)	$ (5,7
Cumulative annual dividend accrued Series A Redeemable Preferred Stock	(63)	(62)	(
Discount accretion Series A Redeemable Preferred Stock	(25)	(25)	(
Net loss available to common stockholders	$ (4,306)	$ (1,530)	$ (5,8
Basic and diluted earnings per share:			
Loss per share before cumulative effect of change in accounting principle	$ (0.12)	$ (0.11)	$ (0.
Cumulative effect of change in accounting princip	$ (0.18)	$ --	$
Net loss per share	$ (0.30)	$ (0.11)	$ (0.
Weighted average number of shares outstanding (basic and diluted)	14,283,746	14,283,801	14,283,8

SUPPLEMENTAL INFORMATION - SELECTED QUARTERLY FINANCIAL
UNAUDITED
(All Amounts in Thousands)

2000 Quarterly Information

	For the Three Months Ended		
	March 31, 2000	June 30, 2000	September 2000
Operating expenses	$ (802)	$ (778)	$ (1,1
Other income (loss)	(1,389)	(368)	(21,8
Net loss	(2,191)	(1,146)	(23,0
Cumulative annual dividend accrued on Series A Preferred Stock	(63)	(62)	(
Discount accretion on Series A Preferred Stock	(25)	(25)	(
Net loss available to common stockholders	$ (2,279)	$ (1,233)	$ (23,1
Basic and diluted earnings per share:			
Net loss per share	$ (2.32)	$ (1.26)	$ (10.
Weighted average number of shares outstanding (basic and diluted)	980,427	980,481	2,124,0

Report of Independent Auditors

The Board of Directors and Stockholders
Closed Type JSC Karakudukmunay

We have audited the accompanying balance sheets of Closed Type JSC Karakudukmunay ("the Company") as of December 31, 2001 and 2000, and the related statements of operations, cash flows and stockholders' deficit for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Closed Type JSC Karakudukmunay at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 3, the Company has a working capital deficiency as of December 31, 2001 and there are uncertainties relating to the Company's ability to meet its expenditure/cash flow requirements through 2002. In addition, the Company's principal investor has been notified that it is in default of its loan agreement with its primary creditor and the primary creditor has initiated legal proceedings for purposes of obtaining control of the principal investor's interest in the Company. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans and other factors in regard to these matters are also described in Note 3. 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.

/s/ Ernst & Young Kazakhstan

Ernst & Young Kazakhstan

April 2, 2002
Almaty, Kazakhstan

Closed Type JSC Karakudukmunay
Balance Sheets as of
December 31,
(In Thousands of US Dollars)

	2001	2000
ASSETS		
Current assets:		
Cash	$ 556	$ 51
Trade receivables	--	680
Prepaid and other receivables (Note 4)	1,705	1,251
Crude oil inventory	145	155
Current VAT receivable (Note 5)	1,925	3,100

Total current assets	4,331	5,237
Deferred tax assets (Note 11)	58	--
Long term VAT receivable (Note 5)	--	985
Materials and supplies	2,809	3,800
Property, plant and equipment, net (Note 6)	4,741	4,682
Oil and gas properties, full cost (Note 7)		
Properties subject to depletion	42,336	22,779
Properties not subject to depletion	17,173	20,527
	59,509	43,306
TOTAL ASSETS	$ 71,448	$ 58,010
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 9,914	$ 8,926
Accrued liabilities (Note 8)	675	795
Current portion of loans payable to partner (Note 10)	5,000	--
Total current liabilities	15,589	9,721
Long-term debt (Note 10)	58,438	58,605
Other long-term liabilities (Note 9)	276	86
Deferred tax liability (Note 11)	1,220	--
Stockholders' deficit:		
Charter capital (Note 12)	200	200
Accumulated deficit	(4,275)	(10,602)
	(4,075)	(10,402)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 71,448	$ 58,010

See accompanying notes.

Closed Type JSC Karakudukmunay
Statements of Operations for the years ended December 31,
(In Thousands of US Dollars)

	2001	2000	
Revenues:			
Oil sales	$ 36,575	$ 16,968	$

Costs and expenses:			
Transportation costs	8,297	3,213	
Operating expenses	5,246	3,676	
Depreciation and depletion	9,479	3,598	
Management service fee	620	454	
General and administrative	3,753	2,316	
Total cost and expenses	27,395	13,257	
Income (loss) from operations	9,180	3,711	
Other (income) expense:			
Interest income	(14)	(51)	
Interest expense	1,847	2,245	
Currency exchange (gain)/loss	(258)	54	
Other	116	58	
Income (loss) before income taxes	$ 7,489	$ 1,405	$
Income tax expense	1,162	--	
Net income / (loss)	$ 6,327	$ 1,405	$

See accompanying notes.

Closed Type JSC Karakudukmunay
Statements of Cash Flows for the years ended December 31,
(In Thousands of US Dollars)

	2001	2000
Cash flows from operating activities:		
Net income (loss)	$ 6,327	$ 1,405
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and depletion	9,479	3,598
Loss from sale and disposition of fixed assets	116	58
Management service fees	362	--
Accrued production bonus	190	86
Deferred income taxes	1,162	--
Changes in working capital:		

(Increase)/decrease in prepaid and other receivables	227	(1,862)
(Increase)/decrease in crude oil inventory	(3)	272
(Increase)/decrease in materials and supplies inventory	991	(2,664)
(Increase)/decrease in VAT receivable	2,160	(3,414)
Increase in accounts payable and accrued liabilities	868	5,710
Increase/(decrease) in accrued interest payable to partner	(2,897)	3,346
Net cash provided by operating activities	18,982	6,535
Cash flows from investing activities:		
Purchase of property, plant and equipment	(980)	(1,178)
Investments in oil and gas properties	(23,911)	(27,205)
Proceeds from sale of fixed assets	45	3
Net proceeds from sales of non-commercial crude oil	--	--
Net cash used in investing activities	(24,846)	(28,380)
Cash flows from financing activities:		
Increase in loan payable to bank	1,600	--
Principal payments on bank loan	(1,600)	(578)
Increase in loan payable to partner due to cash contributions and other contributions	6,369	22,388
Net cash provided by financing activities	6,369	21,810
Net increase/(decrease) in cash	505	(35)
Cash at beginning of year	51	86
Cash at end of year	$ 556	$ 51
Supplemental cash flow disclosure:		
Interest paid to non-related parties	$ 14	$ 33
Supplemental schedule of non-cash investing and financing activities:		
Increase in accrued management service fees	$ 1,360	$ --

See accompanying notes.

Closed Type JSC Karakudukmunay
Statement of Stockholders' Deficit
(In Thousands of US Dollars)

	Authorized Charter Capital	Accumulated Deficit
As of December 31,1998	200	(7,503)
Net loss for the year 1999	--	(4,504)

As of December 31,1999	200	(12,007)
Net income for the year 2000	--	1,405
As of December 31, 2000	200	(10,602)
Net income for the year 2001	--	6,327
As of December 31, 2001	$ 200	$ (4,275)

See accompanying notes.

Closed Type JSC Karakudukmunay
Notes to the Financial Statements
(Amounts in thousands of US dollars unless otherwise stated)

1. Organization and Background Information

Closed Type JSC Karakudukmunay. (the "Company"), a Kazakhstan Joint Stock Company of Closed Type, was formed to engage in the exploration, development, and production of oil and gas properties in the Republic of Kazakhstan. The Company's only significant investment is in the Karakuduk Field, an onshore oil field in the Mangistau Oblast region of the Republic of Kazakhstan. On August 30, 1995, the Company 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 Oblast of the Republic of Kazakhstan (the "Agreement"). The Company's rights and obligations regarding the exploration, development, and production of underlying hydrocarbons in the Karakuduk Field are determined by the Agreement.

The Company'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 the Company's registration. The Agreement can be extended to a date agreed between the Ministry of Energy and Mineral Resources and the Company as long as production of petroleum and/or gas is continued in the Karakuduk Field.

2. Basis of Presentation

The Company maintains its accounting records and prepares its financial statements in US dollars in accordance with the terms of the Agreement. Certain reclassifications have been made in the financial statements for 2000 and 1999 to conform to the 2001 presentation.

The material accounting principles adopted by the Company are described below:

Foreign Currency Translation

The Company's functional currency is the US dollar. All transactions arising in currencies other than US dollars, including assets, liabilities, revenue, expenses, gains, or losses are measured and recorded into US 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 US dollars are translated at exchange rates prevailing as of the balance sheet date (150.20 and 144.50 Kazakh Tenge per US dollar as of December 31, 2001 and 2000, respectively). Non-monetary assets and liabilities denominated in currencies other than US 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-US dollar amounts at the balance sheet date are recognized as an increase or decrease in income for the period.

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 the Company could realize or settle these assets and liabilities in US dollars.

2. Basis of Presentation (continued)

The Company had $6.57 million of net monetary liabilities denominated in Tenge as of December 31, 2001 and $1.67 million net monetary liabilities denominated in Tenge as of December 31, 2000.

Interest Capitalization

The Company capitalizes interest on significant construction projects. Assets qualifying for interest capitalization include significant investments in unproved properties and other major development projects that are not being depreciated, depleted, or amortized, provided that work is in progress at that time. The Company had interest expense of $2.92 million, $3.38 million, and $1.80 million for the years ended December 2001, 2000, and 1999, respectively. For the same periods, the Company capitalized interest totaling $1.07 million, $1.13 million, and $697,000, respectively.

Oil and Gas Properties - Full Cost Method
---------------------- ------------------

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with the acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of proved oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimated proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized cost to be amortized.

In addition, the capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate of the future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

2. Basis of Presentation (continued)

Property, Plant and Equipment

Property, plant and equipment are valued at historical cost and are depreciated on a straight line basis over the estimated useful lives of the assets as follows:

Description	Period
Office buildings and apartments	20 years
Office equipment	3 years
Vehicles	5 years
Field buildings	15 years
Field equipment	Up to 10 years

Inventory

Crude oil inventory is valued using the first-in, first-out method, at the lower of cost or net realizable value. Crude oil inventory represents production costs associated with lifting and transporting crude oil from the Karakuduk Field to the KazTransOil pipeline. Crude oil placed into the KazTransOil Pipeline is held as inventory until formally nominated and delivered for sale. Crude oil inventory as of December 31, 2001 and 2000 represented approximately 24,000 and 19,000 barrels of crude oil, respectively.

Materials and supplies inventory is valued using the first-in, first-out method and is recorded at the lower of cost or net realizable value. Certain unique items, such as drilling equipment, are valued using the specific identification method. Materials and supplies represent plant and equipment for development activities, tangible drilling costs (drill bits, tubing, casing, wellheads, etc.) required for development drilling operations, spare parts, diesel fuel, and various materials for use in oil field operations.

Revenue Recognition

Revenues and their related costs are recognized upon delivery of commercial quantities of oil production produced from proved reserves, in accordance with the accrual method of accounting. Losses, if any, are provided for in the period in which the loss is determined to occur.

Revenue is presented gross of transportation expenses in accordance with EITF 00-10, Accounting for Shipping and Handling Fees and Costs.

Earnings Per Common Share

Basic earnings (loss) and diluted earnings (loss) are not presented due to the Company being of a "closed" nature, and having no underlying shares outstanding.

2. Basis of Presentation (continued)

New Accounting Standards

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This standard provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. SFAS 133, as amended by SFAS No. 137 and 138, is effective for years beginning after June 15, 2000. The Company adopted SFAS 133 on January 1, 2001. As a result of adoption of SFAS 133, the Company recognizes all derivative financial instruments in the financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are recognized periodically in income or in stockholders' equity as a component of comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are reported in income. The Company has not identified any derivative financial instruments, which could be designated as fair value or cash flow hedges under SFAS 133 as of December 31, 2001.

During 2001, the FASB issued the following pronouncements, which have potential future accounting implications for the Company:

SFAS 141, Accounting for Business Combinations, requires the use of the purchase method of accounting for all business combinations and provides new criteria to determine whether an acquired intangible asset should be recognized. SFAS 141 applies to all business combinations initiated after June 30, 2001 and to all business combinations accounted for by the purchase method that are completed after June 30, 2001.

SFAS 142, Accounting for Goodwill and Intangible Assets, requires that goodwill as well as other intangible assets with indefinite lives be tested annually for impairment. SFAS 142 is effective for fiscal years beginning after December 15, 2001.

SFAS 143, Accounting for Asset Retirement Obligations, requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002.

SFAS 141 and 142 will not apply to the Company unless it enters into a future business combination. The Company is currently assessing the impact of SFAS 143 on its financial condition and results of operations and is unsure if the effect of the future adoption of SFAS 143, if any, will be material to the Company's financial results.

Fair Value of Financial Instruments

All of the Company's financial instruments, including loans payable to partner, cash and trade receivables have fair values which approximate their recorded values as they are either short-term in nature or carry interest rates which approximate market rates.

Use of Estimates

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

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 December 31, 2001 and there are uncertainties relating to the Company's ability to meet all expenditure and cash flow requirements through fiscal year 2002. In addition, Chaparral Resources, Inc. ("Chaparral"), the parent company of the Company's principal investor, Central Asian Petroleum (Guernsey) Limited ("CAP-G"), has been notified by Shell Capital Services Limited, acting as facility agent, that it is in default of its loan agreement (the "Loan") with Shell Capital Inc. ("Shell Capital"), and Shell Capital Services Limited has initiated legal proceedings against both Chaparral and CAP-G. See Note 13 regarding the status of the Loan.

These conditions raise 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 through increased production and related sale of oil from the Karakuduk Field and elimination or minimization of local oil sales requirements imposed upon the Company by the Government. See Note 14 regarding the Company's local market requirements.

4. Prepaid and Other Receivables

The breakdown of Prepaid and Other Receivables is as follows:

Description	December 31, 2001	December 31, 2000
Advanced payment for oil and gas assets	$ --	$ 189
Advanced payments for materials and supplies	588	--
VAT receivable from drilling contractor	--	651
Prepaid transportation costs	959	291
Other prepaid expenses	158	120
Total	$1,705	$1,251

Advanced payment for materials and supplies represents prepayments for general materials and supplies to be used in the development of the Karakuduk Field. Advanced payments for oil and gas assets represents prepaid drilling costs, which were fully recovered during 2001 through reduction of monthly charges from the Company's drilling contractor, KazakhOil Drilling Services Company ("KODS"), an affiliate of KazakhOil JSC. The VAT receivable from the drilling contractor represents import VAT paid by the Company on behalf of KODS, which was offset against drilling invoices charged to the Company in 2001. Prepaid transportation costs represent the prepayment of export tariffs necessary to sell oil on the export market, which is expensed in the period the related oil revenue is recognized.

5. VAT Receivable

The VAT receivable is a Tenge denominated asset due from the Republic of Kazakhstan. The VAT receivable consists of VAT paid on local expenditures and imported goods. Under the Company's Agreement, VAT charged to the Company is recoverable in future periods as either cash refunds or offsets against the Company's fiscal obligations, including future income tax liabilities. Periodically, the Company reviews it outstanding VAT receivable for possible impairment. During 2001, the Company received VAT refunds of approximately $5.94 million.

Closed Type JSC Karakudukmunay
Notes to the Financial Statements - (Continued)
(Amounts in thousands of US dollars unless otherwise stated)

6. Property, Plant and Equipment

Upon full amortization of tangible assets, the right of ownership of the tangible assets shall be transferred to the Republic of Kazakhstan in accordance with the Agreement. The Company is entitled to the use of the fully amortized tangible assets during the whole term of the Agreement. A summary of property, plant and equipment is provided in the table below:

Description	December 31, 2001	December 31, 2000
Office buildings and apartments	$ 326	$ 312
Office equipment and furniture	770	552
Vehicles	1,376	1,758
Field buildings	4,304	3,652
Field equipment and furniture	492	479
Total cost	7,268	6,753
Accumulated depreciation	(2,527)	(2,071)
Property, plant and equipment, net	$ 4,741	$ 4,682

Depreciation expense for property, plant, and equipment was $803,000, $755,000, and $744,000 for years ending December 31, 2001, 2000, and 1999, respectively.

7. Oil and Gas Properties

The Company has capitalized all direct costs associated with acquisition, exploration, and development of the Karakuduk Field. These costs include geological and geophysical expenditures, license acquisition costs, tangible and intangible drilling costs, production facilities, pipelines and related equipment, access roads, gathering systems, management fees related to the salary costs of individuals directly associated with exploration and development activities, and related interest costs associated with unproved properties. Overhead and general and administrative costs have been expensed as incurred.

The Company calculates depreciation, depletion, and amortization of oil and gas properties using the units-of-production method. The provision is computed by multiplying the unamortized costs of proved oil and gas properties by a production rate calculated by dividing the physical units of oil and gas produced during the relevant period by the total estimated proved reserves. The unamortized costs of proved oil and gas properties includes all capitalized costs net of accumulated amortization, estimated future costs to develop proved reserves, and estimated dismantlement and abandonment costs.

Closed Type JSC Karakudukmunay
Notes to the Financial Statements - (Continued)
(Amounts in thousands of US dollars unless otherwise stated)

7. Oil and Gas Properties (continued)

The Company recognized total amortization expense of $8.67 million and $2.77 million for the years ended December 31, 2001 and 2000, respectively. For the same periods, the effective amortization rate was $3.97 and $3.70 per barrel, respectively.

In accordance with SFAS 19, Financial Accounting and Reporting by Oil and Gas Producing Companies, the Company accounts for amortization of crude oil production as a component of crude oil inventory until the related crude oil is sold. As of December 31, 2001 and 2000, $96,000 and $76,000 of amortization expense was capitalized to crude oil inventory, respectively.

The composition of Oil and Gas Properties is as follows:

Description	December 31, 2001	December 3 2000
Acquisition costs	$ 508	$ 50
Exploration and appraisal costs	22,277	22,07
Development cost	44,633	21,01
Capitalized interest	3,699	2,62
Total oil and gas properties at cost	$ 71,117	$ 46,22
Total costs not subject to amortization	$ 17,173	$ 20,52
Total costs subject to amortization	53,944	25,69
Accumulated amortization	(11,608)	(2,91
Net properties subject to amortization	$ 42,336	$ 22,77

The full cost ceiling test results as of December 31, 2001 support the carrying amount of the assets disclosed above. Therefore, no impairment provision has been made.

Closed Type JSC Karakudukmunay
Notes to the Financial Statements - (Continued)
(Amounts in thousands of US dollars unless otherwise stated)

8. Accrued Liabilities

Description	December 31, 2001	December 3 2000
Accrued management service fee	$574	$574
Accrued taxes payable	36	156
Other accrued liabilities	65	65
Total accrued liabilities	$675	$795

9. Other Long-Term Liabilities

Other long-term liabilities represent production based bonuses, which will be payable to the Government of Kazakhstan amounting to $500,000 when cumulative production reaches ten million barrels and $1.2 million when cumulative production reaches 50.0 million barrels. Under current Kazakhstan tax law, the production bonuses will be considered tax deductible expenditures in the calculation of profits taxes. The Company accrues the production bonuses in relation to cumulative oil production. The Company accrued $190,000 and $86,000 in production bonuses for the years ended December 31, 2001 and December 31, 2000, respectively.

10. Long-term Debt

Description	December 31, 2001	December 3 2000
Loans payable to partner		
Cash funding	$ 47,317	$ 42,47
Management service fee	7,675	6,31
Other expenditures	4,715	3,18
Accrued interest payable	3,731	6,62
	63,438	58,60
Less current portion	(5,000)	--
Total long-term debt	$ 58,438	$ 58,60

Closed Type JSC Karakudukmunay
Notes to the Financial Statements - (Continued)
(Amounts in thousands of US dollars unless otherwise stated)

10. Long-term Debt (continued)

Loans Payable to Partner

One of the Company's founders, CAP-G, bears sole financial responsibility for providing all funding for the Company, which is not otherwise generated by the Company's operations or borrowed from third party sources. The various forms of funding from CAP-G are treated as long-term loans to the Company and bear interest at the rate of LIBOR plus 1%. The Agreement requires installment payments on the loan to be paid quarterly in an amount equal to 65% of gross revenues after deduction of royalties payable to the Government of Kazakhstan. CAP-G, at its own discretion, may waive receipt of quarterly repayments to maintain working capital within the Company. During 2001, the Company paid $5.79 million to CAP-G as investment recovery.

The management service fee element of loans payable to partners relates to management services provided by a subsidiary of Chaparral from 1996 through 1999 and directly by Chaparral, thereafter. Chaparral is CAP-G's parent company. The accrued management fees were paid by CAP-G on the Company's behalf and made part of the loan.

Loans Payable to Banks

In September 2001, the Company borrowed $1.60 million from a local Kazakhstan financial institution. The Company fully repaid the loan in October, 2001.

11. Taxes

The Company is subject to corporate income tax at the prevailing statutory rate of 30%. Income (loss) from continuing operations before provision for income taxes consists of:

	Year ended December 31, 2001	2000	199
Income/(Loss) before income taxes	$7,489	$1,405	$(4,

The provision for income taxes consists of:

	Year ended December 31, 2001	2000
Income tax provision:		
Current	--	--
Deferred	1,162	--
Total provision for income taxes	$1,162	$--

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Closed Type JSC Karakudukmunay
Notes to the Financial Statements - (Continued)
(Amounts in thousands of US dollars unless otherwise stated)

11. Taxes (continued)

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes:

	Year ended December 31 2001	2000
Statutory tax rate	30%	30%
Income taxes (benefit) computed at statutory rate	$ 2,247	$ 422
Losses and expenses with no tax benefit	1,608	487
Utilization of net operating loss carryforwards	--	--
Change in asset valuation allowance	(2,693)	(909)
Income tax provision	$ 1,162	$ --

The components of the Company's deferred tax assets and liabilities are as follows:

	Year ended December 31 2001	2000
Deferred tax assets:		
Oil and gas properties	$ 24	$ 253
Net operating loss carryforwards	34	908
Total deferred tax assets before valuation allowance	58	1,161
Valuation allowance	--	(1,161)
Net deferred tax assets	58	--
Deferred tax liabilities		
Oil and gas properties and other book/tax differences	1,220	--
Total deferred tax liabilities	1,220	--

(Amounts in thousands of US dollars unless otherwise stated)

Net deferred tax liabilities (assets)	$ 1,162	$ --
	=======	=======

The Company recognized a net deferred tax liability of $1.16 million as of December 31, 2001, primarily related to deductible temporary differences for cost recovery adjusted for net operating loss carryforwards expected to be utilized in future years. The Company did not record a valuation allowance for the year ended December 31, 2001, due to the Company's determination that net operating loss carryforwards would be fully utilized to offset taxable income in 2001 and future periods. Additionally, the Company increased its valuation allowance by $1.53 million applied against 2001 taxable income to reflect the impact of depreciation for basis adjustments allowed for statutory tax reporting purposes. The adjustment did not impact the provision for prior years as the Company recognized a 100% valuation allowance on its deferred tax assets due to recurring operating losses from prior periods.

11. Taxes (continued)

The Agreement specifies the income taxes and other taxes applicable to the Company, which is subject to the tax laws of the Republic of Kazakhstan. At December 31, 2001, the Company has tax loss carryforwards of approximately $115,000 available to offset against future taxable income, in accordance with the terms of the Agreement and legislation existing as of the date the Agreement was signed. The tax loss carryforwards are Tenge denominated and expire in 2004.

The Company has used the best estimates available to determine the Company's deferred tax assets and liabilities before consideration of the valuation allowance. Refer to Note 13 regarding the uncertainties of taxation in the Republic of Kazakhstan.

12. Charter Capital

The total Charter Fund contribution specified in the Founders Agreement of the Company is $200,000. Each of the founders' portion of the Charter Fund and their respective participating interest in the Company is:

	December 31, 2001		December 31, 2000	
	Charter Contribution	Percent	Charter Contribution	P
KazakhOil	$ 80	40 %	$ 80	
Korporatsiya Mangistau Terra International	20	10 %	20	
Central Asian Petroleum (Guernsey) Limited - CAP-G	100	50 %	100	

(Amounts in thousands of US dollars unless otherwise stated)

Total charter capital	$200	100 %	$200

KazakhOil JSC ("KazakhOil") is the national petroleum company of the Republic of Kazakhstan.

13. Contingencies

Shell Capital Loan

In November 1999, Chaparral entered into the Loan with Shell Capital to provide up to $24.0 million to partially fund the development of the Karakuduk Field. In May 2001, the Loan was amended to provide Chaparral with up to $8.0 million in uncommitted working capital (the "Bridge Loan"), repayable on or before September 30, 2001. The Company and CAP-G both signed the Loan and Bridge Loan as "co-obligors," assuming certain obligations and commitments to Shell Capital and to Chaparral, as the borrower. The Company, however, continues to borrow funds directly from CAP-G in accordance with the terms of the Agreement.

13. Contingencies (continued)

As of December 31, 2001, Chaparral was notified by Shell Capital Services Limited, acting as facility agent, that it was in default of the Loan for failure to pay outstanding principal and interest due on the Bridge Loan totaling $3.34 million on or before September 30, 2001, failure to pay principal and interest due on the Loan totaling $2.68 million on or before December 31, 2001, failure to achieve project completion by September 30, 2001, failure to settle certain accounts payable within 90 days, the Company's failure to obtain Shell Capital's approval prior to entering certain short-term debt arrangements, and failure to maintain the listing of Chaparral's common stock on one of the major stock exchanges (i.e. Nasdaq, NYSE, or AMEX). In January 2002, Chaparral received a notice from Shell Capital Services Limited accelerating the payment of the outstanding principal, interest, and other fees and expenses due under the Loan. Additionally, Shell Capital Services Limited initiated legal proceedings against Chaparral in the United Kingdom and against CAP-G in the Isle of Guernsey to enforce Shell Capital's rights under the Loan. Chaparral and CAP-G are contesting Shell Capital Services Limited's respective actions, but there are no assurances that either CAP-G or Chaparral will be successful. Shell Capital has not initiated legal action against the Company itself, but there can be no assurance that Shell Capital will not do so in the future.

As a co-obligor of the Loan, the Company is subject to the following pledges, covenants, and other restrictions:

(i) A pledge of the Company's receivables, including proceeds from the sale of crude oil, to Shell Capital in the event of default of the Loan;

(ii) A pledge of the Company's right to insurance proceeds to Shell Capital in the event of default of the Loan;

As a condition of the Loan, the Company entered into a crude oil sales agreement with Shell Trading International Limited ("STASCO"), an affiliate of Shell Capital, for the purchase of 100% of the Company's oil production from the Karakuduk Field on the export market. The Loan requires the Company to sell all of its net oil production to STASCO, unless otherwise agreed. The Company sold approximately 1.81 million barrels of oil to STASCO during 2001, and approximately 604,000 barrels during 2000. Furthermore, the Government of the Republic of Kazakhstan required the Company to sell approximately 375,000 and 161,000 barrels of oil to the local market for the years ended December 31, 2001 and December 31, 2000, respectively. Although the Loan has been called in default by Shell Capital Services Limited, the Company has continued to sell its crude oil to STASCO on the export market in accordance with the Loan and the STASCO agreement.

Taxation

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

The Company maintains its statutory books and records in accordance with U.S. generally accepted accounting principles 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. There is currently uncertainty as to the extent of tax losses available to the Company. The potential effect of the uncertainty is not quantifiable.

14. Local Oil Sales Requirements

The ability of the Company to realize the carrying value of its assets is dependent on being able to transport hydrocarbons and finding appropriate markets for their sale. Domestic markets in the Republic of Kazakhstan currently do not permit world market prices to be obtained.

The Company's crude oil sales agreement with STASCO, discussed in Note 13, requires the Company to sell 100% of its oil production to STASCO on the export market. The Company is not allowed to sell to other parties, on either the export or local markets, without the approval of STASCO and Shell Capital. While the Company is responsible for obtaining export quotas and finalizing access routes through the KazTransOil pipeline and onward through the Russian pipeline system, the Company has a right to export, and receive export quota for, 100% of the production from the Karakuduk Field under the terms of the Agreement.

The Government of Kazakhstan, however, has required the Company, along with other oil and gas producers within Kazakhstan, to sell a certain portion of their crude oil production to the local market to supply local energy needs. During 2001, the Company sold approximately 375,000 barrels of crude oil on the local market for approximately $3.38 million and 1.81 million barrels to STASCO on the export market for approximately $33.20 million. During 2000, the Company sold approximately 161,000 barrels of crude oil on the local market for approximately $1.69 million and sold 604,000 barrels to STASCO on the export market for approximately $15.28 million.

The Company has and is continuing to work with the Government to effect the export of 100% of hydrocarbons produced. It is uncertain, however, whether the Company will be successful in doing so, as the Government is expected to require additional local sales from oil and gas producers in the future.

15. Related Party Transactions

The Company entered into a marketing services agreement with KazakhOil on January 31, 2000, whereby KazakhOil will assist the Company in expediting export oil sales under the crude oil sales agreement with STASCO.

In January 2000, the Company canceled its management service contract with Chaparral's subsidiary and entered into a similar contract directly with Chaparral. The contract is for $170,000 per month, plus reimbursable expenses, or $2.04 million per year.

Other related party transactions are disclosed on the face of the balance sheet. Stockholders and their respective holdings in the Company are disclosed in Note 12, CAP-G related party transactions are referenced in Note 10.

SUPPLEMENTAL INFORMATION - DISCLOSURES ABOUT OIL AND GAS
PRODUCING ACTIVITIES-UNAUDITED

The following supplemental information regarding the oil and gas activities of the Company is presented pursuant to the disclosure requirements promulgated by the SEC and Statement of Financial Accounting Standards ("SFAS") No. 69, Disclosures About Oil and Gas Producing Activities.

The following estimates of reserve quantities and related standardized measure of discounted net cash flows are estimates only, and are not intended to reflect realizable values or fair market values of the Company's reserves. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than producing oil and gas properties. Additionally, the price of oil has been very volatile and downward changes in prices can significantly affect quantities that are economically recoverable. Accordingly, these estimates are expected to change as future information becomes available and these changes may be significant.

The Company sold 2.18 million barrels of crude oil in 2001, of which 375,000 barrels, or approximately 17%, were sold to the local market. Comparatively, the Company sold 765,000 barrels of crude oil in 2000, of which 161,000, or approximately 21%, was sold to the local market. Prices received on local market sales were substantially lower than world market prices prevailing at that time. The Company has an existing crude oil sales agreement with STASCO to sell 100% of its production on the export market for world market prices and a right to export 100% of its production under the terms of its Agreement with the government. The Company, however, expects the government to continue to require the Company to sell a portion of its future crude oil production to the local market. Therefore, year-end prices used for the standardized measure of discounted net cash flows for the three years ended December 31, 2001 reflect the assumption that 20% of the Company's production will be sold to the local market for a substantially lower net oil price per barrel.

Proved reserves are estimated reserves of crude oil and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those expected to be recovered through existing wells, equipment and operating methods.

The standardized measure of discounted future net cash flows is computed by applying year-end prices of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expenses. The estimated future net cash flows are then discounted using a rate of 10% a year to reflect the estimated timing of the future cash flows.

SUPPLEMENTAL INFORMATION - DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES-UNAUDITED
(All Amounts in Thousands)

Proved Oil and Gas Reserve Quantities
(All within the Republic of Kazakhstan)

	Oil Reserves (bbls.)	Gas Reserves (Mcf.)
Proved developed and undeveloped reserves:		
Balance December 31, 1998	-	
Revision of previous estimates	-	
Extensions, discoveries and other additions	20,201	
Production	(59)	
Balance December 31, 1999	20,142	
Revision of previous estimates	-	
Extensions, discoveries and other additions	13,633	
Production	(730)	
Balance December 31, 2000	33,045	
Revision of previous estimates	(1,978)	
Extensions, discoveries and other additions	1,043	

Production	(2,189)
Balance December 31, 2001	29,921
Proved Developed Reserves:	
Balance December 31, 1999	3,899
Balance December 31, 2000	10,414
Balance December 31, 2001	16,401

SUPPLEMENTAL INFORMATION - DISCLOSURES ABOUT OIL AND GAS
PRODUCING ACTIVITIES-UNAUDITED
(All Amounts in Thousands)

Capitalized Costs Relating to Oil and Gas Producing Activities
(All within the Republic of Kazakhstan)

	Year Ended December 31,		
	2001	2000	1999
Unproved oil and gas properties	$ 23,179	$ 29,892	$20,25
Proved oil and gas properties	58,015	26,886	5,59
Accumulated depreciation and depletion	(14,135)	(4,990)	(1,52
Net capitalized cost	$ 67,059	$51,788	$ 24,33

Cost Incurred in Oil and Gas Property Acquisition, Exploration, and Development Activities
(All within the Republic of Kazakhstan)

	Year Ended December 31,		
	2001	2000	1999
Acquisition costs	$ -	$ -	$
Exploration and appraisal costs	200	5,060	7,47
Development costs	24,692	22,144	
	$ 24,892	$ 27,204	$ 7,47

Results of operations for producing activities
(All within the Republic of Kazakhstan

Year Ended December 31,

	2001	2000	1999
Oil revenue	$ 36,575	$ 16,968	$ -
Transportation costs	(8,297)	(3,213)	-
Operating expenses	(5,246)	(3,676)	-
Depreciation, depletion, and amortization	(9,479)	(3,598)	-
	13,553	6,481	-
Provision for income taxes(1)	(1,373)	-	-
	$ 12,180	$ 6,481	$ -

(1) Income tax expense is calculated by applying the statutory tax rate to operating profit, adjusted for applicable net operating loss carryforwards.

SUPPLEMENTAL INFORMATION - DISCLOSURES ABOUT OIL AND GAS
PRODUCING ACTIVITIES-UNAUDITED
(All Amounts in Thousands)

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proven Oil and Gas Reserves (All within the Republic of Kazakhstan)

	Year Ended December 31,		
	2001	2000	19
Future cash inflows	$ 305,579	$ 430,082	$ 34
Future development costs	(92,433)	(92,685)	(6
Future production costs	(57,945)	(46,477)	(3
Future income tax expenses	(34,132)	(71,000)	(6
Future net cash flows	121,069	219,920	18
10% annual discount for estimated timing of cash flows	(40,381)	(79,358)	(5
Standardized measure of discounted net cash flows	$ 80,688	$ 140,562	$ 12

Principal sources of change in the standardized measure of discounted future net cash flows

	Year Ended December 31,		
	2001	2000 (1)	1
Beginning balance	$ 140,562	$ 122,623	$

Sales of oil-produced, net of production and transportation costs	(23,032)	(10,079)	
Extensions and discoveries	7,094	69,464	16
Net changes in prices, production cost and future development cost	(93,058)	(75,990)	
Net changes due to revisions of previous quantity estimates	(13,459)	--	
Development cost incurred	24,692	22,144	
Accretion of discount	18,519	16,496	
Net change in income taxes	21,387	(2,296)	(4
Other	(2,017)	(1,800)	
Ending balance	$ 80,688	$ 140,562	$ 12

(1) Certain reclassifications have been made in the 2000 presentation for principal sources of change in the standardized measure of discounted future net cash flows to conform to the 2001 presentation.

SUPPLEMENTAL INFORMATION - SELECTED QUARTERLY FINANCIAL DATA - UNAU
(All Amounts in Thousands)

2001 Quarterly Information

	For the Three Months Ended (In Thousands of US Dollars)			
	March 31, 2001	June 30, 2001	September 30, 2001	December 2001
Revenue (1)	$ 8,436	$ 9,559	$ 6,916	$ 11,66
Transportation and operating costs	(3,082)	(3,198)	(2,046)	(5,21
Depreciation and depletion	(1,931)	(2,132)	(1,828)	(3,58
Operating income (loss)	3,423	4,229	3,042	2,85
Income (loss) before income taxes	$ 1,667	$ 2,712	$ 1,677	$ 1,43
Income tax provision	--	--	--	1,16
Net income (loss)	$ 1,667	$ 2,712	$ 1,677	$ 27

(1) Revenue is presented gross of transportation and marketing cost in accordance with EITF 00-10, Accounting for Shipping and Handling Fees and Costs.

SUPPLEMENTAL INFORMATION - SELECTED QUARTERLY FINANCIAL DATA - UNAUDITED
(All Amounts in Thousands)

2000 Quarterly Information

	For the Three Months Ended (In Thousands of US Dollars)			
	March 31, 2000	June 30, 2000	September 30, 2000	Decemb 200
Revenue(1)	$ --	$ 4,552	$ 4,341	$ 8,
Transportation and operating costs	--	(1,863)	(2,235)	(2,
Depreciation and depletion	(180)	(828)	(884)	(1,
Operating income (loss)	(180)	1,861	1,222	3,
Income (loss) before income taxes	(1,209)	$ 625	$ (148)	$ 2,
Income tax provision	--	--	--	-
Net income (loss)	$ (1,209)	$ 625	$ (148)	$ 2,

(1) Revenue is presented gross of transportation and marketing cost in accordance with EITF 00-10, Accounting for Shipping and Handling Fees and Costs.