CHAPARRAL RESOURCES INC
Form 10-Q
November 14, 2005

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

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

For the quarterly period ended September 30, 2005.

OR

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

For the transition period from ________________ to ________________.

Commission File Number: 0 - 7261

CHAPARRAL RESOURCES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	84-0630863
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

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

YES |X| NO |_|

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

YES |_| NO |X|

As of November 9, 2005 the Registrant had 38,209,502 shares of its common stock, par value $0.0001 per share, issued and outstanding.

CHAPARRAL RESOURCES, INC.
FORM 10-Q
SEPTEMBER 30, 2005

TABLE OF CONTENTS

		PAGE
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Condensed Balance Sheets as of September 30, 2005 and December 31, 2004	1
	Consolidated Condensed Statements of Operations for the Three Months Ended September 30, 2005 and 2004 and Consolidated Condensed Statements of Operations for the Nine Months Ended September 30, 2005 and 2004	3
	Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2005 and 2004	4
	Notes to Consolidated Condensed Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	19
Item 4.	Controls and Procedures	20
PART II.	OTHER INFORMATION	
Item 6.	Exhibits	21
	Signatures	22

Part I - Financial Information

Item 1 - Financial Statements

Chaparral Resources, Inc.
Consolidated Condensed Balance Sheets

	September 30, 2005 (Unaudited)	December 31, 2004
	$000	$000
Assets		
Current assets:		
Cash and cash equivalents	3,360	9,611
Accounts receivable:		
Oil sales receivable	22,241	316
VAT receivable	6,950	2,212
Other receivables from affiliates	5	1,002
Prepaid expenses	5,283	3,472

Current portion of deferred financing charges	1,274	--
Crude oil inventory	78	36
Total current assets	39,191	16,649
Deferred financing charges	514	--
Materials and supplies	6,999	5,238
Other	1,962	336
Property, plant and equipment:		
Oil and gas properties, full cost	174,687	153,001
Other property, plant and equipment	11,529	10,974
	186,216	163,975
Less - accumulated depreciation, depletion and amortization	(80,746)	(62,495)
Property, plant and equipment, net	105,470	101,480
Total assets	154,136	123,703

See accompanying notes.

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

	September 30, 2005 (Unaudited)	December 31, 2004
	$000	$000
Liabilities and Stockholders' equity		
Current liabilities:		
Accounts payable	6,244	8,540
Advances received	--	387
Prepaid sales	513	6,590
Accrued liabilities:		
Accrued compensation	256	241
Accrued interest payable	110	713
Other accrued liabilities	3,761	1,822
Current income tax liability	12,907	2,052
Current portion of loans payable	7,725	19,778
Total current liabilities	31,516	40,123
Accrued production bonus	367	299
Loans payable	12,278	12,000
Deferred tax liability	940	3,258
Minority interest	29,074	12,099
Asset retirement obligation	1,517	1,232
Stockholders' equity:		
Common stock - authorized, 100,000,000 shares of $0.0001 par value; issued and outstanding, 38,209,502 shares as of September 30, 2005 and December 31, 2004	4	4
Capital in excess of par value	107,226	107,226

Preferred stock - 1,000,000 shares authorized, 925,000 shares undesignated. Issued and outstanding - none	--	--
Accumulated deficit	(28,786)	(52,538)
Total Stockholders' equity	78,444	54,692
Total liabilities and Stockholders' equity	154,136	123,703

See accompanying notes.

Chaparral Resources, Inc.
Consolidated Condensed Statements of Operations (Unaudited)

	For the Three Months Ended		For the
	September 30, 2005	September 30, 2004	September 2005
	$000 (except share data)		$000 (
Revenue	50,437	22,078	107,9
Costs and expenses:			
Transportation costs	4,969	3,327	12,5
Operating expenses	4,046	1,762	11,4
Marketing fee	143	114	4
Depreciation and depletion	7,440	4,276	18,2
Management fee	193	157	5
Advisory fee	--	--	--
Accretion expense	36	21	1
General and administrative	1,673	1,447	4,7
Total costs and expenses	18,500	11,104	48,0
Income from operations	31,937	10,974	59,8
Other income/(expense):			
Interest income	14	9	1
Interest expense	(1,050)	(1,263)	(3,3
Currency exchange loss	(174)	(197)	(1
Minority interest	(9,113)	(2,840)	(16,9
Loss on disposition of assets	(19)	(2)	(
Income before income taxes	21,595	6,681	39,5
Income tax expense	(8,280)	(3,122)	(15,7
Net income available to common Stockholders	13,315	3,559	23,7
Basic earnings per share:			
Net income per share	$ 0.35	$ 0.09	$ 0.
Weighted average number of shares outstanding (basic)	38,209,502	38,209,502	38,209,5

Diluted earnings per share:			
Net income per share	$ 0.33	$ 0.09	$ 0.
Weighted average number of shares outstanding (diluted)	40,475,014	38,209,502	39,959,6

The dilution of earnings per share is due to the dilutive effect of the warrant, described in not
shares outstanding.

See accompanying notes.

3

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

	For the Nine Months Ended	
	September 30, 2005	September 30, 2004
	$000	$000
Cash flows from operating activities		
Net income	23,752	5,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	18,230	12,813
Deferred income taxes	(2,318)	3,445
Accretion expense	110	67
Amortization of note discount	222	355
Currency exchange loss	157	354
Loss on disposition of assets	23	2
Amortization of deferred financing fees	338	--
Minority interest	16,975	5,663
Changes in assets and liabilities:		
(Increase)/decrease in:		
Accounts receivable	(25,666)	(1,636)
Prepaid expenses	(1,810)	142
Crude oil inventory	(21)	95
Increase/(decrease) in:		
Accounts payable and accrued liabilities	9,969	(1,584)
Prepaid sales	(6,077)	--
Accrued interest payable	(603)	(86)
Other liabilities	68	90
Net cash provided by operating activities	33,349	25,213
Cash flows from investing activities		
Additions to property, plant and equipment	(575)	(377)
Capital expenditures on oil and gas properties	(21,511)	(23,069)
Materials and supplies inventory	(1,761)	(754)
Other long-term assets	(1,626)	(287)
Net cash used by investing activities	(25,473)	(24,487)

------- -------

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

	For the Nine Months Ended	
	September 30, 2005	September 30, 2004
	$000	$000
Cash flows from financing activities		
Proceeds from loans	37,000	7,000
Payment of finance fees	(2,127)	--
Payments on loans	(49,000)	(7,000)
Net cash used by financing activities	(14,127)	--
Net increase/(decrease) in cash and cash equivalents	(6,251)	726
Cash and cash equivalents at beginning of period	9,611	2,639
Cash and cash equivalents at end of period	3,360	3,365
Supplemental cash flow disclosure		
Interest paid	3,596	3,682
Income taxes paid	7,254	708
Supplemental schedule of non-cash investing and financing activities		
Non-cash additions to oil and gas properties	175	491

See accompanying notes.

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

1. General

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

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

As of September 30, 2005, Chaparral owns a 60% interest in KKM, a Kazakhstan Joint Stock Company of Closed Type. KKM was formed to engage in the exploration, development, and production of oil and gas properties in the Republic of Kazakhstan. KKM's only significant investment is in the Karakuduk Field, an onshore oil field in the Mangistau region of the Republic of Kazakhstan. On August 30, 1995, KKM entered into an agreement with the Ministry of Oil and Gas Industry for Exploration, Development and Production of Oil in the Karakuduk Oil Field in the Mangistau Region of the Republic of Kazakhstan (the "Agreement"). KKM's rights and obligations regarding the exploration, development, and production of underlying hydrocarbons in the Karakuduk Field are determined by the Agreement.

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

KKM is owned jointly by CAP-G (50%), MTI (10%) and Nelson Resources Limited ("Nelson") (40%). Nelson bought its 40% share in December 2004 from KazMunayGas JSC ("KMG"), the national petroleum company of Kazakhstan, owned by the government of the Republic of Kazakhstan. Since May 2004, Nelson has owned approximately 60% of the outstanding common stock of Chaparral. On October 14, 2005, approximately 65% of the outstanding share capital of Nelson was acquired by LUKOIL Overseas Holding Ltd.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Reference should be made to the relevant notes to the Company's financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

The unaudited information furnished herein was taken from the books and records of the Company. However, such information reflects all adjustments which are, in the opinion of management, normal recurring adjustments necessary for the fair statement of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for any future interim period or for the year.

Use of Estimates

Application of generally accepted accounting principles requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of proved oil and gas reserve quantities and the application of the full cost method of accounting for exploration and production activities requires management to make numerous estimates and judgments.

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

2. Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS 151, Inventory Costs, an Amendment of APB Opinion No. 43, Chapter 4. SFAS 151 clarifies the accounting treatment for various inventory costs and overhead allocations and is effective for inventory costs incurred after July 1, 2005. It did not have a material impact on the Company's financial statements when adopted.

In December 2004, the FASB issued SFAS 153, Exchanges of Non-monetary Assets, an Amendment of APB Opinion No. 29. SFAS 153 specifies the criteria required to record a non-monetary asset exchange using carryover basis and is effective for non-monetary asset exchanges occurring after July 1, 2005. It did not have a material impact on the Company's financial statements when adopted.

In December 2004, the FASB issued SFAS 123 (revised 2004) ("SFAS 123R"), Share Based Payments. SFAS 123R requires that the cost from all share-based payment transactions, including stock options, be recognized in the financial statements at fair value and is effective for public companies in the first interim period after June 15, 2005. It did not have a material impact on the Company's financial statements when adopted.

3. Prepaid Expenses

The breakdown of Prepaid Expenses is as follows:

	$000	
Description	September 30, 2005	December 31, 2004
Prepaid transportation costs	1,751	1,151
Advanced payments for materials and supplies	2,869	1,461
Prepaid insurance	591	568
Other prepaid expenses	72	292
Total prepaid expenses	5,283	3,472

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

4. Asset Retirement Obligation

FASB No. 143 requires entities to record the fair value of the liability for asset retirement obligations (ARO) in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

Since 1995, the core business of the Company has been the development of the

Karakuduk Field. The Company has developed an asset that is capable of producing, processing and transporting crude oil to export markets. The field still requires up to possibly 80 new wells, but the oil processing and transportation infrastructure, apart from the obligatory gathering lines and up to four more gathering stations, are in place. However, further infrastructure development is planned to increase profitability of the operation, utilize gas and to maximize oil and produced fluid processing. The Company is legally required under the Agreement to restore the field to its original condition.

4. Asset Retirement Obligation (continued)

The following table shows movements in the Company's asset retirement obligation liability:

	$000	
	September 30, 2005	September 30, 2004
Asset retirement obligation at beginning of period	1,232	804
Accretion expense	110	67
Additional provision for new wells	175	204
Asset retirement obligation at end of period	1,517	1,075

5. Change in Control

In May 2004, Nelson purchased from Central Asian Industrial Holdings, N.V. ("CAIH") 22,925,701 shares of Chaparral, representing approximately 60% of Chaparral's issued and outstanding common stock. As part of the transaction, a Stock Purchase Warrant exercisable for 3,076,923 shares of the Company's common stock originally issued to CAIH, and a promissory note of the Company payable to CAIH, with a principal amount of $4 million (see Note 6), were transferred by CAIH to Nelson. The total purchase price was $23.9 million. On October 14, 2005, approximately 65% of the outstanding share capital of Nelson was acquired by LUKOIL Overseas Holding Ltd.

6. Loans

The Note

In May 2002, the Company received a total equity and debt capital infusion of $45 million, which was partially utilized to repay a substantial portion of the Company's loan agreement with Shell Capital, Inc. (the "Shell Capital Loan"). The Company received a total investment of $12 million from CAIH, including $8 million in exchange for 22,925,701 shares, or approximately 60%, of the Company's outstanding common stock, and $4 million in exchange for a three year note bearing interest at 12% per annum (the "Note"). Along with the Note, CAIH received a warrant to purchase 3,076,923 shares of the Company's common stock at $1.30 per share (the "Warrant"). Additionally, Kazkommertsbank, an affiliate of CAIH, provided KKM with a credit facility totaling $33 million (the "KKB Credit

Facility"), consisting of $28 million that was used to repay a portion of the Shell Capital Loan and $5 million that was made available for KKM's working capital requirements. The Company paid CAIH $1.79 million as a related restructuring fee.

The Note was recorded net of a $2.47 million discount, based on the fair market value of the Warrant issued in conjunction with the Note. The discount was amortized using the effective interest rate over the original life of the Note. The principal balance of the Note was originally due on May 10, 2005 and accrued interest is payable quarterly. On March 24, 2005, Chaparral and CAP-G signed a Promissory Note Amendment Agreement pursuant to which a $1 million prepayment of the Note was made on March 31, 2005 and the maturity of the remaining balance of the Note was extended to May 10, 2006 (see further discussion below).

In June 2002, the Company prepaid $2 million of the $4 million outstanding principal balance of the Note. As a result, the Company recognized an extraordinary loss on the early extinguishment of debt of $1.22 million from the write-off of 50% of the unamortized discount on the Note. The extraordinary loss was netted against the extraordinary gain from the restructuring of the Shell Capital Loan. In March 2004, the Company re-borrowed the $2 million.

8

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

6. Loans (continued)

In May 2004, the CAIH shares, the Warrant and the Note were purchased by Nelson. On March 24, 2005, Chaparral and CAP-G signed a Promissory Note Amendment Agreement with Nelson. This provided for a prepayment of $1 million of the $4 million due to be repaid to Nelson on May 10, 2005 under the existing $4 million loan note and the replacement of the existing loan note with a new loan note for $3 million on substantially similar terms, but with an increase in the interest rate from 12% to 14% from May 10, 2005 and an extension of the maturity date of one year to May 10, 2006. On March 31, 2005 the $1 million prepayment was made, the existing loan note was cancelled and the new loan note was signed.

KKB Credit Facility

As mentioned above, in May 2002, KKM established the KKB Credit Facility, a five-year, $33 million credit line with Kazkommertsbank. The KKB Credit Facility consisted of a $30 million non-revolving line and a $3 million revolving line, both of which were fully borrowed by KKM in May 2002. The Company recognized $2.69 million and $1.71 million of interest expense on the KKB Credit Facility for the nine months ended September 30, 2004 and 2005 respectively.

The non-revolving portion of the KKB Credit Facility accrued simple interest at an annual rate of 14% and was repayable over a five-year period with final maturity in May 2007. Accrued interest was payable quarterly, beginning in December 2002, and KKM began making quarterly principal repayments in May 2003.

The revolving portion of the KKB Credit Facility accrued simple interest at an annual rate of 14%. The revolver was loaned to KKM for short-term periods up to one year, but KKM had the right to re-borrow the funds through May 2006 with final repayment due in May 2007. On December 30, 2003, Kazkommertsbank increased the revolving portion of the KKB Credit Facility from $3 million to $5 million.

On the same date, KKM borrowed the additional $2 million to finance ongoing operations. The additional $2 million accrued interest at 14%. Accrued interest on the revolving loan was payable at maturity.

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

On July 1, 2005, the total outstanding principal of $21 million of the KKB Credit Facility, together with outstanding interest, was repaid. The BNP/KBC Credit Facility (see below) provided the funds for this repayment.

BNP/KBC Credit Facility

On March 24, 2005, KKM signed a $40 million Structured Crude Oil Pre-export Credit Facility Agreement with BNP Paribas (Suisse) SA ("BNP") and KBC Bank N.V. (the "BNP/KBC Credit Facility"). On June 30, 2005, $32 million was drawn down from this facility. For six months from 30 June, 2005 the facility is a revolving credit, after which the amount outstanding becomes a term loan repayable in 36 equal monthly installments commencing on December 30, 2005. The purpose of the loan is to refinance the KKB Credit Facility, fund future development costs and fund fees related to the facility.

Each year the lenders may propose, but are under no obligation to do so, an extension of the facility by one year, for an agreed fee, and/or an increase of the facility amount for an agreed fee. Each month during the term loan period, KKM may make full or partial prepayments of the facility at no extra cost. Partial prepayments must be for amounts of $2 million or more.

6. Loans (continued)

The interest rate applicable under the facility is LIBOR plus 3.25% in the first year and LIBOR plus 4.00% thereafter. Interest is payable monthly. Fees paid by KKM include a 1.75% arrangement fee, a 1.65% p.a. commitment fee on the unused commitment during the revolving credit period, $100,000 for the lenders' legal costs and $15,000 for agency and technical bank fees. Fees payable include $15,000 per quarter in advance for agency and technical bank fees. A total of $0.8 million has been accrued for the arrangement fee and legal costs which is being amortized over the life of the facility.

As part of the BNP/KBC Credit Facility conditions, an Offtake Agreement was signed in June 2005 with Vitol Central Asia S.A. ("Vitol") whereby KKM is obligated to sell to Vitol, and Vitol is obligated to buy, all of KKM's crude oil production available for export at international market prices for five years from July 1, 2005, with step-in rights in favor of the lenders. In accordance with the BNP/KBC Credit Facility conditions, accounts receivable from Vitol are pledged as collateral for the loan. In addition, a performance and financial guarantee was issued by Nelson (the "Nelson Guarantee") in support of all amounts owing by KKM under the BNP/KBC Credit Facility. Under a separate agreement, in consideration for issuing the Nelson Guarantee, KKM will pay Nelson, annually in advance, a fee of 2.5% p.a. on the facility amount of $40 million for the first six months and on the daily principal amount of the loan

outstanding during the term period. An amount of $1.0 million, which was paid in July for the estimated first years guarantee fee, has been accrued in June and is being amortized over twelve months.

A further condition of the BNP/KBC Credit Facility is that KKM enter into a Crude Oil Hedging Agreement before the end of August 2005. Nelson entered into such a hedging agreement with BNP, for the benefit of KKM, in April 2005, and this agreement was novated in favor of KKM during the quarter. Under this agreement, KKM has the option each month, from April 2005 to December 2005, to require BNP to pay it an amount per barrel of specified monthly amounts of crude oil equivalent to the excess of $33.00 per barrel over the monthly average for that month of dated Brent. The crude oil amounts specified are 75,000 barrels per calendar month during the second quarter of 2005, 160,000 barrels per calendar month during the third quarter of 2005 and 170,000 barrels per calendar month during the last quarter of 2005. Nelson paid BNP $267,300 as consideration, equivalent to $0.22 per barrel.

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

- (i) KKM has signed an Offtake Agreement for 100% of its export production, with step-in rights in favor of the lenders;
- (ii) Nelson has provided a written guarantee to the lenders that it will repay the BNP/KBC Credit Facility in the event KKM fails to do so;
- (iii) KKM may not incur additional indebtedness or pledge its assets to another party without the written consent of the lenders;
- (iv) Subordination of existing loans, including inter-company, and any additional loans;
- (v) KKM may not pay dividends without the written consent of the lenders;
- (vi) Nelson to maintain a controlling interest in KKM; and
- (vii) A requirement to maintain a minimum credit balance in a "Collection Account". This balance should always exceed $1.5 million.

The BNP/KBC Credit Facility stipulates certain events of default, including, but not limited to, KKM's inability to meet the terms of the BNP/KBC Credit Facility and the Offtake Agreement, default by KKM or Nelson under any other agreements and material litigation involving Nelson or KKM. If an event of default does occur and is not waived by the lenders, they can require KKM to immediately repay the full amount outstanding under the facility and may enforce the Nelson Guarantee and their step-in rights under the Offtake Agreement.

6. Loans (continued)

The maturity schedule of the Company's indebtedness under the BNP/KBC Credit Facility as of September 30, 2005, is as follows:

Date	Principal Amount Due
	$000
2005	472
2006	5,667
2007	5,667
2008	5,194

Total principal due	17,000

The loans are shown in the balance sheet net of the loan discount, which was nil at September 30, 2005 and $222,000 at December 31, 2004.

7. Income Taxes

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

8. Capital Commitments

On December 31, 2004, the Company's contract with KazMunayGas-Drilling ("KMGD"), an affiliate of KMG, for one development drilling rig currently operating in the Karakuduk Field, expired. The same rig is now contracted through Oil and Gas Drilling and Exploration of Kracow ("OGEC") for a one year term to December 31, 2005. The minimum payments under the drilling contract with OGEC for 2005 are $4.50 million. The Company's other drilling and operations related contracts can either be cancelled within 30 days or are on a call-off (as required) basis.

During the third quarter the Company entered into contracts with two local contractors in connection with the construction of the rail oil loading facility at Station 6 between Sai-Utes and Beynu approximately 30 km from the field. The first contract with Temir Zholly Service is for construction of approximately 5 km of rail line and associated infrastructure for a total of $1.46 million. The second is with Akmaral for the construction of a tank farm with a volume of 14,000 tonnes. This contract has a value of $1.70 million.

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

11

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

9. Related Party Transactions

In August 2004, the Company approved a two-year agreement with Nelson to provide corporate administrative services and financial advisory services (the "Service Agreement") to support its business activities. The Service Agreement is effective as of June 1, 2004 and can be terminated upon 30 days written notice by either party. In consideration for these services Nelson will receive a fixed monthly fee of $20,000 for administrative services and $25,000 for financial advisory services (the "Management Fee"). As part of the Service Agreement, Nelson is also required to provide personnel to cover Chaparral's executive and managerial needs. The cost of executive and managerial personnel will be allocated on the basis of the cost of personnel involved and on the percentage of time actually spent by such personnel on matters related to Chaparral, as mutually agreed by the parties from time to time. In addition, Nelson will use its greater buying power to obtain more favorable rates for goods and services,

including insurance coverage, for Chaparral. These expenditures will be passed to Chaparral at cost with a ten percent mark-up. For the nine months to September 30, 2005, the Company has booked $585,500 for the Management Fee, the executive and managerial cost, insurance coverage and the mark-up under the Service Agreement.

In June 2004, KKM entered into a three year agency agreement with Nelson (the "Marketing Agreement"), whereby Nelson becomes the duly authorized, exclusive agent for the purpose of marketing crude oil, and is empowered to represent the interests of KKM in relations with governmental authorities and commercial organizations and also enter into contracts and agreements and any other documents necessary for and related to the marketing of crude oil. The Marketing Agreement is effective as of June 1, 2004 and can be terminated upon 90 days written notice by either party. As consideration for the services provided under the Marketing Agreement, KKM shall pay Nelson a fixed fee of $20,000 per month and a variable fee of five US cents per barrel of total production in a reporting calendar month, if the amount of supplies to the local market in that month is more than 10% of the total amount of production, or eight US cents per barrel of total production in a reporting calendar month, if the amount of supplies to the local market in that month is less than 10% of the total amount of production (the "Marketing Fee"). For the period ending September 30, 2005, $400,500 was accrued under the Marketing Agreement.

In 2003, the Company approved a one-year agreement with OJSC Kazkommerts Securities ("KKS"), an affiliate of Kazkommertsbank. The agreement was effective as of January 7, 2003 and provided for KKS to assist the Company's senior management with financial advisory and investment banking services. In consideration for these services KKS received a monthly fee of $25,000 (the "Advisory Fee"). The agreement with KKS was cancelled as of April 30, 2004.

Kazkommerts Policy, an affiliate of Kazkommertsbank, is the major insurer of KKM's oil and gas activities.

KKM has a contract to transport 100% of its oil sales through the pipeline owned and operated by KTO, a wholly owned subsidiary of KMG, the 40% minority shareholder in KKM until December 2004. The rates for transportation are in accordance with those approved by the government of the Republic of Kazakhstan. Currently, the use of the KTO pipeline system is the only viable method of exporting KKM's production. As KTO notifies KKM of the export sales allocated to KKM on a monthly basis, KTO controls transportation of export sales.

KKM makes a prepayment for crude transportation costs based upon the allocation of export sales received from the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. This prepayment includes pipeline costs charged by the operators of the pipeline systems outside Kazakhstan and is dependent upon the point of sale of KKM's exports. For the nine months ended September 30, 2005, KKM incurred $11.6 million for transportation costs with KTO. As of September 30, 2005, KKM had a prepayment balance of $1.3 million with KTO in respect of sales to be made in October 2005 and a further $0.4 million in respect of sales to be made in November 2005. Comparably, for the nine months ended September 30, 2004, KKM incurred $8.3 million for transportation costs with KTO. As of December 31, 2004, KKM had a prepayment balance of $1.2 million with KTO in respect of sales that were not completed until January 2005.

9. Related Party Transactions (continued)

KTO charges KKM for associated costs of oil storage within their pipeline system, sales commission, customs clearance fees in respect of export sales and for water through the Volga Water pipeline. Amounts recognized for these services during the nine months ended September 30, 2005 and 2004 were $346,472 and $185,000, respectively.

The total amounts of the transactions with the above related companies for the nine months ended September 30, 2005 and 2004 are as follows:

	$000	
	2005	2004
Nelson	1,684	1,236
KKS	--	100
Kazkommerts Policy	345	539
KTO	11,977	9,594
KMGD	191	4,624

Accounts payable balance to affiliates as at September 30, 2005 and December 31, 2004 are as follows:

	$000	
	2005	2004
Nelson	357	--
Kazkommerts Policy	--	195
KTO	198	8
KMGD	--	371
	555	574

The loans with Kazkommertsbank and Nelson are disclosed in Note 6.

10. Contingencies

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

KKM 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.

Item 2 - 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 that the Company is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Until recently, Chaparral had a working capital deficiency. In addition, we have experienced limitations in obtaining 100% export quota for the sale of our hydrocarbons. Previously these conditions raised substantial doubt about our ability to continue as a going concern. However, due to recently completed refinancing of the Company's debt (see below), we now expect to be able to meet all expenditure and cash flow requirements through the next twelve months.

Chaparral stabilized the export sales/local market deliveries ratio in 2004, which had significantly improved from 2002 to 2003. For the year ended December 31, 2004, Chaparral sold approximately 2,544,000 barrels, or 92% of total sales (2003: 2,591,000 barrels, 96%), at world market prices and 214,000 barrels, or 8% (2003: 103,000 barrels, 4%), at domestic market prices. During the nine months to September 30, 2005, exports accounted for 93% of total sales volume.

On March 24, 2005, KKM signed a $40 million Structured Crude Oil Pre-export Credit Facility Agreement with BNP Paribas (Suisse) S.A. and KBC Bank N.V. (the "BNP/KBC Credit Facility"). On June 30, 2005, $32 million of funds from this facility were drawn down. On July 1, 2005, the total outstanding principal of $21 million of the KKM Credit Facility, together with outstanding interest, was repaid. See Item 1 Note 6 for further details of the BNP/KBC Credit Facility. In addition, on March 24, 2005, Chaparral and CAP-G signed a Promissory Note Amendment Agreement with Nelson (the "Amendment Agreement"). This provided for a prepayment of $1 million of the $4 million due to be repaid to Nelson on May 10, 2005 under the existing $4 million loan note and the replacement of the existing loan note with a new loan note for $3 million on substantially similar terms, but with an increase in the interest rate from 12% to 14% from May 10, 2005 and an extension of the maturity date of one year to May 10, 2006. On March 31, 2005 the $1 million prepayment was made, the existing loan note was cancelled and the new loan note was signed. See Item 1 Note 6. The BNP/KBC Credit Facility and Amendment Agreement significantly improve the Company's financial position, enabling it to meet all its current financial obligations and continue with field development.

Liquidity and Capital Resources

We are presently engaged in the development of the Karakuduk Field, which requires substantial cash expenditures for drilling, well completions, workovers, oil storage and processing facilities, pipelines, gathering systems, water injection facilities, plant and equipment (pumps, transformer sub-stations etc.), a rail loading facility and gas utilization. We have invested

approximately $177 million in the development of the Karakuduk Field and have drilled 63 new wells and re-completed 13 of the pre-existing wells at the field by September 30, 2005. Total capital expenditures for the nine months to September 30, 2005 were approximately $22 million. Capital expenditures are estimated to be at least $140 million from 2005 through 2009, including the drilling of up to 110 more wells over this period. This is higher than previously stated since in 2005 the Company has commissioned and received a new field development project that was prepared after the state reserves committee of the Republic of Kazakhstan approved a higher than previously reported reserves estimate for the Karakuduk field. We anticipate 2005 capital expenditures of approximately $35 million.

We expect to finance the continued development of the Karakuduk Field primarily through cash flows from the sale of crude oil. During the third quarter of 2005, KKM sold approximately 984,000 barrels of crude oil for $50 million, compared to

794,000 barrels for $33 million in the second quarter of 2005. As mentioned above, KKM has recently secured $40 million of new funding with which it has re-financed the loans provided by Kazkommertsbank. Current daily oil production is in excess of 12,450 barrels per day. This is 40% higher than at the same time last year.

During the remainder of 2005, KKM expects to further increase production by drilling 3 more new wells, converting at least 6 more wells to artificial lift and converting 2 more wells to water injection wells. Work on the utilization of associated gas has resulted in the gas pipeline from the field to the export point at Station 6 having been completed. In the final quarter of the year the Company will add the necessary condensate traps to this line and source two high capacity gas driven gas compressors from the United States. Construction of the rail loading facility at station 6 commenced in late September and is anticipated to be operational by August 2006.

In addition, our short and long-term liquidity is impacted by local oil sales obligations imposed on oil and gas producers within Kazakhstan to supply local energy needs, and our ability to obtain export quota necessary to sell our crude oil production on the international market. Under the terms of the Agreement, we have a right to export, and receive export quota for, 100% of the production from the Karakuduk Field. The domestic market does not permit world market prices to be obtained, resulting in, on average, $29 lower cash flow per barrel sold into the local market in the nine months to September 30, 2005. Furthermore, the Government has not allocated sufficient export quota to allow us to sell all of our available crude oil production on the world market. We are taking steps to reduce our local market obligations and to obtain an export quota that will enable us to sell all of our crude oil production on the export market. The Company has determined that it is no longer in its the best interests to pursue arbitration proceedings in Switzerland for the breach of the Agreement by the Government of Kazakhstan, instead we intend to seek an amicable resolution of this matter. If the matter cannot be resolved in a satisfactory manner, we have, however, reserved our right to commence formal arbitration proceedings pursuant to our contractual arrangements with the Government.

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

During the nine months to September 30, 2005 the Company continued with the

development of the Karakuduk Field. As of September 30, 2005 the total field well count had risen to 76 compared to 66 on December 31, 2004. The producing well count at the field as of September 30, 2005 was 58 wells compared to 45 at the end of 2004. One producing well was converted to an injection well.

Production for the nine months to September 30, 2005 was 2.75 million barrels, equivalent to 10,075 barrels of oil per day ("bopd"), compared to 2.19 million barrels, or 7,993 bopd, for the nine months to September 30, 2004, an increase of 26%. The Company sold 307,641 tonnes to export markets (93% of total sales) and 22,000 tonnes locally during the nine months to September 30, 2005, compared with 240,000 tonnes exported (91% of total sales) and 25,000 tonnes to the local market in the nine months to September 30, 2004.

Drilling activity continued in the third quarter. The Company drilled 3 wells (9,609 m) in the third quarter of 2005 compared to 3.6 wells (11,409m) in the second quarter of the year. The reduction in meterage was due to the fact that about 20 days were lost as the rig required essential maintenance and a scheduled load test of the derrick.

During October our average production exceeded 12,000 bopd, and we expect that this level of production will be maintained for the remainder of the year.

The Company will continue with the development of the Karakuduk Field throughout the remainder of 2005. One drilling rig and two workover rigs will operate at the field. At the beginning of the year, the Company forecasted that up to 13 wells would be drilled for the whole year, including one horizontal well, the first such well to be drilled at Karakuduk. We will complete this programme as we expect to drill a further 3 wells during this quarter and commence drilling the horizontal well before the year end.

Capital Commitments and Other Contingencies

On December 31, 2004, the Company's contract with KMGD, an affiliate of KMG, for one development drilling rig currently operating in the Karakuduk Field, expired. The same rig is now contracted through Oil and Gas Drilling and Exploration of Kracow ("OGEC") for a one year term to December 31, 2005. The minimum payments under the drilling contract with OGEC for 2005 are $4.50 million. The Company's other drilling and operations related contracts can either be cancelled within 30 days or are on a call-off (as required) basis.

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

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

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

regulations may have on our operations.

2. Results of Operations

Results of Operations for the Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

Our operations for the three months ended September 30, 2005 resulted in a net income of $13.32 million compared to a net income of $3.56 million for the three months ended September 30, 2004. The $9.76 million increase in our net income is primarily a result of higher crude prices and higher sales volumes.

Revenues. Revenues were $50.44 million for the third quarter of 2005 compared with $22.08 million for the third quarter of 2004. The $28.36 million increase is the result of higher crude prices and sales volumes achieved during the third quarter of 2005 as compared to the same period of 2004. During the third quarter of 2005, we sold approximately 984,000 barrels of crude oil, recognizing $50.44 million in revenue, or $51.24 per barrel after quality differential losses. Comparably, we sold approximately 674,000 barrels of crude oil, recognizing $22.08 million in revenue, or $32.74 per barrel, during the third quarter of 2004. The result is a positive price variance of $18.21 million and a positive volume variance of $10.15 million.

Transportation and Operating Expenses. Transportation costs for the third quarter of 2005 were $4.97 million, or $5.05 per barrel, and operating costs associated with sales were $4.05 million, or $4.11 per barrel. Comparatively, transportation costs for the third quarter of 2004 were $3.33 million, or $4.94 per barrel, and operating costs associated with sales were $1.76 million, or $2.61 per barrel. The transportation cost per barrel during the third quarter of 2005 is similar to that of the 2004 third quarter. The main reason for the increase in operating cost per barrel is changes in cost allocation procedures resulting in a lower percentage of field expenditures being capitalized.

Depreciation and Depletion. Depreciation and depletion expense was $7.44 million for the third quarter of 2005 compared with $4.28 million for the third quarter of 2004. The $3.16 million increase is the result of higher sales volumes and a higher effective depletion rate which is due to a proportionately higher increase in future capital costs associated with increased reserves. During the third quarter of 2005, the Company recognized a total depletion expense of $7.23 million or $7.09 per barrel produced, compared to $4.13 million or $5.41 per barrel produced for the third quarter of 2004.

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

financial statements.

Interest Expense. Interest expense was $1.05 million for the third quarter of 2005 compared to $1.26 million for the third quarter of 2004. The decrease is primarily a result of lower average loan balances outstanding.

General and Administrative Expense. General and administrative costs increased from $1.45 million for the three months ended September 30, 2004 to $1.67 million for the three months ended September 30, 2005. The increase of $0.22 million is primarily due to an accrual of $0.18 million for Kazakh withholding tax payable on management fees charged by CAP-G to KKM.

Income Tax Expense. Income tax expense increased from $3.12 million for the three months ended September 30, 2004 to $8.28 million for the three months ended September 30, 2005, representing 47% and 38% respectively of pre-tax income. The tax charge has increased as income has increased. The effective tax rate has decreased largely because Chaparral parent company administrative costs, which are not deductible against KKM's Kazakh taxable income, are smaller relative to pre-tax income as KKM's profits rise.

Results of Operations for the Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004

Our operations for the nine months ended September 30, 2005 resulted in a net income of $23.75 million compared to a net income of $5.49 million for the nine months ended September 30, 2004. The $18.26 million increase in our net income is primarily a result of higher crude prices.

Revenues. Revenues were $107.92 million for the nine months to September 30, 2005 compared with $55.16 million for the nine months to September 30, 2004. The $52.76 million increase is the result of higher crude prices and sales volumes achieved during the nine months to September 30, 2005 as compared to the same period of 2004. During the nine months to September 30, 2005, we sold approximately 2,377,000 barrels of crude oil, recognizing $107.92 million in revenue, or $45.40 per barrel after quality differential losses. Comparably, we sold approximately 2,029,000 barrels of crude oil, recognizing $55.16 million in revenue, or $27.19 per barrel, for the nine months to September 30, 2004. The result is a positive price variance of $43.30 million and a positive volume variance of $9.46 million.

Transportation and Operating Expenses. Transportation costs for the nine months to September 30, 2005 were $12.51 million, or $5.26 per barrel, and operating costs associated with sales were $11.44 million, or $4.81 per barrel. Comparatively, transportation costs for the nine months to September 30, 2004 were $9.55 million, or $4.71 per barrel, and operating costs associated with sales were $5.66 million, or $2.79 per barrel. The increase in transportation cost per barrel during the nine months to September 30, 2005 is the result of higher tariffs imposed on the Company. The main reason for the increase in operating cost per barrel is changes in cost allocation procedures resulting in a lower percentage of field expenditures being capitalized.

Depreciation and Depletion. Depreciation and depletion expense was $18.29 million for the nine months to September 30, 2005 compared with $12.81 million for the nine months to September 30, 2004. The $5.48 million increase is the result of higher sales volumes and a higher effective depletion rate which is due to a proportionately higher increase in future capital costs associated with increased reserves. During the nine months to September 30, 2005, the Company recognized a total depletion expense of $17.70 million or $6.44 per barrel

produced, compared to $12.35 million or $5.64 per barrel produced for the nine months to September 30, 2004.

Interest Expense. Interest expense was $3.33 million for the nine months to September 30, 2005 compared to $3.76 million for the nine months to September 30, 2004. Interest charges under the KKB Credit Facility were $0.62 million lower due to reduction in principal outstanding, but this was partially offset by no interest being capitalized within oil and gas assets in the nine months to September 30, 2005 compared to $0.26 million in the nine months to September 30, 2004.

General and Administrative Expense. General and administrative costs decreased from $5.20 million for the nine months ended September 30, 2004 to $4.71 million for the nine months ended September 30, 2005. The decrease of $0.49 million is primarily due to accrued severance costs for former executives in the nine months to September 30, 2004, reductions in expatriate staff numbers and lower salaries and wages, partially offset by an accrual of $0.76 million for Kazakh withholding tax payable on management fees charged by CAP-G to KKM for the period January 2004 to September 2005. This withholding tax liability has only recently been identified due to a review of the treatment of management changes in KKM's income tax returns.

Income Tax Expense. Income tax expense increased from $6.15 million for the nine months ended September 30, 2004 to $15.79 million for the nine months ended September 30, 2005, representing 53% and 40% respectively of pre-tax income. The tax charge has increased as income has increased. The effective tax rate has decreased largely because Chaparral parent company administrative costs, which are not deductible against KKM's Kazakh taxable income, are smaller relative to pre-tax income as KKM's profits rise. The tax charge for the quarter ended September 30, 2005 is also reduced as a result of a favorable settlement of KKM's 2004 tax returns.

3. Commodity Prices for Oil and Gas

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

4. Inflation and Exchange Rates

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, could significantly decrease the value of the monetary assets that we hold in Kazakhstan as well as our assets in that country that are based on the Tenge. KKM retains the majority of its cash and cash equivalents in U.S. dollars, but KKM's statutory tax basis in its assets 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 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 September 30, 2005, the exchange rate was 133.89 Tenge per U.S. dollar compared to 130.00 as of December 31, 2004.

5. Critical Accounting Policies

The preparation of the Company's consolidated financial statements requires management to make estimates, assumptions and judgments that affect the Company's assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Management bases these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information it believes are reasonable. Actual results may differ from these estimates under different conditions. For a full description of the Company's critical accounting policies, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2004 Annual Report on Form 10-K.

6. Special Note Regarding Forward-Looking Statements

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

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

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

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

Cash and other monetary assets held and liabilities denominated in currencies other than U.S. dollars are translated at exchange rates prevailing as of the balance sheet date (133.89 and 130.00 Tenge per U.S. dollar as of September 30, 2005 and December 31, 2004, respectively). Non-monetary assets and liabilities denominated in currencies other than U.S. dollars have been translated at the estimated historical exchange rate prevailing on the date of the transaction. Exchange gains and losses arising from translation of non-U.S. dollar amounts at the balance sheet date are recognized as an increase or decrease in income for the period. See Item 2 section 4 for discussion on inflation and exchange rate risks.

The Tenge is not a convertible currency outside of the Republic of Kazakhstan.

The translation of Tenge denominated assets and liabilities in these financial statements does not indicate Chaparral could realize or settle these assets and liabilities in U.S. dollars.

Commodity Prices for Oil

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

In addition, under the terms of our Agreement with the government of the Republic of Kazakhstan, the Company has the right to export, and receive export quota for, 100% of the production from the Karakuduk Field. However, oil producers within Kazakhstan are required to supply a portion of their crude oil production to the local market to meet domestic energy needs. Local market oil prices are significantly lower than prices obtainable on the export market. For the nine months ended September 30, 2005, the Company sold 160,000 barrels of crude oil, or 7% of its total oil sales, to the local market, compared to 183,000 barrels, or 9%, during the nine months ended September 30, 2004. During the nine months to September 30, 2005, local market prices obtained by the Company were, on average, $29 per barrel below export market prices, net of transportation costs. We have attempted, in accordance with the Agreement, to effect the 100% export of all hydrocarbons produced from the Karakuduk Field, through discussions with the government of the Republic of Kazakhstan. We plan to continue to work with the government to increase our export quota and minimize or eliminate future local sales requirements. In addition, we entered into an agency agreement with Nelson to assist in reducing our local market obligation (see Note 9 to the interim financial statements presented in Item 1). However, no assurances can be provided that we will be able to export a higher portion of our production and that our cash flow from operations will be sufficient to meet working capital requirements in the future.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the periodic reports we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules of the SEC. The Company carried out an evaluation as of September 30, 2005, under the supervision and the participation of our management, including our chief executive officer and chief financial officer, of the design and operation of these disclosure controls and procedures pursuant to Rules 13a-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings.

Changes in Internal Controls over Financial Reporting

As a result of the evaluation referred to in the preceding paragraph, there were no changes that materially affected or are reasonably likely to materially affect our internal control over financial reporting during the quarter ended September 30, 2005.

Part II- Other Information

Item 6 - Exhibits

*31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

Signatures

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

Dated: November 9, 2005

Chaparral Resources, Inc.

By: /s/ Simon Gill

Simon Gill
Chief Executive Officer

By: /s/ Charles Talbot

Charles Talbot
VP Finance and Chief Financial Officer (Principal Financial and Accounting Officer)