Offering Circular

Hurricane Finance B.V.

(organized under the laws of the Netherlands)

U.S.$125,000,000

9.625% Notes due 2010

Unconditionally Guaranteed by
Hurricane Hydrocarbons Ltd.
Hurricane Kumkol Munai OJSC
Hurricane Oil Products OJSC

Issue price: 98.389%

The issuer, Hurricane Finance B.V., is a special purpose entity organized under the laws of the Netherlands for purposes of this offering. It is a wholly owned subsidiary of Hurricane Kumkol Munai OJSC, or HKM, a corporation organized under the laws of the Republic of Kazakhstan, which is a direct subsidiary of Hurricane Hydrocarbons Ltd., or Hurricane, a corporation organized under the laws of the province of Alberta.

The notes will mature on February 12, 2010. Interest will accrue from February 12, 2003, and will be payable semi-annually in arrears on February 12 and August 12 of each year, beginning on August 12, 2003. Each of Hurricane, HKM and Hurricane Oil Products OJSC, or HOP (formerly known as OJSC Shymkentnefteorgsyntez, or ShNOS), a corporation organized under the laws of the Republic of Kazakhstan, will irrevocably and unconditionally, on a joint and several basis, guarantee the full and punctual payment of principal, premium, interest, additional amounts and all other amounts that may become due and payable in respect of the notes.

Holders of notes may require the issuer to repurchase their notes if Hurricane experiences a change of control or with the proceeds from certain sales of assets.

The issuer and the guarantors will pay additional amounts in respect of any payment under the notes or the guarantees so that the amount received by holders of the notes after Dutch, Kazakhstan or Canadian withholding tax will equal the amount that would have been received if no withholding tax had been applicable, subject to some exceptions. In the event that the issuer or the guarantors become obligated to pay additional amounts as a result of changes in applicable Dutch, Kazakhstan or Canadian law, the issuer may redeem the notes at any time in whole, but not in part, at a price equal to 100% of their principal amount plus accrued and unpaid interest to the redemption date.

The notes will rank equally in right of payment with all of the issuer's other unsecured unsubordinated debt obligations. The indenture relating to the notes will limit the ability of the issuer to incur additional indebtedness. The guarantees will rank equally in right of payment with all of the guarantors' other unsecured unsubordinated debt obligations and senior in right of payment to all of the guarantors' subordinated debt obligations. The guarantees will be effectively subordinated in right of payment to all of the guarantors' secured debt obligations to the extent of such security.

See "Risk Factors" beginning on page 14 for a discussion of certain risks that you should consider in connection with an investment in the notes.

The notes (including the guarantees) have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") or the securities laws of any state and may not be offered, sold, pledged or otherwise transferred in the United States or to, or for the account or benefit of, any U.S. person, except in accordance with an available exemption from the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For certain restrictions on transfer, see "Transfer Restrictions".

The issuer has applied to list the notes on the Luxembourg Stock Exchange in accordance with its rules and the Irish Stock Exchange, and intends to maintain one such listing. In addition, the issuer will apply to list the notes on the Kazakhstan Stock Exchange.

It is expected that delivery of the notes will be made to investors on or about February 12, 2003 in book-entry form through The Depository Trust Company in the case of notes sold pursuant to Rule 144A under the Securities Act and through JPMorgan Chase Bank, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), in the case of notes sold pursuant to Regulation S under the Securities Act.

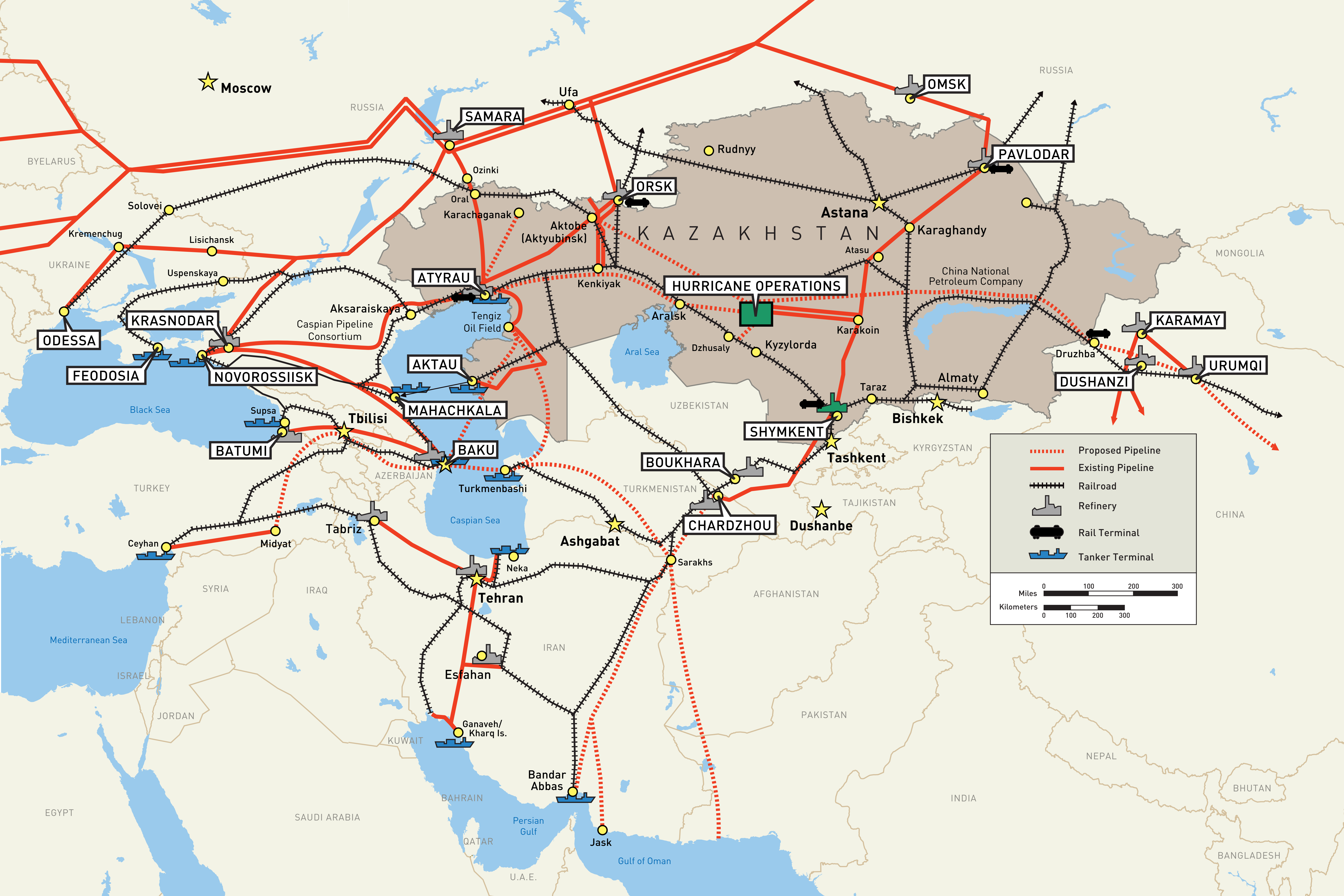
JPMorgan

Credit Suisse First Boston **ING** **MDM Bank**

February 11, 2003

Table of contents

	Page
Presentation of Financial and Other Information	iii
Presentation of Our Reserve Information	iii
Definitions and Other Matters	iv
Certain Publicly Available Information	iv
Enforceability of Liabilities and Service of Process	iv
Notice to New Hampshire Residents	vi
Available Information	vi
Special Note Regarding Forward–Looking Statements	vi
Offering Memorandum Summary	1
Risk Factors	14
Use of Proceeds	28
Capitalization	28
Selected Historical Consolidated Financial Data	29
Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Business and Properties	54
Management	85
Principal Shareholders	90
Related Party Transactions	91
Description of Certain Financing Arrangements	94
Description of the Notes	96
Certain Tax Considerations	140
Plan of Distribution	145
Transfer Restrictions	148
Legal Matters	149
Independent Accountants	149
Experts	149
Where You Can Find More Information	150
The Issuer and the Guarantors	150
General Listing Information	154
Index to Financial Statements	F-1
Appendix A: Glossary of Selected Oil and Natural Gas Terms	A-1
Appendix B: The Republic of Kazakhstan	B-1
Appendix C: The Oil Industry in Kazakhstan	C-1



Moscow
RUSSIA
BYELARUS
UKRAINE
SAMARA
Ufa
OMSK
RUSSIA
Rudnyy
PAVLODAR
Ozinki
Oral
Karachaganak
ORSK
Solovei
Kremenchug
Lisichansk
Aktobe (Aktyubinsk)
KAZAKHSTAN
Astana
Karaghandy
Atasu
MONGOLIA
Uspenskaya
ATYRAU
Kenkiyak
HURRICANE OPERATIONS
China National Petroleum Company
Aksaraiskaya
Caspian Pipeline Consortium
KRASNODAR
ODESSA
Tengiz Oil Field
Aralsk
Aral Sea
Dzhusaly
Kyzylorda
Karakoin
KARAMAY
Druzhba
URUMQI
DUSHANZI
FEODOSIA
NOVOROSSIISK
AKTAU
MAHACHKALA
Black Sea
Supsa
Tbilisi
UZBEKISTAN
Taraz
Almaty
Bishkek
SHYMKENT
BATUMI
BAKU
AZERBAIJAN
Turkmenbashi
BOUKHARA
Tashkent
KYRGYZSTAN
TURKEY
TURKMENISTAN
TAJIKISTAN
Dushanbe
CHARDZHOU
Ashgabat
Tabriz
Caspian Sea
Ceyhan
Midyat
Neka
Sarakhs
Tehran
SYRIA
IRAQ
LEBANON
Mediterranean Sea
AFGHANISTAN
IRAN
ISRAEL
Esfahan
JORDAN
PAKISTAN
Ganaveh/ Kharq Is.
KUWAIT
NEPAL
BHUTAN
Bandar Abbas
BAHRAIN
INDIA
EGYPT
SAUDI ARABIA
Persian Gulf
QATAR
Jask
Gulf of Oman
U.A.E.
BANGLADESH
CHINA
Proposed Pipeline
Existing Pipeline
Railroad
Refinery
Rail Terminal
Tanker Terminal
Miles 0 100 200 300
Kilometers 0 100 200 300

No person is authorized in connection with any offering made hereby to give any information or to make any representation not contained in this offering memorandum, and, if given or made, that information or representation must not be relied upon as having been authorized by us, J.P. Morgan Europe Limited, Credit Suisse First Boston (Europe) Limited, ING Bank N.V., London Branch, or MDM Bank (the "initial purchasers"). The information contained in this offering memorandum is as of the date of this offering memorandum and is subject to change, completion or amendment without notice. Neither the delivery of this offering memorandum at any time nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information set forth in this offering memorandum or in our affairs since the date of this offering memorandum.

You may not construe the contents of this offering memorandum as investment, legal, tax advice or as an offering to purchase securities. You should consult your own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the notes. The issuer, the guarantors and the initial purchasers are not making any representation to any recipient of the notes regarding the legality of any investment therein by the offeree or purchaser under appropriate legal investment or similar laws. In making any investment decision regarding the notes, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. Any decision to purchase the notes must be based only on the information contained in this offering memorandum.

The issuer and the guarantors, having made all reasonable inquiries, confirm that this offering memorandum contains all information with respect to the offering and the notes which is material in the context of the issue and offering of the notes, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions of the issuer and the guarantors expressed herein are true and honestly held and that there is no other fact or matter omitted from this offering memorandum, the omission of which, in the context of the issue and offering of the notes, makes any statement herein misleading in any material respect and all reasonable inquiries have been made by the issuer and the guarantors to ascertain such facts and to verify the accuracy of all such information and statements. See "Special Note Regarding Forward-Looking Statements" for a discussion of risks and uncertainties relating to statements that are not historical facts. The issuer and the guarantors accept responsibility for the information contained in this offering memorandum accordingly, except that the responsibility of the issuer and the guarantors for certain publicly available information appearing in this offering memorandum described under "Certain Publicly Available Information" and "Where You Can Find More Information" is solely for the accurate extraction and transcription of such information.

The information contained in this offering memorandum was obtained from us and other sources believed by us to be reliable. The initial purchasers have no responsibility for its accuracy or completeness. No representation or warranty, express or implied, is made by the initial purchasers as to the accuracy or completeness of the information set forth in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers, whether as to the past or the future.

This offering memorandum is a document that we are providing only to prospective purchasers of the notes. You should read this offering memorandum before making a decision whether to purchase the notes. You must not:

- use this offering memorandum for any other purpose; or
- disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the notes. By purchasing the notes you will be deemed to have acknowledged that:

- you have reviewed this offering memorandum;

- you have made certain acknowledgments, representations and agreements as set forth under the captions "Plan of Distribution" and "Transfer Restrictions"; and
- the initial purchasers are not responsible for, and are not making any representation to you concerning, our future performance or the accuracy or completeness of this offering memorandum.

The notes (including the guarantees) are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the notes and distribution of this offering memorandum, see "Plan of Distribution" and "Transfer Restrictions".

The notes (including the guarantees) have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC"), any state or Canadian provincial securities commission or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the notes (including the guarantees) or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offence.

The notes (including the guarantees) may not be offered or sold within Canada or to, or for the account or benefit of, Canadian residents in violation of the securities laws of Canada or any province or territory of Canada.

The notes (including the guarantees) are offered in the Netherlands exclusively to persons who trade or invest in securities in the conduct of their profession or trade (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities in a professional manner).

The notes (including the guarantees) may not be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 and in compliance with all applicable provisions of the Financial Services and Markets Act 2000. See "Plan of Distribution".

The notes (including the guarantees) may not be offered or sold in Kazakhstan, and no draft or definitive document in relation to any such offer or sale in Kazakhstan may be distributed by any person, except in compliance with the laws of Kazakhstan.

This offering memorandum does not constitute an offer to sell or a solicitation or an offer to buy any security other than the notes offered by this offering memorandum, nor does it constitute an offer to sell or a solicitation of an offer to buy any of the notes to any person in any jurisdiction in which it is unlawful to make an offer or solicitation to that person. Each prospective purchaser of the offered notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the notes or possesses or distributes this offering memorandum and must obtain any consents, approvals or permissions required for the purchase, offer or sale by it of the notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither we nor the initial purchasers shall have any responsibility therefor.

We reserve the right to withdraw the offering at any time and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to you less than the full amount of notes sought by you. The initial purchasers and certain related entities may acquire for their own account all or a portion of the notes.

In connection with this offering, J.P. Morgan Europe Limited, or any person acting on its behalf, may over-allot or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on J.P. Morgan Europe Limited, or persons acting on its behalf, to do this. Specifically, J.P. Morgan Europe Limited may bid for, and purchase, the notes in the open market to stabilize the price of the notes or to cover short positions, and may impose penalty bids. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. For a description of these activities, see "Plan of Distribution".

Presentation of Financial and Other Information

Unless otherwise indicated, financial information in this document has been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Canadian GAAP differs in certain significant respects from U.S. GAAP. For a discussion of the most significant differences between Canadian GAAP and U.S. GAAP relevant to us, see the U.S. GAAP reconciliations contained in the notes to our consolidated financial statements included in this offering memorandum. All amounts expressed in the financial statements forming part of this offering memorandum are, unless otherwise specified, expressed in U.S. dollars.

In this offering memorandum, unless otherwise specified or unless the context otherwise requires, all references to "dollars" or "$" are to U.S. dollars, all references to "Cdn.$" are to Canadian dollars and all references to "Tenge" are to Kazakhstani Tenge. On February 6, 2003, (i) the noon buying rate in the City of New York for cable transfers in Canadian dollars as certified by the Federal Reserve Bank of New York was $1.00 equals Cdn.$1.5213 and (ii) the exchange rate for Kazakhstani Tenge as quoted by the National Bank of the Republic of Kazakhstan was $1.00 equals 155.0 Tenge. No representation is made that the Tenge, Cdn.$ or U.S.$ amounts referred to herein could have been or could be converted into U.S.$, Cdn.$ or Tenge, as the case may be, at any particular rate or at all.

Presentation of Our Reserve Information

The SEC generally permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves, after the deduction of royalties and interests of others, which are those reserves that a company has demonstrated by actual production or conclusive formation tests to be economically producible under existing economic and operating conditions. Canadian securities laws permit oil and gas companies, in their filings with Canadian securities regulators, to disclose not only proved reserves but also probable reserves, and to disclose reserves and production on a gross basis before deducting royalties. Probable reserves are less accurately estimated and there is greater risk that the reserves estimated will not actually be recovered. We have disclosed in our public filings in Canada and in this offering memorandum reserves designated as "probable". We have determined and disclosed estimated future net cash flow from our reserves using both constant and escalating prices and costs, whereas the SEC generally requires that prices and costs be held constant at levels in effect at the date of the reserve report. In addition, the estimates of future net cash flows included in our public filings in Canada and in this offering memorandum based on constant price and cost assumptions, as reflected in the report prepared by McDaniel & Associates Consultants Ltd., were prepared using average prices received by us during 2001, as set out in the McDaniel Report, held constant for the economic life of the reserves, whereas the SEC guidelines would require that the estimates of future net cash flows be prepared using prices in effect as of January 1, 2002, the effective date of the McDaniel Report, held constant for the economic life of the reserves.

Unless otherwise specified, reserve information contained in this offering memorandum has been derived from the McDaniel Reports dated March 7, 2002, prepared by McDaniel & Associates Consultants Ltd., independent petroleum engineers, referred to in ''Summary Operating Data'' and ''Business and Properties—Oil and Gas Reserves.'' This information has not been prepared in accordance with U.S. GAAP.

Unless otherwise indicated, all references in this offering memorandum to our proved reserves are presented net of royalty payments, and all references to our production reflect our total interest production without taking into account royalty payments. Our royalty obligations are reflected as "Royalties" in our consolidated statements of income. In addition, except as otherwise indicated, all evaluations relating to our crude oil and natural gas reserves are based upon escalating price assumptions, which assume, among other things, price forecasts, political and economic stability in Kazakhstan and the continuance of current laws and regulations. See the section entitled "Business and Properties — Oil and Gas Exploration and Development Operations — Estimates of Proved and Proved Plus Probable Reserves and Present Worth Values" and "Risk Factors — Risk Factors Relating to Our Industry — Volatility of oil and gas prices could adversely affect our results of operations".

The discounted present worth values of future net pre-tax cash flows of our proved reserves set forth in this offering memorandum were calculated using a 10% discount factor. You should note, however, that the 10% discount factor may not be necessarily the most appropriate discount factor based on interest rates in effect from time to time and risks associated with the oil and gas industry. No matter what discount rate is used, discounted present worth value is materially affected by assumptions as to the amount and timing of future production, which may and often do prove to be inaccurate. See the section entitled "Risk Factors — Risk Factors Relating to our Industry — The oil and gas reserves data in this offering memorandum are only estimates, and may prove to be inaccurate".

The estimated present worth values of net production revenue contained in this offering memorandum may not be representative of the fair market value of the reserves. Actual reserves may be greater than or less than the estimates provided herein.

Definitions and Other Matters

Except as otherwise required by the context (including with respect to the "Description of the Notes"), references in this offering memorandum to "our", "we" or "us" refer to the combined business of Hurricane Hydrocarbons Ltd. and all of its subsidiaries, including HKM and HOP.

Bbls, Mbbls and MMbbls means barrels, thousand barrels and million barrels. BOPD means barrels of oil per day. Mcf, MMcf and Bcf means thousand cubic feet, million cubic feet and billion cubic feet. MMcfd means millions of cubic feet per day. See "Appendix A: Glossary of Selected Oil and Natural Gas Terms" for additional information of key oil and gas terms used in this offering memorandum.

Certain Publicly Available Information

Certain statistical data and other information appearing in this document under "The Republic of Kazakhstan" and "The Oil Industry in Kazakhstan" and have, unless otherwise stated, been extracted from documents and other publications released by the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, the Ministry of Energy and Mineral Resources of Kazakhstan, the National Bank of Kazakhstan and other public sources. In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. None of the issuer or the guarantors, nor any of their respective directors, affiliates, advisers or agents, have made any independent verification of such statistics or information in connection with this offering, nor can any such person provide any assurance as to the factual correctness of any such statistics or information. However, the issuer and the guarantors accept responsibility for accurately extracting and transcribing such statistics and information from such sources and believe, after due inquiry, that such statistics and information represent the most current publicly available information and statistics from such sources at and for the periods with respect to which they have been presented.

Enforceability of Liabilities and Service of Process

Hurricane is incorporated in the province of Alberta, Canada, HKM and HOP are incorporated in Kazakhstan, and the issuer is incorporated in the Netherlands, and all of their respective assets and operations are located outside the United States. All of the directors and officers of

Hurricane, HKM, HOP and the issuer and certain experts named herein reside outside the United States and most of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon Hurricane, HKM, HOP or the issuer or such persons with respect to matters arising under U.S. federal securities laws, or to enforce judgments of courts of the United States against them whether or not predicated upon the civil liability provisions of the federal securities or other laws of the United States or any state thereof. There is substantial doubt as to the enforceability in Canada, Kazakhstan and the Netherlands against Hurricane, HKM, HOP or the issuer or any of their respective directors and executive officers or experts named herein, in original actions or in actions for enforcement of judgments rendered by U.S. courts, of liabilities predicated solely on the anti-fraud provisions of the U.S. federal securities laws. Hurricane, HKM, HOP and the issuer will irrevocably submit to the non-exclusive jurisdiction of any State of New York or U.S. federal court sitting in the City of New York with respect to any suit, action or proceeding with respect to the indenture, the notes or the guarantees and for any actions brought under U.S. federal or State securities laws. See "Description of the Notes — Governing Law; Consent to Jurisdiction and Service; Arbitration."

The notes and the indenture relating to the notes are governed by the laws of the State of New York and the issuer and the guarantors have agreed in the notes and the indenture that disputes arising thereunder are subject to the jurisdiction of the courts of the State of New York or, at the election of the trustee or, in certain circumstances, a noteholder, to arbitration in London, England. See "Description of the Notes — Governing Law; Consent to Jurisdiction and Service; Arbitration." Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United States. The indenture will provide that, at the option of any holder of a note, any dispute or difference of whatever nature however arising under, out of or in connection with the indenture, the notes and/or the guarantees held by such holder, may be referred to and finally resolved by arbitration under the Rules of the London Court of International Arbitration (the "Rules"). Each of Kazakhstan and the United States are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the ''Convention''). There has recently been some doubt as to whether the courts of Kazakhstan would enforce an arbitral award under the Convention. In February 2002, the Constitutional Council of Kazakhstan passed a decree on the interpretation of the Kazakhstan Constitution which stated that the conclusion by parties to a commercial contract in connection with which a dispute is submitted for consideration to arbitration should not exclude the possibility that such dispute may be considered by the courts of Kazakhstan. The decree made no distinction between foreign and domestic arbitral awards. However in April 2002, the Constitutional Council of Kazakhstan passed a further decree stating that the original decree did not apply to the recognition and enforcement of foreign arbitration awards where the procedure for such awards is established by a treaty obligation of Kazakhstan. Accordingly, arbitration awards under the Rules are generally recognized and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

In addition, the issuer is incorporated under the laws of the Netherlands. The United States and the Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicted solely upon United States federal securities laws, would not be directly enforceable in the Netherlands. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in the Netherlands such party may submit to a Dutch court the final judgment, which has been rendered in the United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on a valid submission by the issuer to the jurisdiction of such courts and that proper legal procedures have been observed, the Dutch court will, in principle, give binding effect to the final judgment which has been rendered in the United States unless such judgment contravenes public policy in the Netherlands. It is uncertain whether such practice extends to default judgments as well.

Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Available information

We are required to file periodic reports with the U.S. Securities and Exchange Commission. The issuer and the guarantors have agreed that, for so long as any notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case, upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act. Hurricane is currently subject to the reporting requirements under Section 13 of the U.S. Securities Exchange Act of 1934, or the Exchange Act.

Written requests for the information described above should be addressed to Hurricane Hydrocarbons Ltd., Suite 1460, Sun Life Plaza, North Tower, 140-4th Avenue S.W., Calgary, Alberta, T2P 3N3, Canada, Attention: Vice President, Investor Relations. Our telephone number is (403) 221-8435. All information referred to above will, for so long as the notes are listed on the Luxembourg Stock Exchange, also be available, without charge, at the specified office of the paying agent in Luxembourg during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this offering memorandum.

Special Note Regarding Forward-Looking Statements

This offering memorandum contains "forward-looking statements" within the meaning of the U.S. securities laws about our expectations, beliefs, plans, objectives, assumptions or future events or performance. These statements include, among others, statements regarding our future financial position, strategy, reserves, projected levels of capacity and production, projected costs and estimates of capital expenditures. These statements are often, but not always, made through the use of words or phrases such as "will likely result", "are expected to", "will continue", "anticipate", "estimate", "intend", "plan", "project", "would" and "outlook". These forward looking-statements are not historical facts, and are subject to a number of risks and uncertainties. Certain of these risks and uncertainties are beyond our control. Accordingly, our actual results could differ materially from those suggested by these forward-looking statements for various reasons discussed throughout this offering memorandum and particularly in the section entitled "Risk Factors". Some of the key factors that have a direct bearing on our results of operations are:

- the concentration of our operations, assets and revenues in Kazakhstan;
- the business of exploration, development and production of oil and natural gas reserves, the levels of those reserves, the marketing of crude oil and refined products and the ability to increase the quality of refined products;
- our ability to transport our crude oil to export markets;
- fluctuations in crude oil and refined product prices;

- changes in general political, social, economic and business conditions in Kazakhstan and the region;
- our ability to manage our growth;
- changes in business strategy or development plans;
- our future capital needs;
- business abilities and judgment of our personnel;
- changes in, or our failure to comply with, government regulations or changes in interpretation, application or enforcement of government regulations;
- costs arising from environmental liability;
- costs and other effects of legal and administrative proceedings;
- our ability to manage currency fluctuations; and
- general economic and business conditions.

The factors described above and referred to in "Risk Factors" could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements. Therefore, you should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the forward-looking statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict in advance all of those factors. Further, we cannot assess in advance the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

For a discussion of important risks of an investment in our securities, including factors that could cause actual results to differ materially from results suggested in the forward-looking statements, you should carefully consider the information set forth under the caption "Risk Factors". In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.

Offering Memorandum Summary

This summary highlights information contained elsewhere in this offering memorandum. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read the entire offering memorandum, including the section entitled "Risk Factors" and the financial statements and related notes to those statements included in this offering memorandum.

Except as otherwise required by the context, references in this offering memorandum to "our", "we" or "us" refer to the combined business of Hurricane Hydrocarbons Ltd. and all of its subsidiaries, including HKM and HOP.

The Company

We are an independent, integrated international energy company engaged in the exploration for, and production, refining and export of, crude oil and the marketing of crude oil and refined products in the Republic of Kazakhstan. For the years ended December 31, 2000 and 2001 and for the nine months ended September 30, 2002, we had net income of $154.9 million, $169.3 million and $117.4 million, respectively, and earnings before interest, income taxes and depletion and depreciation, or EBITDA, of $288.0 million, $291.5 million and $243.6 million, respectively. Our business consists of our Upstream and Downstream operations.

Upstream

Our Upstream operations consist of exploration and production activities. All crude oil from our production activities is either refined by our Downstream operations and sold primarily within Kazakhstan or is exported directly by our Upstream operations.

- *Exploration*. Our exploration activities involve exploration and exploratory drilling for new reserves in areas in which we hold exploration licenses. We own a 100% interest in exploration licenses for areas covering approximately 414,000 acres. To date, exploration on these lands has resulted in the discovery of two new fields. Our exploration program in 2002 was primarily focused on assessing deeper stratigraphic prospects.
- *Production*. Our production activities involve the production of oil from our existing reserves. We own interests in eleven fields, all of which are located in the South Turgai Basin in south-central Kazakhstan. We estimate that, as of January 1, 2002, we had proved reserves of 348.1 MMbbls of oil and 32.8 Bcf of natural gas with a total present value, discounted at 10%, of future net pre-tax cash flows of $1,883 million. Of the eleven fields in which we own interests, the seven fields operated by us accounted for 54.7% of our proved reserves of oil as of January 1, 2002, and 75.4% of our production for the first nine months of 2002. Our average daily production of oil was 100,877 BOPD in 2001 and 128,203 BOPD in the nine months ended September 30, 2002.

Downstream

Our Downstream business consists of refining, marketing and trading activities. All crude oil from our Upstream operations that is not exported is sold to our Downstream operations for refining at our refinery, which is located in Shymkent and has been operating since 1987. Crude oil production from our producing fields is and is expected to continue to be the primary source of crude oil for the Shymkent refinery.

- *Refining and Marketing*. Our refining and marketing activities involve the operation of the Shymkent refinery and the marketing of the refined products it produces. The refined products produced at the Shymkent refinery include heating fuel, gasoline, diesel fuel and jet fuel primarily for the Kazakhstani domestic market. Through our indirect ownership interest in HOP, a Kazakhstani joint stock company, we own and operate the Shymkent

refinery. The Shymkent refinery had a rated crude oil throughput capacity of approximately 140,000 BOPD as of September 30, 2002, and operated at an average of approximately 51% of its capacity during the nine months ended September 30, 2002. In 2001, approximately 43% of our crude oil production was sold by our Upstream operations to our Downstream operations for refining at the Shymkent refinery and refined product trading.

- *Trading*. In 2001, approximately 50% of our crude oil production was exported from our refinery at Shymkent, which currently serves as our crude oil distribution hub. The principal buyers of our crude oil include Naftex, Eurasia, TotalFinaElf, BP, Vitol, Sintez and Shell.

Competitive Strengths

We believe that we enjoy the following principal competitive strengths:

Integrated operations. We are an integrated oil company in Kazakhstan with exploration, development, production, refining and marketing capabilities. We believe that these capabilities result in:

- a greater ability to maximize profit from our crude oil production in response to market demand by adjusting the balance between exports and domestic sales in Kazakhstan;
- a greater ability to enhance the quality of our products and the efficiency of our operations; and
- an enhanced perception of us by domestic and foreign customers as a large and dependable supplier.

Optimal field characteristics. The favourable characteristics of our producing properties enable us to develop our fields and produce and refine our crude oil at relatively low costs. Our fields generally have productive zones at relatively shallow depths ranging from 2,500 to 6,000 feet. Our reservoirs have high porosity and high levels of permeability. Our reserves produce light, sweet crude at 37° to 44° API gravity with a sulphur content of less than 0.4%.

Pipeline and transportation connection between our oil fields and our refinery with sufficient capacity. Our Central Processing Facility, or CPF, gathers production from our principal producing fields and delivers export specification oil to the Shymkent refinery via 28-inch and 20-inch lateral pipelines that connect to the West Siberia-Central Asia Pipeline, or the Central Pipeline, all of which pipelines are operated by KazTransOil CJSC, which is controlled by the Kazakhstani government. We believe there is substantial unutilized capacity in the pipelines. We are refurbishing the Central Processing Facility and other production facilities to increase total fluid handling capacity from 190,000 BFPD to over 280,000 BFPD. This combination of facilities and pipelines allows for production growth and the development of additional reserves without the need for new transportation infrastructure. In addition, the QAM pipeline, due to be commissioned in the third quarter of 2003, will provide an alternative transportation route directly to one of the rail networks we use for exporting oil. See "Business and Properties — Downstream Operations — Transportation" for further details.

Excess refining capacity. The Shymkent refinery, which began operating in 1987, had a rated crude oil throughput capacity of approximately 140,000 BOPD as of September 30, 2002, and operated at an average of approximately 51% of its capacity during the nine months ended September 30, 2002. This gives us significant flexibility in our choice between trading crude oil or refined products as we increase our production activities and develop new reserves. We expect that the refinery's significant excess capacity will enable us to meet all of our medium- and long-term refining needs.

Market leadership in a major market. The Shymkent refinery is the only refinery located in the southern region of Kazakhstan, which is the most densely populated area of Kazakhstan. We

have a network of sales, storage and distribution outlets in the principal centers of the region to market our refined products. We have achieved a leading market position in the Kazakhstani domestic market, which positions us well to capitalize on growth and any other improvements in the Kazakhstani economy.

Western technology and management techniques. We have applied Western technology and management techniques to modernize our operational infrastructure in Kazakhstan and maximize its efficiency. We are using Western seismic and other exploration techniques to explore our properties in the South Turgai Basin. The Shymkent refinery is being upgraded and, with the refinery's significant excess capacity, we expect it will be able to meet all of our refining needs so that we may implement our medium- and long-term marketing plan.

Business Strategy

By capitalizing on our competitive strengths, we aim to be the leading integrated oil and gas company in Central Asia. The primary elements of our strategy are to:

Explore undeveloped properties. We continue our exploration of undeveloped property covering approximately 414,000 acres, for which we hold exploration licenses. Beginning in January 2002 our exploration program has been primarily focused on accessing deeper stratigraphic prospects.

Capitalize on our development opportunities. As of January 1, 2002, our estimated proved undeveloped reserves were 104.8 MMbbls. We intend to bring these proved undeveloped reserves into production in a timely, efficient and profitable manner.

Increase our oil transportation alternatives in order to reduce transportation costs and increase our export opportunities. In the nine months ended September 30, 2002, we sold approximately 52% of our crude production into export markets. Transportation to export markets remains our single largest cost of operations. Our transportation costs include costs associated with:

- trucking crude oil from the QAM fields to the Central Processing Facility;
- shipping crude oil from our Central Processing Facility to the Shymkent refinery;
- railway transportation from the refinery to export destinations; and
- transportation of crude oil by our Kazgermunai joint venture to its export customers.

As many of the modes of transportation for our crude oil and refined products are controlled by government entities and other third parties and few alternative modes currently exist, we are seeking ways in which to diversify our transportation options in order to increase competition and thereby lower our costs. Additional transportation options to export markets would provide transportation capacity for increased exports. In this regard, we have undertaken various initiatives, including:

- constructing the QAM pipeline linking the QAM fields and our other fields to the railroad terminal at Dzhusaly;
- opening a number of new export routes, such as Turkmenbashi — Batumi, Atyrau — Samara, and Odessa;
- optimizing the use of existing export routes, such as Aktau — Batumi;
- continuing to transition crude oil exports to non-FCA sales (as to which title to crude oil passes outside Kazakhstan), which represented 46% of our crude oil sales during the three months ended September 30, 2002 and which allow us to monitor the associated transportation costs and will lead to increased operating margins;
- pursuing opportunities to improve our logistical infrastructure by upgrading our loading and storage facilities and securing access to a railcar fleet to lower the cost of and ensure the availability of rail transportation; and
- creating a specialized transportation and trading team, for both our Upstream and Downstream operations.

We also expect to actively pursue access to other pipelines, including the pipeline constructed by the Caspian Pipeline Consortium, or CPC.

Improve performance of the Shymkent refinery. We have undertaken, together with a consultant, a review of the refinery's operations to identify areas of improvement. We have been implementing relatively low-cost projects designed to increase product quality and production yields at the Shymkent refinery and to improve the refinery's product mix, such as:

- upgrading the refinery's secondary process capacity in order to reduce the output of lower margin products, such as fuel oil, and increase the output of higher margin products, such as gasoline and jet fuel;
- refurbishing and recommissioning a vacuum gas oil distillation unit to reduce production of lower margin products;
- installing additional equipment to enhance product quality; and
- implementing new processes to increase energy efficiencies in order to reduce our refining costs.

Reduce overhead and operating costs. We have eliminated the remaining overlap between the operations of our principal operating subsidiaries, HKM and HOP, by establishing our joint marketing team. In addition, in accordance with established western management practices, we intend to outsource many service activities that we currently perform to support our Upstream and Downstream operations and to divest non-core businesses and assets.

Selectively seek acquisition opportunities. We believe our integrated operations and leading position as a producer in the South Turgai Basin will create opportunities for additional growth through selective acquisitions. As part of our strategy to increase our reserves and production, we will pursue opportunities to acquire additional reserves from third parties. To date, our acquisition strategy has focused on acreage and assets, both producing and of exploration potential, within the vicinity of our current oil fields. We intend to pursue selective acquisitions throughout Kazakhstan.

Effectively exploit our natural gas reserves. We have implemented a gas utilization program designed to reduce the flaring of gas produced from our fields and the consequential release of pollutants into the environment, and to help us meet our power needs. We expect this program to provide us with a more reliable and lower cost power source for our field operations, power for the Shymkent refinery through swaps, and the opportunity to sell power to third parties.

Recent Developments

New Term Facility. On January 2, 2003, HKM entered into a $225 million export financing agreement with a consortium of European banks, comprising Natexis Banques Populaires, BNP Paribas and ING Bank. This loan facility, or the Term Facility, has a maturity of four years and is repayable in installments. In December 2002, HKM repaid all amounts outstanding under a pre-existing export financing facility, which was replaced by the Term Facility. As of February 7, 2003, HKM had drawn $190 million under this facility. HKM will have the option to draw down an additional $35 million, subject to approval and the ability of the bank consortium to fully syndicate the Term Facility.

Operations. On January 7, 2003, in connection with the announcement of our new Term Facility, we reported that:

- our 2002 production averaged 135,842 BOPD, and production for the three months ended December 31, 2002 averaged 158,500 BOPD. Part of the increased production will be recognised as sales in the first quarter of 2003, due to the normal seasonal build up of inventories at year-end and the timing of revenue recognition associated with increased non-FCA sales;

- our QAM pipeline construction project is on schedule for commissioning at the end of the second quarter of 2003. As of December 31, 2002, approximately $42 million had been spent on the project, the entire 177 km right of way had been cleared, over 165 km of pipe had been strung (of which 70% had been welded) and 25% of the trenching had been completed. The Kumkol pump station was over 40% complete and the Dzhusaly railway terminal was over 50% complete as of December 31, 2002;
- as of December 31, 2002, the 55-megawatt gas-fired electrical power plant to be used in connection with our gas utilization program at Kumkol was more than 70% complete and was on target for commissioning in the second quarter of 2003 and as of December 31, 2002, $28 million had been spent on this project; and
- agreements were also concluded late in 2002 for Turgai Petroleum (our 50% joint venture with Lukoil) to participate in both the QAM pipeline construction project and the gas utilization project.

Capital Budget. In our January 7 announcement, we also reported that our board of directors had approved a 2003 capital budget of $167 million, allocated as follows ($ in millions):

Upstream including joint ventures	$135.2
Downstream	$ 17.6
Marketing and Trading	$ 8.1
Corporate Services	$ 6.1

The Issuer

Hurricane Finance B.V., or the issuer, is a special purpose entity organized under the laws of the Netherlands. The issuer is a wholly owned subsidiary of HKM.

The Offering

Issuer	Hurricane Finance B.V.
Guarantors	Hurricane, HKM and HOP.
Securities	$125,000,000 in principal amount of 9.625% Notes due 2010.
Guarantees	The guarantors will irrevocably and unconditionally, on a joint and several basis, guarantee the full and punctual payment of principal, premium, interest, additional amounts and all other amounts that may become due and payable in respect of the notes.
Issue price	98.389% of the principal amount.
Maturity	February 12, 2010.
Interest rate	The notes will bear interest at a rate of 9.625% per annum from February 12, 2003, based on a 360-day year consisting of twelve 30-day months.
Interest	Interest on the notes will be payable semi-annually in arrears on February 12, and August 12 of each year, commencing on August 12, 2003.
Ranking	The notes will rank equally in right of payment with all of the issuer's other unsecured unsubordinated debt obligations. The indenture relating to the notes will limit the ability of the issuer to incur additional indebtedness. The notes will be effectively subordinated in right of payment to all indebtedness of our subsidiaries that do not provide guarantees of the notes. The guarantees will rank equally in right of payment with all of the guarantors' other unsecured unsubordinated debt obligations and senior in right of payment to all of the guarantors' subordinated debt obligations. The guarantees will be effectively subordinated in right of payment to all of the guarantors' secured debt obligations to the extent of such security. As of September 30, 2002, on a pro forma basis after giving effect to this offering, the intercompany loan of the proceeds of this offering to HKM, borrowings under our Term Facility expected to be outstanding as of the date of this offering, the repayment of our predecessor term facility and the redemption on February 3, 2003 of our 12% Senior Notes due 2006, or Senior Notes, the guarantors would have had approximately $246.3 million of secured indebtedness outstanding and our non-guarantor subsidiaries would have had no indebtedness outstanding.
Use of proceeds	The net proceeds to us on a consolidated basis will be approximately $120.7 million. The gross proceeds of $123.0 million from this offering will be used by the issuer to make

a senior intercompany loan to HKM. The proceeds of the intercompany loan will be used for working capital and other general corporate purposes, which may include funding for prospective acquisitions, capital expenditures or the reduction of indebtedness, and to pay costs relating to this offering.

Change of control .... In addition, if Hurricane experiences a change of control, holders of notes may require the issuer to repurchase their notes at 101% of the principal amount thereof plus accrued and unpaid interest to the date of repurchase. See "Risk Factors — Risk Factors Relating to the Notes — The issuer may not be able to repurchase your notes" and "Description of the Notes — Repurchase at the Option of Holders — Change of Control".

Payment of additional amounts The issuer and the guarantors will pay additional amounts in respect of any payment in respect of the notes or the guarantees so that the amount received by holders of the notes after Dutch, Kazakhstan or Canadian withholding tax will equal the amount that would have been received if no withholding tax had been applicable, subject to some exceptions. See "Description of the Notes — Payment of Additional Amounts".

Tax redemption .... In the event that the issuer or the guarantors become obligated to pay additional amounts as a result of changes in applicable Dutch, Kazakhstan or Canadian law, the issuer may redeem the notes at any time in whole, but not in part, at a price equal to 100% of their principal amount plus accrued and unpaid interest to the redemption date. See "Description of the Notes — Optional Tax Redemption".

Covenants .... We will issue the notes under an indenture, which will, among other things, restrict our ability and the ability of our restricted subsidiaries to borrow money, pay distributions or dividends on equity or purchase equity, make investments, use assets as security in other transactions, enter into sale and lease-back transactions, sell assets or merge with or into other companies, engage in transactions with affiliates, and engage in unrelated businesses. For more details, see "Description of the Notes — Certain Covenants".

Form and denomination .... Delivery of the notes will be made on or about February 12, 2003 as described below.

Notes sold in the United States in reliance on Rule 144A will be evidenced by a note in global form called a Restricted Global Note, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company of New York, New York, or DTC. Notes sold outside the United States in reliance on Regulation S will be evidenced by a separate note in global form called an

Unrestricted Global Note, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. During an initial 40-day period, beneficial interests in the Unrestricted Global Note must be held through Euroclear or Clearstream, Luxembourg. Transfers of beneficial interests between the Restricted Global Note and the Unrestricted Global Note are subject to certification requirements.

The notes will be issued only in fully registered form, without coupons and in denominations of $10,000 and multiples of $1,000 in excess thereof for notes sold outside the United States in reliance on Regulation S and in denominations of $10,000 and any higher multiples of $1,000 in excess thereof for notes sold in the United States in reliance on Rule 144A.

Transfer restrictions . . . . The notes have not been and will not be registered under the Securities Act, under any applicable state securities laws or under any applicable Canadian provincial securities laws and are subject to restrictions on transfer. See "Transfer Restrictions".

Listing . . . . We have applied, through our listing agent, to list the notes on the Luxembourg Stock Exchange and the Irish Stock Exchange and intend to maintain one such listing. In addition, we will apply to list the notes on the Kazakhstan Stock Exchange.

Trustee . . . . J.P. Morgan Corporate Trustee Services Limited.

Principal paying agent and co-registrar . . . . JPMorgan Chase Bank, London branch.

New York paying agent and registrar . . . . JPMorgan Chase Bank, New York branch.

Luxembourg paying agent and co-registrar . . . . J.P. Morgan Bank Luxembourg S.A.

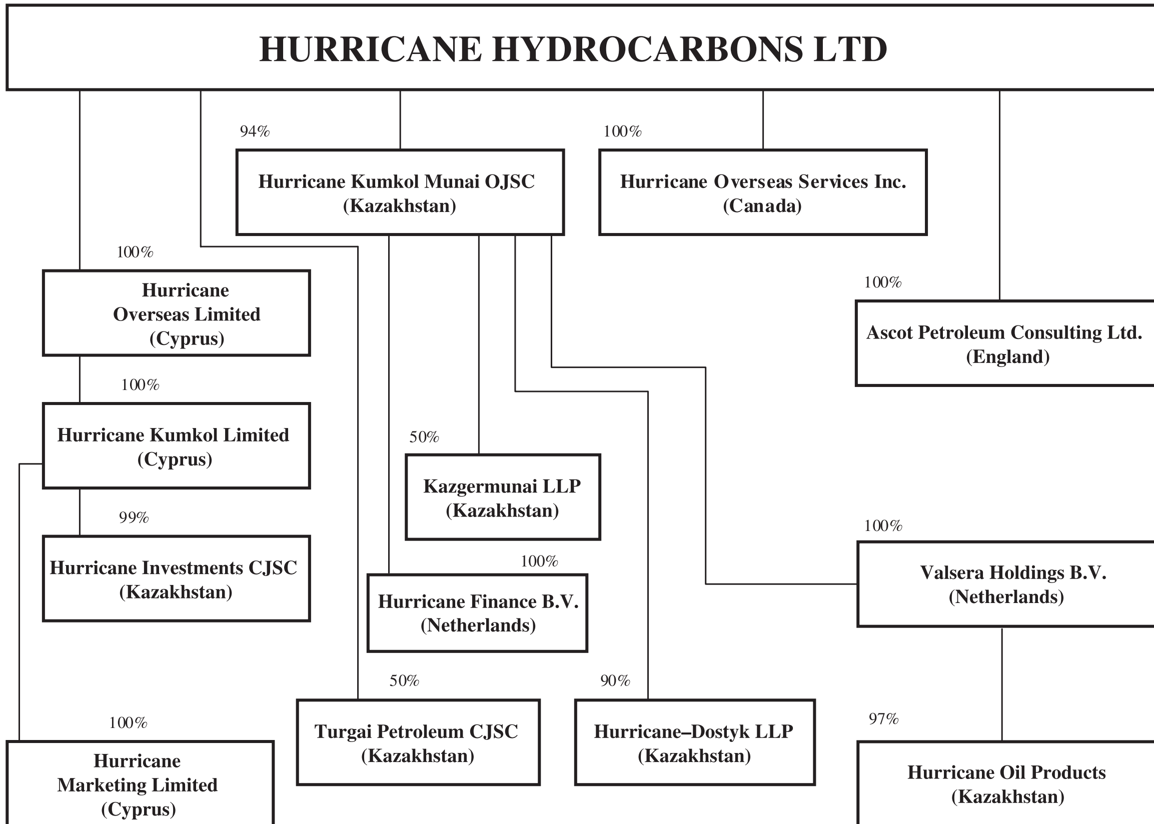
Governing law . . . . New York.

Risk factors . . . . Prospective purchasers of the notes should carefully consider all of the information set forth in this offering memorandum and, in particular, the information set forth under "Risk Factors" and "Transfer Restrictions" before making an investment in the notes.

Selling restrictions . . . . There are restrictions on persons that can be sold notes, and on the distribution of this offering memorandum, as described under "Plan of Distribution".

Organizational Structure

The following diagram illustrates the issuer and our principal operating entities. In connection with the offering, Hurricane Finance B.V. is issuing the notes. Hurricane, HKM and HOP will fully and unconditionally, jointly and severally, guarantee the notes on an unsubordinated basis.



- The issuer, Hurricane Finance B.V. (Netherlands), a special purpose entity, is a wholly owned subsidiary of HKM.
- Hurricane Hydrocarbons Ltd. (Canada) is our corporate head office that directly or indirectly owns all of the other companies within the Hurricane group.
- Ascot Petroleum Consulting Ltd. (England) provides management services to companies in the Hurricane group.
- Hurricane Overseas Limited (Cyprus) is an intermediate holding company.
- Hurricane Marketing Limited (Cyprus) is a crude oil marketing subsidiary of the Hurricane group.
- Hurricane Overseas Services Inc. (Canada and Kazakhstan) supplies international goods and services for Hurricane's Kazakhstani operations and provides personnel services to the group.
- Valsera Holdings B.V. (Netherlands) is the holding company for our refining activities.
- Turgai Petroleum CJSC (Kazakhstan) is a 50% joint venture with LUKoil Oil Company of Russia engaged in developing the Kumkol field.
- Kazgermunai LLP (Kazakhstan) is a 50% joint venture with RWE-DEA AG (25%), Erdöl-Erdgas Gommern GmbH (17.5%), and International Finance Corporation (7.5%) engaged in developing the Akshabulak, Nurali and Aksai fields.

Summary Consolidated Financial Data

The summary consolidated financial data presented below for the three years ended December 31, 2001 have been derived from our audited consolidated financial statements and the related notes that are included in this offering memorandum. Our annual consolidated financial statements for the periods presented below have been audited by Deloitte & Touche. Our summary consolidated financial data presented below for each of the nine-month periods ended September 30, 2001 and 2002 are derived from our unaudited consolidated financial statements for such periods included elsewhere in this offering memorandum and which, in the opinion of management, include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial results for such periods. Interim results are not necessarily indicative of the results which may be expected for any other interim period or for the full year.

You should read the summary consolidated financial data in conjunction with the information contained in "Risk Factors", "Capitalization", "Selected Historical Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business and Properties", our consolidated financial statements, including the related notes, and the other financial data appearing elsewhere in this offering memorandum.

	Year Ended December 31,			Nine Months Ended September 30,	
	1999	2000	2001	2001	2002
				(unaudited)	
	(in $ thousands, except ratios)				
Consolidated Statement of Income Data:					
Canadian GAAP:					
Revenue:					
Crude oil	153,047	301,216	252,981	193,342	319,606
Refined products	—	203,728	328,958	264,774	240,476
Processing fees	—	11,884	11,008	8,623	2,112
Interest and other income	2,196	6,373	10,109	8,094	6,497
Total revenue	155,243	523,201	603,056	474,833	568,691
Expenses:					
Production	34,443	35,302	43,040	29,681	41,669
Royalties	16,652	33,709	35,504	30,748	43,709
Transportation	17,016	25,152	50,237	34,218	100,131
Refining	2,197	12,583	20,562	14,606	17,607
Crude oil and refined product purchases	—	48,100	78,788	60,862	50,414
Selling	—	7,728	19,277	15,057	18,724
General and administrative	35,039	44,565	55,204	35,355	42,270
Interest and financing costs	23,874	18,708	19,530	12,126	26,078
Depletion and depreciation	4,991	14,680	34,254	24,618	29,064
Foreign exchange loss (gain)	7,647	(2,266)	1,453	435	1,771
Total expenses	141,859	238,261	357,849	257,706	371,437
Income before unusual items	13,384	284,940	245,207	217,127	197,254
Unusual items:					
Defense costs related to potential takeover	—	—	5,546	6,000	—
Gain recognized on sale of assets	(12,800)	—	—	—	—
Arbitration settlement	—	—	—	—	7,134
Waiver fees and debt restructuring costs	—	20,373	—	—	—
Income before income taxes	26,184	264,567	239,661	211,127	190,120
Income taxes:					
Current provision	17,671	100,708	79,679	67,377	64,706
Future income tax	—	(1,051)	(11,285)	(3,699)	6,312
Total income taxes	17,671	99,657	68,394	63,678	71,018
Net income before minority interest	8,513	164,910	171,267	147,449	119,102
Minority interest	—	9,980	1,927	1,153	1,672
Net income	8,513	154,930	169,340	146,296	117,430
U.S. GAAP:					
Net income	6,502	165,971	162,643	146,296	117,401

	Year Ended December 31,			Nine Months Ended September 30,	
	1999	2000	2001	2001	2002
				(unaudited)	
	(in $ thousands, except ratios)				
Consolidated Balance Sheet Data (at end of period):					
Canadian GAAP:					
Cash and short-term deposits	30,748	59,298	64,812	99,248	162,246
Working capital/(deficit)[1]	(176,396)	33,808	61,393	89,741	168,762
Total assets	141,437	414,526	572,470	527,153	737,384
Total long-term debt[2]	—	82,048	277,767	249,125	293,197
Total shareholders' equity/(deficit)	(87,582)	185,043	132,140	108,799	247,223
U.S. GAAP:					
Total shareholders' equity	(117,693)	140,800	79,603	63,387	186,593
Other Financial Data:					
EBITDA[3]	55,049	287,975	291,518	246,718	243,590
Capital expenditures	15,318	21,627	110,207	55,215	101,559
Ratio of EBITDA to cash interest expense	2.3x	15.4x	14.9x	20.3x	9.3x
Ratio of earnings to fixed charges[4]	2.1x	15.1x	13.2x	18.4x	8.3x
Ratio of net debt to EBITDA[5][6]	3.0x	0.2x	0.9x	0.6x	0.6x

(1) Working capital comprises current assets less current liabilities.

(2) $61.1 million and $62.7 million of these amounts represent non-recourse debt incurred by our Kazgermunai joint venture as of December 31, 2001 and September 30, 2002, respectively.

(3) "EBITDA" is defined as earnings before interest, dividends paid on preference securities, income taxes, depreciation, depletion and amortization. EBITDA is presented as additional information because we understand that it is one measure used by certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. However, other companies may present EBITDA differently than we do. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with generally accepted accounting principles.

(4) The term "earnings" is the amount of income before income taxes from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees, plus fixed charges, plus amortization of capitalized interest, plus distributed income to equity investees, plus the share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges, less interest capitalized, less preference security dividend requirements of consolidated subsidiaries, less the minority interest in pre-tax income of subsidiaries that have not incurred fixed charges and less unusual items. The term "fixed charges" means the sum of the following: (a) interest expensed or capitalized, (b) amortized premiums, discounts and capitalized expenses related to indebtedness, (c) an estimate of the interest within rental expense, and (d) preference security dividend requirements of consolidated subsidiaries. The term "preference security dividend" is the amount of pre-tax earnings that is required to pay the dividends on outstanding preference securities, computed as the amount of the dividend divided by one minus the effective income tax rate applicable to continuing operations.

(5) "Net debt" represents total debt less cash and cash equivalents.

(6) Nine month figures are calculated on an annualized basis.

Summary Operating Data

The following tables set forth information with respect to our estimated proved crude oil and natural gas reserves and the Shymkent refinery's refining capacity as of January 1, 2002, and production, sales, refining and other operating data for the year ended December 31, 2001 and the nine months ended September 30, 2002.

The following tables, which are derived from the reports (the "McDaniel Reports") of McDaniel & Associates Consultants Ltd. ("McDaniel") on certain interests, set forth our estimated proved and proved plus probable oil and natural gas reserves in Kazakhstan and the present worth value of estimated future net pre-tax cash flows of those reserves effective as of January 1, 2002 on an escalating price assumption basis. The McDaniel Report prepared on an escalating price basis was dated March 7, 2002.

McDaniel also calculated our estimated future net pre-tax cash flows and present value of estimated future net pre-tax cash flows discounted at 10% based on escalating price assumptions. These calculations of pre-tax cash flows are net of value added tax, but give no effect to income taxes, excess profit taxes or other applicable taxes attributable to estimated future net cash flows from the sale of oil and natural gas. Pre-tax disclosure is inconsistent with U.S. GAAP as prescribed by Statement of Financial Accounting Standards No. 69.

In addition, except as otherwise indicated, all evaluations relating to our crude oil and natural gas reserves are based upon escalating price assumptions, which assume, among other things, price forecasts, political and economic stability in Kazakhstan and the continuance of current laws and regulations. See "Business and Properties — Oil and Gas Exploration and Development Operations — Estimates of Proved and Proved Plus Probable Reserves and Present Worth Values" and "Risk Factors — Risk Factors Relating to Our Industry — Volatility of oil and gas prices could adversely affect our results of operations".

For additional information relating to our reserves, production and refining capacity, see "Risk Factors — Risk Factors Relating to our Business", "Business and Properties — Oil and Gas Exploration and Development Operations — Estimates of Proved and Proved Plus Probable Reserves and Present Worth Values", "Business and Properties — Oil and Gas Exploration and Development Operations — Principal Oil and Gas Properties", "Business and Properties — Downstream Operations — Refining" and the notes to our consolidated financial statements appearing elsewhere in this offering memorandum.

	As of January 1, 2002
Proved reserves of oil (MMbbls)	348.1
Proved reserves of natural gas (Bcf)	32.8
Proved developed reserves of oil (MMbbls)	243.2
Proved developed reserves of natural gas (Bcf)	0
Present value discounted at 10% of estimated future net pre-tax cash flows (in thousands)	$1,882,586
Pro forma net debt as a percentage of present value discounted at 10% of estimated future net pre-tax cash flows(1)(2)	10.1%
Pro forma total debt as a percentage of present value discounted at 10% of estimated future net pre-tax cash flows(2)(3)	22.0%
Rated crude oil throughput capacity of the Shymkent refinery (BOPD)	140,000

	Year Ended December 31, 2001	Nine Months Ended September 30, 2002
Gross production of crude oil (MMbbls)	36.8	35.0
Gross sales (MMbbls)	36.5	36.7
Transfer to refinery (MMbbls)	18.3	15.5
Export sales (MMbbls)	15.7	18.7
Royalty/domestic sales (MMbbls)	2.5	2.5
Average realized sales price per barrel of crude oil sold	12.2	15.1
Net productive wells at end of period	369.5	395.5
Average throughput capacity of the Shymkent refinery (MBOPD)	72.1	73.1

(1) Pro forma net debt represents our pro forma total debt as of September 30, 2002, less pro forma cash, cash equivalents and short-term investments as of such date.

(2) You should not consider the ratios of debt to present value of future cash flows in isolation or as a substitute for net income, cash flow from operations or other consolidated income or cash flow data prepared in accordance with U.S. GAAP or Canadian GAAP or as a measure of our profitability or liquidity. We believe that you should review these ratios because we use them as one means of analyzing our ability to service our debt repayment obligations and other liabilities. These ratios may not be comparable to similarly-titled measures presented by other issuers.

(3) Pro forma total debt represents our pro forma total debt as of September 30, 2002.

Risk Factors

In addition to other information in this offering memorandum, you should carefully consider the following risk factors before purchasing the notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected. If that happens, we may not be able to satisfy our obligations under the notes and/or the guarantees, and you could lose all or part of your investment.

Risk Factors Relating to Our Business

Failures to satisfy our commitments made under our licenses, hydrocarbon contracts or development plans may adversely affect our business.

We have committed to the Kazakhstani government to make various capital investments and to develop our oil fields in accordance with specific requirements under our exploration and production licenses, hydrocarbon contracts and field development plans. In some cases, the requirements under these licenses, hydrocarbon contracts and field development plans are inconsistent. Additionally, we have not satisfied some of these commitments in the past and may not satisfy some of these commitments in the future. If we fail to satisfy the commitments with respect to a specific field, our license or hydrocarbon contract, as applicable, for that field may be canceled. The cancellation of any of our licenses or hydrocarbon contracts could have a material adverse effect on our business, results of operations and financial condition. Although we intend to seek waivers of any breaches or to renegotiate the terms of these commitments, we cannot assure you that we will be successful in doing so. For a detailed discussion of our commitments for each field, see the section entitled "Business and Properties — Upstream Operations — Material Licenses".

In addition, we committed to the Kazakhstani government to invest $280 million in HKM by the end of 2002 and $150 million in HOP by the end of 2001. As of September 30, 2002, we believe we met both of these commitments. If the Kazakhstani government fails to recognize the investments we have made, we may be required to pay a penalty of 15% of the shortfall to the Kazakhstani government, which could have a material adverse effect on our financial condition and results of operations.

We could incur significant liability or suffer material adverse effects under environmental laws.

Extensive national, regional and local environmental laws and regulations affect nearly all of our operations. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for user fees, penalties and other liabilities for the violation of those standards and establish in some circumstances obligations to remediate current and former facilities and off-site locations.

For example, we are currently flaring approximately 96% of the gas produced from our fields and releasing pollutants from the Shymkent refinery. These practices in Kazakhstan are in breach of current Kazakhstani environmental legislation. We believe, however, that gas flaring and emission releases are operating practices followed by many oil producers in Kazakhstan. We cannot assure you that we will not be required to strictly comply with the current environmental legislation, or comply with stringent requirements, with respect to our gas flaring or emission release practices, which could have a material adverse effect on our financial condition and results of operations.

In consideration of this issue, we are in the process of implementing a government approved gas utilization program and will install a 55-megawatt electrical power plant in the Kumkol field to use associated gas from our Kumkol South, South Kumkol and Kumkol North fields. The cost of

construction of the plant, anticipated to be approximately $32.0 million, will be shared with Turgai Petroleum. It is intended that the plant will provide stable electrical power for field operations and will provide excess electricity for sale to Kyzylorda city and a credit for Shymkent refinery power usage. The plant is due to be commissioned in the third quarter of 2003. In addition, as a joint venture partner in Kazgermunai LLP, or Kazgermunai, we are participating in a project to provide natural gas to the Kyzylorda region. The feasibility of this project is under consideration, but funds have been budgeted in 2003 for its construction. We cannot assure you that our gas utilization program will not require a larger investment than we currently expect, which could have a material adverse effect on our results of operations. Either of these operations could raise additional issues under environmental laws and require us to expend funds to bring such operations into compliance.

Further, we may be subject to environmental liability as a result of our acquisitions. We acquired the Shymkent refinery in 2000 on an ''as is'' basis, with limited representations and warranties. Our ownership and operation of the Shymkent refinery may subject us in the future to risks of substantial liability, including liability for environmental matters arising from events occurring prior to its acquisition. We cannot assure you that material matters, not identified or fully investigated during our due diligence investigation, will not subsequently be identified, that matters identified will not prove to be more significant than currently expected, or that the indemnification provisions in the HOP transaction agreement will be sufficient to compensate us for any future environmental losses or other future losses.

Our operations in Kazakhstan are subject to periodic inspection by government environmental protection agencies. Those inspections have resulted in the receipt of formal communications from the governmental authorities detailing our noncompliance with specified environmental regulations and requiring corrective actions. However, we are unable to predict what action may be taken by those agencies or the Kazakhstani government as a result of the cited violations. Any action could have a material adverse effect on our business, financial condition and results of operations.

Further, under Kazakhstani privatisation laws, the HKM privatisation agreement and the HOP privatisation agreement, the Kazakhstani government is required to assume the financial responsibility for environmental damages which occurred on our property before we acquired HKM and HOP. In order to allocate this responsibility, we must agree with the Kazakhstani government on a baseline for the environmental damages that occurred before the privatisations. We hired a consultant in 1997 to perform a baseline study of environmental damage to the HKM properties. The Kazakhstani government has reviewed and approved the results of this assessment. To date, no baseline has been definitively established for the environmental damages on the properties of HOP. We cannot assure you that we will be able to agree with the Kazakhstani government on a satisfactory baseline for pre-privatisation environmental damages. If the Kazakhstani government does not fully assume the financial responsibility for pre-privatisation environmental damages because no baseline was set or the baseline does not fully cover those damages, our business, financial condition and results of operations could be adversely affected.

We could incur significant liability for discharges into the environment or environmental damage caused by noncompliance with environmental laws or regulations. That liability could have a material adverse effect on our results of operations. Moreover, we cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. In the future, our compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory agency, could require material expenditures by us for the installation and operations of systems and equipment for remedial measures, any or all of which could have a material adverse effect on our results of operations.

For a detailed discussion of our environmental matters, see the section entitled "Business and Properties — Environmental Matters".

Losses, damages and liability relating to our properties are not fully covered by insurance.

We currently maintain insurance against losses from business interruption for HKM and damages or liability for accidents with respect to HKM's and HOP's properties. However, the insurance coverage amount may be insufficient to cover fully all losses, damages or liabilities relating to HKM's and HOP's properties. In addition, as policies come up for renewal, we will need to evaluate, based on pricing and other terms, which coverages we are willing to renew. Desired coverage for business interruption, for example, may not be available on satisfactory terms. The occurrence of significant events against which we are not, or are not fully, insured, or of a number of lesser events against which we are fully insured but subject to substantial deductibles, could materially and adversely affect our business, financial condition and results of operations.

We conduct some of our operations through joint ventures.

We currently have a 50% interest in two joint ventures, Kazgermunai, the operator of the Akshabulak, Nurali and Aksai fields, and Turgai Petroleum, the operator of Kumkol North, and may in the future enter into further joint ventures as a means of conducting our business. We cannot fully control the operations and the assets of our joint ventures, nor can we make major decisions with respect to our joint ventures unless our joint venture partners agree. Accordingly, although we have the ability to veto decisions with respect to our joint ventures, we are not in a position to make unilateral decisions. This may constrain the ability of our joint ventures to take action. For example, the purchase order for a new process facility for the Akshabulak field operated by Kazgermunai is currently subject to delay by our joint venture partners pending assurances from the Kazakhstani government to our joint venture partners with respect to certain marketing and transportation issues. We recently commenced an arbitration proceeding against our two German partners over a dispute concerning amounts due to the joint venture in respect of crude oil purchases made by such partners. Under the terms of the indenture, we will be permitted to continue to make investments in joint ventures. See "Business and Properties — Corporate Development", "Description of the Notes — Certain Covenants — Restricted Payments" and the definition of "Permitted Investments" in "Description of the Notes — Certain Definitions".

Our crude oil is transported through a single processing unit.

All crude oil from our producing properties is gathered at our Central Processing Facility, or CPF, and then transported for export or refining at our refinery in Shymkent. Accordingly, any significant production problems or adverse change in our CPF could have a material adverse effect on our financial condition and results of operations.

We depend on the Shymkent refinery for all of our refining activities.

All of our refining activities are conducted at the Shymkent refinery. Refining operations are subject to inherent risks including fires, floods, accidents and explosions. As a result, our refining operations could experience significant interruption if the refinery or the distribution systems that it utilizes experienced a fire, flood, major accident, shutdown or equipment failure, or if it were damaged by severe weather or other natural disaster.

Our sales of refined products are highly dependent on conditions in the Kazakhstani domestic market.

During the nine months ended September 30, 2002, approximately 86% of our sales of refined products were in the Kazakhstani domestic market, a substantial portion of which was in the southern and eastern regions of Kazakhstan. Accordingly, any adverse change in the economic or social conditions in the southern and eastern regions of Kazakhstan could have a material adverse effect on our financial condition and results of operations. See "Risk Factors — Risk Factors Related to our Operations in Kazakhstan".

Inadequate infrastructure could adversely affect our business and results of operations.

Our drilling, production and refining activities could suffer due to inadequate infrastructure in the region. We have experienced power outages at our fields on a few occasions, although they have not materially impacted our operations to date. Any problem or adverse change affecting the power supply for our operations or other operational infrastructure provided by third parties could have a material adverse effect on our financial condition and results of operations.

We rely on transportation systems operated by third parties to transport our products.

Our crude oil production and refined products must be transported through pipelines or by rail. These pipelines and railways are operated by third parties, and we cannot assure you that these transportation systems will always be functioning or available, or that the transportation costs will remain at acceptable levels. We currently transport all of our crude oil to our refinery through a single pipeline. If the pipeline became unavailable for any reason, it would interrupt the supply of crude oil feedstock to the Shymkent refinery and materially affect our operations. In addition, any increase in the cost of pipeline transportation or reduction in its availability to us could have a material adverse effect on our results of operations. Further, the Shymkent refinery depends on railways to distribute refined products for sale within Kazakhstan, and we rely on railways to export crude to the Black Sea and to exploit additional export opportunities. We have in the past experienced difficulties in receiving the necessary allocation of rail cars from the national rail transportation company RSE Kazakhstan Temir Zholy and as a result have had to lease rail cars or rely on rail cars provided by traders. We cannot assure you that we will be able to procure sufficient rail capacity on economical terms, if at all.

We operate in a highly competitive industry.

The oil and gas industry is highly competitive. We compete with numerous other participants in the acquisition of oil and gas exploration licenses and properties and in the marketing of oil. Competitors include oil companies which have greater financial resources, staff and facilities than we do. Our ability to increase reserves in the future will depend not only on our ability to develop existing properties, but also on our ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil include price, methods and reliability of delivery and availability of imported products.

Our Shymkent refinery primarily competes with the two other refineries in Kazakhstan, the Pavlodar refinery and the Atyrau refinery. The principal competitive factors that will affect our refining operations are the quality, quantity and delivered costs of crude oil and other refinery feedstocks, refinery processing efficiency, mix of refined products, refined product prices and the cost of delivering refined products to markets. Competition also exists between the petroleum refining industry and other industries supplying energy and fuel to industrial, commercial and individual consumers.

Historically, Kazakhstan has been a net importer of refined products. Fluctuations in the demand within the Kazakhstani domestic market and the surrounding regional markets and changes in world oil prices and transportation costs may significantly increase imported products into Kazakhstan from countries of the former Soviet Union and the Baltic region. This increased competition could adversely affect our financial condition and results of operations.

We may not be able to effectively manage our growth and expansion.

We have experienced rapid growth and development in a relatively short period of time and expect to continue to grow as we increase production from our oil and gas reserves. Our management of that growth will require, among other things, stringent control of financial systems and operations, the continued development of our management controls and the training of new personnel. Failure to manage our rapid growth and development successfully could have a material adverse effect on our financial condition and results of operations.

We may be unable to raise additional financing when necessary, which would adversely affect our ability to pursue our business strategy.

In order to satisfy future capital investment commitments and liquidity needs with respect to HKM and HOP and their ongoing operations, we may require additional equity or debt financing. Our future capital investment commitments are described in the sections entitled "Business and Properties — Corporate Development — The HKM Acquisition," "Business and Properties — Corporate Development — The HOP Acquisition," and "Business and Properties — Upstream Operations — Material Licenses."

Our ability to arrange financing and the cost of financing depends upon many factors, including:

- economic and capital markets conditions generally, and in particular the non-investment grade debt market;
- investor confidence in the oil and gas industry, in Kazakhstan and in us;
- regulatory developments;
- credit availability from banks and other lenders; and
- provisions of tax and securities laws that are conducive to raising capital.

The terms and conditions on which future funding or financing may be made available may not be acceptable or funding or financing may not be available at all. If we decide to raise additional funds by incurring debt, we may become more leveraged and subject to additional or more restrictive financial covenants and ratios. Our inability to procure sufficient financing for these purposes could adversely affect our ability to implement our business strategy.

We have significant indebtedness and will be able to incur substantial additional indebtedness (which may be secured) in the future, and our level of indebtedness and our ability to make restricted payments and other investments under the indenture could adversely affect our financial health and prevent us from fulfilling our obligations under the notes or the guarantees.

As of September 30, 2002, on a pro forma basis after giving effect to this offering, borrowings under our Term Facility, the repayment of our predecessor term facility and the redemption on February 3, 2003 of our Senior Notes (see "Use of Proceeds"), we had total debt (of which $63.0 million is non-recourse), including amounts outstanding under our existing working capital facilities, consolidated total assets and shareholders' equity of $449.1 million, $737.4 million and $227.6 million, and our ratio of earnings to fixed charges would have been 8.96x for the nine months ended September 30, 2002.

Our indebtedness could have important consequences to you. For example, it could:

- make it more difficult for us to repay the intercompany loan, which in turn could prevent the issuer from satisfying its financial obligations under the notes;
- make it more difficult for us to satisfy our obligations with respect to the guarantees;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industries in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; or
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds.

In the future, we will be able to incur substantial additional indebtedness, including secured indebtedness that ranks effectively senior to the notes, and the terms of the indenture will not

fully prohibit us from doing so. In addition, the terms of the indenture will permit us to repurchase our capital stock, pay dividends in respect thereof or make investments of a material amount without substantial restrictions. This new indebtedness and such payments could materially increase the risks described above. See "Description of the Notes — Certain Covenants" and "Description of Certain Financing Arrangements."

In addition, certain of our financing arrangements impose operating and financial restrictions on our business. These provisions require us to maintain ratios of net debt and gross interest expense to cash flow. These provisions may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, significantly increase research and development expenditures, or withstand a continuing or future downturn in our business. For a discussion of our material financing arrangements other than the notes, see "Description of Certain Financing Arrangements."

Our ability to repay or refinance our debt and to meet our debt service obligations in the future will depend on our successful financial and operating performance and on our ability to successfully implement our business strategy. Our financial and operational performance depends upon a number of factors, including factors that are beyond our control. These factors include:

- fluctuations in oil prices, exchange rates and interest rates;
- volatility in refining and marketing margins;
- the success of our exploration, development and production programs;
- any operating difficulties, increased operating costs or pricing pressures we may experience;
- the passage of legislation, change in oil and gas pricing policies or other regulatory developments that may adversely affect us;
- any delays in implementing strategic projects; and
- general political, social, economic and business conditions in Kazakhstan and the region.

We cannot assure you that our cash flow and capital resources will be sufficient to make our debt service payments, to repay our debt and make necessary capital expenditures, including development and improvement expenditures which are required under our various licenses. If we are unable to generate sufficient cash flow in the future, we may be forced to reduce or delay our capital expenditures, to refinance all or a portion of our existing debt, including the notes, to sell some of our assets or to obtain additional financing. We cannot assure you that any refinancing would be possible or that we could sell our assets or obtain additional financing.

If we are unable to comply with the restrictions and covenants in our debt agreements, there could be a default under the terms of these agreements, which could result in acceleration of payment of funds that we have borrowed or termination of such agreements.

If we are unable to comply with the restrictions and covenants in our current or future debt and other agreements, there would be a default under the terms of these agreements. Our ability to meet our financial ratios and tests may be affected by events beyond our control. We cannot assure you that we will be able to meet these tests. In the event of a default under these agreements, the parties could terminate their commitments to lend to us or accelerate the loans and declare all amounts borrowed due and payable or terminate the agreements as the case may be. Agreements that contain cross-acceleration or cross-default provisions may be accelerated and become due and payable. If any of these events occur, we cannot assure you that our assets would be sufficient to repay in full all of our indebtedness, including HKM's indebtedness to the issuer under the intercompany loan, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Risk Factors Related to Our Operations in Kazakhstan

Adverse economic developments in Kazakhstan may materially affect our business.

Since its independence from the Soviet Union in December 1991, Kazakhstan has been undergoing a rapid and uneven transition to a market-oriented economy and in prior years experienced high inflation and rapid currency devaluation. In addition, instability in other countries, such as Russia, has affected in the past, and may materially affect in the future, economic conditions in Kazakhstan. Our results of operations are significantly dependent on the Kazakhstani economy. We cannot assure you that the economic measures undertaken by the Kazakhstani government will be successful in improving economic conditions or that the transition to a market-oriented economy will be accomplished. Adverse economic conditions in Kazakhstan could have a material adverse effect on our financial condition and results of operations.

Changes in the political environment in Kazakhstan may adversely affect our business.

Kazakhstan is a former constituent republic of the Soviet Union. In 1991, it declared its independence from the Soviet Union. At the time of its independence, it became a member of the Commonwealth of Independent States. Because Kazakhstan has little history of political stability as an independent nation, there is significant potential for social, political, economic, legal and fiscal instability. These risks include, among other things:

- local currency devaluation;
- civil disturbances;
- exchange controls or availability of hard currency;
- changes in crude oil, export and transportation regulations;
- changes with respect to taxes, royalty rates, import and export tariffs, and withholding taxes on distributions to foreign investors;
- changes in antimonopoly legislation;
- nationalization or expropriation of property; and
- interruption or blockage of oil exports.

Changes in Kazakhstani laws and regulations and the interpretation of those laws and regulations may adversely affect our business.

HKM and HOP were privatised under Kazakhstan's privatisation, foreign investment and oil and gas laws, which are intended, among other things, to provide legislative protection against the following:

- expropriation without proper compensation for losses incurred;
- retroactive application of new laws; and
- imposition of environmental liabilities resulting from pre-existing conditions and activities prior to acquisition.

Although these protections are consistent with Kazakhstan's expressed intention of attracting foreign investment, given Kazakhstan's short legislative, judicial and administrative history, we cannot predict how the legislative protections will be applied, if applicable, to HKM and HOP, the possibility of any future changes in the political environment in Kazakhstan having an impact on Kazakhstani laws and regulations or their interpretation or the effect of such changes on our business, results of operations and financial condition.

Kazakhstan's foreign investment, petroleum, subsoil use, licensing, corporate, tax, customs, currency, banking and antimonopoly laws and legislation are still developing and uncertain. From time to time, including the present, draft laws on these subjects are prepared by government ministries and some have been submitted to Parliament for approval. Legislation in respect of some or all of these areas could be passed. Currently, the regulatory system contains many inconsistencies and contradictions. Many of the laws are structured to provide substantial administrative discretion in their application and enforcement. In addition, the laws are subject to changing and different interpretations. These factors mean that even our best efforts to comply with applicable law may not always result in compliance. Noncompliance may have consequences disproportionate to the violation. The uncertainties, inconsistencies and contradictions in Kazakhstani laws and their interpretation and application could have a material adverse effect on our business and results of operations.

Our exploration and production licenses and hydrocarbon contracts and other agreements may be susceptible to revision or cancellation, and legal redress may be uncertain, delayed or unavailable. For example, it has recently been reported that the Kazakhstani government has taken the position that it is not bound by certain oil and gas field development contracts it had signed with third parties in the early 1990s and that such contracts may now be revised. In addition, it is often difficult to determine from governmental records whether statutory and corporate actions have been properly completed by the parties or applicable regulatory agencies. In some cases, failure to follow the actions may call into question the validity of the entity or the action taken. Examples include corporate registration or amendments, capital contributions, transfers of assets or issuances or transfers of capital stock. Ensuring our ongoing rights to licenses and hydrocarbon contracts will require a careful monitoring of performance of the terms of the licenses and hydrocarbon contracts, and monitoring the evolution under Kazakhstani laws and licensing practices. See "Business and Properties — Upstream Operations — Material Licenses."

Changes in policies of the Kazakhstani government may adversely affect our business.

Governmental policies may affect our ability to market crude oil and refined products. For instance, the Agency for the Republic of Kazakhstan for the Regulation of Natural Monopolies and the Protection of Competition, or the Antimonopoly Committee, can impose pricing restrictions on our sales as a result of our leading market position in the Kazakhstani domestic refined product market and the governmental recognition of HOP effectively as an entity with a dominant position. Accordingly, we are required to obtain the approval of the Kazakhstani government with respect to any refined product price increases. In addition, in the past, the Kazakhstani government has required us to write off certain receivables, particularly for customers in the agricultural sector. We cannot assure you that the Kazakhstani government will not recommend or require us to make similar write-offs for the benefit of third parties in the future. Any further strengthening of antimonopoly requirements may adversely affect our financial condition and results of operations.

Changes in our export quotas may adversely affect our business.

Since late 1999, the Kazakhstani government has regulated the export of crude of oil and the supply of the domestic market by setting policies limiting on a monthly basis the amount of exports of oil by producer and by export route. Until recently, the regulatory process, although cumbersome, was administered in the framework of an annual plan mutually agreed to and did not result in actual restrictions. In the past, however, following personnel changes at the Kazakhstani Ministry of Energy, this process had lost its consensual character, resulting in export quotas being set for our operations that did not allow us to fully exploit our capacity. This, in turn, forced us to reduce our production of crude oil and resulted in lost sales. Although production did return to expected levels following these periods, there is no assurance that future limitations which may impact our ability to capitalize on export opportunities will not be imposed. Any future changes in the oil and gas policies by the Kazakhstani government could adversely affect our financial condition and results of operations.

Fluctuations in the Kazakhstani Tenge may adversely affect our financial condition and results of operations.

Our refined products are sold principally in the Kazakhstani domestic market at prices that we set on a regular basis. Prices are quoted in U.S. dollars, although cash payment is made in Tenge, at the prevailing exchange rate. In most cases, payment is made at the time of delivery. In other cases, credit may be extended to the purchaser if appropriate arrangements have been made, for 30 days generally. During the period of time between delivery and collection, we may be exposed to movements in the Tenge/U.S. dollar exchange rate. There is no significant forward market in the Tenge and, therefore, we do not hedge this exposure.

To the extent that we hold Tenge positions, there is a risk from foreign exchange fluctuations. Between its introduction in 1993 and 2000, the Kazakhstani Tenge depreciated significantly against the U.S. dollar, in one case over a short period of time. We cannot assure you that the Tenge will not experience further depreciation against the U.S. dollar. We also cannot assure you that Tenge will continue to be freely exchangeable into U.S. dollars or that we will be able to exchange sufficient amounts of Tenge into U.S. dollars to pay interest on and principal of the notes or meet our other foreign currency obligations. Although most of our expenses and some of our revenues are in Tenge, our financial statements are reported in U.S. dollars, consistent with the practice in the oil and gas industry. If the exchange rate of the Tenge fluctuates substantially or the rate of inflation materially increases in Kazakhstan in the future, our financial statements may not be indicative of our future performance and may not accurately reflect the U.S. dollar value of our assets or current operations.

Our exposure to the Tenge is through the net bank balances we maintain and the tax basis of our capital assets. For tax purposes, our accounts are maintained in Tenge. Although we have the ability to revalue the tax basis of our assets using the official annual rate of inflation, any currency movements in excess of the annual inflation rate will generate exchange gains and losses upon conversion to U.S. dollars. As of January 1, 2002, the tax legislation was changed such that we no longer have the ability to revalue the tax basis of our Downstream operational assets. Tax stability provisions in our hydrocarbon contracts continue to permit us to revalue the tax basis of our Upstream operation assets.

Changes in tax legislation may adversely affect our results of operations.

The taxation system in Kazakhstan is at an early stage of development and the tax risks and problems with respect to our operations and investment in Kazakhstan are significant. Tax legislation is evolving and is subject to different and changing interpretations as well as inconsistent enforcement at both the local and state levels.

All legal entities carrying on activities in Kazakhstan must be registered with the tax inspectorate. Taxes in Kazakhstan include an income tax, a value added tax, an excise tax, a social tax, a land tax, a property tax, a transport tax, as well as required contributions to various funds, duties and fees for licenses. In addition, we have been making, and expect to continue to make, contributions to various social and governmental funds.

Additional payments, such as signing bonuses, commercial discovery bonuses, production bonuses, royalties and excess profits taxes, may be required from oil and gas producers and other subsoil users. A signing bonus is a one-time payment for the rights to explore, develop and produce resources. A commercial discovery bonus is a one-time payment and is payable once a discovery of commercial value is made in a contract territory. A production bonus is payable upon reaching certain agreed upon amounts of production. An excess profits tax is also payable by oil and gas producers on that portion of their profits in excess of a specified rate of return set forth in the hydrocarbon contract for a specific project. The rate of excess profits tax can be as high as 50% of the negotiated excess profits amount. The amounts of these special payments are negotiated on a project-by-project basis as set forth in hydrocarbon contracts between the

subsoil user and the Kazakhstani government. We did not incur excess profits tax in 2001 and do not expect to incur this tax in 2002, however, we may be subject to excess profit tax in subsequent years with respect to certain of our fields. See "Business and Properties — Upstream Operations — Excess Profits Tax".

We have been engaged in two court cases in Kazakhstan pertaining to disputed tax assessments for the years of 1998 and 1999. The first involved HOP and was for approximately $8.8 million. HOP has successfully argued its case at the first level of the court system in Kazakhstan and at the Supreme Court level. There is a possibility that the Ministry of State Revenue may appeal to the Supervisory Panel of the Supreme Court. No provision has been made in our financial statements for this assessment.

The second case involved HKM and was for a total of approximately $10.5 million including taxes, fines, interest and penalties. HKM was successful at the first level of the court system and was unsuccessful on the majority of the issues at the Supreme Court level. HKM will appeal to the Supervisory Panel of the Supreme Court. We have provided for $2.9 million of the $10.5 million in our September 30, 2002 financial statements. We continue to dispute this assessment, as we believe the tax stability provisions of our hydrocarbon contract established that HKM is not subject to the assessed taxes.

We have made further provision in our financial statements for an additional $5.5 million relating to tax assessments for 1998 and 1999, for the years 2000 and 2001 and for the first nine months of 2002.

Through our operating subsidiaries in Kazakhstan, we have received tax assessments for 2000 and 2001 amounting to $56 million, which have been reduced through negotiations to $44 million. We have not provided for these tax assessments in our financial statements and have filed or will shortly file court cases disputing these assessments.

Kazakhstan's tax laws are not clearly determinable and have not always been applied in a consistent manner. In addition, the tax laws are continually changing and evolving. The uncertainty of application and the evolution of tax laws creates a risk of excessive payment of tax by us, which could have a material adverse effect on our financial condition and results of operations.

Risk Factors Relating to Our Industry

Our drilling and production activities are subject to operational risks and hazards.

Our drilling and production operations are subject to all the risks and hazards typically associated with the drilling and production of oil. The risks and hazards include fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. We are not fully insured against all of those risks, nor are all of those risks insurable. Although liability insurance is maintained in amounts which are considered adequate, the nature of those risks is such that liabilities could exceed policy limits, in which event significant costs could be incurred which could have a material adverse effect upon our financial condition. Our production operations are also subject to all the risks typically associated with those operations, including premature decline of reservoirs and the invasion of water into producing formations.

Volatility of oil prices could adversely affect our results of operations.

Our financial condition, operating results and future growth are dependent on the prevailing prices for our oil production. Historically, the markets for oil have been volatile and those markets are likely to continue to be volatile in the future. Prices for oil are subject to large fluctuations in response to a variety of factors beyond our control, including:

- relatively minor changes in the supply of and demand for oil;

- market uncertainty;
- weather and general economic conditions;
- the actions of the Organization of Petroleum Exporting Countries;
- governmental regulation in Kazakhstan and elsewhere;
- political stability in Kazakhstan, neighbouring countries and other oil producing regions; and
- the availability of alternate fuel sources.

Any substantial decline in the prices of oil would have a material adverse effect on our results of operations and the value of our oil reserves. We cannot assure you that oil prices will be at levels which will enable us to operate profitably. For example, the significant decline in oil prices in 1998 and the first half of 1999 was one of the principal causes of our financial difficulties during that period, resulting in our seeking protection under the *Companies' Creditors Arrangement Act* (Canada). We did not hedge commodity price risks in 2001, but in 2002 we implemented a minimal forward selling program. We have put hedges in place for 2003 for approximately 15% of our exports. By entering into hedging arrangements we are exposed to credit related losses in the event of non-performance by counter-parties to the hedging contracts. Additionally, if product prices increase above those levels specified in the hedging contracts, a fixed price could limit our ability to receive the full benefit of commodity price increases.

The volatility in refining and marketing margins could adversely affect our results of operations.

Our earnings and cash flow from our refining operations depend upon processing crude oil and selling quantities of refined products at refining and marketing margins sufficient to cover fixed and variable expenses relating to the refinery. Oil refining is a complex process that is subject to scheduled and unscheduled downtime. We recently completed a scheduled shutdown of the refinery and expect to conduct a second shutdown during the second quarter of 2003. For the nine months ended September 30, 2002, the Shymkent refinery operated at approximately 51% of its capacity.

Our prices for refined products may be affected by regional factors such as product transportation capacity, local market conditions and the level of operations of competing refineries. A large, rapid increase in crude oil prices or other feedstocks would adversely affect the operating margins for our refinery if the increased cost could not be passed on to our customers.

Our growth depends on finding new reserves.

Our ability to achieve growth depends upon our success in finding, acquiring or gaining access to additional reserves. In general, production from oil and natural gas properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. If we do not conduct successful exploration activities, or do not acquire properties containing proved reserves, our total proved reserves will decline. Our exploration activities expose us to inherent drilling risks, including the risk that we will not find any economically productive natural gas or oil reservoirs. The costs of drilling, completing and operating wells are often uncertain, and numerous factors beyond our control may cause drilling operations to be curtailed, delayed or canceled. If these activities are unsuccessful, our future results of operations and financial condition would be adversely affected.

The oil and gas reserves data in this offering memorandum are only estimates, and may prove to be inaccurate.

The oil and gas reserves data included in this offering memorandum represent estimates only. Actual production, revenues, expenditures and future cash flow with respect to our reserves will vary from these estimates, and those variances may be material. Many of the factors, assumptions and variables involved in estimating reserves are beyond our control, and, over time, may prove to be incorrect.

In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows from these reserves are based upon a number of variable factors and assumptions, including the following, all of which may vary considerably from actual results:

- historical production from our properties;
- comparisons with production from other producing areas;
- the assumed effects of regulation by governmental agencies;
- royalty rates; and
- assumptions regarding future oil and natural gas prices and future operating costs.

All estimates are to some degree speculative and are based on extensive engineering judgment, and classifications of reserves are only attempts to define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of those reserves based on risk of recovery and estimates of future net cash flows expected from the properties prepared by different engineers or by the same engineers at different times may vary substantially. Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions. Adverse changes in economic conditions, including a decrease in crude oil or natural gas prices, may render it uneconomical to produce from reserves with higher associated production costs. Actual production, cash flows, royalties and development and operating expenditures with respect to reserves will vary from the estimates, and those variances could be material.

You should not interpret the present values of estimated future cash flows from reserves referred to in this offering memorandum as being the same as the current market value of the estimated proved reserves. We are providing the estimated discounted future cash flows from proved reserves based on prices and costs as of the date of the estimate. Actual future prices and costs, however, may be materially higher or lower. Actual future cash flows also will be affected by a number of factors, including the following:

- the amount and timing of actual production;
- the supply and demand for oil and natural gas;
- curtailments or increases in consumption by purchasers; and
- changes in governmental regulations or royalties.

Some calculations of estimated proved reserves presented in this offering memorandum are net of value added tax, but give no effect to income taxes, excess profit taxes or other applicable taxes attributable to estimated future net cash flows from the sale of oil. Pre-tax calculations are inconsistent with U.S. GAAP, which requires calculations on an after-tax basis. These additional taxes may cause actual future cash flows to differ materially from the estimates presented in this offering memorandum. Finally, discount factors used in this offering memorandum to calculate discounted future net pre-tax cash flows from reserves may not be the most appropriate discount factors based on interest rates in effect from time to time and risks associated with our business or the oil and gas industry in general.

Risk Factors Relating to the Notes

Our ability to make payments under the guarantees and the intercompany loan, and thus the issuer's ability to make payments under the notes, is dependent on our future operating performance.

The issuer is a finance subsidiary that has been established to issue the notes in this offering and to loan the proceeds to HKM pursuant to the intercompany loan. Other than the receivable from the intercompany loan, the issuer does not have any significant assets and does not now, and is

not expected to, have any operations. The issuer's ability to meet its financial obligations under the notes will depend on payments under the intercompany loan. These payments and our ability to satisfy our obligations under the guarantees will depend on our future operating performance, which is subject to prevailing economic conditions, industry cycles and financial, business and other factors, many of which are beyond our control. There can be no assurance that our business will continue to generate cash flows at or above current levels. If we are unable to generate sufficient cash flows from operations to service the intercompany loan, we may be required, among other things, to seek additional financing in the debt market, to refinance or restructure all or a portion of our indebtedness, to sell selected assets or to reduce or delay planned capital expenditures or acquisitions. There can be no assurance that any of these measures will enable us to service our indebtedness under the intercompany loan or meet our obligations under the guarantees, or that any such financing, refinancing or sale of assets would be available on economically favorable terms. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources".

Your right to receive payments under the guarantees, and the issuer's right to receive payments under the intercompany loan, will be effectively subordinated to our existing and future secured indebtedness and all of the existing and future indebtedness of our non-guarantor subsidiaries. Our ability to make restricted payments and other investments under the indenture could materially increase this risk.

The guarantees will be general unsecured, unsubordinated obligations of the guarantors and the intercompany loan will be a general unsecured, unsubordinated obligation of HKM, in each case, ranking pari passu in right of payment with all senior indebtedness of the guarantors, including borrowings under our Term Facility. In the event of bankruptcy, liquidation or reorganization relating to us, the assets of the guarantors will be available to pay obligations on the guarantees and the intercompany loan, as applicable, and such other senior indebtedness of the guarantors; however, the guarantees and the intercompany loan will be effectively subordinated to secured indebtedness of the guarantors to the extent of the assets securing any such indebtedness. In the event of a bankruptcy, liquidation or reorganization, any assets of the guarantors which may remain after payment to our secured creditors may not be sufficient to pay the amounts due on the guarantees or the intercompany loan, as applicable. As of September 30, 2002, on a pro forma basis giving effect to the borrowings under our Term Facility, the repayment of our predecessor term facility and the redemption of our Senior Notes (see "Use of Proceeds"), the guarantors would have had approximately $384.4 million of secured indebtedness outstanding and our non-guarantor subsidiaries would have had no indebtedness outstanding. The indenture will permit the guarantors from time to time to incur substantial additional secured indebtedness, subject to certain restrictions.

In addition, the guarantees and the intercompany loan will be effectively subordinated to all indebtedness of our non-guarantor subsidiaries. The indenture will permit our non-guarantor subsidiaries from time to time to incur additional indebtedness, subject to certain restrictions.

Further, the terms of the indenture permit us to, among other things, repurchase our capital stock, pay dividends in respect thereof or make investments of a material amount without substantial restrictions. As a result of these payments, our shareholders may be able to be paid in respect of their interests while notes are still outstanding notwithstanding the restricted payments covenant pertaining to the notes. See "Description of the Notes — Certain Covenants".

The issuer may not be able to repurchase your notes.

Upon the occurrence of specific change of control events affecting us, you will have the right to require the issuer to offer to repurchase your notes at 101% of their principal amount, plus accrued and unpaid interest and any other amounts due, if any. The issuer's ability to repurchase your notes upon such a change of control event may be limited by the terms of our other debt agreements and our access to funds at the time of the repurchase. Upon a change of control event, we may be required immediately to repay the outstanding principal, any accrued interest

thereon and any other amounts owed by us under our Term Facility. The source of funds for these repayments would be our available cash or cash generated from other sources. However, we cannot assure you that we will have sufficient funds upon a change of control to satisfy our obligations under our other debt agreements and, accordingly, cannot assure you that the issuer will have sufficient funds to repurchase any tendered notes. See "Description of the Notes — Repurchase at the Option of Holders — Change of Control".

The value of the guarantees may be limited by applicable laws.

Each guarantee will be limited to the maximum amount that can be guaranteed by the particular guarantor without rendering the guarantee, as it relates to the guarantor, avoidable or otherwise ineffective under applicable laws relating to fraudulent conveyance, fraudulent transfer, financial assistance, ultra vires or similar laws or regulations affecting the rights of creditors generally. As a result, a guarantor's liability under its guarantee could be reduced to zero, depending upon the amount of its other obligations.

Relevant insolvency laws may adversely affect recovery by the holders of the notes.

In Kazakhstan the rehabilitation procedures will result in automatic stay of the claims of the creditors, including secured creditors, against the debtor. In addition to verification of the creditors' claims by the bankruptcy trustee during bankruptcy proceedings, in Kazakhstan, such claims need to be also verified by the authorized body. As of the date of this offering memorandum such body was the Committee for Dealing with Insolvent Debtors under the Ministry of Finance. The creditors that disagree with the verified amounts of claims have one month to dispute the amount of claims either by initiating the court proceedings or filing a claim with the same authorized body. The creditors will not be reimbursed any of their expenses in connection with insolvency proceedings.

As a result, Kazakhstani insolvency laws could limit the ability of the holders of the notes to effect a restructuring of the Kazakhstani guarantors and reduce their recovery in an insolvency proceeding.

There is no public market for the notes.

The notes have not been registered under the Securities Act or qualified for sale under any Canadian provincial securities laws and the notes will be subject to significant restrictions on resale. The notes will be a new issue of securities with no existing trading market. We have, through our listing agent, filed an application to list the notes on the Luxembourg Stock Exchange and the Irish Stock Exchange and intend to maintain one such listing. In addition, we intend to apply to list the notes on the Kazakhstan Stock Exchange. However, we cannot assure you that the notes will qualify for listing on either exchange or that a liquid trading market will develop for the notes. The initial purchasers have informed us that they currently intend to make a market in the notes, although they are not obligated to do so and any such market making activities may be discontinued at any time, without notice. Accordingly, even though the notes may be listed on one or more exchanges, we cannot assure you that an active market will develop for the notes or as to the liquidity of, or the trading market for, the notes.

If an active market does develop, future trading prices of the notes will depend on many factors, including, among others, prevailing interest rates, our operating results and the market for securities similar to the notes. The market for non-investment grade securities has fewer participants, involves a smaller amount of securities and is subject to greater volatility and less liquidity than certain other capital markets. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes, independent of the financial performance and prospects of the issuers. We cannot assure you that the market for the notes, if any, will not be subject to similar disruptions. Any disruptions may adversely affect you as a holder of notes.

Use of Proceeds

The net proceeds to us on a consolidated basis will be approximately $120.7 million. The gross proceeds of $123.0 million from this offering will be used by the issuer to make an intercompany loan to HKM. The proceeds of the intercompany loan will be used by us for working capital and other general corporate purposes, which may include funding for acquisitions, capital expenditures or the reduction of indebtedness, and to pay costs relating to this offering estimated to be $2.3 million.

Prior to this offering, we entered into the Term Facility (and repaid and terminated a $60.0 million predecessor facility). In addition, we redeemed the entire $208.2 million outstanding principal amount of our Senior Notes due 2006 on February 3, 2003.

Capitalization

The following table sets forth our consolidated cash and short-term deposits and capitalization as of September 30, 2002 on an actual basis, as adjusted to give effect to the issuance of the notes, and as further adjusted to reflect our Term Facility, the repayment of our existing term facility and the redemption of our Senior Notes. This table should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this offering memorandum.

	As of September 30, 2002		
	Actual	As adjusted	As further adjusted
	($ in thousands)		
Cash and short-term deposits	162,246	283,227	223,227
Long-term debt:			
Senior Notes due 2006	208,280	208,280	—
Predecessor Term Facility	12,000	12,000	—
New Term Facility[(1)]	—	—	190,000
HOP bonds	13,162	13,162	13,162
Non-recourse joint venture debt	62,684	62,684	62,684
9.625% Notes due 2010	—	125,000	125,000
Issue costs	(2,929)	(6,948)	(4,019)
Total long-term debt	293,197	414,178	386,827
Shareholders' equity	247,223	247,223	227,574
Total capitalization	540,420	661,401	614,401

(1) For these purposes, including an amount that would be classified as short-term debt.

There has been no material change in our capitalization since September 30, 2002, except for the repayment and termination of our predecessor term facility in December 2002, our entry into and borrowing of $190.0 million under our Term Facility as of February 7, 2003, and our redemption on February 3, 2003 of the entire $208.2 million outstanding principal amount of our Senior Notes due 2006. In addition, our share of Kazgermunai's debt was reduced by $17.5 million in the fourth quarter of 2002, leaving a balance at December 31, 2002 of approximately $45.2 million.

We received approval from the Toronto Stock Exchange, or TSX, on August 2, 2002, to proceed with a normal course issuer bid commencing on August 7, 2002 and terminating on August 6, 2003, or such earlier date as we may complete our purchases thereunder. Under this normal course issuer bid, we may purchase up to 5,253,238 of our Class A common shares. As of December 31, 2002, 2,531,870 common shares have been purchased at an average price of Cdn$14.57 and canceled. This represents 48.2% of the authorized share buyback amount. The number of common shares outstanding as of December 31, 2002 was 78,956,875.

Selected Historical Consolidated Financial Data

The selected consolidated financial data presented below for the three years ended December 31, 2001 have been derived from our audited consolidated financial statements and the related notes that are included in this offering memorandum. Our annual consolidated financial statements for the periods presented below have been audited by Deloitte & Touche. Our selected consolidated financial data presented below for each of the nine-month periods ended September 30, 2001 and 2002 are derived from our unaudited consolidated financial statements for such periods included elsewhere in this offering memorandum which, in the opinion of management, include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial results for such periods. Interim results are not necessarily indicative of the results which may be expected for any other interim period or for the full year.

You should read the selected consolidated financial data in conjunction with "Risk Factors", "Capitalization", "Selected Historical Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business and Properties", our consolidated financial statements, including the related notes, and the other financial data appearing in this offering memorandum.

	Year Ended December 31,			Nine Months Ended September 30,	
	1999	2000	2001	2001	2002
				(unaudited)	
	($ in thousands, except ratios)				
Consolidated Statement of Income Data:					
Canadian GAAP:					
Revenue:					
Crude oil	153,047	301,216	252,981	193,342	319,606
Refined products	—	203,728	328,958	264,774	240,476
Processing fees	—	11,884	11,008	8,623	2,112
Interest and other income	2,196	6,373	10,109	8,094	6,497
Total revenue	155,243	523,201	603,056	474,833	568,691
Expenses:					
Production	34,443	35,302	43,040	29,681	41,669
Royalties	16,652	33,709	35,504	30,748	43,709
Transportation	17,016	25,152	50,237	34,218	100,131
Refining	2,197	12,583	20,562	14,606	17,607
Crude oil and refined product purchases	—	48,100	78,788	60,862	50,414
Selling	—	7,728	19,277	15,057	18,724
General and administrative	35,039	44,565	55,204	35,355	42,270
Interest and financing costs	23,874	18,708	19,530	12,126	26,078
Depletion and depreciation	4,991	14,680	34,254	24,618	29,064
Foreign exchange loss (gain)	7,647	(2,266)	1,453	435	1,771
Total Expenses	141,859	238,261	357,849	257,706	371,437
Income before unusual items	13,384	284,940	245,207	217,127	197,254
Unusual items:					
Defense costs related to potential takeover	—	—	5,546	6,000	—
Gain recognized on sale of assets	(12,800)	—	—	—	—
Arbitration settlement	—	—	—	—	7,134
Waiver fees and debt restructuring costs	—	20,373	—	—	—
Income before income taxes	26,184	264,567	239,661	211,127	190,120
Income taxes:					
Current provision	17,671	100,708	79,679	67,377	64,706
Future income tax	—	(1,051)	(11,285)	(3,699)	6,312
Total income taxes	17,671	99,657	68,394	63,678	71,018
Net income before minority interest ,513	8,513	164,910	171,267	147,449	119,102
Minority interest	—	9,980	1,927	1,153	1,672
Net income	8,513	154,930	169,340	146,296	117,430
U.S. GAAP:					
Net income	6,502	165,971	162,643	146,296	117,401

	Year Ended December 31,			Nine Months Ended September 30,	
	1999	2000	2001	2001	2002
				(unaudited)	
	($ in thousands, except ratios)				
Balance Sheet Data (at end of period):					
Canadian GAAP:					
Cash and short-term deposits	30,748	59,298	64,812	99,248	162,246
Working capital/(deficit)[1]	(176,396)	33,808	61,393	89,741	168,762
Total assets	141,437	414,526	572,470	527,153	737,384
Total long-term debt[2]	—	82,048	277,767	249,125	293,197
Total shareholders' equity/(deficit)	(87,582)	185,043	132,140	108,799	247,223
U.S. GAAP:					
Total shareholders' equity	(117,673)	140,800	79,603	63,387	186,593
Other Financial Data:					
EBITDA[3]	55,049	287,975	291,518	246,718	243,590
Cash flow [4]	16,967	179,446	194,654	167,326	158,217
Cash flow from operating activities	45,439	210,978	146,258	119,768	126,669
Funds provided by (used for) financing	(961)	(144,775)	2,001	(29,659)	35,183
Funds (used for) investing	(15,196)	(37,653)	(142,745)	(50,159)	(64,418)
Capital expenditures	15,318	21,627	110,207	55,215	101,559
Ratio of EBITDA to cash interest expense	2.3x	15.4x	14.9x	20.3x	9.3x
Ratio of earnings to fixed charges[5]	2.1x	15.1x	13.2x	18.4x	8.3x
Ratio of net debt to EBITDA[6] [7]	3.0x	0.2x	0.9x	0.6x	0.6x

(1) Working capital comprises current assets less current liabilities.

(2) $61.1 million and $62.7 million of these amounts represent non-recourse debt incurred by our Kazgermunai joint venture as of December 31, 2001 and September 30, 2002, respectively.

(3) "EBITDA" is defined as earnings before interest, dividends paid on preference securities, income taxes, depreciation, depletion and amortization. EBITDA is presented as additional information because we understand that it is one measure used by certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. However, other companies may present EBITDA differently than we do. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with generally accepted accounting principles. The following sets forth a reconciliation of EBITDA to our net income:

Net income	8,513	154,930	169,340	146,296	117,430
Taxes	17,671	99,657	68,394	63,678	71,018
Depletion and depreciation	4,991	14,680	34,254	24,618	29,064
Interest	23,874	18,708	19,530	12,126	26,078
EBITDA	55,049	287,975	291,518	246,718	243,590

(4) Before changes in non-cash operating working capital.

(5) The term "earnings" is the amount of income before income taxes from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees, plus fixed charges, plus amortization of capitalized interest, plus distributed income to equity investees, plus the share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges, less interest capitalized, less preference security dividend requirements of consolidated subsidiaries, less the minority interest in pre-tax income of subsidiaries that have not incurred fixed charges and less unusual items. The term "fixed charges" means the sum of the following: (a) interest expensed or capitalized, (b) amortized premiums, discounts and capitalized expenses related to indebtedness, (c) an estimate of the interest within rental expense, and (d) preference security dividend requirements of consolidated subsidiaries. The term "preference security dividend" is the amount of pre-tax earnings that is required to pay the dividends on outstanding preference securities, computed as the amount of the dividend divided by one minus the effective income tax rate applicable to continuing operations.

(6) "Net debt" represents total debt less cash and cash equivalents.

(7) Nine month figures are calculated on an annualized basis.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis of the financial condition and results of our operations should be read in conjunction with the selected financial and operating data, audited financial statements and related notes and unaudited financial statements and related notes appearing elsewhere in this offering memorandum. Our financial statements have been prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain significant respects from U.S. GAAP. For a discussion of the most significant differences between Canadian GAAP and U.S. GAAP relevant to us, see the U.S. GAAP reconciliations contained in the notes to our consolidated financial statements included in this offering memorandum. This discussion and analysis contains forward-looking statements which involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this offering memorandum.

Except as otherwise required by the context, references in this offering memorandum to "our", "we" or "us" refer to the combined business of Hurricane Hydrocarbons Ltd. and all of its subsidiaries, including HKM and HOP.

Overview

General

We are an integrated oil company that owns and operates oil and gas production and a refinery in Kazakhstan. We use the term "Upstream" to refer to the exploration for and production of oil and gas from our licenses in the South Turgai Basin, Kazakhstan. We use the term "Downstream" to refer to the operations of our refinery located in Shymkent, Kazakhstan and marketing activities relating to Upstream operations and the refinery.

We acquired the Shymkent refinery, through our acquisition of HOP (then known as ShNOS), in March 2000, and assumed a greater role in the management of the Kazgermunai joint venture at the end of November 2000. Accordingly, our 2001 results reflect the inclusion of the Shymkent refinery and Kazgermunai for a full year, as compared to nine months (in the case of the Shymkent refinery) and one month (in the case of Kazgermunai) in 2000.

Factors affecting our results

Production. We derive our revenues principally from the sale of crude oil and refined products and to a lesser extent from refining crude oil on behalf of third parties, from which we derive processing fees, and production and ancillary support facilities provided to our Turgai Petroleum joint venture on a fee basis. Our results are dependent on the levels of our oil production and on prevailing prices for such production. Prices for oil are subject to large fluctuations in response to a variety of factors beyond our control.

During the third quarter of 2002, our production volumes totaled 13.17 million barrels or an average of 143,175 BOPD, representing a 37.2% increase over the third quarter 2001 production rates of 104,379 BOPD and a 21.5% increase over the second quarter 2002 production rates of 117,844 BOPD. Record export sales combined with enhanced performance from all fields led to these increases. Total production during 2002 was 49.6 MMbbls or an average of 135,842 BOPD, representing a 34.8% increase over the 36.8 MMbbls produced in 2001.

In the third quarter of 2002, production increases were recorded in all fields. Major contributions came from the optimization of individual well rates in Kumkol South by pump optimization and off take control, the continued development drilling in Kumkol North and the enhanced performance of the South Kumkol field. Two new Kumkol South free water knockout facilities, commissioned in early October, relieve water handling issues at the Central Processing Facility, thereby increasing production. Our facilities are now handling some 275,000 barrels of fluid per day, with crude oil production of 116,000 BOPD. We currently have eight service rigs in operation throughout the producing fields that are contributing to the enhancement of daily production. These rigs are conducting artificial lift pump replacements and installations. At South Kumkol, with 21 wells now on production, all but one with artificial lift pumps, daily production

has increased to 24,000 BOPD in the third quarter of 2002 compared to 18,400 BOPD in the second quarter of 2002, a 30% increase. Current production is averaging 28,500 BOPD.

Additional production testing continues in the QAM fields. The combined production rate for all three fields increased 44% to 15,900 BOPD in the third quarter of 2002 compared to 11,000 BOPD in the second quarter. This production is delivered from 23 wells. The QAM field's year-to-date average production is 11,700 BOPD.

The program of further development and production enhancement of the Akshabulak field, operated by Kazgermunai, required the installation of a new process facility in 2002. The purchase order for this new facility is being delayed by our joint venture partners, pending assurances from the government of Kazakhstan on marketing and transportation issues. However, we operate in a regulated environment and from time to time, governmental action can impact, among other things, our level of production.

The 38-well 2002 drilling program of the Turgai Petroleum joint venture has been completed. An additional 17 wells were added to the 2002 drilling program. Gross production increased by 20% to 49,800 BOPD in the third quarter of 2002 compared to 41,400 BOPD in the second quarter of 2002.

Overall, in the first nine months of 2002, we participated in the drilling of 50 new wells. An additional 22 wells were drilled in the fourth quarter of 2002.

Sales. Through the end of the second quarter of 2002, the majority of crude oil export sales were FCA (freight carriage assurance) sales to third parties within Kazakhstan, normally at the rail terminal at Tekesu, adjacent to the Shymkent refinery. The price achieved for these export sales is shown net of a differential to the prevailing Brent price at the time of the sale. The differential reflects a number of factors, the most significant of which relates to rail transportation costs. Title to the crude oil passes to the buyer at the point of loading the crude into rail cars. In the tables below, these sales are shown as “Crude sales sold FCA” (freight carriage assurance).

In addition, beginning in 2001 we made our first direct sale from a Black Sea port (Batumi) on FOB (free on board) terms. Under these types of sales, we arrange all transportation to the port and assume the obligations for this transportation. The sale price reflects the Brent price plus or minus a quality differential to the Black Sea port at the time of sale. With this type of sale, title to the crude does not pass to the buyer until the crude is loaded into an oil tanker in the respective Black Sea port. Sales contracts are also being concluded on DAF (delivery at frontier) terms, where title to the crude oil passes to the buyer at the border, and CIF (cost, insurance and freight) and CPT (carriage paid to) terms, where title to the crude oil passes at the final destination. In the tables below, these sales are shown as “Crude sales sold FOB”.

Revenue is recognized at the time title passes. In the case of FCA sales, we record revenue based on a provisional Brent price at the time of delivery at Tekesu, then mark to market at month end if the crude is still in Kazakhstan to reflect increases or decreases in prevailing Brent prices, and adjust if necessary by reference to the bill of lading date based on the contract terms.

In the third quarter, 45% of crude oil export sales represented “Crude sales sold FOB”, including exports made CIF to Italian refineries, FOB Batumi, FOB Odessa via Atyrau-Samara, CPT Novorossiisk and DAF China, albeit these Chinese volumes remain relatively small. The remaining sales were made on an FCA basis.

The FCA differential or, in the case of non-FCA sales, the cost of transportation, represents our largest operating cost. As we continue to increase non-FCA sales in 2003, we anticipate that crude oil revenue and transportation costs will increase significantly, even in the event that prices and volumes remain consistent with prior periods, and we also anticipate significant increases in working capital requirements.

Crude export sales volumes continued to rise, showing an 11% increase compared to the second quarter despite the uninterrupted operation of the refinery during the third quarter. Shipments from the loading station at Tekesu also continued to improve, recording a 10% increase against the second quarter. The quarter closed with record export shipments averaging 90,179 BOPD

(11,642 tonnes per day) in September, an improvement of 22% over the average for the second quarter. This growth in shipments through Tekesu continued into early October with shipments of approximately 96,825 BOPD (12,500 tonnes per day). Recently, loading at Tekesu has repeatedly reached levels of 139,430 BOPD (18,000 tonnes per day).

The improvement in crude export shipments has been as a result of an increase in the number of leased rail cars under our control, together with greater access to the Atyrau-Samara pipeline. The number of leased rail cars in our control continues to grow and currently stands at approximately 800 crude cars and is expected to exceed 3,000 in 2003. Access to Atyrau-Samara has improved over the last few months and in September, this route accounted for 40% of the crude oil shipped for export by HKM. More recently, the Ministry of Energy in Kazakhstan assured us of equitable and independent access to Atyrau-Samara and the port of Aktau. The potential for greater access to these export routes in future months exists and there is capacity to handle future planned production increases.

The increase in crude exports has helped reduce the crude oil inventories held at Kumkol and Tekesu, although this has been partially offset by increases in the volume of oil in transit and awaiting loading at ports under non-FCA contracts.

Crude prices remained robust on the back of the potential crisis surrounding Iraq and lower than anticipated U.S. crude stocks. The average of the day's dated Brent price started the third quarter at $25.71 per barrel and finished the quarter at $28.875 per barrel. Volatility remained high with a dated Brent swing of $4.46 per barrel during the quarter and dated prices ranging from a low of $25.08 and a high of $29.54 during the quarter. Sweet crude differentials improved against last quarter with Tengiz CIF Mediterranean quotes recovering to a 10 cent premium to Brent in August although slipping during September to a 20 cent discount. Nevertheless, this was still an improvement to the deep discounts seen in the second quarter. Kumkol CIF Mediterranean meanwhile is currently trading 30 to 40 cents per barrel better than Tengiz CIF Mediterranean.

Refinery operations and capacity. Feedstock is refined into a number of products, which generally are sold domestically. The refinery also refines crude oil on behalf of third parties for a processing fee. The refinery at Shymkent has a total design operating capacity of 6.6 million tonnes per year or the equivalent of approximately 12.8 MMbbls per quarter and approximately 51.1 MMbbls per year. The crude oil feedstock for our refinery is primarily acquired from our Upstream operations, but purchases are also made from third parties.

During the third quarter of 2002, the Shymkent refinery processed 7.1 million barrels or 77,172 BOPD, of which 4,347 BOPD was refined for third parties. The number of barrels processed in the third quarter of 2002 represented a 33% increase over the 5.3 million barrels or 58,392 BOPD processed in the second quarter of 2002. This was consistent with the 7.2 million barrels or 78,695 BOPD that was processed in the third quarter of 2001. None of the barrels processed in the second quarter of 2002 was refined for third parties. The variation between processing levels in the second and third quarters of 2002 was primarily due to the maintenance shutdown in the second quarter.

We have been focusing on improving the refinery's yields, thereby improving our margins. For example, we have reduced the production of mazut (heavy fuel oil), which is a lower-end product and is in over-supply in the market. Mazut yield was reduced to 31% for the third quarter of 2002 with a consequential increase in the yield of higher value products. A project is underway at the refinery to produce Vacuum Gasoil which will further reduce mazut yield and thereby improve refining economics.

Refined product sales increased in the third quarter of 2002 over the second quarter primarily as a consequence of the maintenance shutdown in the second quarter, which reduced the production and sales volumes. Refined product prices continued the recovery started in the

second quarter of 2002 which, when applied to the higher sales volumes, improved sales revenues by 72% against the previous quarter. Despite these improvements, refined product netbacks remained at a discount to the crude export alternative.

Royalties

Royalties are levied at differing rates for each of our oil fields. The table below sets out the parameters for each field. Royalty terms remain the same throughout the term of the license.

Field	Range	Annual Production at Which Maximum Royalty Rate Is Charged	Effective Average Royalty Rate for 2001	Effective Average Royalty Rate for 2000
Kumkol South	3.0 – 15.0%	11.62 MMbbls	10.4%	10.2%
Kumkol North	9.0%	Flat	9.0%	9.0%
South Kumkol	10.0%	Flat	10.0%	10.0%
Qyzylkiya	1.5 – 2.5%	24.8 MMbbls*	1.5%	1.5%
Aryskum	1.5 – 2.5%	52.7 MMbbls*	1.5%	—
Maybulak	3.0-6.0%	3.9 MMbbls	3.0%	—
Kazgermunai Fields	3.0-15.0%	11.62 MMbbls	4.2%	—

* Royalty rate is based upon cumulative life of field production.

Taxation

We are subject to a number of taxes in Kazakhstan including, but not limited to, income taxes, excess profits taxes, excise taxes, land taxes, property taxes, transportation taxes, and mandatory contributions to social funds. Income is taxed at the Kazakhstani statutory rate of 30%. Excess profits taxes have been negotiated with the Kazakhstani government in each hydrocarbon contract. With respect to the Kumkol South, South Kumkol and QAM fields, we are subject to excess profit tax at rates that vary from 0% to 30% based on the cumulative internal rate of return. With respect to Kumkol North, we are subject to excess profit tax at rates that vary from 0% to 50% based on the cumulative internal rate of return. We have not incurred any excess profit tax with respect to production from any of our fields. In 2002 and 2003, the determination of excess profit taxes will be dependent upon crude oil prices and the level of capital expenditures.

We are subject to excise tax on our domestic sales in Kazakhstan, for crude oil from the South Kumkol field, at a rate of 7 euros per tonne and the Maybulak field at a rate of 2 euros per tonne, and from sales of gasoline at a rate of $29.1 per tonne and for diesel at a rate of $3.2 per tonne for wholesale.

Within the hydrocarbon contracts for our production licenses are tax stability clauses that establish the tax regimes under which we operate. These are fixed as of the date of signing the agreement and remain in effect for the term of the agreement.

The tax authorities are currently questioning the corporate tax rate attributable to South Kumkol. For further details, see the notes to our consolidated financial statements included elsewhere in this offering memorandum.

The foundation agreement for Kazgermunai effectively provides for a tax on the profits of Kazgermunai with respect to its operations in the Akshabulak, Nurali and Aksai fields. The foundation agreement provides for taxes of: (i) 25% on annual profits of Kazgermunai up to $20.0 million, (ii) 30% on annual profits of Kazgermunai between $20.0 million and $30.0 million, (iii) 35% on annual profits of Kazgermunai between $30.0 million and $40.0 million and (iv) 40% on annual profits of Kazgermunai exceeding $40.0 million.

Kazakhstani income taxes are payable based upon financial statements prepared in accordance with Kazakhstani laws. The majority of the differences are temporary differences where an expense or revenue item is recorded for Canadian GAAP purposes in a different period than allowed under Kazakhstani law. The statutory income tax rate in Kazakhstan is 30%.

Adoption of Certain Accounting Standards

Effective January 1, 2000, we adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to future income taxes. Under this recommendation, future income tax assets and liabilities are computed based upon temporary differences between the accounting and taxation basis of assets and liabilities. On January 1, 2000, we recorded a future income tax asset of $19.1 million on the basis that realization of such asset is more likely than not. The restatement was applied retroactively without restatement of prior year figures. This increased retained earnings at January 1, 2000 by $19.1 million.

We have adopted the recommendations of the Canadian Institute of Chartered Accountants regarding stock-based compensation. We have elected to use the intrinsic value method of accounting for stock options and to disclose the pro forma results of using the fair value method. The new recommendations apply to options granted after January 1, 2002. We have not granted any stock options during the nine months ended September 30, 2002.

Results of Operations

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

For the nine months ended September 30, 2002, we generated $117.4 million of net income and $158.2 million of cash flow ($126.7 million after giving effect to changes in non-cash operating working capital items) compared to $146.3 million of net income and $167.3 million ($119.8 million after giving effect to changes in non-cash operating working capital items) for the comparable period in 2001.

Inventory volumes relating to in-transit non-FCA sales decreased from 1.1 million barrels at the end of the second quarter to 895,000 barrels at the end of September. This release of inventory increased net income for the third quarter by approximately $3.3 million as compared with the second quarter.

Revenue, Production and Sales

Our total revenue was $568.7 million for the nine months ended September 30, 2002, which represented an increase of $93.9 million over total revenue of $474.8 million for the comparable period in 2001. Our overall increase in revenue from the nine months ended September 30, 2001 to the corresponding period in 2002 reflected a $126.3 million increase in revenue from the sale of crude oil, partially offset by a decrease in revenue from the sale of refined products, processing fees and interest and other income.

Upstream

Upstream production averaged 143,175 BOPD for the third quarter of 2002 compared to 104,379 BOPD for the comparable period in 2001.

The following table sets out total production figures from our Upstream operations for the nine months ended September 30, 2002 and 2001:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	(MMbbls)	
Opening inventory of crude oil	0.70	0.39
Production	35.00	26.69
Crude oil purchased from third parties	0.24	–
Crude oil purchased from joint ventures (50%)	2.12	—
Sales or transfers	(36.74)	(26.49)
Pipeline losses	(0.05)	(0.03)
Closing inventory of crude oil	1.27	0.56

The following table sets out total crude oil sales volumes from our Upstream operations for the nine months ended September 30, 2002 and 2001:

	Nine Months Ended September 30,			
	2002	2002	2001	2001
	(MMbbls)	(%)	(MMbbls)	(%)
Crude oil exports	18.67	50.8	12.84	48.5
Crude oil transferred to Downstream	12.51	34.1	8.79	33.2
Crude oil transferred to Downstream and exported	—	—	0.15	0.5
Crude oil transferred to Downstream by joint ventures (50%)	3.06	8.3	3.36	12.7
Royalty payments	2.24	6.1	0.69	2.6
Crude oil domestic sales	0.26	0.7	0.66	2.5
Total crude oil sales or transfers	36.74	100.0	26.49	100.0

Revenue from crude oil sales for the nine months ended September 30, 2002 was $319.6 million compared to $193.3 million for the comparable period in 2001, as a result of increased production and improved pricing due to the increase in the price of dated Brent and the increase in non-FCA sales. Total crude oil revenue can be analysed as follows:

	Nine Months Ended September 30, 2002			Nine Months Ended September 30, 2001		
	Quantity Sold	Net Realized Price	Revenue	Quantity Sold	Net Realized Price	Revenue
	(MMbbls)	($ per Bbl)	($000's)	(MMbbls)	($ per Bbl)	($000's)
Crude sales sold FCA	11.07	13.19	145,984	11.25	12.93	145,500
Crude sales sold FOB	5.72	22.18	126,851	—	—	—
Kazgermunai export sales	1.88	14.12	26,540	1.74	18.96	32,999
Royalty payments	2.24	8.08	18,102	0.69	12.02	8,293
Crude oil domestic sales	0.26	8.19	2,129	0.66	9.92	6,550
Total	21.17	15.10	319,606	14.34	13.48	193,342

The average FCA discount for exports from Shymkent, to Brent crude oil price, for the first three quarters of 2002 and 2001 for HKM and Turgai Petroleum sales only, is set out below:

	2002	2001
	($/Bbl)	($/Bbl)
Quarter ended March 31	11.81	12.50
Quarter ended June 30	12.18	11.95
Quarter ended September 30	12.28	11.93
Average for nine months ended September 30	12.08	12.13

The deterioration in the differential during the second quarter of 2002 resulted primarily from the movement in the price of Kumkol crude as related to Brent crude. The deterioration in the third quarter of 2002 was due to the devaluation of the U.S. dollar against the Swiss franc, as transportation tariffs in Kazakhstan are denominated in Swiss francs.

Downstream

During the third quarter of 2002, the refinery operated at a reduced capacity level of 52.0% or approximately 6.7 MMbbls compared to 43.0% or approximately 5.6 MMbbls for the comparable period in 2001.

The following table sets out the source of feedstock supplies for our refinery:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	(MMbbls)	(MMbbls)
Acquired from HKM	12.51	9.18
Purchased from joint ventures (100%)	6.11	6.73
Purchased from third parties	—	0.36
Total feedstock acquired	18.62	16.27

The following table sets out the source of inventory levels of feedstock:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	(MMbbls)	(MMbbls)
Opening inventory of crude oil feedstock	0.34	0.08
Purchase and acquisition of feedstock	18.62	16.27
Recoverable feedstock from traps	0.04	0.02
Feedstock sold for export	—	(0.15)
Feedstock refined into product	(18.92)	(16.08)
Closing inventory of feedstock	0.08	0.14

The following table sets out the movement in inventory of refined product:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	(MM tonnes)*	(MM tonnes)*
Opening inventory of refined product	0.21	0.13
Refined product from feedstock	2.29	1.96
Refined product acquired	0.09	0.08
Refined product sold	(2.44)	(2.03)
Refined product internal use and yield losses	(0.02)	(0.02)
Closing inventory of refined product	0.13	0.12

* The inventory of products represents a mix of products for which no unique conversion from barrels to tonnes exists. The standard conversion used for crude oil by us is 7.746 Bbls to the tonne.

The crude oil feedstock is refined into a number of products sold as refined products. Refined product sales revenue for the nine months ended September 30, 2002 was $240.5 million and $264.8 million for the comparable period in 2001. The decrease was primarily attributable to lower prices on average for refined products. The following table sets out product produced for the nine months ended September 30, 2002 and 2001, the average price achieved and total refined products revenue:

	Nine Months Ended September 30, 2002			Nine Months Ended September 30, 2001		
Product Produced	Amount Sold	Average Price	Revenue	Amount Sold	Average Price	Revenue
	(Tonnes)	($/tonne)	($000's)	(Tonnes)	($/tonne)	($000's)
Gasoline	571,753	134.80	77,075	453,923	205.49	93,277
Diesel	760,029	117.85	89,569	819,848	82.35	67,511
Heavy fuel oil (Mazut)	786,785	39.96	31,443	270,879	53.70	14,545
LPG	86,607	74.88	6,485	386,834	181.83	70,338
Jet fuel	142,241	213.87	30,421	38,652	234.71	9,072
Total self refined	2,347,415	100.11	234,993	1,970,136	129.30	254,743
Resale of purchased refined products	89,025	61.59	5,483	69,628	144.07	10,031
Total refined product sales	2,436,440	98.70	240,476	2,039,764	129.81	264,774

Processing Fees

In addition to revenue generated from the refining and sale of product derived from acquired feed stock, the refinery also refines crude on behalf of third parties, for which it derives a fee. Total processing fees earned from third parties in the nine months ended September 30, 2002 amounted to $2.1 million and $8.6 million for the comparable period in 2001. This $6.5 million decrease was attributable to lower prices for refined products.

The following table sets out the total quantity of oil processed into product and the average fee charged:

	Toller's Volumes Processed	Processing Fee	Processing Fees Earned
	(Tonnes)	($/tonne)	($000's)
Nine Months Ended September 30, 2002	135,234	15.62	2,112
Nine Months Ended September 30, 2001	539,791	15.97	8,623

Interest and Other Income

Revenues from interest and other income decreased $1.6 million from $8.1 million for the nine months ended September 30, 2001 to $6.5 million for the corresponding period in 2002. The decrease was primarily due to no Upstream asset sales being recognized in 2002.

Expenses

Production

Production expenses relate to the cost of producing crude oil in the Upstream operations and were $41.7 million in the nine months ended September 30, 2002 compared to $29.7 million for the comparable period in 2001. Based on the number of barrels of oil produced, these costs were $1.19/Bbl for the nine months ended September 30, 2002 and $1.11/Bbl for the comparable period in 2001.

The $12.0 million absolute increase in cost between the nine months ended September 30, 2002 and 2001 resulted from the increase in production volumes of 8.3 MMbbls in 2002. There were also additional maintenance services required due to increasing production of formation water.

Royalties and Taxes

Royalties are collected quarterly, with the exception of Kumkol North, where royalties are paid monthly, and can either be paid in cash or in kind. The choice of collection method rests with the government of Kazakhstan and can vary from quarter to quarter. Where royalty is paid in cash, the crude oil to which the relevant royalty percentage is applied is valued at the wellhead. Where royalty is taken in kind, the government pays all related costs of transporting the crude from the CPF.

The total royalty expense for the nine months ended September 30, 2002 was $31.5 million, which represented an effective overall percentage of 8.6%, compared with a royalty expense of $27.5 million and an effective overall percentage of 8.3% for the comparable period in 2001.

The following table sets out the royalty paid in kind and in cash in the nine months ended September 30, 2002 and 2001:

Nine Months Ended September 30, 2002			Nine Months Ended September 30, 2001		
Royalty in Kind	Cash Royalty	Total Royalty	Royalty in Kind	Cash Royalty	Total Royalty
($000's)					
23,151	8,353	31,504	17,783	9,716	27,499

The total royalty and tax expense for the nine months ended September 30, 2002 was $43.7 million compared to $30.7 million for the comparable period in 2001. The $13.0 million increase was primarily due to increased production and higher prices received for crude oil. In addition to royalties, we incurred other statutory taxes of $12.2 million for the nine months ended September 30, 2002 (compared to $3.2 million for the comparable period of 2001), out of which $5.1 million relates to a tax assessment.

Transportation Costs

Transportation costs consist of the costs of shipping crude oil from our Central Processing Facility located at the Kumkol South field to the Shymkent refinery, the costs of trucking crude oil from the QAM fields to the CPF and railway transportation from the Shymkent refinery to the destination ports under non-FCA sales contracts. Transportation costs also include transportation of crude oil produced by our Kazgermunai joint venture to its export customers. The pipeline tariff from the CPF to Shymkent depends on the ultimate destination of the crude oil. The tariff charged in respect of crude oil destined for export is $1.41/Bbl, while the tariff relating to crude oil processed in the refinery is $0.84/Bbl.

The following table sets out the constituent components of transportation costs:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	($000's)	
Pipeline costs	39,923	26,255
Kazgermunai transportation costs	5,611	6,381
Railway transportation	50,743	1,582
Other related transportation costs	3,854	—
Total	100,131	34,218

The $65.9 million increase in transportation costs from the nine months ended September 30, 2001 to the comparable period in 2002 was the principal cause of the overall increase in expenses. The absolute increase in transportation costs in the nine months ended September 30, 2002 as compared to the comparable period in 2001 resulted from the increase in volume of crude oil sold for export, which attracts a higher tariff. For the nine months ended September 30, 2002, export volumes were 5.8 million barrels or 45% higher than the corresponding period of 2001. Railway transportation increased as compared to 2001 for the nine months ended September 30, 2002 due to the increase in non-FCA sales. Other related transportation costs are principally trucking costs incurred to transport the QAM field crude oil to the CPF located at Kumkol.

Refining

Refining costs represent the direct costs related to processing all crude oil including toller's volumes. The total refining costs in the nine months ended September 30, 2002 were $17.6 million or $0.88/Bbl of crude oil processed, compared to $14.6 million, or $0.71/Bbl, for the comparable period in 2001. The $3.0 million increase resulted from the reclassification of costs from crude oil and refined product purchases to refining costs.

Crude Oil and Refined Product Purchases

Crude oil and refined product purchases represent the cost of purchasing crude oil for our Shymkent refinery from third parties, as well as refined product for resale. These costs totaled $50.4 million in the nine months ended September 30, 2002 compared to $60.9 million in the comparable period in 2001. The $10.5 million decrease in the nine-month period in 2002, as compared to the same period in 2001, resulted from the reclassification of domestic sales discussed above, a decrease in volumes purchased from third parties and the reclassification of cost from crude oil and refined products purchased to refining costs.

Selling

Selling expenses are comprised of the costs of operating the seven distribution centres of our Downstream operations that sell refined products, and certain costs associated with the sale and export of crude oil. Selling expenses increased $3.6 million from $15.1 million for the nine months ended September 30, 2001 to $18.7 million for the nine months ended September 30, 2002, as a result of the significant increase in sales volumes. Upstream selling expenses for the nine months ended September 30, 2002 were $7.4 million as compared to $4.3 million in the comparable period in 2001. Downstream selling expenses were $11.3 million in the nine month period ended September 30, 2002 compared to $10.7 million in the comparable period of 2001.

General and Administrative

Total general and administrative expenses were $42.3 million for the nine months ended September 30, 2002 and $35.4 million for the comparable period in 2001. The following table sets out the breakdown of these costs between activities and, in the case of Upstream and Downstream activities, reflects them on a per barrel basis.

	Nine Months Ended September 30, 2002		Nine Months Ended September 30, 2001	
	General and Administrative	Per Barrel of Oil Produced or Processed*	General and Administrative	Per Barrel of Oil Produced or Processed*
	($000's)	($/Bbl)	($000's)	($/Bbl)
Upstream	24,985	0.71	17,501	0.66
Downstream	11,815	0.59	14,792	0.73
Corporate	5,470		3,062	
Total	42,270		35,355	

* Downstream includes toller's volumes.

The $6.9 million absolute increase in general and administrative expenses related to the increase in activity in Upstream operations. There was also a change in the method of allocating centrally incurred general and administrative costs, with a higher percentage allocated to Upstream operations.

Interest and Financing Costs

Interest and financing costs increased to $26.1 million in the nine months ended September 30, 2002 from $12.1 million for the comparable period in 2001. This $14.0 million increase was mainly attributable to the interest related to the Senior Notes issued in August 2001.

Depletion and Depreciation

Depletion and depreciation increased by $4.4 million in the nine months ended September 30, 2002 compared to the same period in 2001. This increase was mainly due to the increase in production as compared to the same period in 2001 and the capital additions in 2002. The effect of these increases was partly offset by the increase in proved producing reserves over the same period. The following table sets out our depreciation and depletion on an aggregate and per barrel basis:

	Nine Months Ended September 30, 2002		Nine Months Ended September 30, 2001	
	($000's)	($/Bbl*)	($000's)	($/Bbl*)
Upstream	20,163	0.58	17,167	0.64
Downstream	8,831	0.44	7,171	0.35
Corporate	70		280	
Total	29,064		24,618	

* Downstream includes toller's volumes

In accordance with Canadian and United States accounting standards, and to provide comfort that anticipated future revenues are sufficient to cover the capitalised costs of properties, we

perform a quarterly ceiling test. The ceiling test as at September 30, 2002 demonstrated that future net revenues exceed the carrying value of the Upstream properties under the full cost method of accounting.

Income Before Income Taxes

As a result of the foregoing factors, we had income before income taxes of $190.1 million for the nine months ended September 30, 2002, as compared to $211.1 million for the nine months ended September 30, 2001.

Unusual Items

We were named as defendant in a claim filed by a company alleging it was retained under a consulting contract, as disclosed in note 16 to our consolidated financial statements for the year ended December 31, 2001 included elsewhere in this offering memorandum. The arbitration decision was received in 2002 and we have accrued and paid $7.1 million for full settlement of the claim. During 2001, we incurred $6.0 million in costs defending ourselves from a potential takeover bid.

Income Taxes

The following table sets out the breakdown of total income tax charges:

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	($000's)	
Upstream	53,369	21,032
Downstream	15,478	41,472
Corporate	2,171	1,174
Total	71,018	63,678

The $7.3 million increase in total income tax reflected the nondeductibility for tax purposes of interest paid on the Senior Notes.

The corporate tax expense mainly relates to taxes paid by Hurricane Overseas Services, the company that provides services to our operating subsidiaries in Kazakhstan.

Net Income

As a result of the foregoing factors, we had net income for the nine months ended September 30, 2002 of $117.4 million compared to net income of $146.3 million for the nine months ended September 30, 2000.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

For 2001, we generated $169.3 million of net income and $194.7 million of cash flow ($146.3 million after giving effect to changes in non-cash operating working capital items) compared to net income of $154.9 million and cash flow of $179.4 million ($211.0 million after giving effect to changes in non-cash operating working capital items) for 2000.

Revenue, Production and Sales

Our revenues were $603.1 million for the year ended December 31, 2001, which represented an increase of $79.9 million, or 15.3%, over revenues of $523.2 million in 2000. The overall increase in revenues was primarily due to a $125.2 million increase in revenue from the sales of refined products, as well as a $3.7 million increase in revenue from interest and other income. The increase in revenue was partially offset by a $48.2 million decrease in revenue from crude oil sales. Revenue processing fees remained relatively constant between 2000 and 2001, decreasing only $0.9 million.

Upstream

Upstream production averaged 100,877 BOPD for 2001 compared to 84,090 BOPD for 2000. The following table sets out total production from our Upstream operations:

	2001	2000
	(MMbbls)	(MMbbls)
Opening inventory of crude oil	0.39	0.04
Production	36.82	30.69
Crude oil purchased from third parties	—	0.08
Sales or transfers	(36.47)	(30.38)
Pipeline losses	(0.04)	(0.04)
Closing inventory of crude oil	0.70	0.39

The following table sets out total sales volume from our Upstream operations:

	2001		2000	
	(MMbbls)	(%)	(MMbbls)	(%)
Crude oil exports	18.15	49.8	1.08	3.6
Crude oil transferred to Downstream	10.83	29.7	6.83	22.5
Crude oil transferred to Downstream and subsequently exported	0.15	0.4	9.58	31.5
Crude oil transferred to Downstream by joint ventures (50%)	4.83	13.2	1.80	5.9
Crude oil sold to HOP in Quarter 1, 2000	—	—	6.29	20.7
Royalty payments	1.69	4.7	1.32	4.3
Crude oil domestic sales	0.82	2.2	3.48	11.5
Total crude oil sales or transfers	36.47	100.0	30.38	100.0

Total consolidated revenue from crude oil sales amounted to $253.0 million in 2001 compared to $301.2 million in 2000. The $48.2 million decrease was primarily due to lower crude oil prices. Total crude oil revenue can be analyzed as follows:

	2001			2000		
	Quantity Sold	Net Realized Price	Revenue	Quantity Sold	Net Realized Price	Revenue
	(MMbbls)	($ per Bbl)	($000's)	(MMbbls)	($ per Bbl)	($000's)
Crude sales sold FCA	15.58	11.34	176,720	10.66	19.52	208,078
Crude sales sold FOB	0.39	17.72	6,910	–	–	–
Kazgermunai export sales	2.33	18.16	42,307	–	–	–
Royalty payments	1.69	11.38	19,232	1.32	8.60	11,358
Crude oil domestic sales	0.82	9.53	7,812	9.77	8.37	81,780
Total	20.81	12.16	252,981	21.75	13.85	301,216

The average FCA differentials for exports from Shymkent, to Brent crude oil price, per quarter for HKM sales only are set out below.

	2001	2000
	($/Bbl)	($/Bbl)
Quarter to March 31	12.50	9.88
Quarter to June 30	11.95	9.39
Quarter to September 30	11.93	9.99
Quarter to December 31	11.85	12.60
Average for the year	12.06	10.46

The increase in FCA differentials primarily resulted from increases in transportation tariffs across the board.

Downstream

We acquired the Shymkent refinery on March 31, 2000 and, accordingly, the comparative numbers in the tables for 2000 include only the nine months following the date of acquisition.

Due to the size of the available market for refined products in Kazakhstan, the refinery operated at 51.5% capacity or 3,397,497 tonnes (approximately 26.3 MMbbls including tolling volumes) in 2001.

The following table sets out the source of purchases and the movement in feedstock supplies for our refinery:

	2001	2000
	(MMbbls)	(MMbbls)
Acquired from HKM	10.98	16.41
Purchased from joint ventures (100%)	9.66	3.61
Purchased from third parties	0.59	1.05
Total feedstock acquired	21.23	21.07

The following table sets out the source of inventory levels of feedstock:

	2001	2000
	(MMbbls)	(MMbbls)
Opening inventory of crude oil feedstock	0.08	0.19
Purchase and acquisition of feedstock	21.23	21.07
Recoverable feedstock from traps	0.04	0.05
Feedstock sold for export	(0.15)	(9.58)
Feedstock sold domestically	—	(0.05)
Feedstock refined into product	(20.86)	(11.60)
Closing inventory of feedstock	0.34	0.08

In addition to acquiring feedstock to refine into products, the refinery from time to time acquires refined product for resale. The following table sets out the movement in inventory of refined product:

	2001	2000
	(MMtonnes)*	(MMtonnes)*
Opening inventory of refined product	0.13	0.11
Refined product from feedstock	2.55	1.46
Refined product acquired	0.09	0.15
Refined product sold	(2.55)	(1.54)
Refined product internal use and yield losses	(0.02)	(0.05)
Closing inventory of refined product	0.20	0.13

* The inventory of products represents a mix of products for which no unique conversion from barrels to tonnes exists. The standard conversion used for crude oil by us is 7.746 Bbls to the tonne.

The feedstock is refined into a number of products sold to derive the revenue from refined products. Refined product sales revenue for 2001 was $329.0 million and for the nine months of 2000 the revenue was $203.7 million. The $125.2 million increase was attributable to the refinery producing more crude oil in 2001. The following table sets out products sold for 2001 and 2000, the average price achieved and the total refined products revenue:

Product Produced	2001 Amount Sold	2001 Average Price	2001 Revenue	2000 Amount Sold	2000 Average Price	2000 Revenue
	(Tonnes)	($/tonne)	($000's)	(Tonnes)	($/tonne)	($000's)
Gasoline	548,503	207.54	113,838	315,327	215.31	67,893
Diesel	710,029	178.30	126,600	433,222	185.30	80,274
Heavy fuel oil (mazut)	1,045,682	50.00	52,284	566,948	49.79	28,230
LPG	107,079	92.71	9,927	63,478	70.56	4,479
Jet fuel and kerosene	57,829	231.84	13,407	16,637	226.30	3,765
Total self refined	2,469,122	128.00	316,056	1,395,612	132.30	184,641
Resale of purchased refined products	83,695	154.15	12,902	148,752	128.31	19,087
Total refined product sales	2,552,817	128.86	328,958	1,544,364	131.92	203,728

Processing Fees

Total processing fees earned in 2001 amounted to $11.0 million compared to $11.9 million in 2000.

The following table sets out the total quantity of oil processed into product and the average fee charged:

	Tollers' Volumes Processed*	Processing Fee	Processing Fees Earned
	(Tonnes)	($/tonne)	($000's)
2001	694,924	15.84	11,008
2000	711,368	16.71	11,884

* 2001 processed crude is approximately 5.4 MMbbls (2000 – 5.5 MMbbls)

Interest and Other Income

Revenues from interest and other income increased $3.7 million, or 59.0%, from the year ended December 31, 2000 to the year ended December 31, 2001 and were $6.4 million and $10.1 million respectively. The increase was primarily due to an increase in third party service fees and Upstream asset sales.

Expenses

Production

Production expenses were $43.0 million in 2001 and $35.3 million in 2000. Based on the number of barrels of oil produced, these costs were $1.17/Bbl for 2001 and $1.15/Bbl for 2000. The $7.7 million absolute increase between 2001 and 2000 resulted from the increase in production volumes of 6 MMbbls and the inclusion of the Kazgermunai joint venture for the entire year.

Royalties

The total royalty expense for 2001 was $35.5 million, which represented an effective overall percentage of 9.24%, compared to $33.7 million, or an overall effective percentage of 9.95%, for 2000. The following table sets out the royalty paid in kind and in cash by quarter in 2001 and 2000:

Quarter ending	2001 Royalty in Kind	2001 Cash Royalty	2001 Total Royalty	2000 Royalty in Kind	2000 Cash Royalty	2000 Total Royalty
	($ in 000's)					
March 31	—	5,589	5,589	—	5,694	5,694
June 30	6,680	2,634	9,314	785	4,912	5,697
September 30	11,103	1,493	12,596	5,563	1,401	6,964
December 31	7,526	479	8,005	9,548	5,806	15,354
Total Royalty	25,309	10,195	35,504	15,896	17,813	33,709

In addition, we incurred production bonuses, which are based on cumulative production levels, of $0.4 million for South Kumkol (compared to $0.3 million in 2000), $0.5 million for Kumkol North (compared to none in 2000) and $2.8 million for Kumkol South (compared to $3.6 million in 2000).

Transportation

The pipeline tariff from the CPF to Shymkent depends on the ultimate destination of the crude oil. In 2001, the tariff charged in respect of crude oil destined for export was $1.41/Bbl (compared to $1/Bbl for 2000), while the tariff relating to crude oil processed in the refinery was $0.84/Bbl (compared to $0.81/Bbl for 2000).

The following table sets out the components of our transportation costs:

	2001	2000
	($000's)	
Pipeline costs	33,396	25,152
Kazgermunai transportation costs	8,829	—
Railway transportation	6,255	—
Other related transportation costs	1,757	—
Total	50,237	25,152

The absolute increase in transportation costs between 2001 and 2000 resulted from the increase in production, the inclusion of results of Kazgermunai for the whole year as opposed to one month and our first non-FCA sale to the Black Sea.

Refining

The total refining costs in 2001 were $20.6 million, or $0.78/Bbl of crude oil processed, compared to $12.6 million, or $0.75/Bbl, for 2000. The $8.0 million absolute increase in refining costs resulted from the inclusion of one full year of results from the refinery and increased processing in 2001. In addition, the increase on a per barrel basis reflected increased heat and energy costs during 2001 due to a change in contractual terms with the local power station. As a result, we paid full market rates for power in 2001 as opposed to reduced rates in 2000. Correspondingly, HOP charged market prices for its fuel oil sales to the power plant.

Crude Oil and Refined Product Purchases

The $30.7 million increase in cost from $48.1 million in 2000 to $78.8 million in 2001 resulted principally from the increased volumes of crude purchased from third parties in 2001 (700,088 tonnes compared to 368,823 tonnes in 2000) at the average crude purchase price in 2001 of $12.17/Bbl. This increase was partly offset by lower prices for both crude oil and refined products in 2001 and lower volumes of refined products purchased for resale.

Selling

Downstream selling expenses of $13.7 million in 2001 (compared to $7.7 million in 2000) increased due to the inclusion of a full year of Downstream operations, increased sales volumes and a one-time charge of $1.2 million for the storage of fuel oil. Upstream selling costs of $5.6 million in 2001 (compared to nothing in 2000) consisted mainly of export costs associated with the Kazgermunai joint venture.

General and Administrative

Total general and administrative expenses were $55.2 million in 2001 and $44.6 million in 2000. The following table sets out the breakdown of these expenses between activities and, in the case of Upstream and Downstream activities, reflects them on a per barrel basis:

	2001		2000	
	General and Administrative	Per Barrel of Oil Produced or Processed*	General and Administrative	Per Barrel of Oil Produced or Processed*
	($000's)	($/Bbl)	($000's)	($/Bbl)
Upstream	31,703	0.86	25,497	0.83
Downstream	17,906	0.68	14,200	0.83
Corporate	5,595		4,868	
Total	55,204		44,565	

* Downstream includes toller's volumes

The $10.6 million absolute increase in general and administrative expenses related to the inclusion of the Shymkent refinery for all of 2001 compared to nine months in 2000 and the consolidation of our Kazgermunai joint venture for all of 2001 compared to one month in 2000.

Interest and Financing Costs

Total interest and financing costs remained consistent between 2001 and 2000. The following table sets out the interest charged for each debt instrument.

	2001	2000
	($000's)	
Short-term debt	1,855	—
Kazgermunai debt	5,960	118
Senior Notes	8,881	—
HOP bonds	1,029	—
Canadian and U.S. Notes	1,805	18,590
Total	19,530	18,708

Depletion and Depreciation

Depletion and Depreciation increased by $19.6 million in 2001 compared to 2000. This increase was mainly due to the full year consolidation of HOP and Kazgermunai ($2.8 million and $12.3 million, respectively) and the increase in Upstream production and capital expenditures ($4.5 million). The following table sets out our depreciation and depletion on an aggregate and per barrel basis:

	2001		2000	
	Depletion and Depreciation	Depletion and Depreciation per Barrel of Oil Produced or Processed	Depletion and Depreciation	Depletion and Depreciation per Barrel of Oil Produced or Processed
	($000's)	($/Bbl*)	($000's)	($/Bbl*)
Upstream	24,116	0.65	7,707	0.25
Downstream	9,764	0.37	6,973	0.41
Corporate	374		—	
Total	34,254		14,680	

* Downstream includes toller's volumes

The ceiling test for the year ended December 31, 2001 demonstrated that future net revenues exceed the carrying value of the Upstream properties under the full cost method of accounting.

Unusual Items

In 2001, we paid $5.5 million to defend against a potential takeover bid. The waiver fees and debt restructuring costs relate to the restructuring of the Canadian Notes and U.S. Notes and other claims under the terms of the Companies' Creditors Arrangement Act (Canada), or CCAA,

plan. The CCAA plan was implemented on March 31, 2000, under which we made payments to the holders of our Notes totaling $203.6 million in 2000. In addition, creditors with undisputed claims amounting to $3.3 million plus interest were paid in full in 2000. See note 2 to our consolidated financial statements. In 2001, we paid $5.5 million to defend against a potential takeover.

Income Before Income Taxes

As a result of the foregoing factors, we had income before income taxes of $239.7 million for the year ended December 31, 2001, as compared to $264.6 million for the year ended December 31, 2000.

Income Taxes

The following table sets out the breakdown of total income tax charges:

	2001	2000
	($000's)	
Upstream	49,515	55,576
Downstream	16,294	40,371
Corporate	2,585	3,710
Total	68,394	99,657

The corporate segment tax expense in 2001 was comprised of 5% withholding taxes on the dividend of $50.0 million paid by Turgai Petroleum to us. In 2000 there was a charge of $3.0 million for a tax audit of HOSI for previous years and current taxes paid by HOSI.

Net Income

As a result of the foregoing factors, we had net income for the year ended December 31, 2001 of $169.3 million compared to net income of $154.9 million for the year ended December 31, 2000.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

The HOP acquisition was completed on March 31, 2000. Our financial statements include net income and cash flow from operations of HOP for the nine months ended December 31, 2000. Our acquisition of HOP, combined with a 30% increase in production, cost reductions and higher world oil prices, were the major contributors to our results in 2000. As our 1999 results of operation do not include the results of HOP, these results are not fully comparable to our 2000 results.

For 2000, we generated net income of $154.9 million and $179.4 million of cash flow ($211.0 million after giving effect to changes in non-cash operating working capital items) compared to net income of $8.5 million and cash flow of $17.0 million ($45.4 million after giving effect to changes in non-cash operating working capital items) in 1999.

Production

Production averaged 84,090 BOPD for 2000 compared to 64,027 BOPD for 1999. The following table sets out our total production from our operations:

	2000	1999
	(MMbbls)	(MMbbls)
Opening inventory of crude oil	0.04	1.20
Production	30.69	23.37
Crude oil purchased from third parties	0.08	—
Sales or transfers	(30.38)	(24.50)
Pipeline losses	(0.04)	(0.03)
Closing inventory of crude oil	0.39	0.04

The following table sets out our total sales from our Upstream operations:

	2000		1999	
	(MMbbls)	(%)	(MMbbls)	(%)
Crude oil exports	1.08	3.6	0.65	2.67
Crude oil transferred to Downstream	6.83	22.5	—	—
Crude oil transferred to Downstream and subsequently exported	9.58	31.5	—	—
Crude oil transferred to Downstream by joint ventures (50%)	1.80	5.9	—	—
Crude oil sold to HOP in Quarter 1, 2000	6.29	20.7	—	—
Royalty payments	1.32	4.3	—	—
Crude oil domestic sales	3.48	11.5	23.85	97.33
Total crude oil sales or transfers	30.38	100.0	24.50	100.0

Revenue

Revenue increased significantly to $523.2 million in 2000 compared with $155.2 million in 1999. Of the total increase of $368.0 million, $216.0 million reflects revenues of HOP, which we acquired on March 31, 2000, $76.0 million was attributable to increased prices realized on crude oil sales, $72.0 million was attributable to the increased crude oil production and the remaining $4.0 million reflected an increase in interest and other income. Sales volumes, including sales generated from crude purchased from third parties, were 31.7 MMbbls (86,651 BOPD) in 2000 with 34% exported, 34% sold domestically and 32% refined and sold as products through the Downstream division compared to 24.1 MMbbls (65,971 BOPD) in 1999.

Our average realized price for total crude oil sales (after excluding the oil refined and sold as products) was $14.12 per barrel in 2000 compared with $6.36 per barrel in 1999. Exporting 34% of the sales volume and higher world oil prices led to this increase. The average realization for exports was $19.34 per barrel in 2000 and the average realization for crude sold domestically or for delivery to meet royalty-in-kind obligations was $8.90 per barrel in 2000. The average price realized for domestic refined products was $19.59 per barrel in 2000.

Total crude oil revenue can be analyzed as follows:

	2000			1999		
	Quantity Sold	Net Realized Price	Revenue	Quantity Sold	Net Realized Price	Revenue
	(MMbbls)	($ per Bbl)	($000's)	(MMbbls)	($ per Bbl)	($000's)
Crude sales sold FCA	10.66	19.52	208,078	0.65	6.80	4,419
Royalty payments	1.32	8.60	11,358	—	—	—
Crude oil domestic sales	9.77	8.37	81,780	23.85	6.23	148,628
Total	21.75	13.85	301,216	24.50	6.25	153,047

The increase in FCA differentials primarily resulted from increases in transportation tariffs.

Expenses

Production

Our production expenses were $34.4 million for the year ended December 31, 1999 and $35.3 million for 2000. Production expenses remained relatively constant between 1999 and 2000, despite a 30% increase in production, due to operational efficiencies realized in 2000 and resulting economies of scale. On a per barrel basis, production expenses decreased by 21% from $1.46 per barrel in 1999 to $1.15 per barrel of oil produced in 2000.

Royalties

Royalties increased from $0.71 per barrel of oil sold in 1999 to $1.10 per barrel of oil sold in 2000. The increase was due to the increase in production volumes and the increase in world oil prices. The total royalty expense for 2000 was $33.7 million and the overall percentage was 9.95%, compared to a total royalty expense of $16.7 million and an overall percentage of 9.18%.

The table below indicates the royalty paid in kind and cash by quarter in 2000 and 1999.

	2000			1999		
	Royalty in Kind	Cash Royalty	Total Royalty	Royalty in Kind	Cash Royalty	Total Royalty
Quarter ending			($000's)			
March 31	—	5,694	5,694	—	1,428	1,428
June 30	785	4,912	5,697	—	3,010	3,010
September 30	5,563	1,401	6,964	—	4,190	4,190
December 31	9,548	5,806	15,354	—	8,024	8,024
Total Royalty	15,896	17,813	33,709	—	16,652	16,652

In addition, we incurred production bonuses, which are based on cumulative production levels, of $0.3 million for South Kumkol (compared to $0.2 million in 1999) and $3.6 million for Kumkol South (compared to $2.3 million in 1999).

Transportation

Transportation costs were comprised entirely of pipeline tariffs, which rose in 2000 to $0.82 per barrel of oil sold from $0.71 per barrel of oil sold in 1999. This 16% increase reflected an increase in domestic pipeline tariffs during 2000. As a result, our transportation costs increased $8.2 million from $17.0 million for the year ended December 31, 1999 to $25.2 million for the year ended December 31, 2000.

Refining

Refining expenses were $12.6 million in 2000 compared to $2.2 million in 1999. In 2000, these expenses represented the costs to refine oil whether the oil was processed for third parties, under toll processing arrangements or for our account. In 1999, they represented processing fees paid by us to refine our crude oil.

Crude Oil and Refined Products Purchases

Crude oil and refined products purchases costs were $48.1 million for the year ended December 31, 2000 and related to the acquisition of crude oil for processing and subsequent resale as refined products and the acquisition of refined products for resale. No comparable data are available for 1999, as we had not yet acquired the HOP refinery and were not engaged in the Downstream sale of refined products.

Selling

Selling expenses in 2000 were $7.7 million and represent the costs incurred to operate our seven distribution centers in Kazakhstan. Prior to our acquisition of the HOP refinery, we were not engaged in the Downstream sale of refined products; therefore, no comparable data for 1999 are available.

General and Administrative

General and administrative expenses were $44.6 million in 2000 compared to $35.0 million in 1999. The $9.6 million increase related to the additional general and administrative expenses following our acquisition of HOP, offset in part by cost control measures undertaken by us in 2000. Upstream general and administrative expenses were $30.4 million for 2000 as compared to

$35.0 million for 1999. On a per barrel basis, general and administrative expenses decreased from $1.45 per barrel in 1999 to $0.99 per barrel in 2000.

Interest and Financing Costs

Interest and financing costs relate to the debt and accrued interest arising from our issuance of the 11% senior unsecured notes due 2002 (Canadian Notes) and the 11$^{3}/_{4}$% notes due 2004 (U.S. Notes). During 2000, we repaid $203.6 million to the noteholders and annual interest costs fell from $23.9 million in 1999 compared to $18.7 million in 2000.

Depletion and Depreciation

Depletion and depreciation increased $9.7 million in 2000. The addition of HOP, the transfer of assets to the category of developed producing and the increase in production led to the majority of this increase with Downstream accounting for $7.0 million of the increase and the transfer of assets to the depletable pool accounting for $3.1 million. On a per barrel basis for Upstream, depletion and depreciation increased from $0.12 in 1999 to $0.25 in 2000.

Unusual Items

In 1999, we recorded a gain on sale of assets of $12.8 million, attributable to the divestiture of certain Upstream assets. No waiver fees on debt restructuring costs were paid in 1999.

Income Before Income Taxes

As a result of the foregoing factors, we had income before income taxes of $264.6 million for the year ended December 31, 2000, as compared to $26.2 million for the year ended December 31, 1999.

Income Taxes

The total income tax charges for each of the years ended December 31, 2000 and 1999 are set out below.

	2000	1999
	($000's)	
Upstream	55,576	18,166
Downstream	40,371	—
Corporate	3,710	(495)
Total	99,657	17,671

In 2000, there was a charge of $3.0 million for a tax audit of Hurricane Overseas Services for previous years, and current taxes paid by HOSI.

Net Income

As a result of the foregoing factors, we had net income for the year ended December 31, 2000 of $154.9 million compared to net income of $8.5 million for the year ended December 31, 1999.

Liquidity and Capital Resources

The levels of our cash, current assets and current liabilities at the balance sheet dates for the last three financial years and the nine month period ended September 30, 2002 are set out below.

	September 30, 2002	December 31,		
		2001	2000	1999
		($000's)		
Cash and short-term deposits	162,246	64,812	59,298	30,748
Total current assets (excluding cash)	171,308	105,318	71,292	20,834
Total current liabilities	164,792	108,737	96,782	227,978

Cash is managed centrally through the treasury department in Kazakhstan. Surplus funds are placed on deposit in Canada. Funds held within Kazakhstan are used to meet operational and immediate capital expenditure needs.

We proportionately consolidate Turgai Petroleum and Kazgermunai, and $39.8 million of the $59.3 million of cash that we reported at the end of 2000, $13.0 million of the $64.8 million of cash that we reported at the end of 2001, and $21.3 million of the $162.2 million of cash that we reported as of September 30, 2002, was held by our joint ventures. In 2001, Turgai Petroleum declared and paid a dividend of $50 million to us. Turgai Petroleum is not expected to pay a dividend in 2002, as its cash flow will be fully utilized in developing the North Kumkol field and related infrastructure. The Kazgermunai joint venture has used substantially all of its cash to partially repay outstanding shareholder loans.

During the first half of 2001, HOP issued $13.2 million of bonds registered with the National Securities Commission of the Republic of Kazakhstan. See note 12 of our consolidated financial statements appearing elsewhere in this offering memorandum.

During 2001, working capital facilities were established by us with three banks in Kazakhstan totaling $52.6 million in commitments. At December 31, 2001 we had drawn $42.6 million under these facilities. These facilities are revolving, have terms ranging from one to eight years, are secured and bear interest at rates ranging from 14% per annum to LIBOR plus 3.5%.

We repaid our U.S. and Canadian Notes during 2000-2001, with the last installment made in June 2001.

We declared a special dividend of Cdn.$4.00/share to shareholders of record as of August 2, 2001 in 2001 for a total of $208,610,000. This special dividend was made through the issuance of our Senior Notes. These notes did not raise additional funds for us. We paid a cash dividend for fractional interests (entitlements of less than $10,000) and for withholding taxes due. We retained a corresponding amount of the notes ($31.8 million). As of December 31, 2001, we had sold $15 million of the notes originally retained, and as of September 30, 2002, we had sold the remaining notes. We redeemed all $208.2 million principal amount of the outstanding Senior Notes on February 3, 2003.

Our Kazgermunai non-recourse debt was repaid in part (our 50% share repaid was $26.7 million of debt and accrued interest) during 2001. During 2002, a further $34.9 million was repaid (of which our 50% share was $17.5 million). At December 31, 2001, our share of Kazgermunai debt was $61.1 million. At December 31, 2002, our share of Kazgermunai debt was $45.2 million. Kazgermunai is restricted from paying dividends until all outstanding loans have been paid in full. At year-end 2000 and 2001, Kazgermunai's funding consisted of:

	2000	2001
	($000's)	
Shareholders Loans	142,726	99,000
Loans from Kazakhstani Government	21,370	23,136
Total	164,096	122,136

On December 18, 2001 we and one of our operating subsidiaries entered into a secured Term Facility for $60 million. The Term Facility had a two year term. As at December 31, 2001, we had drawn $20 million under this facility and at September 30, 2002 we had fully drawn this facility. We replaced this facility with a new $225.0 million Term Facility on January 3, 2003. See "Description of Certain Financing Arrangements."

Our cash flow was $158.2 million in the nine months ended September 30, 2002, as compared to $167.3 million in the comparable period in 2001, $194.7 million in fiscal 2001, $179.4 million in fiscal 2000 and $17.0 million in fiscal 1999. Cash flow (before changes in non-cash operating working capital) decreased $9.1 million to $158.2 million for the nine months ended in September 30, 2002 from $167.3 million for the comparable period in 2001. This decrease was

attributable to the $28.9 million decrease in net income, offset in part by a $4.5 million increase in depletion and depreciation and a $15.3 million increase in other non-cash items. Cash flow increased $15.2 million for the year ended December 31, 2001 as compared to the year ended December 31, 2000. This increase was primarily attributable to the $14.4 million increase in net income, and a $19.6 million increase in depletion and depreciation, offset by a $18.8 million decrease in other non-cash items. Cash flow increased $162.5 million for the year ended December 31, 2000 as compared to the year ended December 31, 1999 primarily due to the $146.4 million increase in net income, a $11.8 million increase in depletion and depreciation and a $4.3 million increase in other non-cash items. Our cash flow from operating activities (cash flow after giving effect to changes in non-cash operating working capital items) was $126.7 million in the nine months ended September 30, 2002, compared to $119.8 million in the comparable period in 2001, $146.3 million in fiscal 2001, $211.0 million in fiscal 2000 and $45.4 million in 1999.

Our cash provided by financing activities was $35.2 million in the nine months ended September 30, 2002 as compared to $2.0 million in fiscal 2001, and our cash used in financing activities was $29.7 million in the nine months ended September 30, 2001, $144.8 million in fiscal 2000 and $1.0 million in fiscal 1999.

Our cash used for investing activities was $64.4 million in the nine months ended September 30, 2002, as compared to $50.2 million in the comparable period of 2001, and cash provided by investing activities was $142.7 million in fiscal 2001, $37.7 million in fiscal 2000 and $15.2 million in fiscal 1999.

Our net working capital was $168.8 million as of September 30, 2002, $61.4 million as of December 31, 2001 and $33.8 million as of December 31, 2000, and we had negative working capital of $176,396 as of December 31, 1999. The increase in net working capital was attributable to the increase in non-FCA sales, for which customers pay after the crude oil is delivered and we pay the transportation charges in advance.

Capital Expenditures

The following table sets forth a breakdown of capital expenditures in 2001 and 2000, and in the nine months ended September 30, 2002 and comparable period of 2001 ($000's).

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001	2001	2000	1999
Upstream					
Development wells	10,860	5,681	10,650	3,045	10,775
Facilities and equipment	67,090	41,208	79,330	7,287	2,058
Exploration	16,931	5,233	10,279	4,529	2,485
Downstream					
Refinery Health, Safety & Environment ("HS&E")	627	294	796	233	—
Refinery sustaining	877	1,342	5,046	3,244	—
Refinery return projects	1,920	701	3,013	2,362	—
Marketing & other	3,037	356	477	927	—
Corporate	217	400	616	—	—
Total capital expenditures	101,559	55,215	110,207	21,627	15,318

During 2003, we expect to continue to incur capital expenditures in respect of projects that were initiated in 2002, including:

- continued development of the Kumkol South and South Kumkol fields;
- construction of the QAM pipeline;
- development of the QAM fields;
- exploration, including the drilling of deep wells in license 260 D1;
- further development of the fields within our joint ventures;
- HS&E projects for the refinery;
- projects designed to increase the efficiency of the refinery; and

- completion of the gas utilization project.

As of September 30, 2002, we had expended in excess of $100 million with respect to these capital projects and we expended an additional $40 million over the balance of 2002 and expect to expend a further $167 million during 2003, as follows ($ in millions):

Upstream including joint ventures	$135.2
Downstream	$ 17.6
Marketing and Trading	$ 8.1
Corporate Services	$ 6.1

We believe that cash-on-hand, cash flow from operations, our working capital facilities, the net proceeds of this offering and, subject to satisfaction of conditions precedent, the remaining borrowings under our new Term Facility will be sufficient, after giving effect to redemption of our Senior Notes, to fund our capital expenditure program for the balance of 2003.

Commitments

We committed to the Kazakhstani government to invest $280.0 million in HKM by the end of 2002 and $150.0 million in HOP by the end of 2001. As of September 30, 2002, we believe we met both of these commitments. If the Kazakhstani government fails to recognize the investments we have made, we may be required to pay a penalty of 15% of the shortfall to the Kazakhstani government, which could have a material adverse effect on our financial condition and results of operations.

Of the items included within our 2003 capital budget, we are legally committed to expend the following ($ in millions):

QAM pipeline construction project	$27.8
Gas utilization program	$ 7.3
Refinery	$ 0.2

Risks

Foreign Exchange Risks. We report in U.S. dollars. Export revenues are denominated in U.S. dollars, and domestic sales of refined products and crude oil are made in the Tenge equivalent to U.S. dollars as of the date of sale. The majority of our operating costs are denominated in Tenge.

Our exposure to the Tenge is through the net bank balances maintained and the tax basis of our capital assets. For tax purposes our accounts are maintained in Tenge. We have the possibility to revalue the tax basis of our assets using the official annual rate of inflation. Any currency movements in excess of the annual inflation rate will generate exchange gains and losses upon conversion to U.S. dollars. As of January 1, 2002, the tax legislation was changed such that our Downstream operations no longer have the possibility to revalue the tax basis of their assets. As our Upstream operations have tax stability provisions within their hydrocarbon contracts, they still have the possibility to revalue the tax basis of their assets. There is no significant forward market in the Tenge, therefore, we do not hedge this exposure.

Commodity Prices. The price received for crude oil and refined product sales is linked to world oil prices and, in the case of export FCA sales, is net of transportation and other related costs. Although the price received for refined products is linked to world oil prices, there may be significant time lags in the adjustment process and the relationship between the net back for crude oil exports and refined product sales may vary from time to time. We did not hedge commodity price risks in 2001. During the second quarter of 2002 we began to hedge a portion of our commodity price risk by implementing a minimal forward sale program (for 45,000 tonnes per month).

FCA Differential / Transportation. Our most significant expenditure is the FCA differential or, in the case of non-FCA sales, the cost of transportation. The construction of the QAM pipeline and access to the CPC and other pipelines to the extent we are able to negotiate such access will help address this issue. The completion of the QAM pipeline is expected to lower the costs for exported crude oil by approximately $2.00 to $2.50 per barrel shipped.

Business and Properties

Except as otherwise required by the context, references in this offering memorandum to "our", "we" or "us" refer to the combined business of Hurricane Hydrocarbons Ltd. and all of its subsidiaries, including HKM and HOP.

Overview

We are an independent, integrated international energy company engaged in the exploration for, and production, refining and export of, crude oil and the marketing of crude oil and refined products in the Republic of Kazakhstan. For the years ended December 31, 2000 and 2001 and for the nine months ended September 30, 2002, we had net income of $154.9 million, $169.3 million and $117.4 million, respectively, and earnings before interest, income taxes and depletion and depreciation, or EBITDA, of $288.0 million, $291.5 million and $243.6 million, respectively. Our business consists of our Upstream and Downstream operations.

Upstream

Our Upstream operations consist of exploration and production activities. All crude oil from our production activities is either refined by our Downstream operations and sold primarily within Kazakhstan or exported directly by our Upstream operations.

- *Exploration*. Our exploration activities involve exploration and exploratory drilling for new reserves in areas in which we hold exploration licenses. We own a 100% interest in exploration licenses for areas covering approximately 414,000 acres. To date, exploration on these lands has resulted in the discovery of two new fields. Our exploration program in 2002 was primarily focused on assessing deeper stratigraphic prospects.
- *Production*. Our production activities involve the production of oil from our existing reserves. We own interests in eleven fields, all of which are located in the South Turgai Basin in south-central Kazakhstan. We estimate that, as of January 1, 2002, we had proved reserves of 348.1 MMbbls of oil and 32.8 Bcf of natural gas with a total present value, discounted at 10%, of future net pre-tax cash flows of $1,883 million. Of the eleven fields in which we own interests, the seven fields operated by us accounted for 54.7% of our proved reserves of oil as of January 1, 2002, and 75.4% of our production for the first nine months of 2002. Our average daily production of oil was 100,877 BOPD in 2001 and 128,203 BOPD in the nine months ended September 30, 2002.

Downstream

Our Downstream business consists of refining, marketing and trading activities. All crude oil from our Upstream operations that is not exported is sold to our Downstream operations for refining at our refinery, which is located in Shymkent and has been operating since 1987. Crude oil production from our producing fields is and is expected to continue to be the primary source of crude oil for the Shymkent refinery.

- *Refining and Marketing*. Our refining and marketing activities involve the operation of the Shymkent refinery and the marketing of the refined products it produces. The refined products produced at the Shymkent refinery include heating fuel, gasoline, diesel fuel and jet fuel primarily for the Kazakhstani domestic market. Through our indirect ownership interest in HOP, a Kazakhstani joint stock company, we own and operate the Shymkent refinery. The Shymkent refinery had a rated crude oil throughput capacity of approximately 140,000 BOPD as of September 30, 2002, and operated at an average of approximately 51% of its capacity during the nine months ended September 30, 2002. In 2001, approximately 43% of our crude oil production was sold by our Upstream operations to our Downstream operations for refining at the Shymkent refinery and refined product trading.
- *Trading*. In 2001, approximately 50% of our crude oil production was exported from our refinery at Shymkent, which currently serves as our crude oil distribution hub. The principal buyers of our crude oil include Naftex, Eurasia, TotalFinaElf, BP, Vitol, Sintez and Shell.

Competitive Strengths

We believe that we enjoy the following principal competitive strengths:

Integrated operations. We are an integrated oil company in Kazakhstan with exploration, development, production, refining and marketing capabilities. We believe that these capabilities result in:

- a greater ability to maximize profit from our crude oil production in response to market demand by adjusting the balance between exports and domestic sales in Kazakhstan;
- a greater ability to enhance the quality of our products and the efficiency of our operations; and
- an enhanced perception of us by domestic and foreign customers as a large and dependable supplier.

Optimal field characteristics. The favourable characteristics of our producing properties enable us to develop our fields and produce and refine our crude oil at relatively low costs. Our fields generally have productive zones at relatively shallow depths ranging from 2,500 to 6,000 feet. Our reservoirs have high porosity and high levels of permeability. Our reserves produce light, sweet crude at 37° to 44° API gravity with a sulphur content of less than 0.4%.

Pipeline and transportation connection between our oil fields and our refinery with sufficient capacity. Our CPF gathers production from our principal producing fields and delivers export specification oil to the Shymkent refinery via 28-inch and 20-inch lateral pipelines that connect to the Central Pipeline, all of which pipelines are operated by KazTransOil CJSC, which is controlled by the Kazakhstani government. We believe there is substantial unutilized capacity in the pipelines. We are refurbishing the Central Processing Facility and other production facilities to increase total fluid handling capacity from 190,000 BFPD to over 280,000 BFPD. This combination of facilities and pipelines allows for production growth and the development of additional reserves without the need for new transportation infrastructure. In addition, the QAM pipeline, due to be commissioned in the third quarter of 2003, will provide an alternative transportation route directly to one of the rail networks we use for exporting oil. See "Business and Properties — Downstream Operations — Transportation" for further details.

Excess refining capacity. The Shymkent refinery, which began operating in 1987, had a rated crude oil throughput capacity of approximately 140,000 BOPD as of September 30, 2002, and operated at an average of approximately 51% of its capacity during the nine months ended September 30, 2002. This gives us significant flexibility in our choice between trading crude oil or refined products as we increase our production activities and develop new reserves. We expect that the refinery's significant excess capacity will enable us to meet all of our medium- and long-term refining needs.

Market leadership in a major market. The Shymkent refinery is the only refinery located in the southern region of Kazakhstan, which is the most densely populated area of Kazakhstan. We have a network of sales, storage and distribution outlets in the principal centers of the region to market our refined products. We have achieved a leading market position in the Kazakhstani domestic market, which positions us well to capitalize on growth and any other improvements in the Kazakhstani economy.

Western technology and management techniques. We have applied Western technology and management techniques to modernize our operational infrastructure in Kazakhstan and maximize its efficiency. We are using Western seismic and other exploration techniques to explore our properties in the South Turgai Basin. The Shymkent refinery is being upgraded and, with the refinery's significant excess capacity, we expect it will be able to meet all of our refining needs so that we may implement our medium- and long-term marketing plan.

Business Strategy

By capitalizing on our competitive strengths, we aim to be the leading integrated oil and gas company in Central Asia. The primary elements of our strategy are to:

Explore undeveloped properties. We continue our exploration of undeveloped property covering approximately 414,000 acres, for which we hold exploration licenses. Beginning in January 2002, our exploration program has been primarily focused on accessing deeper stratigraphic prospects.

Capitalize on our development opportunities. As of January 1, 2002, our estimated proved undeveloped reserves were 104.8 MMbbls. We intend to bring these proved undeveloped reserves into production in a timely, efficient and profitable manner.

Increase our oil transportation alternatives in order to reduce transportation costs and increase our export opportunities. In the nine months ended September 30, 2002, we sold approximately 52% of our crude production into export markets. Transportation to export markets remains our single largest cost of operations. Our transportation costs include costs associated with:

- trucking crude oil from the QAM fields to the Central Processing Facility;
- shipping crude oil from our Central Processing Facility to the Shymkent refinery;
- railway transportation from the refinery to export destinations; and
- transportation of crude oil by our Kazgermunai joint venture to its export customers.

As many of the modes of transportation for our crude oil and refined products are controlled by government entities and other third parties and few alternative modes currently exist, we are seeking ways in which to diversify our transportation options in order to increase competition and thereby lower our costs. Additional transportation options to export markets would provide transportation capacity for increased exports. In this regard, we have undertaken various initiatives, including:

- constructing the QAM pipeline linking the QAM fields and our other fields to the railroad terminal at Dzhusaly;
- opening a number of new export routes, such as Turkmenbashi — Batumi; Atyrau — Samara; and Odessa;
- optimizing the use of existing export routes, such as Aktau — Batumi;
- continuing to transition crude oil exports to non-FCA sales (as to which title to crude oil passes outside Kazakhstan), which represented 46% of our crude oil sales during the three months ended September 30, 2002 and which allow us to monitor the associated transportation costs and will lead to increased operating margins;
- pursuing opportunities to improve our logistical infrastructure by upgrading our loading and storage facilities and securing access to a railcar fleet to lower the cost of and ensure the availability of rail transportation; and
- creating a specialized transportation and trading team, for both our Upstream and Downstream operations.

We also expect to actively pursue access to other pipelines, including the pipeline constructed by the Caspian Pipeline Consortium, or CPC.

Improve performance of the Shymkent refinery. We have undertaken, together with a consultant, a review of the refinery's operations to identify areas of improvement. We have been implementing relatively low-cost projects designed to increase product quality and production yields at the Shymkent refinery and to improve the refinery's product mix, such as:

- upgrading the refinery's secondary process capacity in order to reduce the output of lower margin products, such as fuel oil, and increasing the output of higher margin products, such as gasoline and jet fuel;

- refurbishing and recommissioning a vacuum gas oil distillation unit to reduce production of lower margin products;
- installing additional equipment to enhance product quality; and
- implementing new processes to increase energy efficiencies in order to reduce our refining costs.

Reduce overhead and operating costs. We have eliminated the remaining overlap between the operations of our principal operating subsidiaries, HKM and HOP, by establishing our joint marketing team. In addition, in accordance with established western management practices, we intend to outsource many service activities that we currently perform to support our Upstream and Downstream operations and to divest non-core businesses and assets.

Selectively seek acquisition opportunities. We believe our integrated operations and leading position as a producer in the South Turgai Basin will create opportunities for additional growth through selective acquisitions. As part of our strategy to increase our reserves and production, we will pursue opportunities to acquire additional reserves from third parties. To date, our acquisition strategy has focused on acreage and assets, both producing and of exploration potential, within the vicinity of our current oil fields. We intend to pursue selective acquisitions throughout Kazakhstan.

Effectively exploit our natural gas reserves. We have implemented a gas utilization program designed to reduce the flaring of gas produced from our fields and the consequential release of pollutants into the environment, and to help us meet our power needs. We expect this program to provide us with a more reliable and lower cost power source for our field operations, power for the Shymkent refinery through swaps, and the opportunity to sell power to third parties.

Corporate Development

Operating Structure

We were incorporated under the laws of the province of Alberta, Canada in 1986, as a subsidiary of Brana Oil & Gas Ltd., formerly a public oil and gas company listed on the Alberta Stock Exchange. Our corporate headquarters are located at Suite 1460, SunLife Plaza, North Tower, 140 - 4th Avenue S.W., Calgary, Alberta, Canada T2P 3N3, and our telephone number is (403) 221-8435.

We conduct substantially all of our operations through, and substantially all of our assets are currently held directly or indirectly by, HKM, except for our stake in Turgai Petroleum CJSC, through which we hold our interest in Kumkol North. Our principal operating subsidiaries are:

- Hurricane Kumkol Munai OJSC, which is responsible for our Upstream operations in Kazakhstan, including the development and production of crude oil reserves. We own 100% of the common shares of HKM, which represent 89.5% of the voting shares, and 39% of the preferred shares, which represent 4.1% of the voting shares. As of September 30, 2002, we held 93.6% of the voting shares of HKM. The balance of the preferred shares of HKM are held by current and former employees of HKM.
- Hurricane Oil Products OJSC, formerly OJSC Shymkentnefteorsyntez, which is responsible for Hurricane's Downstream operations in Kazakhstan. HOP owns and operates the Shymkent refinery and a wide network of marketing and distribution centers. We own indirectly 96.7% of the common voting shares of HOP. The remaining voting shares of HOP are held by private investors. There are also non-voting preferred shares outstanding held by current and former employees of HOP.

The HKM Acquisition

In 1996, Hurricane Kumkol Limited, one of our wholly owned subsidiaries, purchased all the common stock of HKM from the Republic of Kazakhstan. On December 12, 1996, we completed the acquisition of HKM, effective November 30, 1996, for an aggregate purchase price of $120.0 million. As part of this acquisition, we acquired:

- a 100% interest in Kumkol South;

- a 50% interest in Kumkol-LUKoil CJSC, now Turgai Petroleum CJSC, which owns a 100% interest in Kumkol North;
- a 50% interest in Kazgermunai LLP, which holds licenses to the Akshabulak, Nurali and Aksai fields; and
- a 50% interest in Turan Petroleum.

In addition, the Kazakhstani government agreed that, if any of the exploration and production licenses held by Turan Petroleum, Turgai Petroleum or Kazgermunai as of the date of the acquisition were canceled, they would be reissued to HKM. Under that contractual right, the licenses to the South Kumkol and the QAM fields, formerly held by Turan Petroleum, have been reissued to HKM.

The common stock of HKM that we purchased represented, at that time, all of the common equity interest in HKM and 89.5% of the voting stock. The balance of the voting stock consisted of a single class of preferred stock owned by current and former employees of HKM. We have recently acquired 39% of the preferred shares that were outstanding at the time of our acquisition of HKM. As a result, as of September 30, 2002, we held 93.6% of the voting stock of HKM. The preferred stock is currently entitled to an annual aggregate dividend preference of approximately $44,000 and is nonparticipating except in a liquidation of HKM, in which event holders of preferred stock will participate to the extent of 6.84% of the net assets of HKM.

Under the terms of our acquisition of HKM, we committed to invest for the benefit of HKM, on or before December 31, 2002, the local currency equivalent of $280.0 million in capital expenditures, investments or other items in Kazakhstan which may be treated as capital assets for balance sheet purposes as determined by international accounting standards. The required expenditures could be made either by means of capital contributions to HKM or from other sources including cash flows of HKM. If less than all of the required investment were made by that date, we would have had to pay the Kazakhstani government, in lieu of any amount not invested, a penalty of 15% of the shortfall. Under the arrangements for the granting of production licenses in Kazakhstan, we are subject to certain commitments for expenditures to develop particular fields. Expenditures pursuant to these commitments are credited against our $280.0 million aggregate obligation. As of September 30, 2002, we believe we had met these commitments.

Turgai Petroleum

In 1995, HKM and LUKoil Oil Company of Russia formed a joint venture, Kumkol-LUKoil CJSC, in Kazakhstan. Kumkol-LUKoil subsequently changed its name to Turgai Petroleum CJSC and LUKoil Overseas Kumkol B.V., a Netherlands company, or LUKoil, acquired LUKoil Oil Company's interest therein. In 2001 HKM transferred its shareholding in Turgai Petroleum to us. We and LUKoil each have a 50% ownership interest in Turgai Petroleum, and each partner has a right of first refusal over the shares of the other partner. We and LUKoil each appoint three directors, one of whom will be designated a co-chairman, to the six-member board of directors. Decisions with respect to the operations and management of Turgai Petroleum require the unanimous agreement of Turgai Petroleum's board of directors. If the board fails to reach agreement on a decision, the dispute may be referred first to senior executives of the joint venture partners and then, if the senior executives are unable to resolve the matter, to the Arbitration Institute of Stockholm Chamber of Commerce for resolution by a sole arbitrator. Major transactions must also be approved by both partners at the shareholder level. Turgai Petroleum owns a 100% interest in, and is the operator of, Kumkol North.

Kazgermunai LLP

In November 1993, HKM formed Kazgermunai LLP in Kazakhstan with two German companies as partners. The two original German partners subsequently transferred their ownership interests to our current partners, RWE—DEA AG (25%), Erdöl-Erdgas Gommern GmbH (17.5%) and International Finance Corporation (7.5%). Transfers of shares require the consent of the other shareholders.

The daily business of Kazgermunai is managed by a two-member Management Board. The Management Board is supervised by the eight-member Supervisory Board, the body that makes all of the important decisions for the joint venture. Resolutions of the Supervisory Board must be passed by a 75% majority of its members. HKM is entitled to name four members of the Supervisory Board, while our joint venture partners name the remaining four members.

The Kazakhstani government has granted Kazgermunai 30-year exploration and production licenses for the Akshabulak, Nurali and Aksai fields. Through HKM's interest in Kazgermunai LLP, we own a 50% interest in the Akshabulak, Nurali and Aksai fields.

Funding for the development of the central part of the Jurassic III formation of the Akshabulak field is obtained by Kazgermunai from shareholder loans from its shareholders other than HKM, which has no obligation to fund any of the costs of the initial development phase of that formation. These shareholder loans, which totalled approximately $63 million at September 30, 2002, are non-recourse to us except to the extent of our interest in Kazgermunai. Kazgermunai is restricted from paying dividends to its shareholders until all outstanding loans have been paid.

We recently commenced an arbitration proceeding against our two German partners over a dispute concerning amounts due to the joint venture in respect of crude oil purchases made by such partners.

The HOP Acquisition

On March 31, 2000, pursuant to the terms of an agreement dated October 9, 1999 among CAIH, HOP, Kazkommertsbank OJSC, or KKB, Hurricane and HKM, as amended, or the HOP Transaction Agreement, we closed our acquisition of all of the common shares of HOP held by CAIH, representing 88.35% of the issued and outstanding shares of HOP, for total consideration of $118.0 million, which we refer to as the HOP Acquisition. HOP owns the Shymkent refinery located near Shymkent, Kazakhstan. See "Business and Properties — Downstream Operations: Refining, Marketing and Trading". We paid the consideration for this acquisition through a combination of $45.1 million in cash, the issuance of common shares and the issuance of special warrants. In addition, we issued to CAIH, at the time of the closing of the HOP Acquisition, a security convertible into our common shares, pursuant to which CAIH acquired additional common shares. Since the closing of the HOP Acquisition, we have increased our indirect ownership interest in HOP to 96.7% of the outstanding shares. At the time of the closing of the HOP Acquisition, we entered into an agreement with CAIH, which governs certain aspects of the relationship between CAIH, our largest shareholder, and ourselves. See "Management — Related Party Transactions — Shareholders' Agreement".

Upstream Operations

We conduct our Upstream operations through HKM and our Kazgermunai and Turgai Petroleum joint ventures. Our Upstream activities involve the exploration for new oil fields in the territory covered by our exploration licences and the production of oil and gas from our producing fields.

Principal Properties

Our oil and gas exploration and production operations are located in the 80,000 square km South Turgai Basin in south-central Kazakhstan. We have interests in eleven fields, seven of which are producing through permanent facilities (Kumkol South, Kumkol North, South Kumkol, Akshabulak, Qyzylkiya, Aryskum and Maybulak), and four (Nurali, Aksai, North Nurali and East Kumkol) are on test production for appraisal. We hold exploration licenses covering approximately 414,000 acres of undeveloped property. One of the fields on test production for appraisal is contained within the area covered by the exploration license.

Estimated proved reserves for these properties were 348.1 MMbbls as of January 2002. Average production net to us from these fields was 100,877 BOPD in 2001 and 128,203 BOPD in the nine months ended September 30, 2002.

The following tables set forth our estimated proved plus probable and proved oil and natural gas reserves and the present worth value of estimated future net pre-tax cash flows of those reserves for each of our oil and gas fields as of January 1, 2002, on an escalating price assumption basis.

Name of Field	Our Interest	Proved Plus Probable Crude oil Reserves	Proved Plus Probable Natural Gas Reserves	Estimated Present Worth Value (Discounted at 10%) of Future Net Pre-tax Cash Flow	Field Operator
	(%)	(MMbbls)(1)	(Bcf)(1)	($000's)(2)	
Kumkol South	100	134.8	29.4	707,227	HKM
Kumkol North	50	111.2	16.2	641,343	Turgai Petroleum
South Kumkol	100	42.5	3.1	256,400	HKM
Akshabulak	50	108.1	—	627,959	Kazgermunai
Qyzylkiya	100	37.7	—	201,361	HKM
Aryskum	100	28.4	—	139,560	HKM
Maybulak	100	20.8	—	94,874	HKM
Nurali	50	10.5	—	43,533	Kazgermunai
Aksai	50	7.5	—	25,767	Kazgermunai
East Kumkol	n/a(3)	10.8	—	59,144	HKM/Turgai Petroleum
North Nurali	100(3)	—	—	—	HKM
Total		512.3	48.7	2,797,168	

Name of Field	Our Interest	Proved Crude oil Reserves	Proved Natural Gas Reserves	Estimated Present Worth Value (Discounted at 10%) of Future Net Pre-tax Cash Flow	Field Operator
	(%)	(MMbbls)(1)	(Bcf)(1)	($000's)(1)	
Kumkol South	100	110.2	19.5	565,157	HKM
Kumkol North	50	78.7	11.1	457,436	Turgai Petroleum
South Kumkol	100	32.2	2.2	184,784	HKM
Akshabulak	50	73.2	—	445,931	Kazgermunai
Qyzylkiya	100	20.6	—	99,128	HKM
Aryskum	100	9.9	—	40,299	HKM
Maybulak	100	11.9	—	45,103	HKM
Nurali	50	4.0	—	14,389	Kazgermunai
Aksai	50	2.1	—	4,685	Kazgermunai
East Kumkol	n/a(3)	5.3	—	25,674	HKM/Turgai Petroleum
North Nurali	100(3)	—	—	—	HKM
Total		348.1	32.8	1,882,586	

(1) Estimates of our crude oil and natural gas reserves in the Kumkol South, Kumkol North and South Kumkol fields were prepared by McDaniel. In addition, McDaniel consolidated data prepared by others relating to estimates of crude oil reserves in the other fields in order to produce estimates of our crude oil reserves. See "Business and Properties — Oil and Gas Exploration and Development Operations — Estimates of Proved and Proved Plus Probable Reserves and Present Worth Values".

(2) Probable reserves have been reduced by us by 50% to account for risk. McDaniel, in the McDaniel Reports, did not risk-adjust the probable reserve, but reduced the estimated present value of the future cash flows on an escalating price basis by 50% to account for risk. See "Business and Properties — Oil and Gas Exploration and Development Operations — Estimates of Proved and Proved Plus Probable Reserves and Present Worth Values".

(3) Production license and hydrocarbon contract are in the initial stage of negotiation.

Kumkol Field. The Kumkol field, which was discovered in 1984 and has been producing since 1990, is our principal producing property. We are producing from eight horizons, in the Cretaceous and Jurassic formations, located at depths shallower than 4,500 feet. The field is divided into two operating areas, Kumkol South and Kumkol North.

Kumkol South. We own and operate 100% of Kumkol South, which has been fully developed. In 2001, Kumkol South produced an average of approximately 59,200 BOPD from 152 producing wells. In the nine months ended September 30, 2002, Kumkol South produced an average of approximately 65,502 BOPD. As of January 1, 2002, estimated proved reserves for Kumkol South were 110.2 MMbbls of crude oil and 19.5 Bcf of natural gas.

Kumkol North. We have a 50% interest in Kumkol North through Turgai Petroleum, which is the operator of the field. LUKoil holds the other 50% interest in Turgai Petroleum. In 2001, Kumkol North produced an average of approximately 15,900 BOPD attributable to us from 144 gross (72 net) wells. In the nine months ended September 30, 2002, Kumkol North produced an average of approximately 21,641 BOPD attributable to us. 37 additional wells were drilled in the first nine months of 2002. As of January 1, 2002, estimated proved reserves for Kumkol North attributable to us were 78.7 MMbbls of crude oil and 11.1 Bcf of natural gas. It is currently expected that Turgai Petroleum will drill a further 17 gross development wells in this area in the fourth quarter of 2002 and another 17 wells in 2003. We, as the operator of Kumkol South, provide Kumkol North with production and ancillary support facilities on a fee basis.

South Kumkol Field. The South Kumkol field was discovered in 1992 and has been in production since December 1997. We own and operate 100% of the South Kumkol field. Production is from three zones in the Cretaceous and Jurassic formations located at depths shallower than 5,000 feet. In 2001, average production from the South Kumkol field was 13,000 BOPD from 19 wells. In the nine months ended September 30, 2002, the South Kumkol field produced an average of approximately 19,467 BOPD. As of January 1, 2002, estimated proved reserves for the South Kumkol field were 32.2 MMbbls of crude oil and 2.2 Bcf of natural gas.

Akshabulak Field. The Akshabulak field was discovered in 1988, and began production in July 1997 from the Jurassic-III formation. Through our interests in Kazgermunai, we own a 50% interest in the field. Our partners in Kazgermunai, REW-DEA AG (25%), EEG (17.5%) and International Finance Corporation (7.5%), hold the remainder of the interests in the Akshabulak field. We have no obligation to fund capital expenditures relating to the costs of the initial development phase of the central Jurassic-III formation. During 2001, the Akshabulak field produced an average of 8,300 BOPD attributed to us. In the nine months ended September 30, 2002, the Akshabulak field produced an average of approximately 9,363 BOPD attributable to us. Three new wells were drilled in the first nine months of 2002. Three dimensional (3D) seismic data, acquired over the field, will assist in the 2003 drilling program.

The program of further development and production enhancement of the Akshabulak field requires the installation this year of a new process facility. The purchase order for this new facility is being delayed by our German joint venture partners, pending assurances from the government of Kazakhstan on marketing and transportation issues.

In 2001, production commenced from the Cretaceous formation from a single well. Production is currently being transported by pipeline to the Kumkol field where it ties into the lateral pipeline. This, in turn, connects to the Central Pipeline, which delivers to the Shymkent refinery.

Funding for the development of the central part of the Jurassic-III formation of the Akshabulak field is obtained by Kazgermunai from shareholder loans from its shareholders other than HKM. These shareholder loans, which totalled approximately $63 million at September 30, 2002, are non-recourse to us except to the extent of our interest in Kazgermunai. Kazgermunai is restricted from paying dividends to its shareholders until all outstanding loans have been paid. As of January 1, 2002, the Akshabulak field had estimated proved reserves of 73.2 MMbbls of crude oil.

Qyzylkiya Field. The Qyzylkiya field was discovered in 1988. Two productive zones in the Cretaceous and Jurassic formations have been identified at depths less than 5,000 feet. As of September 30, 2002, 19 wells in which we have an interest have been drilled in this field resulting in nine current productive oil wells. Production commenced in this field in August, 2000. Production facilities, road construction and other infrastructure projects were completed in November 2000, creating all-weather access to the Kumkol field located approximately 55 km to the east. In 2001 the Qyzylkiya field produced an average of 3,000 BOPD. In the nine months

ended September 30, 2002, average production of 6,787 BOPD from this field was being trucked from eight wells to the Kumkol field. We have received all regulatory approvals for a 16-inch 177 km pipeline, or the QAM pipeline, that will enable us to join both the Kumkol field and the QAM fields to a loading facility on the main rail link to both the Shymkent refinery and the export terminals on the Caspian Sea and the Black Sea. Orders for pipe and long lead equipment have been placed and we anticipate completion in the third quarter of 2003. This facility, which includes pumping stations and a rail loading system, will initially be capable of transporting 140,000 BOPD. 3D seismic has been acquired over the whole field. Full field development is underway for a phased completion in the second quarter of 2003. We have a 100% interest in, and operate, the field. As of January 1, 2002, the Qyzylkiya field had estimated proved reserves of 20.6 MMbbls of crude oil.

Aryskum Field. The Aryskum field was discovered in 1988. One productive zone in the Cretaceous formation was identified at a depth of less than 3,000 feet. As of September 30, 2002, eleven wells in which we have an interest had been drilled in this field. Initial production test rates for wells in the Aryskum field ranged from 50 to 600 BOPD per well. In the nine months ended September 30, 2002, average production was 3,227 BOPD. The proposed QAM pipeline referred to above with respect to the Qyzylkiya field is proposed to pass by this field. 3D seismic data have been acquired by us over the entire field. In addition, the construction of a road from the Aryskum field to the Qyzylkiya field was completed in 2001. As of January 1, 2002, the Aryskum field had estimated proved reserves of 9.9 MMbbls of crude oil.

Maybulak Field. The Maybulak field was discovered in 1988 with four productive zones in the Jurassic formation identified at depths shallower than 6,000 feet. As of September 30, 2002, seven wells in which we have an interest had been drilled in this field. In the nine month ended September 30, 2002, average production was 878 BOPD. The proposed QAM pipeline referred to above with respect of the Qyzylkiya field is proposed to pass to the south of this field. In 2001, we conducted 3D seismic surveys over the entire area of the Maybulak field. Well tests and core studies have been completed and integrated into the development plans for this field. We have a 100% interest in the field. As of January 1, 2002, the Maybulak field had estimated proved reserves of 11.9 MMbbls of crude oil.

Nurali. The Nurali field was discovered in 1987. We have a 50% interest in the Nurali field through our interest in Kazgermunai. Delineation of this field began in 2001 with test production of certain wells and the acquisition of 3D seismic data. In the nine months ended September 30, 2002, one Nurali well was on test production at a rate of 1,050 BOPD. In addition, 3D seismic surveys of the Nurali field was completed, which is now being interpreted for inclusion in the full field development plan due for submission to the Kazakhstan approval authorities. Kazgermunai satisfied the capital commitments under the licenses for the Nurali field in 2001. As of January 1, 2002, the Nurali field had estimated proved reserves of 4.0 MMbbls of crude oil.

Aksai. The Aksai field was discovered in 1988. We have a 50% interest in the Aksai field through our interest in Kazgermunai. Delineation of this field also began in 2001 with test production of certain wells and the acquisition of 3D seismic data. As of January 1, 2002, the Aksai field had estimated proved reserves of 2.1 MMbbls of crude oil.

North Nurali. The North Nurali field was discovered in 2002 approximately 15 km west of the Kumkol field. This discovery has been validated by the drilling of two exploration wells in two separate leads in the area that we license in the South Turgai Basin. The first well, North Nurali 1, was drilled early in 2002 to a depth of 2,265 meters. With evidence of moveable light, 44 degree API, sweet crude, North Nurali 2 was immediately spudded in the neighboring lead just one kilometer to the east. North Nurali 2 has been drilled to a similar depth and seven potential oil bearing zones have been identified. Six zones have been tested under restricted conditions. The maximum rate obtained was 720 BOPD, however further testing will be conducted in 2003 following fracture stimulation of the reservoir. Full delineation of North Nurali will be conducted in 2003 which includes the acquisition of 3D seismic.

East Kumkol. The East Kumkol field was discovered in 2001 as a separate accumulation just east of the main Kumkol field and 7km from the CPF. Separate field status has been obtained from the approval authorities and permission was granted in 2001 for long-term well testing. There

are currently five producing wells. In 2002, two development wells were drilled. Production from the East Kumkol field in the nine months ended September 30, 2002 averaged 845 BOPD. Satellite facilities will be designed and constructed with tie back to the Kumkol field in 2003. As of January 1, 2002, the East Kumkol field had estimated proved reserves of 5.3 MMbbls of crude oil.

Undeveloped Acreage. We own a 100% interest in an exploration license (License 260 D1), surrounding the Kumkol field covering 341,992 acres. This license was issued in June 1997, effective as of November 1, 1996, with an initial expiry date of November 1, 2000, which has since been extended to June 2003. We have applied to extend the license for an additional two years to June 2005.

Under the terms of this license, in the case of a commercial discovery of crude oil reserves, we can apply for licenses necessary for production. The lands contained in the East Kumkol field referred to above are governed by this license. Pursuant to this license, we were required to invest $5 million in the development of lands covered by the license by November 1, 1998, and an additional $10 million by November 1, 2000. HKM's exploration contract, which was issued on August 24, 1998, also gives HKM the exclusive right to develop and explore the property. Prior to 2000, we drilled three unsuccessful wells on these lands. Our investments in connection with this drilling and in connection with seismic data that were acquired in 1997 and 1998, exceeded our $5 million initial obligation. In 2000, 3D seismic data were acquired and two exploration wells were drilled on these lands. The third well resulted in the discovery of the East Kumkol field. Exploration wells were drilled in this prospect in 2001. In October 1999, we applied to the Kazakhstani government to extend the November 1, 2000 deadline for the additional $10 million investment commitment and extend the expiration of this license for an additional two years. Amendments have been made and agreed for the license to run until June 2003. Royalties and excess profit taxes on production from these areas will be determined after commercial discovery in accordance with the relevant legislation and any future hydrocarbon contract and production license. The East Kumkol field will be jointly developed with Turgai Petroleum.

The leads in the North Nurali area are just two of the numerous leads that we have identified in the 260D-1 license area. The wells identified there target deeper sands in stratigraphic traps, previously unexplored in the basin. Well depths for all the leads range from 2,300 to 4000m. The two North Nurali wells drilled have already validated the concept of producible hydrocarbons at commercial rates from deep stratigraphic traps. Consequently, the original program to explore four more similar leads will continue.

In 2002, two additional exploration leads were evaluated. The East Karavanchy and West Kumkol wells were dry but have provided essential information on the issue of migration of oil in the western areas of the license. Extensive exploration and appraisal work will continue in 2003.

Kumkol Fields Facilities

New free-water knock out facilities and a new water injection plant have enhanced the pressure support to the Kumkol reservoirs and has allowed increased off take from production wells. The construction of three new group processing stations, which relieve water handling at our Central Processing Facility, have been phased in through the year and have further maximized production of the Kumkol fields.

Oil and Gas Reserves

The following tables, which are derived from the McDaniel Reports on certain interests of ours, set forth our estimated proved and proved plus probable oil and natural gas reserves in Kazakhstan and the present worth value of estimated future net pre-tax cash flows of those reserves effective as of January 1, 2002 on both an escalating and constant price assumption basis. The McDaniel Report on a constant price basis was dated March 7, 2002 and the McDaniel Report on an escalating price basis was dated March 7, 2002.

The present worth values of our reserves contained in the following tables may not be representative of the fair market value of the reserves. Although the estimates of reserves and present worth value thereof contained in the McDaniel Reports are considered reasonable, future performance may vary from the forecasts presented therein and may justify either an increase or decrease of reserves. Assumptions relating to costs, prices for future production, and other matters are summarized below and in the notes following the table. The McDaniel Reports are based, in part, on data supplied by us and, in part, on McDaniel's opinion of reasonable practice in the industry. Certain factual data was supplied to McDaniel by us and was relied on by McDaniel in preparing its reports. The data includes ownership, geological and production data, costs, contracts and relevant documents. Capital costs and drilling and workover costs were estimated by McDaniel based on information provided by us. In the absence of such data or information, McDaniel relied upon its opinion of reasonable practice in the industry.

Except as otherwise indicated, all calculations of estimated proved reserves are net of value added tax, or VAT, and general and administrative costs incurred by us in Kazakhstan, but give no effect to income taxes, excess profit taxes or other applicable taxes attributable to estimated future cash flows from the sales of oil and natural gas.

Estimated Reserves and Present Worth Values Before Income Tax on an Escalating Price Basis

	Estimated Reserves				Estimated Present Worth Values Before Income Tax(3)(4)(8)			
	Oil		Natural Gas			Discounted at		
	Gross(1)	Net(2)	Gross(1)	Net(2)	Undiscounted	10%	15%	20%
	(Mbbls)		(Bcf)			(in 000's)		
Proved developed producing(6)	243,229	224,403	0	0	$1,745,870	$1,194,537	$1,035,602	$916,405
Proved undeveloped(6)	104,832	96,331	33	30	1,070,885	688,049	535,811	471,762
Total proved(6)	348,061	320,734	33	30	2,816,755	1,882,586	1,601,413	1,388,167
Probable reserves(6)	164,254	152,393	16	15	1,722,892	914,581	717,440	581,626
Proved plus probable unrisked(7)	512,315	473,127	49	45	4,539,647	2,797,167	2,318,853	1,969,793
Reduction for risk(7)	(82,127)	(76,197)	(8)	(8)	(861,446)	(457,290)	(358,720)	(290,813)
Total proven plus probable risked	430,188	396,930	41	37	3,678,201	2,339,877	1,960,133	1,678,980

Estimated Reserves and Present Worth Values Before Income Tax on a Constant Price Basis

	Estimated Reserves				Estimated Present Worth Values Before Income Tax[3][4][5]			
	Oil		Natural Gas			Discounted at		
	Gross[1]	Net[2]	Gross[1]	Net[2]	Undiscounted	10%	15%	20%
	(Mbbls)		(Bcf)			(in 000's)		
Proved developed producing[6]	242,811	223,996	0	0	$1,504,426	$1,101,900	$978,169	$882,500
Proved undeveloped[6]	102,371	93,956	33	30	479,298	315,245	258,511	213,532
Total proved[6]	345,182	317,952	33	30	1,983,724	1,417,145	1,236,680	1,096,032
Probable reserves[6]	162,796	150,990	17	16	1,104,148	630,663	506,973	419,107
Proved plus probable unrisked[7]	507,978	468,942	50	46	3,087,872	2,047,808	1,743,653	1,515,139
Reduction for risk[7]	(81,398)	(75,495)	(9)	(8)	(552,074)	(315,331)	(253,486)	(209,554)
Total proven plus probable risked	426,580	393,447	41	38	2,535,798	1,732,477	1,490,167	1,305,585

(1) Gross reserves are defined as the aggregate of our working interest share of reserves before deductions of royalties payable to others.

(2) Net reserves are gross reserves less all royalties payable to others.

(3) "Estimated present worth values before income tax" is the estimated present worth values of the future cash flows derived from the sale of our estimated reserves after giving effect to estimated capital expenditures, royalties and operating and marketing expenses, but excluding any withholding taxes or other taxes on earnings. These estimates take account of Kazakhstan general and administrative expenses. The values do not necessarily represent fair market value.

(4) Our share of capital expenditures is estimated on an escalated price basis at approximately $548 million, approximately $525 million on a constant price basis, over the future life of the fields including development of 100% of the probable reserves. This amount includes projected expenditures of $184 million, $143 million and $64 million, respectively, for the 2002, 2003 and 2004 calendar years on an escalated price basis and $185 million, $140 million and $61 million, respectively, for the 2002, 2003 and 2004 calendar years on a constant price basis.

(5) The constant price basis utilized by McDaniel assumes the continuance of current laws and regulations. In preparing its constant price basis report, McDaniel used $10.50/Bbl of crude oil, the average price we received for oil in 2001 and used $1.05/Mcf of natural gas and assumed we would have received the same price had our other fields been producing.

(6) "Proved reserves" are those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

"Proved developed producing reserves" are those proved reserves that are actually in production, or if not producing, that could be recovered from existing wells or facilities and where the reasons for the current non-producing status is the choice of the owner rather than the lack of markets or some other reason. An illustration of such a situation is where a well or zone is capable but is shut-in because its deliverability is not required to meet contract commitments. Reserves assigned to non-producing zones in producing wells were classified as producing if the reserve quantities were estimated to be minor relative to our reserves in the area.

"Proved undeveloped reserves" are those reserves expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major capital expenditure will be required.

"Probable reserves" are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

(7) Probable reserves have been reduced by us by 50% to account for risk. McDaniel, in the McDaniel Reports, did not risk-adjust the probable reserves, but reduced the estimated present value of future cash flows generated therefrom by 50% to account for risk.

(8) The escalated price basis assumes the continuance of current laws and regulations. The escalated product prices forecast in the McDaniel Reports represent McDaniel's opinion of future North American crude oil, natural gas and natural gas product prices as at January 1, 2002 and our opinion of the price differentials between North American reference prices and prices received in Kazakhstan. Political and economic uncertainties in Kazakhstan and internationally may result in prices different from those used in the McDaniel Reports. The prices and escalation factors used in this escalated price basis are as follows:

McDaniel & Associates Consultants Ltd.
Summary of Price Forecasts
January 1, 2002

Year	WTI Crude Oil Price	Brent Crude Oil Price	US/Can Exchange Frac.	Inflation Forecast	Proved Producing Price Forecast (Without QAM Pipeline)[1]	
					Brent/Kumkol Export Price Differential	Kumkol Field Price
	($/Bbl)	(/Bbl)		(%)	($/Bbl)	($/Bbl)
2002	20.00	18.50	0.64	2.0	9.32	9.18
2003	20.90	19.40	0.65	2.0	8.76	10.46
2004	21.80	20.30	0.66	2.0	8.66	11.29
2005	22.20	20.70	0.67	2.0	8.48	11.70
2006	22.60	21.10	0.68	2.0	7.61	12.86
2007	23.10	21.60	0.68	2.0	7.61	13.20
2008	23.60	22.10	0.68	2.0	7.61	13.53
2009	24.10	22.60	0.68	2.0	7.61	13.86
2010	24.60	23.10	0.68	2.0	7.61	14.18
2011	25.10	23.60	0.68	2.0	7.61	14.51
2012	25.60	24.10	0.68	2.0	7.61	14.82
2013	26.10	24.60	0.68	2.0	7.61	15.14
2014	26.60	25.10	0.68	2.0	7.61	15.45
2015	27.10	25.60	0.68	2.0	7.61	15.76
2016	27.60	26.10	0.68	2.0	7.61	16.06
2017	28.20	26.70	0.68	2.0	7.61	16.46
2018	28.80	27.30	0.68	2.0	7.61	16.85
2019	29.40	27.90	0.68	2.0	7.61	17.24
2020	30.00	28.50	0.68	2.0	7.61	17.63
2021	30.60	29.10	0.68	2.0	7.61	18.01

(1) McDaniel has assumed, for the purposes of these forecasts, that there will be no QAM pipeline and accordingly, that all export shipments will be made via the Shymkent refinery.

Year	Total Proved & P + PA Price Forecast (With QAM Pipeline in mid – 2002)		Kumkol Field Gas Price
	Brent/Kumkol Export Price Differential	Kumkol Export Price After Pipeline Fees	
	($/Bbl)	($/Bbl)	($/Mcf)
2002	9.32	9.18	1.05
2003	7.13	12.13	1.05
2004	7.03	12.99	1.07
2005	6.85	13.43	1.09
2006	5.98	14.63	1.11
2007	5.98	15.00	1.14
2008	5.98	15.37	1.16
2009	5.98	15.73	1.18
2010	5.98	16.09	1.21
2011	5.98	16.45	1.23
2012	5.98	16.81	1.25
2013	5.98	17.16	1.28
2014	5.98	17.52	1.31
2015	5.98	17.86	1.33
2016	5.98	18.21	1.36
2017	5.98	18.65	1.39
2018	5.98	19.09	1.41
2019	5.98	19.53	1.44
2020	5.98	19.96	1.47
2021	5.98	20.39	1.50

Pricing Assumptions: WTI and Brent price forecasts are based on the McDaniel January 1, 2002 price forecast; Brent to Kumkol field differentials and domestic export were estimated by Hurricane; and Kumkol field prices are forecast after deduction of VAT.

The following table sets forth a reconciliation of our total proved plus probable reserves before royalties (unrisked) as of January 1, 2002 against such reserves as of January 1, 2001 based on escalating price and cost assumptions:

	Crude Oil, NGL and Natural Gas Reserves Reconciliation[1]					
	Gas (Bcf)			Crude Oil and NGL (Mbbls)		
	Proved	Probable	Total	Proved	Probable[2]	Total[2]
January 1, 2001	32	6	38	315,400	172,160	487,560
Production	—	—	—	(36,820)	—	(36,820)
Drilling and revisions to prior estimates	1	10	11	69,481	(7,906)	61,575
January 1, 2002	33	16	49	348,061	164,254	512,315

(1) The reconciliation of reserves is a comparison of the McDaniels evaluation from January 2001 and January 2002 and not the McDaniels January 2001 report updated in May 2001.

(2) The estimates of probable reserves utilized in this table are unrisked. See "Business and Properties — Oil and Gas Exploration and Development Operations — Estimates of Proved and Proved Plus Probable Reserves and Present Worth Values."

The following table sets forth a reconciliation of our proved plus probable reserves before royalties (unrisked) by field as of January 1, 2002 against such reserves as of January 1, 2001 based on escalating price and cost assumptions:

	Kumkol South	Kumkol North	South Kumkol	East Kumkol	Qyzylkiya	Aryskum	Maybulak	Akshabulak	Nurali	Aksai	Total
						(MMbbls)					
Reserves at Jan 1, 2001	146.6	95.5	45.1	0.0	28.6	54.2	30.1	67.0	17.0	3.5	487.6
Revisions	9.8	21.5	2.1	11.0	10.2	(25.8)	(9.0)	44.1	(6.4)	4.0	61.5
Production	(21.6)	(5.8)	(4.7)	(0.2)	(1.1)	(0.0)	(0.3)	(3.0)	(0.1)	(0.0)	(36.8)
Reserves at Jan 1, 2002	134.8	111.2	42.5	10.8	37.7	28.4	20.8	108.1	10.5	7.5	512.3

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and the timing of development expenditures, including many factors beyond our control. The reserve data presented above represent only estimates. Reservoir engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretations and judgment. As a result, estimates of different engineers often vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of that estimate. Reserve estimates are often different from the quantities of oil and gas that are ultimately recovered. The meaningfulness of reserve estimates is highly dependent on the accuracy of the assumptions on which they were based. In general, the volume of production from our oil and gas properties declines as reserves are depleted. Except to the extent that we conduct successful exploration and development activities or acquire additional properties containing proved reserves, or both, our proved reserves will decline as reserves are produced.

Wells and Drilling Activity

The following table sets forth the number and status of oil wells in Kazakhstan in which we had an interest as of December 31, 2001.

	Producing Oil Wells		Shut-In Oil Wells(1)	
Name of Field	**Gross(2)**	**Net(3)**	**Gross(2)**	**Net(3)**
Kumkol South	176	176	29	29
Kumkol North	175	88.5	10	5
South Kumkol	20	20	3	3
Qyzylkiya	9	9	11	11
Aryskum	1	1	21	21
Maybulak	4	4	5	5
Akshabulak	13	6.5	6	3
Nurali	2	1	8	4
Aksai	2	1	5	2.5
East Kumkol	5	5	—	—
Total	407	311	98	83.5

(1) "Shut-in wells" means wells which have encountered and are capable of producing crude oil or natural gas but which are not producing due to lack of available transportation facilities, available markets or other reasons.
(2) "Gross" wells are defined as the total number of wells in which we have an interest.
(3) "Net" wells are defined as the aggregate of the numbers obtained by multiplying each gross well by our percentage of working interest therein.

The following table sets forth our drilling results for the nine months ended September 30, 2002 and the years ended December 31, 2001 and 2000:

	Nine Months Ended September 30, 2002		Year Ended December 31,			
			2001		2000	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
Oil wells	48	28	53	38	4	3
Natural gas wells	—	—	—	—	—	—
Dry and abandoned	—	—	1	1	1	1
Total	48	28	54	39	5	4

(1) "Gross" wells are defined as the total number of wells in which we have an interest.
(2) "Net" wells are defined as the aggregate of the numbers obtained by multiplying each gross well by our percentage of interest therein.

The information set forth above should not be considered indicative of future drilling performance, nor should it be assumed that there is any correlation between the number of productive wells drilled and the amount of oil or gas that may ultimately be recovered.

Production

The following table sets forth our total production and average daily oil production in Kazakhstan for the nine month period ended September 30, 2002 and the years ended December 31, 2001 and 2000.

	Nine Months Ended September 30, 2002	Years Ended December 31,	
		2001	2000
Total production (MMbbls)	35.0	36.8	30.9
Average daily production (BOPD)	128,203	100,887	84,090

The following tables show our average daily production and net oil and gas capital expenditures incurred for each of the eight fiscal quarters ended December 31, 2002:

	Three Months Ended				
	Mar. 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Annual Total
Natural gas (MMcfd)	—	—	—	—	—
Crude oil (BOPD)	123,372	117,844	143,175	158,510	135,842
NGL (BOPD)	—	—	—	—	—
Total liquids (BOPD)	123,372	117,844	143,175	158,510	135,842

	Three Months Ended				
	Mar. 31, 2001	June 30, 2001	Sept. 30, 2001	Dec. 31, 2001	Annual Total
Natural gas (MMcfd)	—	—	—	—	—
Crude oil (BOPD)	89,341	99,424	104,379	110,096	100,887
NGL (BOPD)	—	—	—	—	—
Total liquids (BOPD)	89,341	99,424	104,379	110,096	100,887

We are a vertically integrated oil company in Kazakhstan. This allows us to find the most optimal crude oil netback either by exporting crude oil or by processing the crude oil at the Shymkent refinery for sale in the domestic market. As a result, the above table combines our netbacks from crude oil sales and from the sale of refined products derived from crude oil from our producing fields as well as crude oil acquired by us through our trading activities. See "Business and Properties — Downstream Operations: Refining, Marketing and Trading."

Material Licenses

The Kazakhstani government owns the crude oil and natural gas in the subsoil of Kazakhstan. It grants to producers exploration, production or exploration and production licenses for fixed periods of time. HKM holds exploration and production licenses to the Kumkol South and South Kumkol fields and the QAM fields. Turgai Petroleum holds the exploration and production license for Kumkol North. Kazgermunai holds the exploration and production licenses for the Akshabulak, Nurali and Aksai fields. In addition, HKM holds an exploration license for undeveloped property covering a total of 341,992 acres in the South Turgai Basin.

Kumkol North field. The Kumkol North exploration and production license was issued to Turgai Petroleum in December 1995, for a 25-year period. Under the license, Turgai Petroleum is required to spend at least $1.4 million on a 3D seismic survey with processing and interpretation covering a 127 square kilometre area. The hydrocarbon contract for Kumkol North was entered into on April 26, 1996, for a term expiring December 20, 2020, subject to an extension upon application by Turgai Petroleum. The hydrocarbon contract may be terminated if Turgai Petroleum is in material default of the covenants under that contract. The development plan for Kumkol North was revised in June 1999. Under the revised development plan for Kumkol North, Turgai Petroleum committed to invest a specific amount in development of the Kumkol North field. We expect Turgai Petroleum to meet or exceed the required level of capital expenditures. We cannot assure you, however, that it will be able to do so. Turgai Petroleum has not to date satisfied this commitment. The failure to satisfy the capital investment commitments with respect to Kumkol North may result in the cancellation of the Kumkol North license. Our interest in Kumkol North represented approximately 22% of our proved reserves as of January 1, 2002. Under the HKM acquisition agreement, HKM has the contractual right to have the license for Kumkol North reissued to it if the existing Kumkol North license is canceled. We cannot provide

any assurances that the license would be reissued or reissued in a timely manner to HKM or that such reissued license would be on more favorable terms than the existing Kumkol North license.

Kumkol South field. The exploration and production license for Kumkol South was issued to HKM in February 1996, for a 25-year period. The hydrocarbon contract for Kumkol South was entered into in December 1996, and expires on February 1, 2021, but may be extended upon our application. The hydrocarbon contract may be relinquished at our option or may be terminated by the Kazakhstani government if we are in material default of our covenants under the hydrocarbon contract. Under the terms of the license, HKM is obligated to provide a program for utilization of gas. In September 2000, HKM entered into an agreement with the Qyzlorda Oblast, Kazgermunai, a number of Kazakhstani government ministries and a number of other parties whereunder the parties agreed to cooperate with respect to determining an appropriate gas utilization program. In early 2001, we concluded discussions with Kazakhstani government authorities as to a solution for the utilization of associated gas pursuant to this agreement. As a result of these discussions, we have received full government approval to install a 55-megawatt electrical power plant in the Kumkol field to use associated gas from the Kumkol South, South Kumkol and North Kumkol fields. As of the date of this offering memorandum, the power plant is more than 70% complete and is scheduled for commissioning in the second quarter of 2003. It is anticipated that the cost of construction of the plant will be approximately $32 million (to be shared with our Turgai Petroleum joint venture). To date, $28 million has been committed. We expect the plant to provide stable electrical power for field operations and provide excess electricity for sale to Qyzlorda city and a credit for Shymkent refinery power usage. In addition, as a joint venture partner in the Akshabulak fields, we are participating in a project to provide natural gas to the Qyzlorda region. The feasibility of this project is under consideration but funds have been budgeted in 2003 for its construction.

South Kumkol field. The exploration and production license for the South Kumkol field was issued to HKM in December 1996. The license is for a 25-year period, of which the first two years were considered the final exploration phase, the following year was considered the field construction phase and the remaining 22 years are considered the production phase. During the final exploration phase, HKM was required to, and has satisfied its obligations to, spend at least $3.3 million and drill at least three wells with a combined depth of 5,700 meters. Under this license, HKM is obligated to provide a program for utilization of gas. The agreement referred to above with respect to the Kumkol South field is applicable to this field. It is intended that associated gas from this field will be utilized by the electrical power plant proposed to be built in the Kumkol South field. The hydrocarbon contract for the South Kumkol field was entered into on June 9, 1997, and expires on December 10, 2021 but may be extended upon our application. The hydrocarbon contract may be relinquished at our option or may be terminated if we are in material default of our covenants under the hydrocarbon contract.

Akshabulak field. The exploration and production license for the Akshabulak field was issued to Kazgermunai for a 30-year period beginning on March 1, 1994. Although subject to adjustment, the license required Kazgermunai to invest $200.5 million from 1996 to 2001. Kazgermunai has advised that, to date, a total of $170.5 million has been invested. We expect that the full investment commitment will be met by Kazgermunai by the end of 2001. In part to satisfy this commitment, Kazgermunai was required, as of December 31, 2001, to construct infrastructure facilities on the Akshabulak field, including a 24,300 BOPD capacity pipeline and an oil collecting and processing facility with a minimum capacity of 20,000 BOPD, and to drill 35 wells. Kazgermunai will have completed the drilling requirement in 2003. Processing facilities with a capacity of 18,000 BPOD have been put in place in this field. A second phase of development has been designed to significantly increase production capacity to over 80,000 BOPD. The approval for this second phase is under consideration. The foundation agreement for Kazgermunai effectively serves as the hydrocarbon contract for the Akshabulak field.

Nurali field. The exploration and production license for the Nurali field was issued to Kazgermunai in November 1996, for a 30-year period beginning on March 1, 1994. The license, as

amended in April 1999, required Kazgermunai to incur expenditures of at least $1.0 million in 2000 and $200,000 in 2001. Kazgermunai satisfied the capital commitments under this license in 2000. Kazgermunai has received an extension for the submission of the Development Plan for the Nurali field beyond the deadline of November 15, 2002. The foundation agreement for Kazgermunai effectively serves as the hydrocarbon contract for the Nurali field.

Aksai field. The exploration and production license for the Aksai field was issued to Kazgermunai in November 1996, for a 30-year period beginning March 1, 1994. The license, as amended on April 5, 1999, required Kazgermunai to incur expenditures of at least $1.5 million in 2000 and $600,000 in 2001. Kazgermunai satisfied the capital commitments under this license in 2000. Kazgermunai has received an extension for the submission of the Development Plan for the Aksai field beyond the deadline of November 15, 2002. The foundation agreement for Kazgermunai effectively serves as the hydrocarbon contract for the Aksai field.

Maybulak field. The exploration and production license held by Turan Petroleum for the Maybulak field was canceled in July 1997, due to non-compliance with certain of the terms of such license. In December 1997, the Kazakhstani government reissued the license to HKM in accordance with HKM's right to receive the license under the acquisition agreement by which we acquired our interest in HKM. The license runs for 20 years from April 12, 1997. In December 1998, HKM executed a hydrocarbon contract with the Kazakhstan government for the purposes of the Maybulak license. We had committed to drill three wells and invest $2.0 million by the end of 2000 in the Maybulak field. We applied for and received an extension for these commitments until the end of 2001. Subsequently, we drilled two wells capable of production and obtained 3D seismic data over the entire field. Our total capital expenditures for these projects exceeded our capital commitments referred to above. Field development work continues for increased production in 2003.

Qyzylkiya field. The exploration and production license held by Turan Petroleum for the Qyzylkiya field was cancelled in July 1997, due to non-compliance with certain of the terms of such license. In September 1998, the Kazakhstani government reissued the license to HKM in accordance with HKM's right to receive the license under the HKM acquisition agreement. The license runs for 23 years from September 8, 1998. On June 24, 1999, we executed a hydrocarbon contract for the Qyzylkiya field with the Kazakhstan government. Pursuant to this license, we were required to invest $1 million during the initial three-year assessment stage and an additional $3.0 million in the pilot operation stage. In November 2000, production facilities, road construction and other infrastructure projects were completed in this field, creating all-weather access to the Kumkol field. In addition, in early 2001, we acquired 135 square km of 3D seismic surveys in the northern part of the field. Early oil production facilities have been installed and our total capital expenditures for these projects exceeded our capital commitments referred to above. Field development work continues for increased production in 2003.

Undeveloped Acreage. We own a 100% interest in an exploration license (License 260 D1) surrounding the Kumkol field covering 341,992 acres. For a description of this license and our activities related to the undeveloped acreage therein, see "Business and Properties — Oil and Gas Exploration and Development Operations — Principal Oil and Gas Properties – Undeveloped Acreage''.

Material Agreements

When commercial discoveries are made, a producer holding an exploration or production license must negotiate a hydrocarbon contract with respect to the production zones granted in the related production license, unless a hydrocarbon contract was previously negotiated in the exploration and production license. Recoverable reserves may only be marketed from a production area by a producer following the negotiation and execution of a hydrocarbon contract. The negotiation of a hydrocarbon contract is a complex process requiring the agreement of a number of governmental ministries and preparation of economic models with

financial expenditure commitments. In the event a hydrocarbon contract cannot be negotiated, a producer runs the risk of losing all rights to its exploration and/or production licenses. In addition, the producer and a governmental design institute must formulate a development plan for each field specifying detailed drilling and production targets. The development plan may be periodically modified with the approval of the Kazakhstani government in order to reflect changing circumstances. Default by a producer under the terms of a license and related hydrocarbon contract or development plan can result in the loss of a production license and related hydrocarbon contract and, accordingly, all production rights.

Hydrocarbon contracts for Kumkol South, Kumkol North, South Kumkol and the QAM fields have been negotiated and executed. The foundation agreement for Kazgermunai, as amended and supplemented, effectively serves as the hydrocarbon contract for the Akshabulak, Nurali and Aksai fields. The East Kumkol development program proceeds and the field will be operated jointly by HKM and Turgai Petroleum. Government approval of reserves has been obtained and production contract and license agreements are being negotiated.

Royalties are payable quarterly or monthly, depending upon the particular hydrocarbon contract, to the Kazakhstani government in cash or in kind at the option of the Kazakhstani government. The following table sets forth the royalties for each of our fields:

Name of Field	Royalty
Kumkol South[(1)] . . . . . . Akshabulak, Nurali and Aksai fields	— 3% on first 500,000 tons of cumulative annual production — 6% on next 500,000 tons of cumulative annual production — 10% on next 500,000 tons of cumulative annual production — 15% on cumulative annual production in excess of 1.5 million tons
Kumbol North[(2)]	— 9% of production
South Kumkol[(3)] field . .	— 10% of production, plus an excise tax of seven euros per ton for domestic crude oil sales
Maybulak field	— 3% on first 350,000 tons of cumulative annual production plus an excise tax of two euros per ton for domestic crude oil sales — 4% on next 150,000 tons of cumulative annual production plus an excise tax of two euros per ton for domestic crude oil sales — 6% on cumulative annual production in excess of 500,000 tons plus an excise tax of two euros per ton for domestic crude oil sales
Qyzylkiya field	— 1.5% on first 1,600,000 tons of aggregate cumulative production from the date of the hydrocarbon contract — 2% on next 1,600,000 tons of aggregate cumulative production — 2.5% on aggregate cumulative production above 3,200,000 tons
Aryskum field	— 1.5% on first 3,400,000 tons of aggregate cumulative production from the date of the hydrocarbon contract — 2% on next 3,400,000 tons of aggregate cumulative production — 2.5% on aggregate cumulative production above 6,800,000 tons

(1) We paid a production bonus of $5,000,000 in 1999 and $5,000,000 in 2001 to the Kazakhstan government because we reached cumulative production of 5,000,000 and 10,000,000 tons of crude oil, respectively, from the Kumkol South field. A further production bonus payment of $5,000,000 will be required to be paid once cumulative production from the Kumkol South field reaches 15,000,000 tons of crude oil, which is anticipated during 2003.

(2) Turgai Petroleum paid a production bonus of $500,000 in 1997 and $1,000,000 in 2001 to the Kazakhstan government because it reached cumulative production of 1,000,000 and 5,000,000 tons of crude oil, respectively, from the Kumkol North field. Further bonuses of $1,500,000 and $2,000,000 will be required to be paid once cumulative production from the Kumkol North field reaches 10,000,000, and 15,000,000 tons of crude oil, respectively, which are anticipated to occur during 2003 and 2005.

(3) We paid a production bonus of $500,000 in 2000 and $500,000 in 2002 to the Kazakhstan government because we reached cumulative production of 1,000,000 and 2,000,000 tons of crude oil, respectively, from the South Kumkol field. Further bonuses of $500,000 each will be required to be paid once cumulative production from the South Kumkol field reaches 3,000,000 and 4,000,000 tons of crude oil, respectively, which is anticipated to occur during 2003.

Royalties for North Nurali and East Kumkol are still to be negotiated in connection with obtaining hydrocarbon contracts and licenses.

The hydrocarbon contracts that we entered into under our production licenses contain provisions for an excess profits tax. The tax rate is determined by the economic rate of return derived from the cash flows from operations in the contract area. The cash flow calculation takes into account the capital costs incurred in developing the field (in the case of HKM a portion of the purchase

price we paid for the shares of HKM is allowed as a deduction) as well as ongoing revenues, capital costs, royalties and operating costs and an allocation of overhead costs. An allocation of the corporate income tax is deducted in arriving at cash flow and any "excess profits tax" paid in respect of the previous year is deducted in the current year.

The tax base is the taxable income for corporate tax minus the corporate tax liabilities in the current year and excess profits tax liabilities from the previous year.

The excess profits tax for Kumkol South is payable in a given year at a rate which varies with the internal rate of return achieved in that year in accordance with the following table:

Internal Rate of Return	Excess Profits Tax Rate
Less than 20%	—
Between 20% and 25%	5%
Between 25% and 30%	10%
Between 30% and 35%	20%
in excess of 35%	30%

The hydrocarbon contract with respect to Kumkol North provides the following excess profits tax rates:

Internal Rate of Return	Excess Profits Tax Rate
Less than 20%	—
Between 20% and 25%	20%
Between 25% and 30%	30%
in excess of 30%	50%

The hydrocarbon contracts with respect to the South Kumkol field and the QAM fields provide for the following excess profits tax rates:

Internal Rate of Return	Excess Profits Tax Rate
Less than 20%	—
Between 20% and 22%	4%
Between 22% and 24%	8%
Between 24% and 26%	12%
Between 26% and 28%	18%
Between 28% and 30%	24%
in excess of 30%	30%

The foundation agreement for Kazgermunai effectively provides for a tax on the profits of Kazgermunai with respect to its operations in the Akshabulak, Nurali and Aksai fields. The foundation agreement provides for taxes of: (i) 25% on annual profits of Kazgermunai up to \$20.0 million, (ii) 30% on annual profits of Kazgermunai between \$20.0 million and \$30.0 million, (iii) 35% on annual profits of Kazgermunai between \$30.0 million and \$40.0 million and (iv) 40% on annual profits of Kazgermunai exceeding \$40.0 million.

Downstream Operations

Overview

Crude oil produced from our fields in the South Turgai Basin by our Upstream operations that is not exported is transferred to our Downstream operations to be refined at our Shymkent refinery for sale primarily in the Kazakhstani domestic market. We seek to maximize the value of our operations by balancing opportunities to export our crude oil with processing the crude oil in our refinery for sale domestically, depending on market conditions and international crude oil prices.

In 2001, we exported approximately 50% of our crude oil production and transferred approximately 43% of our crude oil production to our refining facility at Shymkent. The remaining 7% of our crude oil was sold domestically for cash or to the Kazakhstani government as payment-in-kind in satisfaction of a portion of our royalty payment obligations. The majority of our export sales were FCA sales to third parties within Kazakhstan, normally at the rail terminal at Tekesu, adjacent to the Shymkent refinery, but in late 2001 we began transitioning to FOB sales, where we arrange, and bear the obligations for, the transportation of the crude oil to the shipping port. We are also concluding contracts on DAF, CPT and CIF terms, where we also arrange, and bear the obligations for, transportation. The principal buyers of our crude oil include Naftex, Eurasia, TotalFinaElf, BP, Vitol, Sintez and Shell. Crude oil production from our producing fields is and will continue to be the primary source of crude oil for the Shymkent refinery. The refined products produced at Shymkent include heating fuel, gasoline, diesel fuel and jet fuel primarily for the Kazakhstani domestic market.

The quality of our oil properties in Kazakhstan has allowed us to increase our production from an average of approximately 44,000 BOPD in the year ended June 30, 1997 to 128,203 BOPD in the nine months ended September 30, 2002. However, dependence on a single customer, the Shymkent refinery, for the sale of our oil production was a significant strategic weakness, restricting production, preventing us from achieving an optimum price for our crude and compromising the achievement of our growth potential. As a result, management determined that it was imperative that our Upstream operations be combined with the Shymkent refinery as well as the other downstream assets of HOP, which was the owner of the Shymkent refinery.

Pursuant to the HOP acquisition, we acquired, on March 31, 2000, a significant interest in HOP, which was a domestic Kazakhstani downstream company. We subsequently transferred our interest in HOP to Valsera, a wholly-owned subsidiary, and we transferred Valsera to HKM on March 31, 2002. See "Business and Properties — The HOP Acquisition". In addition to the refinery, which is the newest refinery in Kazakhstan and strategically located in southern Kazakhstan, other assets acquired through the HOP acquisition include a marketing and trading operation comprised of a network of distribution centers along with several retail gasoline outlets.

Our new Downstream organization is accountable for maximizing the value of our crude oil production through increasing the number of options for exporting oil, reducing the cost of transporting oil to export markets, executing market-driven strategies for petroleum products marketing and trading and optimising the performance of the Shymkent refinery.

History of HOP

The Shymkent refinery was registered by the Kazakhstani government in November 1985, and its processing plants were commissioned between 1985 and 1987. In 1993, the Shymkent refinery was reorganized into the joint stock company, OJSC Shymkentnefteorgsyntez, now known as Hurricane Oil Products OJSC. In July 1996, the Kazakhstani government privatised HOP by selling all of its common shares of HOP to Kazvit Holdings Limited, a company affiliated with KKB. In January 1998, CAIH purchased the HOP common shares from Kazvit and all of Kazvit's obligations under the HOP privatisation agreement, including the capital investment commitments thereunder. Concurrent with the completion of our acquisition of HOP, the HOP privatisation agreement and the obligations thereunder, including the capital investment commitments, were assigned to us. We recently transferred direct ownership of HOP to Valsera, an intermediate holding company which was wholly and directly owned by us, and then transferred Valsera to HKM, together with our rights under the HOP acquisition and privatisation agreements.

The HOP Privatization Agreement

As part of the HOP acquisition, we assumed all of the rights and obligations under the HOP privatization agreement, being the agreement whereby the government of Kazakhstan privatized HOP. Under that agreement, we were required to invest, or cause HOP to invest, a minimum of the Tenge equivalent of $150 million on or before December 31, 2001 in capital

expenditures or investments. The agreement provides that if less than all of the required investment were made by the required date, we could be required to pay a penalty of 15% of the shortfall to the Kazakhstani government. We believe that, as of December 31, 2001, we had met this commitment. The 2001 expenditures and commitments remain subject to audit and certification by the government of Kazakhstan under the terms of the HOP privatization agreement.

Refining

Through our indirect ownership interest in HOP, we own and operate the Shymkent refinery, and market the refined products it produces. The Shymkent refinery had a rated crude oil throughput capacity of approximately 140,000 BOPD as of September 30, 2002, and operated at an average of approximately 51% of its capacity for the nine months ended September 30, 2002.

The Shymkent refinery was commissioned between 1985 and 1987, with the completion of an atmospheric distillation unit for the initial separation of crude oil, catalytic hydro treaters for the removal of impurities from naphtha, jet and diesel fuel, and a catalytic reformer unit for the enhancement of octane levels in gasoline.

The following table sets forth the amounts, average sale prices and revenues for refined products produced at the Shymkent refinery for the years ended December 31, 2001 and 2000 and the nine months ended September 30, 2002 and 2001:

	2001			2000		
Product Produced	**Amount Sold**	**Average Price**	**Revenue**	**Amount Sold**	**Average Price**	**Revenue**
	(Tonnes)	**($/tonne)**	**($000's)**	**(Tonnes)**	**($/tonne)**	**($000's)**
Gasoline	548,503	207.54	113,838	315,327	215.31	67,893
Diesel	710,029	178.30	126,600	433,222	185.30	80,274
Heavy fuel oil (mazut)	1,045,682	50.00	52,284	566,948	49.79	28,230
LPG	107,079	92.71	9,927	63,478	70.56	4,479
Jet fuel and kerosene	57,829	231.84	13,407	16,637	226.30	3,765
Total self refined	2,469,122	128.00	316,056	1,395,612	132.30	184,641
Resale of purchased refined products	83,695	154.15	12,902	148,752	128.31	19,087
Total refined product sales	2,552,817	128.86	328,958	1,544,364	131.92	203,728

	Nine Months Ended September 30, 2002			Nine Months Ended September 30, 2001		
Product Produced	**Amount Sold**	**Average Price**	**Revenue**	**Amount Sold**	**Average Price**	**Revenue**
	(Tonnes)	**($/tonne)**	**($000's)**	**(Tonnes)**	**($/tonne)**	**($000's)**
Gasoline	571,753	134.80	77,075	453,923	205.49	93,277
Diesel	760,029	117.85	89,569	819,848	82.35	67,511
Heavy fuel oil (Mazut)	786,785	39.96	31,443	270,879	53.70	14,545
LPG	86,607	74.88	6,485	386,834	181.83	70,338
Jet fuel	142,241	213.87	30,421	38,652	234.71	9,072
Total self refined	2,347,415	100.11	234,993	1,970,136	129.30	254,743
Resale of purchased refined products	89,025	61.59	5,483	69,628	144.07	10,031
Total refined product sales	2,436,440	98.70	240,476	2,039,764	129.81	264,774

In addition to revenue generated from the refining and sale of product derived from acquired feed stock, the refinery also refines crude on behalf of third parties, for which it derives a fee. Total processing fees earned in 2001 amounted to $11.0 million compared to $11.9 million in

2001. For the first nine months of 2002, processing fees amounted to $2.1 million. The table below sets out the total quantity of oil processed for third parties into refined products and the average fee charged.

	Tollers' Volumes Processed*	Processing Fee	Processing Fees Earned
	(Tonnes)	($/tonne)	($000's)
Nine months ended September 30, 2002	135,234	15.57	2,112
Nine months ended September 30, 2001	539,791	15.97	8,623
2001	694,924	15.84	11,008
2000	711,368	16.71	11,884

* 2001 processed crude is approximately 5.4 MMbbls (2000 – 5.5 MMbbls)

During the first nine months of 2002, processing at the Shymkent refinery was approximately 19.8 MMbbls or 72,400 BOPD, of which 1.0 MMbbls were custom-refined for third parties, compared to 20.2 MMbbls or 73,900 BOPD, of which 4.1 MMbbls that were custom-refined for third parties, in the first nine months of 2001.

The following table sets forth the Shymkent refinery's on-site storage capacity.

Storage Tanks	Shell Capacity
	(cubic meters)
Crude at refinery	180,000
Crude at pipeline terminus	40,000
Gasoline	181,000
Jet fuel:	30,000
Diesel	80,000
Fuel	65,000
LPG	1,800
Intermediate tankage	22,600
Total	600,400

We own two additional product storage depots in Taraz and one in Almaty. We also lease other product storage facilities and operate a number of sales, storage and distribution outlets throughout Kazakhstan. We own 135 railcars which were manufactured in 1993. Most product and crude deliveries are made by rail in railcars provided by the state-owned railway or third parties.

Crude oil production from our producing fields is and will continue to be the primary source of crude oil for the Shymkent refinery. The Shymkent refinery has the potential to receive crude oil from oilfields located in west Kazakhstan, which are connected to the refinery by railroad, the oil fields located in north Kazakhstan, which are connected to the refinery by railroad, the oil and natural gas fields in Uzbekistan, which are connected by railroad and the Russian oil fields, which are connected to the refinery by pipeline.

In 2001, we engaged a consulting firm to review the Shymkent refinery's operations in order to:

- improve the operations of the Shymkent refinery (including energy usage, losses, yields and procedures); and
- enable us to determine the most appropriate investment strategy to prepare the refinery for potential changes in product specification and to meet changes in the product market demand.

We are implementing various of the recommendations.

Several investments with high profitability and short payback were and are being developed and implemented. We believe process operations, after modifications to the kerosene-dewaxing unit, and new trays in the main crude fractionator, will lead to a reduction of mazut (heavy fuel oil) production and an increase in the production of higher value products. Energy reduction steps and yield improvement programs already implemented are expected to add further value.

Initiatives in the safety and environmental area were undertaken to reduce emissions, increase the available firewater volumes from new water wells, and implement various safety-related improvements based on insurance audit recommendations.

Important changes have occurred in the refinery regarding yields since the first quarter of 2001, and very significant margin improvements have already happened. The production of mazut, which is a lower-end product and is present on the market in excessive quantities, was reduced from approximately 40.6% of the product yield in the first nine months of 2001 to 32.5% during the first nine months of 2002. This resulted in producing much more valuable products such as gasoline and jet fuel.

We are implementing a wide range of low cost changes as part of our profit improvement program. These changes involve energy management and saving, yield improvements, implementation of test runs on several units with a view to optimize their performance and setting up a modern planning/scheduling system and organization for the management of marketing and refinery.

Trading and Marketing

Our Downstream business unit is a significant player in the oil products market in Kazakhstan, accounting for more than 40% of the market in gasoline sales and diesel sales in 2001, and from 40% to 60% during the nine months ended September 30, 2002. Downstream sells 80% to 90% of its refined products in the domestic market, with the remainder being sold in the export markets.

Producers of oil in Kazakhstan are entitled to negotiate sales contracts directly with oil purchasers, thereby allowing the market to determine the price of oil. Prices depend in part on oil quality, prices of competing oils, distance to market and the value of refined products. In the absence of any contrary agreement in a particular hydrocarbon contract, under Kazakhstani law, the Kazakhstani government has a right to purchase production from a producer at world market prices.

The terms of our hydrocarbon contracts for the Kumkol South and South Kumkol fields and each of the Qyzylkiya, Aryskum and Maybulak fields, or QAM fields, provide that the Kazakhstani government has the right to nominate production amounts which it wishes to buy in each year, provided that we and the Kazakhstani government agree prior to October 1 of the previous year as to the volume and pricing mechanism for amounts sought to be effectively nominated. To date, the government has not nominated or redirected any of our production. The hydrocarbon contract for Kumkol North provides that the Kazakhstani government may prohibit the delivery of oil to certain places of destination if such delivery would interfere with the political interests of Kazakhstan. However, the government is required to agree with the operator, Turgai Petroleum, on the damages and lost commercial opportunity costs resulting thereby.

The trading and marketing of oil products is performed through our Downstream operation by direct sales from the refinery or through a network of seven distribution centers. Oil products are transported by railway, the tariff dependent upon the distance travelled.

Transportation

We created a specialized transportation and trading team in early 2001, in order to enable us to respond better to the challenges of logistics and the commercialization of Kumkol crude. Senior industry professionals were recruited to develop this team.

Domestic Transportation. Oil produced from the Kumkol and South Kumkol fields is transported east from our Central Processing Facility via a 28 inch lateral pipeline extending 200 kms from the Kumkol field to Karakoin, Kazakhstan, where this pipeline connects with the Central Pipeline. The Central Pipeline provides access for our crude oil to the Shymkent refinery. There is also a 20 inch pipeline which runs parallel to the 28 inch pipeline from the Kumkol and South Kumkol fields to Karakoin. The combined rated capacity for these two lateral pipelines is 350,000 BOPD. We believe that there is substantial unutilized excess capacity in the Central Pipeline.

Currently, all oil and gas pipelines in Kazakhstan are owned by the Kazakhstani government. We currently have access to the lateral pipelines and the Central Pipeline under a short-term contract with KazTransOil, the Kazakhstani national oil transportation corporation, which is renewable by mutual agreement annually. The contract does not designate specific volumes available to us and provides for tariff rates established by the Kazakhstaini government. The contract can be cancelled by either KazTransOil or us on 45 days' notice. In the HKM acquisition agreement, the Kazakhstani government agreed to assist us in obtaining commitments for the transportation of oil through the Central Pipeline.

On October 16, 2002, we received permission from the Kazakhstani government to proceed with the construction of the 177 km Qyzylkiya Aryskum Maybulak pipeline, or QAM pipeline, connecting Kumkol to a rail loading station in Dzhusaly via the QAM fields. The QAM pipeline will have an initial capacity of 100,000 BOPD and is expected to be in full operation by the third quarter of 2003. KazMunaiGas has the right to participate in the pipeline from Aryskum to Dzhusaly, and KazTransOil will be the technical operator under a service contract. We estimate the combined cost of constructing the QAM pipeline and the terminal at Dzhusaly (see "— Transportation to Export Markets" below) to be approximately $72 million.

Transportation of crude oil to the export market remains our largest single operating cost. During 2001 and through the first nine months of 2002, the cost of transportation from the Shymkent loading terminal to Black Sea ports remained relatively constant at approximately $12 per barrel of crude oil. On completion of the QAM pipeline, it is anticipated the cost of this transportation for crude oil exports will be reduced.

Transportation to Export Markets. Once crude oil arrives at Shymkent from the fields, it is divided into volumes for export and volumes for refining at Shymkent. Export crude oil barrels are loaded at the nearby rail terminal of Tekesu onto railcars, to be transported for export west across Kazakhstan to Atyrau or Aktau, both Kazakhstan ports on the Caspian Sea. From these ports, there are various routes via pipeline, railroad and tanker for the oil to reach Black Sea ports and Europe. From Tekesu, crude oil can also be transported by rail east to Druzhba, for Chinese purchasers, and south to Bukhara (in Uzbekistan), and from there by rail to Turkmenbashi (a Turkmenistan port on the Caspian Sea) or Aktau, for Europe.

We have entered into swap arrangements with other oil and gas companies, to export crude oil from the Samara pipeline junction along the Russian Druzhba Export Pipeline System to western Europe. However, these arrangements are not being utilized and are currently being renegotiated. In addition, we have the ability to transport our crude oil and refined products to the Black Sea by rail for export to western Europe. The Shymkent refinery has rail access to Druzhba rail terminal on the Kazakhstan-Chinese border, where the Kazakhstani rail line connects with an existing Chinese rail line. In November 1997, we formed Hurricane Dostyk, a limited liability partnership with Eastern Gate Corporation of Kazakhstan, to construct an oil trans shipment terminal at Druzhba, which would facilitate exports to western China. The trans shipment terminal is designed to have a throughput capacity of approximately 20,800 BOPD. Construction of the terminal was suspended in late 1998. The cost of completion of the terminal will be funded 100% by us. We will control and operate the facility once it is completed. Completion of the terminal is planned for 2003 but will be dependent on the development of a market in and the establishment of long-term contracts with China, and acceptable levels of transportation tariffs.

In addition, we have opened new routes such as Turkmenbashi, Turkmenistan to Batumi, Georgia (via Baku), Atyrau to Samara, and Atyrau to Odessa, Ukraine. We have also optimized the use of existing routes, such as Aktau via Baku to Batumi.

Crude oil produced by Turgai Petroleum is transported in the same manner as the crude oil produced by us from the Kumkol and South Kumkol fields. Crude oil produced by Kazgermunai is transported by truck to rail loading stations in Dzhusaly and Kyzylorda.

Crude Oil Revenue Optimization

Depending on the market environment and international crude oil prices, the best crude oil netback for us can be obtained either by exporting crude oil or by processing the crude oil at the Shymkent refinery for sale in the domestic market.

The planning and scheduling of the refinery is now integrated as a key component of our corporate value chain, to maximize the value of our crude oil production and all of the Downstream activities. During 2001 the refinery and the product market provided netbacks higher than the export or crude oil. This demonstrated the "cushion" role provided to us by the refinery, as detailed below:

	Nine Months Ended September 30, 2002		2001	
	Crude Oil Exports	Own Crude Oil Refined and Sold	Crude Oil Exports	Own Crude Oil Refined and Sold
	($/Bbl)	($/Bbl)	($/Bbl)	($/Bbl)
Net sales price achieved	16.03	12.92	12.34	16.53
Transportation expense	(4.55)	(1.02)	(1.87)	(0.84)
Production and Refining costs	(1.19)	(2.07)	(1.17)	(1.95)
Royalty	(1.24)	(1.25)	(0.96)	(0.96)
Selling Costs	(0.21)	(0.78)	(0.15)	(0.86)
General and Administrative costs	(0.71)	(1.30)	(0.86)	(1.54)
Tax expense	(1.52)	(2.30)	(1.34)	(1.96)
Net Back	6.61	4.20	5.99	8.42

Competition

The Shymkent refinery is the only refinery in the southern Kazakhstani market. The nearest competing refineries in Kazakhstan are Pavlodar and Atyrau, which are both located more than 1,600 km away from Shymkent. Two additional refineries are located in Uzbekistan, one in Fergana, which is 450 km away from Shymkent, and the other in Bukhara, which is located 1,000 km from Shymkent. Because of its location, the Shymkent refinery has a cost advantage when supplying product to the local market. In addition, the two Uzbekistan refineries currently do not compete with the Shymkent refinery because the Uzbekistan market is closed and the density of population in the Syr Darya and Amu Darya valleys causes the rail network to be significantly more congested than in Kazakhstan. This creates greater logistical difficulties in moving bulk oil through Uzbekistan. We also believe that the crude oil feedstock from our oil fields by pipeline creates an additional advantage in supplying refined products to the southern Kazakhstani market.

Russia has supplied significant quantities of refined products to the Kazakhstani market from time to time. Russian refineries have supplied, on a regular basis, products which are not available or are in short supply from Kazakhstani refineries. These products include lubricants, bitumen and Ai95 gasoline and Ai98 gasoline. A Russian refinery located in Omsk supplies refined products to towns in northern Kazakhstan by pipeline. In addition, a Russian refinery located in Orsk has established exchanges of crude for refined products in the Aktyubinsk Oblast. Russian

refineries emerge as competitors in the southern Kazakhstani market primarily when supply/demand or currency imbalances or differing interpretations of applicable legal and tax requirements create opportunities for them to export bulk products into the region.

As discussed above, Uzbekistan currently is a closed economy and the Shymkent refinery has had little competition from Uzbekistan in the past five years. If the Uzbek market were to open up, we believe that the benefits of being able to sell products in, or source feedstock from, the Uzbek market would outweigh the risks of competition from the Uzbek refineries.

Regulatory Matters

The Kazakhstani government has a range of powers to regulate and possibly intervene in the activities of major Kazakhstani industries, such as the oil and gas industry. We cannot provide any assurances that in the future the Kazakhstani government will not require us to act in a manner which may be against our commercial interests or restrict our ability to make profits, freely convert currency or pay dividends free of currency or other controls.

Royalties are levied at differing rates for each of our oil fields and change throughout the year depending on the level of production achieved by each field. We currently pay royalties quarterly or monthly, depending on the particular hydrocarbon contract, to the Kazakhstani government in cash or in kind at the option of the Kazakhstani government. During the nine months ended September 30, 2002, we paid royalties at an effective overall average rate of 8.6%.

In addition, the hydrocarbon contracts that we entered into under our production licenses for our fields in Kumkol South, Kumkol North, South Kumkol, Qyzylkiya, Aryskum and Maybulak, contain provisions for an excess profits tax. The tax rate is determined by the internal rate of return derived from the cash flow from operations in the contract area.

The Kazakhstani government has from time to time organized a program of support for deliveries to the agricultural sector. The purpose of this program is to provide diesel and gasoline for the use of agricultural machinery during the planting season, and arranging for payments to be made after the harvest six months later. Under this program the refinery can choose in which regions or municipalities to make deliveries, it can refuse to make deliveries, and it can supply product on freely negotiated terms, including pricing terms to compensate for risk, and including the right to ask for and collect on guarantees.

The Antimonopoly Committee may, under Kazakhstan law, review the business of any one company having more than a 35% share of a specific market segment of the Kazakhstan market. Since 1996 the Antimonopoly Committee has reviewed the prices of jet fuel and liquefied petroleum gas. As a result, HOP was required to advise the Antimonopoly Committee three months in advance of any proposed price increase. In 1999, through a number of orders of the Antimonopoly Committee and as a result of introducing amendments to the antimonopoly law in January 2002, HOP was included on the Kazakhstani state register of companies having a dominant position in the market. Accordingly, we are required to obtain the approval of the Kazakhstani government with respect to any refined product price increases.

In late December 1999, the Kazakhstani government adopted a policy restricting the amounts of crude oil exported from Kazakhstan. Under this policy, the government has set limits, which are negotiated monthly, on the amount of crude oil that individual crude oil producers in Kazakhstan may export. In addition, under the policy, the government has restricted the ability to export crude oil to only crude oil producers in Kazakhstan.

As Kazakhstan is a member of the International Energy Agency, the Kazakhstani government maintains an oil stock for military and strategic purposes. We have no knowledge of any requirements for us to hold stock or contribute to strategic stock calculations in any form. No assurances can be given that the Kazakhstani government complies with the stocking requirement of the International Energy Agency or that we will not be required to assist or contribute to this stocking in the future.

On January 8, 2003, the President of Kazakhstan signed a new Investment Law, which entered into effect on January 11, 2003. It is unclear how this new legislation will be interpreted or, in particular, how it will impact existing protections that cover our operations. We expect that the application of the new legislation will be decided on a case-by-case basis. However, we also expect that the stability provisions in our privatization agreements and hydrocarbons contracts will be honored and therefore that the new legislation will not have a material adverse impact on our operations. See "Risk Factors — Risk Factors Related to Our Operations in Kazakhstan — Changes in Kazakhstani laws and regulations and the interpretation of those laws and regulations may adversely affect our business".

Insurance

We maintain insurance coverage with respect to the Shymkent refinery against various losses consistent with western industry standards. See "Risk Factors — Risk Factors Relating to Our Business — Losses, damages and liability relating to our properties are not fully covered by insurance".

Legal Proceedings

From time to time, we are involved in legal proceedings relating to claims arising out of our operations in the ordinary course of business. Other than as set out below, we do not believe there are any material proceedings pending or threatened against us or any of our properties.

We have been engaged in two court cases in Kazakhstan pertaining to disputed tax assessments for the tax years 1998 and 1999. The first involved HOP and was for approximately $8.8 million. HOP has successfully argued its case at the first level of the court system in Kazakhstan and at the Supreme Court level. There is a possibility that the Ministry of State Revenue may appeal to the Supervisory Panel of the Supreme Court. No provision has been made in our financial statements for this assessment.

The second case involved HKM and was for a total of approximately $10.5 million including taxes, fines, interest and penalties. HKM was successful at the first level of the court system and was unsuccessful on the majority of the issues at the Supreme Court level. HKM will appeal to the Supervisory Panel of the Supreme Court. We have provided for $2.9 million of the $10.5 million in our September 30, 2002 financial statements. We continue to dispute this assessment, as we believe the tax stability provisions of our hydrocarbon contract established that HKM is not subject to the assessed taxes.

We have made further provision in our financial statements for an additional $5.5 million relating to tax assessments for 1998 and 1999, for the years 2000 and 2001 and for the first nine months of 2002.

Through our operating subsidiaries in Kazakhstan, we have received tax assessments for 2000 and 2001 amounting to $56 million, which have been reduced through negotiations to $44 million. We have not provided for these tax assessments in our financial statements and have filed or will shortly file court cases disputing these assessments.

We have been named as defendant in a claim filed by a company alleging breach of a consulting contract and seeking, in aggregate, damages of $4.7 million. We believe this claim is without merit and, accordingly, no amount has been recorded in our consolidated financial statements.

Environmental Matters

Extensive national, regional and local environmental laws and regulations in the jurisdictions in which we operate affect nearly all of our operations. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for user fees, penalties and other liabilities for the violation of these standards and establish, in some circumstances, obligations to remediate current and former facilities and off-site locations. At the

end of 1998, the Kazakhstani government changed its internal environmental regulatory structure by eliminating and combining certain ministries. We believe that, as a result of these changes, the environmental laws and regulations in Kazakhstan will become increasingly protective of the environment. Also, as new environmental laws and legislation are enacted and the old laws are repealed, interpretation, application and enforcement of the laws may become inconsistent. Compliance with existing or more stringent laws or regulations or more vigorous enforcement policies of any regulatory agency could in the future require material expenditures by us for the installation and operations of systems and equipment for remedial measures, any or all of which could have a material adverse effect on us. We cannot assure you that we will not, or will not be required to, incur substantial or material financial obligations in connection with environmental compliance.

Oil and Gas Operations

Our oil and gas operations in Kazakhstan are subject to periodic inspection by government environmental protection agencies. These inspections have resulted, from time to time, in the receipt of formal communications from these authorities detailing our non-compliance with specified environmental regulations and requiring corrective actions on our part. In many cases, these communications advise that, in the event that we do not take appropriate remedial action within a required period of time, we will be subject to a number of penalties including fines and the closing of various of our facilities. We take all reasonable steps to work with these regulatory authorities and to correct any non-compliance matters raised by these communications. However, from time to time we have not been able to take appropriate action within the time periods required by the regulatory authorities. To date, the applicable regulatory authorities have not taken any material action against us with respect to such matters. We cannot provide any assurances that material action will not be taken against us with respect to these issues or that we will not be required to incur substantially more expenses than we currently expect in connection with our environmental action plans.

We incur recurring costs associated with managing pollution in our ongoing operations. We pay environmental user fees based on the volume of pollutants we generate, including the pollutants cited as violations by the Qyzlorda Environmental Department. In general, environmental user fees are not material for emissions for which we possess emissions permits. We believe that, in the long-term, with the installation of the Kumkol electrical power plant utilizing the majority of our associated gas, and as improvements are made in our waste management and pollution prevention practices, the volume of pollutants we generate will decrease. However, the amount of environmental user fees may not significantly decrease because reductions in volumes of pollutants that are generated may be offset by yearly increases in legislated environmental user fees. All material environmental permits required for our oil and gas production operations in Kazakhstan are currently in place. We also pay fines for discharge of wastes for which we do not have permits. Failure to show progress in any of the items in our environmental action plans could result in the cancellation or non-renewal of any environmental user permits that we currently hold or the increase in fines we incur for pollution of the environment of up to 15 times the amounts of the normal environmental user fees. The usual practice of Kazakhstani environmental authorities in response to violations of applicable environmental protection laws and regulations appears to be the imposition of increasing fines and penalties. Our licenses and hydrocarbon contracts, however, provide that significant and continuing breaches of the terms of the same, which include the requirement for compliance with applicable environmental protection laws, could result in the suspension or termination of our licenses and hydrocarbon contracts.

In accordance with Kazakhstani legislation, produced gas must either be used to produce energy or be re-injected. We are currently flaring approximately 96% of the gas produced from our fields. In September 2000, HKM entered into an agreement with the Qyzylorda Oblast, Kazgermunai, a number of Kazakhstan government ministries and a number of other parties whereunder the parties agreed to cooperate with respect to determining an appropriate gas utilization program. In early 2001, we concluded discussions with Kazakhstan government authorities to arrive at a solution for the utilization of associated gas pursuant to this agreement.

As a result of these discussions, HKM will install a 55-megawatt electrical power plant in the Kumkol field to use associated gas from the Kumkol South, South Kumkol and Kumkol North fields. It is anticipated that the cost of construction of the plant will be approximately $32 million. This cost will be shared with our Turgai Petroleum joint venture. It is intended that the plant will provide stable electrical power for field operations and will provide excess electricity for sale to Kyzylorda city and a credit for Shymkent refinery power usage. Engineering and construction are underway and the plant will be completed in the second quarter of 2003. In addition, as a joint venture partner in the Akshabulak fields, we are participating in a project to provide natural gas to the Kyzlorda region.

When we begin exploration activities in a new field, at certain stages in the development of the field and every five years during the operation of the field, we must perform environmental impact assessments. We must also provide, every five years, the documentation demonstrating that we do not exceed applicable maximum allowable limits on emission to the atmosphere. The annual cost incurred in connection with these assessments varies from year to year, depending upon our exploration and development activities in that year.

We are not currently subject to significant expenditures in connection with the remediation of contaminated sites. The HKM acquisition agreement, as well as Kazakhstan's privatisation law, allocates financial responsibility for environmental damage which occurred prior to the date we acquired HKM to the Kazakhstani government. Therefore, we are responsible only for environmental damage which has occurred in connection with our operations since December 1996. In 1997, we hired Golder Associates, Ltd. to perform a baseline study of environmental damages to the properties acquired in the HKM acquisition. The Kazakhstani government has reviewed and approved the results of the phase one environmental site assessment. Local environmental consultants, Ecotera LLP, have finalized the results of the baseline study and performed the Ecological Monitoring stipulated by Order 340-P of the Ministry of Natural Resources and Environmental Protection of the Republic of Kazakhstan. We have identified some environmental damage that occurred before our acquisition of HKM. We believe that the Kazakhstan government will be responsible for those damages as provided for in the HKM acquisition agreement and the Kazakhstan privatization laws.

To date, there have been no significant releases of contaminants under our operation of the Kazakhstani oil fields. We could incur significant liability for damages, clean-up costs and/or penalties in the event of certain discharges into the environment or environmental damage caused by non-compliance with environmental laws or regulations which occurred after we acquired HKM. Any environmental liability with respect to our production activities could materially adversely affect our financial condition and results of operations.

Refining Operations

Similarly to our Upstream oil and gas operations, we pay environmental user fees for our Downstream operations based on the volumes of pollutants we generate. The fees are generally not material for emissions for which we possess emissions permits. However, fines can be multiplied by as much as 15 times the normal environmental user fee for those emissions for which we do not have permits. We believe that all material permits required for the operations of the Shymkent refinery are in place.

Kazakhstani regulations specify that a refinery should be built with a minimum protection zone of one kilometre from human habitation. The Shymkent refinery is located in the city of Shymkent's industrial zone five km southeast of the residential district.

The crude and light oil product tanks at the Shymkent refinery are equipped with pontoons and floating roofs that reduce hydrocarbon emissions more effectively than fixed roof reservoirs. The system of oil traps and separation ponds with skimmers is designed to prevent the leakage of harmful substances and permit re-refining of recovered oil. The system returns treated water to

the environment with concentrations of pollutants within the requirements of applicable laws. Other facilities utilized in the refinery include tank farms, cooling towers, rail discharge and load facilities and flare stacks which generally comply with modern environmental requirements.

The treated water discharged from the Shymkent refinery is sufficiently clean to discharge, but it is not potable, nor is it recommended for agricultural use. The Shymkent refinery has a permit to pump the treated water by pipeline into a settlement pond located 96 km northwest of the refinery at a site called Akdala. The refinery complies with the discharge requirements for this settlement pond.

We believe that there are no significant environmental liabilities arising from the operations of the Shymkent refinery prior to the HOP privatization. Although we can provide no assurances that a hidden environmental problem may not be found in the future, Kazakhstan's privatisation law allocates financial responsibility for environmental damage which occurred prior to the HOP privatization to the Kazakhstani government. However, no baseline with respect to environmental damages that occurred prior to the privatisation of HOP has been established. A significant portion of our 2002 investment budget for the Shymkent refinery was dedicated to environmental and safety operations.

We believe that, to date, there have been no significant amounts of contaminants released from the operation of any of HOP's assets since its privatization, including the Shymkent refinery. However, in the event that discharges into the environment or environmental damage caused by non-compliance with environmental laws or regulations occurred after the completion of the HOP privatization or after the completion of the HOP acquisition, we could incur significant liability for damages, clean-up costs and/or penalties as a result. Any environmental liability could have a material adverse effect on us. To date, we have not established any provision for potential environmental liabilities for our Downstream operations.

Employees

As of September 30, 2002, we had a total of 3,423 employees, of which 1,456 employees were employed in our Upstream operations and 1,851 were employed in our Downstream operations. We consider our relations with our employees to be satisfactory. Our Canadian and expatriate work force is not unionized. The employees of HKM and HOP are unionized. Our agreements with these unions serve to define the parties' respective social obligations and do not have minimum wage or compulsory arbitration terms. The government of Kazakhstan has minimum wage laws that apply to our operations. We have never experienced a strike.

Both our Upstream and Downstream operations were previously owned and operated by the government of Kazakhstan. Since our acquisition of these operations, we have worked to introduce and encourage western work practices. In our Upstream operations, we have out-placed a large number of our employees since the fourth quarter of 1999 and successfully assisted many of them to set up businesses of their own, including in the transportation, construction, repair, catering, medical and security fields, which now provide services to HKM on an outsourced, independent contractor basis. We are in the process of implementing this policy in our Downstream operations. In addition, we have invested in training programs for our Kazakhstani employees, and have encouraged and intend to continue to encourage many of these employees to assume management positions in our operations. We believe these policies will foster continued good relations with our native Kazakhstani employees and with the government authorities in Kazakhstan.

Directors and Senior Management

The names and positions of our directors and executive officers and other key personnel are set out below.

Name	Position(s)	Principal Occupation
Bernard F. Isautier[1][2]	Chairman of the Board, President and Chief Executive Officer and Director	Chairman of the Board, President and Chief Executive Officer
Marlo C. Thomas	Executive Vice President	President of HKM and HOP
Michael Azancot	Senior Vice President, Exploration and Production	Senior Vice President, Exploration and Production
Nicholas H. Gay	Senior Vice President, Finance and Chief Financial Officer	Senior Vice President, Finance and Chief Financial Officer
Anthony R. Peart	Senior Vice President, General Counsel and Corporate Secretary	Senior Vice President, General Counsel and Corporate Secretary
Dermot Hassett	Vice President, Marketing and Transportation	Vice President, Marketing and Transportation
Ihor P. Wasylkiw	Vice President, Investor Relations	Vice President, Investor Relations
Askar Alshinbaev[1][2][3][5][7]	Director	Managing Director of KKB, a Kazakhstani private bank
James B.C. Doak[1][2][3][4][5][6]	Director	President and Managing Partner, Enterprise Capital Management Inc.
Hon. Robert P. Kaplan, P.C., Q.C.[1][2][3]	Director	International Business Consultant
Louis W. MacEachern[1][2][4][5]	Director	President, Fortune Industries Ltd.
Jacques Lefèvre[1][2][3]	Director	Vice Chairman of Lafarge S.A.

(1) Our current directors will hold office until the next annual meeting of holders of our common shares, or until their successors are duly elected or appointed, unless their offices are vacated in accordance with our by-laws.
(2) Each of Messrs. Isautier, Kaplan and MacEachern were officers and/or directors of ours during the period from May 14, 1999 to March 31, 2000 when we were under the protection of the CCAA.
(3) Member of the audit committee.
(4) Member of the compensation committee.
(5) Member of the corporate governance committee.
(6) Mr. Doak has been the President and Managing Partner of Enterprise Capital Management Inc., a Toronto based investment company which runs the Enterprise Fund, a Canadian hedge fund. He was the Director of Proprietary Equity, Vice President and a director of Scotia McLeod Inc. from 1994 to 1997.
(7) Appointed pursuant to the CAIH Shareholders' Agreement.

Bernard F. Isautier has been our Chief Executive Officer since September 1999, our Chairman of the Board and President since October 1999, and has served as a director of our board since March 1996. Mr. Isautier has degrees in Mathematics and Physics from the Polytechnique School of Paris, Engineering from the Mining School of Paris, and a Masters in Business Administration from the Institute of Political Sciences of Paris. Prior to joining us, he was President and Chief Executive Officer of Chauvco Resources Ltd., and from October 1997 to May 1999, Mr. Isautier was Chairman of the Board of Canadian Fracmaster Ltd. From 1993 to December 1995, Mr. Isautier was President and Chief Executive Officer of Canadian Occidental Petroleum Ltd. From 1990 to 1992, he was Chairman and Chief Executive Officer of Thomson Consumer Electronics Company, a French electronics company. Prior to 1990, Mr. Isautier served as President and Chief Executive Officer of Polysar Energy and Chemicals Corp. in Toronto, Canterra Energy Ltd. in Calgary and Aquitaine of Canada Ltd. in Calgary. Earlier in his career, Mr. Isautier served as an advisor to the French Minister of Energy and Industry and as an advisor on uranium to the

President of the Republic of Niger. Mr. Isautier is currently a director of a number of companies including Lafarge SA, and Firan Corporation.

Marlo C. Thomas was appointed Executive Vice President in October 2002. He was appointed acting president of HKM in January 1999, and officially became president in July 1999. In September 2000 he was appointed president of HOP. Prior to January 1999, he was Director of Construction, Maintenance and Transportation Services of HKM from March 1, 1998 to December 1998. Prior to March 1998, Mr. Thomas held various technical and supervisory positions in Russia and Sudan with Gulf Canada Resources, Komaiarcticoil, British Gas and then State Oil. In March 1998, he was appointed Director, Construction, Maintenance and Transportation Services for HKM.

Michael Azancot was appointed Senior Vice President, Exploration and Production in February 2000. He holds a Bachelor of Science in Mechanical Engineering and a Master's Degree in Petroleum Engineering from Heriot Watt University, Edinburgh, United Kingdom. He has 25 years of experience in the oil and gas industry including international exploration and production. Prior to joining us, he held key positions with Occidental Petroleum in the UK and China and with Lasmos plc in Indonesia and the UK where he was General Manager for Production and Operations of their European and North African assets.

Nicholas H. Gay was appointed as our Senior Vice President Finance and Chief Financial Officer effective October 1, 2001. He has 26 years of international experience in the oil and gas industry. Prior to joining Hurricane he was President and Chief Executive Officer of Bitech Petroleum Corporation, Chief Financial Officer of PanAfrican Energy Corporation (formerly Ocelot International), both Canadian companies, and Managing Director of Brabant Petroleum Ltd. based in the UK. From 1984 to 1991, Mr. Gay worked at Kerr-McGee PLC, where he held various positions including Director of Finance and Administration. Prior to 1984, he worked at LL&E Inc. and Arthur Andersen & Co. He holds a Bachelor of Arts Honors degree in Economics and Economic History from the University of Durham, and is a Fellow of the UK Institute of Chartered Accountants and an Associate Member of the Chartered Institute of Taxation.

Anthony R. Peart was appointed Senior Vice President, General Counsel and Corporate Secretary in December 2000. He is an attorney with degrees in law and arts from the University of Witwatersrand in South Africa. He also holds a postgraduate diploma in business administration from the University of Ghent Business School in Belgium and has completed the program for Management Development at the Harvard Business School. He has 24 years of experience in the oil and gas industry in management, legal and corporate affairs. Prior to joining us, he was most recently Managing Director of Bula Resources (Holdings) plc, an oil company listed on the London and Dublin Stock Exchanges. He was previously Managing Director of MMS Petroleum plc, a UK junior oil company, and prior to that Mr. Peart held various management positions at Lasmo plc, Ultramar Exploration Ltd. and Veba Oil and Gas in the United Kingdom.

Dermot Hassett was appointed Vice President, Marketing and Transportation of Hurricane Hydrocarbons Ltd. effective September 1, 2002. For two years prior to his appointment Mr. Hassett was Vice President Marketing and Trading for Hurricane's operating subsidiaries Hurricane Kumkol Munai and Hurricane Oil Products based in Almaty in Kazakhstan. He has 24 years of international experience in the Oil and Gas Industry in the Marketing, Strategic Planning and Finance sectors. Prior to joining Hurricane he was Business Unit Director of Elf Oil UK Limited, Managing Director of Elmgrade Ltd and held various positions within Amoco UK Ltd and Mobil Oil UK Ltd.

Ihor P. Wasylkiw was appointed Vice President Investor Relations in March 2000. For the two years prior to this appointment Mr. Wasylkiw held the position of Director Investor Relations. He holds a Bachelor of Science in Mechanical Engineering from the University of Manitoba. From 1979 to 1992, Mr. Wasylkiw worked for Shell Canada Limited in various technical

and managerial positions. In 1992, he joined Total Gestion Internationale in Paris, France and worked in the former CIS for a number of years in an executive position. Upon his return to Canada, Mr. Wasylkiw spent four years in the investment sector, two of those years being with Research Capital Corp. as a Senior Oil and Gas Analyst. Mr. Wasylkiw is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and the Canadian Investor Relations Institute. He has been the recipient of the Canadian Petroleum Association Distinguished Service Award.

Askar Alshinbaev became a director in April 2000. He is currently Managing Director of KKB, the largest private bank in Kazakhstan. He holds a degree in Computer Control System from the Kazakhstani Polytechnic Institute in Almaty, Kazakhstan and attended the Institute of Economy, Academy of Science of Russia in Moscow, Russia. He has been with the KKB for the last six years. Prior to his position with Kazkommertsbank, he was Managing Director of a private company in Kazakhstan called Asar and worked in a technical capacity with the Kazakhstani Polytechnic Institute.

James B.C. Doak became a director in March 2000. He is currently President and Managing Director of Enterprise Capital Management Inc., a Toronto based investment company which runs the Enterprise Fund, a large Canadian hedge fund. He has a degree in Economics from the University of Toronto and is a Chartered Financial Analyst. He is a Past President and Director of the Toronto Society of Financial Analysts. He is a director of Superior Propane Inc. and Spar Aerospace Inc. Mr. Doak is active in a number of community associations and established the Robert J. Salter Fellowship at the Toronto Hospital for Sick Children. He published a number of columns in two Canadian financial publications. Prior to joining us and Enterprise Capital Management, he was a Vice President and director at Scotia McLeod Inc., First Marathon Securities Ltd. and McLeod Young Weir Ltd. over the period 1979 to 1997.

The Honorable Robert P. Kaplan, P.C., Q.C., LL.B. was appointed as a director in April 1995, Chairman of the board on October 1998 and resigned his chairmanship to Bernard Isautier in October 1999. He holds a Bachelor of Arts with Honours degree in Sociology (Criminology) and a Bachelor of Law degree from the University of Toronto, Ontario. After practicing law in Toronto, he served as a Federal Member of Parliament from 1968 until 1993 when he retired as one of the senior members of the House of Commons. During his term, he served in two Liberal cabinets as the Solicitor General of Canada responsible for law enforcement and national security. He has chaired both the Commons Finance Committee and Justice Committee, and served as Energy Critic for the Official Opposition. He has represented Canada at the Law of the Seas Conference and at the United Nations General Assembly. Since retirement from political life, Mr. Kaplan has been active in the area of trade and project management between Canada and a number of countries in the former Soviet Union. In recognition for his work in Kazakhstan, he was appointed as the Honorary Consul General for Canada for the Republic of Kazakhstan. He serves on the board of directors of other public companies.

Louis W. MacEachern has been a director since 1989. He is the President of Fortune Industries Ltd., a business management consulting firm of which he holds the majority of shares in the Servpro/Dalco Group of companies, of which he is also Chairman. This group is involved in cleaning, salvage, construction and real estate. In addition, he is a director of Resolution Energy Ltd., Eagle Plains Resources Ltd., Hoodoo Hydrocarbons Ltd., all of which are oil and gas exploration and development companies. Mr. MacEachern is also active as a director of various community associations including the Calgary Chamber of Commerce, The Calgary Foundation, The Duke of Edinburgh Awards, which helps youths 16 to 24 years of age create positive futures and the Salvation Army.

Jacques Lefèvre became a director in May 2001. He is currently Vice Chairman of Lafarge S.A. Prior to that he was managing director of Lafarge S.A. Before that, Mr. Lefèvre was Executive Vice President of Lafarge S.A. from 1987 to 1989. Mr. Lefèvre is also a director of Lafarge Corp.

Compensation

Executive Compensation and Option Grants

For the year ended December 31, 2001, we paid our chief executive officer and each of our four most highly compensated executive officers an aggregate of Cdn.$2,559,143 in cash

compensation (representing salary, bonus and car allowances and other items). For the year ended December 31, 2001, we granted our executive officers in the aggregate options to purchase 665,900 common shares at exercise prices equal to market prices prevailing at the time of grant.

Service Contracts

We entered into agreements with each of Messrs. Azancot, Gay, Peart and Thomas which provide for payments to each of these individuals in the event: (a) their employment with us is terminated without just cause within six months after the occurrence of a change of control of the company; or (b) after a change of control of the company, they do not continue to be employed by us at a level of responsibility or of compensation at least commensurate with their level of responsibility and compensation immediately prior to the change of control and they elect, within six months after the occurrence of the change of control, to treat their employment as having been terminated as a result thereof; or (c) they are required by us to relocate their base of operations to a city other than in the United Kingdom (in the case of Messrs. Azancot, Gay and Peart) or other than Almaty, Kazakhstan (in the case of Mr. Thomas), except for required travel, and they elect, within six months after the occurrence of the change of control, to treat their employment as being terminated as a result thereof; or (d) they elect in writing within six months after the occurrence of a change of control, to treat their employment as being terminated, such termination to take effect at the end of the six-month period following such change of control. If any of the foregoing events were to occur, the amount to be paid to the executive officer would be equal to twelve times the sum of: (i) the executive officer's monthly salary at the time of the termination of employment; (ii) our monthly contributions paid on behalf of the executive officer to any of our group benefits plans (including our savings plan); and (iii) in the case of Mr. Thomas, an amount equal to the most recent annual bonus paid by us to Mr. Thomas prior to his termination, so long as a bonus had been paid to him within twelve months prior to his termination. The agreements also provide that upon termination of employment, all unexercised and unvested stock options then held by the executive officer shall forthwith vest and become exercisable for a period of 60 days after termination, after which period such options will terminate.

For the purposes of these agreements, a "change of control of the company" is defined to mean: (i) the sale, lease or transfer of all or substantially all of our assets; (ii) any change in the registered holdings or beneficial ownership of our common shares which result in any person or group of persons, acting jointly or in concert, or any affiliate of such persons or group of persons, owning, holding or controlling, directly or indirectly, more than 30% of the outstanding common shares; (iii) our "incumbent directors" no longer constituting a majority of our board; or (iv) any determination by a majority of non-management "incumbent directors" that a change of control has or is about to occur. The "incumbent directors" are defined as, at any time, our directors at the time of the execution of the agreements with the executive officers who continue to be directors at that time plus any other director at that time whose election to our board was approved by a majority of the incumbent directors at the time of such election.

Our board approved annual compensation to Mr. Isautier of $400,000 effective April 1, 2000 and $500,000 effective January 1, 2002. His annual compensation was increased to $530,000, effective October 1, 2002. Our board also approved a severance provision providing for the payment of an amount equal to three years' salary and benefits to Mr. Isautier in the event of termination by the board of his employment with us (without cause) or of his resignation upon a change of control.

Pension Contributions

We pay to our UK-based employees, in addition to their salary, a cash amount equal to 10% of their salary as a pension contribution. This amount is paid directly to the UK-based employees on a monthly basis.

Incentive Stock Option Plan

We have an incentive stock option plan, which is in accordance with the Toronto Stock Exchange, or the TSX, revised policy on listed company share incentive arrangements. This plan was

approved by our shareholders in November 1996 and was amended, with the approval of our shareholders, in 1997 and 2000. This plan is administered by our board of directors. Any of our officers, directors or employees may be chosen by our board of directors to participate in the option plan.

Compensation of Outside Directors

We pay (i) outside directors an annual director's fee of $11,000, (ii) chairmen of committees of our board an annual fee of $3,500, (iii) outside directors an additional fee of $1,000 for each meeting of our board or of a committee of our board attended in person and $750 for each meeting of our board or of a committee of the board attended by telephone, and (iv) for each occasion on which an outside director is required to attend a meeting of our board or of a committee of our board outside of his home country, a fee of $1,000 for each two days of travel time per trip. During the year ended December 31, 2001, the total amounts paid or payable to our then outside directors in directors' fees was Cdn.$397,188.

Effective November 1, 1998, Mr. Kaplan, entered into a consulting services contract with us for an annual compensation of Cdn.$120,000, expiring October 31, 2001. During our fiscal year ended December 31, 2001, Mr. Kaplan received Cdn.$100,000 as a result of this contract. These annual compensation fees were in addition to the regular directors' fees referred to in the above paragraph.

Board Committees

The board of directors has established an Audit Committee, a Compensation Committee and a Corporate Governance Committee. Corporate governance issues are discussed by the board as a whole. The board of directors has established the mandate, duties and responsibilities of each committee, which it reviews from time to time. All the members of each committee are non-management directors.

We are required to have an Audit Committee pursuant to our governing statute, the *Business Corporations Act* (Alberta). The Audit Committee is comprised of Messrs. Alshinbaev, Lefèvre and Doak. The Audit Committee's duties and responsibilities include: assisting the board of directors in fulfilling its fiduciary responsibilities relating to our accounting and reporting practices and the integrity of our internal accounting controls and information systems; reviewing with our auditors of the annual or interim financial statements; reviewing the annual report and any interim or other reports of the auditors; and, through periodic meetings with the auditors, reviewing the adequacy of our internal accounting and audit procedures.

The Compensation Committee is comprised of Messrs. Alshinbaev, Doak and MacEachern. The duties and responsibilities of the Compensation Committee include determining the salary and benefits of the President and Chief Executive Officer and on the recommendation of the President and Chief Executive Officer, determining our general compensation structure and policies and programs and the salary and benefit levels for the senior officers.

The Corporate Governance Committee is comprised of Messrs. Doak and MacEachern. The duties and responsibilities of the Corporate Governance Committee include (i) assessing, at least annually, the effectiveness of the board as a whole and the committees of the board, (ii) reviewing annually the mandates of the board and its committees and making recommendations for change, (iii) recommending procedures to permit the board to function independently from management, (iv) reviewing and, if appropriate, approving requests from directors for the engagement of outside advisors, (v) preparing and maintaining our corporate governance policies, and (vi) identifying prospective nominees for the board and recommending them to the board and establishing criteria for board membership and retirement therefrom.

Principal Shareholders

The following table sets forth certain information as of February 5, 2003, with respect to the ownership of our common shares (our only voting securities):

Name of Holder	Total Number of Common Shares Owned	Percentage of Common Shares
Central Asian Industrial Holdings N.V.[(1)]	14,966,425	19.0
Bernard F. Isautier[(2)]	4,428,190	5.6
FMR Corp.[(3)]	8,093,580	10.1
Leith Wheeler Investment Counsel Ltd.[(4)]	5,315,090	6.7
L-R Managers LLC[(5)]	5,300,000	6.7
All directors and members of management as a group, excluding Mr. Isautier (11 persons)[(6)]	551,870	0.7
Total	38,655,155	48.8

Notes:

(1) Based upon a Schedule 13D/A filed by CAIH on December 18, 2002.

(2) President, Chief Executive Officer and Chairman of the Board of Hurricane. Includes 122,750 common shares underlying presently exercisable stock options but does not include 2,561,000 options to purchase common shares not presently exercisable.

(3) Based upon a Schedule 13G filed January 10, 2003 by FMR Corp.

(4) Based upon a Schedule 13G/A filed February 14, 2002 by Leith Wheeler Investment Counsel Ltd.

(5) Based upon a Schedule 13D filed March 12, 2002 by L-R Managers LLC.

(6) With the exception of Mr. Isautier, no executive officer or director beneficially holds in excess of 1% of our outstanding common shares.

Related Party Transactions

Set forth below is a description of transactions and arrangements with our directors, officers, shareholders and other related parties. "Principal Shareholders" and "Management — Compensation."

Shareholders' Agreement

On March 31, 2000, in conjunction with the closing of the HOP Acquisition, we and CAIH entered into the CAIH Shareholders' Agreement. The CAIH Shareholders' Agreement governs certain aspects of the relationship between us and CAIH, which is, as a result of the completion of the HOP acquisition, our largest shareholder. As of January 17, 2003, CAIH held 14,966,425 of our common shares.

CAIH Nominees to the Board of Directors

Pursuant to the terms of the CAIH Shareholders' Agreement, we have agreed, in connection with each election of directors during the term of the CAIH Shareholders' Agreement, to nominate for election to our board those persons designated by CAIH who meet the qualification requirements to serve as a director under the Alberta Business Corporation Act. The number of persons that CAIH may designate for nomination to the board at any given time will be equal to the product of (i) the total number of directors constituting the entire board at that time, multiplied by (ii) the percentage that the aggregate number of our common shares owned by CAIH and its affiliates at that time bears to the total number of our common shares then outstanding. In addition to our nomination of CAIH designees, we have agreed to solicit proxies for the election of the CAIH designees to the board at the same time and in the same manner as we solicit proxies for the election of any other nominees to our board. Messrs. Subkhanberdin and Alshinbaev were designated by CAIH as its nominees and thereafter appointed as directors of our board in April 2000. Mr. Subkhanberdin resigned as a director due to the significant reduction in shares held by CAIH as a result of a secondary offering and sale of our shares on December 18, 2002.

The CAIH Shareholders' Agreement also provides that, without the consent of CAIH, the size of the board during the term of the CAIH Shareholders' Agreement will not be less than three members and will not be more than nine members. The CAIH Shareholders' Agreement further provides that there will be included on each of the executive and audit committees of the board, and, at CAIH's option, on each of the other committees of the board, one director designated by CAIH.

Share Acquisition Rights

Under the CAIH Shareholders' Agreement, CAIH is prohibited, without the prior written approval of the majority of our board, from acquiring further beneficial ownership of any of our common shares, unless it makes an offer to all holders of common shares which results in CAIH acquiring all or part of our issued and outstanding common shares not beneficially owned by CAIH or its affiliates. In the event that we, at any time during the term of the CAIH Shareholders' Agreement, propose to make a private placement or a public offering, for cash, of our common shares, CAIH is permitted to acquire that number of securities (on the same terms under such private placement or public offering), to enable CAIH to maintain, after the completion of any such offering, the same percentage of the aggregate number of our common shares that CAIH and its affiliates beneficially owned, on a fully-diluted basis, immediately prior to such offering.

Restrictions on Transfers

The CAIH Shareholders' Agreement provides that, during the term thereof, CAIH is prohibited from selling, transferring or otherwise conveying any our common shares that it holds, from time to time, except pursuant to:

- any transfer by CAIH or its affiliates pursuant to a public distribution through the facilities of the TSX (or other recognized international stock exchange on which the common shares are listed, and failing such listing, by way of any other public distribution and sale);

- any transfer by CAIH or its affiliates to any third party, so long as such third party becomes bound by the terms of the CAIH Shareholders' Agreement and such third party is approved by a majority of our board of directors;
- a transfer by CAIH to any arm's-length third party:
- where the number of common shares so transferred is not less than 20% of the total issued and outstanding our common shares;
- a transfer by CAIH or its affiliates to any arm's-length third party, so long as CAIH or its affiliates obtain a representation from such third party that, after giving effect to the transfer, such third party would beneficially own less than 20% of the total issued and outstanding Hurricane Hydrocarbons common shares; or
- subject to the transfer described in the immediately preceding bullet point, where a third party would, after giving effect to the transfer, beneficially own not less than 20% of our total issued and outstanding common shares, provided that CAIH or its affiliates have, as a condition to the transfer, obtained the agreement of such third party in writing to be bound by the terms of the CAIH Shareholders' Agreement. In the event such third party thereafter makes a bona fide offer to all holders of our common shares for the acquisition of all of the issued and outstanding common shares (other than those held by CAIH or its affiliates), then so long as that offer satisfies certain requirements set out in the CAIH Shareholders' Agreement, such third party, following the completion of the transaction set forth in such takeover bid, will be automatically released from compliance with the CAIH Shareholders' Agreement.

Voting Matters

With respect to shareholder voting, CAIH has the right to vote up to 20% of the then issued and outstanding Hurricane Hydrocarbons common shares in its sole discretion. However, with respect to:

- the election of persons to our board other than persons nominated by CAIH; and
- the approval of "business combination transactions" that are not "fundamental changes" as those terms are defined in the CAIH Shareholders' Agreement; and
- the approval of "related party transactions" as that term is defined in the CAIH Shareholders' Agreement, which have been approved by a majority of the board,

CAIH shall vote, and shall cause its affiliates to vote, all of our common shares owned by them which constitute more than 20% of our then total issued and outstanding common shares in the same proportion for and against that matter as all our common shareholders, including CAIH and its affiliates, as a group have voted. With respect to approvals of "fundamental changes", CAIH and its affiliates will be entitled to vote all of their common shares in their sole discretion.

Termination of Shareholders' Agreement

The CAIH Shareholders' Agreement provides that it:

- may be terminated by the mutual written consent of CAIH and us;
- will no longer be binding upon CAIH if CAIH and its affiliates, or any other person who may become bound by the terms of the CAIH Shareholders' Agreement and its affiliates, shall have become the beneficial owner of less than 10% of our common shares outstanding; or
- will no longer be binding upon CAIH if CAIH and its affiliates or any other person who may become bound by the terms of the CAIH Shareholders' Agreement and its affiliates, become beneficial owners of more than 50% of our common shares outstanding.

Indebtedness of Directors and Senior Officers

At no time during the fiscal year ended December 31, 2001 was there any indebtedness of any director or officer, or any associate of any director or officer, to us or any other entity which is or, at any time since the beginning of the most recently completed financial year, has been the subject of a guarantee, support agreement letter of credit or other similar arrangement or understanding provided by us, and which was not repaid prior to the date of this offering memorandum.

Warrants

On March 7, 2000, we closed an offering of 9,346,000 special warrants at a price of Cdn.$3.90 per special warrant. Each special warrant was exercisable into one Hurricane Hydrocarbons common share without payment of further consideration to us by the holders of special warrants. The special warrants were exercised on or about July 11, 2000 with 9,346,000 Hurricane Hydrocarbons common shares being issued upon their exercise. The following members of management and shareholders purchased special warrants pursuant to that offering and later received our common shares upon exercise of the special warrants:

Name	Number of Special Warrants Acquired
Bernard F. Isautier, Chairman of the Board, President, Chief Executive Officer and Director	1,492,400
Central Asian Industrial Holdings N.V.	1,114,300
Ihor Wasylkiw Vice President, Investor Relations	12,000
Louis W. MacEachern, Director	8,200
Robert P. Kaplan, Director	25,000

On February 23, 2001, we redeemed a total of 4,943,020 outstanding Series 5 Warrants at a price of Cdn.$2.90 per warrant. The Series 5 Warrants were each exercisable into one Hurricane Hydrocarbons common share at an exercise price of Cdn.$6.25 per share. Mr Isautier held 9,000 Series 5 Warrants that were redeemed by us.

We issued a total of 2,034,547 of securities convertible into our common stock to CAIH pursuant to the HOP transaction agreement, which correspond to the Series 5 Warrants that were redeemed by us at a redemption price of Cdn.$2.90 per warrant, as discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources". We redeemed these corresponding convertible securities from CAIH at the same redemption price as the Series 5 Warrants.

Redemption of Notes held by CAIH

Our Senior Notes were issued to our shareholders of record as of August 2, 2001. As our largest shareholder, CAIH received approximately $54.9 million in principal amount of the Senior Notes. We redeemed all of the Senior Notes held by CAIH on the same terms as the Senior Notes held by other debtholders on February 3, 2003.

Description of Certain Financing Arrangements

The following summary of certain provisions of our new Term Facility and the intercompany loan does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the underlying documents.

New Term Facility

On January 2, 2003, HKM entered into the Term Facility with a $225 million maximum aggregate principal amount with a consortium of European banks, comprising Natexis Banques Populaires, BNP Paribas and ING Bank. As of February 7, 2003, HKM had drawn $190 million under this facility. HKM will have the option to draw down an additional $35 million, subject to approval and the ability of the consortium of banks to fully syndicate the Term Facility. In December 2002, HKM also repaid in full a previous export loan for its remaining outstanding amount of approximately $52 million. The principal terms of the new Term Facility are as follows:

Interest Rates and Fees

Borrowings bear interest at a floating rate based upon LIBOR plus a 3.25% margin. HKM has paid certain up-front and agency fees in connection with the Term Facility.

Guarantees and Security

Hurricane and Hurricane Marketing Limited have irrevocably and unconditionally guaranteed the repayment of amounts borrowed under the Term Facility. In addition, HKM has agreed to cause HOP to provide a similar guarantee within three months of January 2, 2003. The loans under the Term Facility are secured by certain crude oil export contracts between HKM and different off-takers and hedging agreements, which may be assigned to the facility agent from time to time, and by a certain bank accounts into which proceeds from such agreements are deposited from time to time.

Covenants

The Term Facility contains certain negative covenants customary for such financings, that restrict the borrowers (subject to certain agreed exceptions) from, among other things, engaging in certain mergers or consolidations, incurring additional debt, creating security interests on their assets and disposing of assets other than in the ordinary course. The Term Facility further requires us to observe certain customary affirmative covenants, including, but not limited to, covenants relating to maintenance of minimum available free cash, funding of a debt service reserve account, the provision of information, compliance with law and line of business. In addition, under the Term Facility we are subject to certain financial covenants that require us to maintain our ratio of export proceeds to debt service under the Term Facility at a level of at least 1.5:1, our ratio of EBITDA (as defined) to finance charges at a level greater than 5:1, and our ratio of consolidated net debt to EBITDA (as defined) at a level not greater than 3:1.

Maturity and Amortization

Loans under the Term Facility will mature on December 29, 2006. We are obligated to repay the principal amount of loans under the Term Facility in 42 equal monthly installments beginning on July 31, 2003. Depending on the level of Brent crude oil prices, we may receive credit for certain prepayments under the Term Facility toward up to 65% of these mandatory repayment obligations.

Prepayments

HKM may voluntarily prepay loans under the Term Facility at any time after February 3, 2003 without penalty in minimum amounts of $5.0 million. In addition, we may prepay loans under the Term Facility in certain other limited circumstances. In the event that Brent crude oil prices exceed a certain level on or after July 2, 2003, HKM is required on a monthly basis to mandatorily prepay loans under the Term Facility by an amount equal to aggregate export quantities for the month times the difference between the actual average Brent crude oil price for the period and that specified level.

Events of Default

The Term Facility contains customary events of default (including cross default, material adverse change and change of ownership), the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments. Many of these events of default include grace periods.

Intercompany Loan

On the issue date, HKM, as borrower, will enter into an intercompany loan agreement with the issuer, as lender, pursuant to which the issuer will agree to make available to HKM the intercompany loan. The loan amount will be equal to the proceeds to us from the sale of the notes. The intercompany loan will bear interest of the same rate as the notes bear interest plus the necessary spread as required under Dutch tax laws. Interest will be payable in same day funds two business days prior to each date on which interest is payable on the notes and will be payable to such account or accounts with such person or persons as the issuer may designate to HKM. The maturity date will be the date on which the notes mature. HKM's obligation under the intercompany loan will not be subordinated to any indebtedness.

All payments under the intercompany loan will be made without deductions for or on account of tax. In the event that HKM is required to make any such deduction, it will be required to gross-up each payment to the issuer to ensure that the issuer receives and retains a net sum equal to the sum which it would have received had no such deduction or withholding been made or required to be made. Further, all payments under the intercompany loan agreement will be made on a timely basis in order to ensure that the issuer may satisfy its payment obligations under the indenture and the notes when due, in each case, taking into account the administrative and timing concerns and limitations on making payments due on the notes.

The following summary of certain provisions of the Indenture does not purport to be complete and is qualified in its entirety by reference to the Indenture, including the definitions therein of certain terms used below. For purposes of this section, references to the "Company" are to Hurricane Hydrocarbons Ltd., excluding its subsidiaries, and references to the "Issuer" are to Hurricane Finance B.V.

General

The Notes will be issued pursuant to an Indenture (the "Indenture") to be dated February 12, 2003 among Hurricane Finance B.V. (the "Issuer"), the Company, the other Guarantors, J.P. Morgan Corporate Trustee Services Limited, as trustee (the "Trustee"), and JPMorgan Chase Bank, as principal paying agent and registrar in a transaction which is not subject to the registration requirements of the Securities Act. See "Notice to Investors". The terms of the Notes include those stated in the Indenture and those deemed to be incorporated in the Indenture by reference to the Trust Indenture Act, as the Indenture will provide that such provisions will be deemed to be incorporated by reference therein on the same basis as if the Trust Indenture Act were applicable thereto. The Notes are subject to all such terms, and prospective Holders of Notes are referred to the Indenture and the Trust Indenture Act for a statement of such terms. A copy of the proposed form of Indenture is available as set forth under "General Listing Information". Definitions of certain capitalized terms used in the Indenture and in the following summary are set forth below under "Description of the Notes — Certain Definitions".

The Notes will be senior unsecured obligations of the Issuer and will rank equally in right of payment with all future unsecured, unsubordinated obligations of the Issuer, if any. The Issuer is a newly formed, special-purpose financing vehicle and has no operating activities other than acting as issuer of the Notes. The Issuer's only material asset will be the Intercompany Loan and the Issuer will be entirely dependent upon payments by HKM on the Intercompany Loan in order to make payments on the Notes.

On the Issue Date, the Issuer will lend the gross proceeds of the offering to HKM pursuant to the Intercompany Loan. The Intercompany Loan will rank equal in right of payment to all existing and future senior unsecured obligations of HKM. The Indenture also limits the rights of the Issuer and HKM to amend or prepay the Intercompany Loan. See " — Certain Covenants — Amendments to or Prepayments of Intercompany Loan". The Intercompany Loan will mature on the maturity date of the Notes.

The Guarantees will be senior unsecured obligations of the Guarantors and will rank senior in right of payment to all subordinated Indebtedness of the Guarantors and will rank equally in right of payment with all existing and future senior Indebtedness and all other liabilities of each Guarantor that are not subordinated by their express terms to the Guarantees, including trade debt. The Guarantees will be effectively subordinated to all existing and future secured Indebtedness of each Guarantor to the extent of the value of the assets securing such Indebtedness.

As of the date hereof, the Company has six active Subsidiaries, all of which constitute Restricted Subsidiaries for the purposes of the Indenture. Under certain circumstances, the Company will be able to designate certain Subsidiaries as Unrestricted Subsidiaries, *provided* that none of the Issuer, HKM, HOP or Valsera may be so designated. Unrestricted Subsidiaries will not be subject to many of the restrictive covenants set forth in the Indenture.

As of the Issue Date, the Company, HKM and HOP (the "Initial Guarantors") will be the only Guarantors. The obligations of the Issuer under the Notes will be jointly and severally guaranteed by the Guarantors. The Indenture provides that, other than Valsera, each of the Company's Subsidiaries that becomes a Material Restricted Subsidiary (and any other Subsidiary that

guarantees any Indebtedness of an Obligor) shall be a Guarantor. In that case, the Issuer will be required to file a supplement to this Offering Memorandum with the Luxembourg Stock Exchange. See "Description of the Notes — Guarantees". The Notes are effectively subordinated in respect of payment to claims of creditors (other than the Company or a Guarantor) of the Company's Subsidiaries other than the Guarantors. Claims of creditors (other than the Company or a Guarantor) of such Subsidiaries, including trade creditors, tort claimants, secured creditors, taxing authorities and creditors holding guarantees, will generally have priority as to the assets of such Subsidiaries over the claims and equity of the Issuer, the Company or any Guarantor, and, thereby indirectly, the holders of the Indebtedness of the Issuer, the Company or such Guarantors, including the Notes and the Guarantees. In addition, the Company and its Restricted Subsidiaries are permitted to make Investments in certain other entities not constituting Subsidiaries engaged or proposed to be engaged in the Oil and Gas Business. Such entities will not generally be governed by the covenants set forth in the Indenture. The operations of the Company are conducted through its Subsidiaries (principally HKM and HOP) and such other entities and, therefore, the Issuer is dependent upon the cash flow from those entities to meet its obligations.

Principal, Maturity and Interest

The Notes will initially have an aggregate principal amount of $125 million and will mature on February 12, 2010. On the maturity date, the Issuer will repay 100% of the outstanding aggregate principal amount of the Notes. Interest on the Notes will accrue at the rate of 9.625% per annum and will be payable semi-annually in arrears on February 12 and August 12, commencing on August 12, 2003, to Holders of record on the immediately preceding January 28 and July 28. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Principal of, premium and interest, if any, on the Notes will be payable at the office or agency of the Issuer maintained for such purpose within the City and State of New York and at the specified office of the paying agent in the United Kingdom and Luxembourg or, at the option of the Issuer, payment of principal, premium or interest, if any, may be made by check mailed to the Holders of the Notes at their respective addresses set forth in the register of Holders of Notes; *provided* that all payments with respect to Global Notes the Holders of whom have given wire transfer instructions to the Issuer and its paying agent prior to the applicable record date for such payment will be required to be made by wire transfer of immediately available funds to the accounts specified by the Holders thereof. Until otherwise designated by the Issuer, the Issuer's office or agency will be the office of the Trustee maintained for such purpose. The Issuer will maintain a paying agent in Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require. Notice of any change in the Registrar or the Paying Agent or their specified offices or the appointment of any further Paying Agent will promptly be given to the Holders of the Notes in accordance with the provisions contained in "Description of the Notes — Notices". The Notes will be issued in denominations of $10,000 and integral multiples of $1,000 in excess thereof.

Guarantees

The obligations of the Issuer under the Notes will be jointly and severally guaranteed by the Guarantors. As of the Closing Date, the Initial Guarantors will be the only Guarantors. The Indenture will require the Company to cause any Person that becomes a Material Restricted Subsidiary of the Company after the Closing Date (other than Valsera) to execute and deliver to the Trustee a supplemental indenture pursuant to which such Subsidiary will become a Guarantor. Each Guarantee will be a continuing guarantee and shall (i) remain in full force and effect until payment in full of all the obligations under the Indenture and the Notes, (ii) be binding upon such Guarantor and (iii) inure to the benefit of and be enforceable by the Holders and their successors, transferees and assigns.

The Indenture contains provisions the intent of which is to provide that the obligations of each Guarantor (and any other Subsidiary of the Company that becomes a Guarantor after the date of

issue of the Notes) under their respective Guarantees will be limited to the maximum amount that will, after giving effect to all other contingent and fixed liabilities of such Guarantor and after giving effect to any collections from, rights to receive contribution from, or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Guarantee or pursuant to its contribution obligations under the Indenture, result in the obligations of such Guarantor under its Guarantee not constituting a fraudulent conveyance or fraudulent transfer or otherwise not being void, voidable or otherwise unenforceable under any bankruptcy, reorganization, receivership, insolvency, liquidation or similar legislation or legal proceedings under any applicable foreign law. Each Guarantor that makes a payment or distribution under a Guarantee shall be entitled to contribution from each other Guarantor so long as the exercise of such right does not impair the rights of the Holders under the Guarantees. See "Risk Factors — Risk Factors Relating to the Notes — The value of the guarantees may be limited by applicable laws".

Payment of Additional Amounts

Except to the extent required by any applicable law, regulation or governmental policy, any and all payments of, or in respect of, any Note shall be made free and clear of and without deduction for or on account of any and all present or future taxes, levies, imposts, deduction, charges or withholdings and all liabilities with respect thereto imposed by the Netherlands, Canada, Kazakhstan or any other jurisdiction with which the Issuer or any Guarantor has some connection (including any jurisdiction (other than the United States) from or through which payments under the Notes or the Guarantees are made) or any political subdivision of or any taxing authority in any such jurisdiction ("Dutch Taxes", "Canadian Taxes", "Kazakhstani Taxes" or "Other Taxes", respectively). The Issuer undertakes that, if the conclusions of the ECOFIN Council meeting of November 26-27, 2000 are implemented, it will ensure that it maintains a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any directive implementing such conclusions. If the Issuer or any Guarantor shall be required by law to withhold or deduct any Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes from or in respect of any sum payable under a Note or pursuant to a Guarantee, the sum payable by the Issuer or such Guarantor, as the case may be, thereunder shall be increased by the amount ("Additional Amounts") necessary so that after making all required withholdings and deductions, the Holder or beneficial owner of a Note shall receive an amount equal to the sum that it would have received had not such withholdings and deductions been made; *provided* that any such sum shall not be paid in respect of any Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes to a Holder (an "Excluded Holder") (i) resulting from the beneficial owner of such Note, at any time, being a resident of, or carrying on business or being deemed to carry on business in or through, or having or being deemed to have, a permanent establishment or fixed base in the relevant taxing jurisdiction or having any other connection with the relevant taxing jurisdiction or any political subdivision thereof or any taxing authority therein other than the mere holding or owning of such Note, being a beneficiary of the applicable Guarantees, the receipt of any income or payments in respect of such Note or the applicable Guarantees or the enforcement of such Note or the applicable Guarantees; (ii) resulting from the Issuer or any Guarantor not dealing at arm's length (within the meaning of the Income Tax Act (Canada)) with such Holder at the time of such payment or at the time the amount of such payment is deemed to have been paid or credited; (iii) that would not have been imposed but for the presentation (where presentation is required) of such Note for payment more than 30 days after the date such payment became due and payable or was duly provided for, whichever occurs later; (iv) that has been imposed by reason of any estate, inheritance, gift, sale, transfer or personal property or similar tax, assessment or other governmental charge; or (v) resulting from any combination of items (i), (ii), (iii) and (iv); *provided further* that any such sum will not be paid in respect of any Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes to any Holder who is not the beneficial owner of such Note (including a fiduciary or partnership) to the extent that the beneficial owner of such Note or fiduciary or member of a partnership would have been an Excluded Holder had it been the Holder of the Note. The Issuer or the Guarantors, as applicable,

will also (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law, and, in any such case, the Issuer will, upon written request of a Holder, furnish to each such Holder on whose behalf an amount was so remitted, within 30 days after the later of the date of receipt of such written request and the date on which the payment of any Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the Company or the Guarantors, as applicable. The Issuer will, upon written request of each Holder (other than an Excluded Holder), reimburse each such Holder for the amount of (i) any Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes so levied or imposed and paid by such Holder as a result of payments made under or with respect to any Notes, and (ii) any Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes so levied or imposed with respect to any reimbursement under the foregoing clause (i) so that the net amount received by such Holder (net of payments made under or with respect to such Notes or the applicable Guarantees) after such reimbursement will not be less than the net amount the Holder would have received if Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes on such reimbursement had not been imposed. Notwithstanding the foregoing, the Issuer and the Guarantors will not be obligated to pay Additional Amounts in the event that (i) Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes are imposed on a payment to an individual and are required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive or (ii) the Notes are presented for payment by or on behalf of a Holder who would have been able to avoid such Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes by presenting the relevant Notes to another Paying Agent in a Member State of the EU.

At least 30 calendar days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Issuer or the Guarantors, as applicable, will be obligated to pay Additional Amounts with respect to such payment, the Issuer or the Guarantors, as applicable, will deliver to the Trustee an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Trustee to pay such Additional Amounts to Holders on the payment date.

If any Holder or beneficial owner of any note receives a credit against or a refund of the Dutch Taxes, Canadian Taxes, Kazakhstani Taxes or Other Taxes after the Issuer or any Guarantor, as applicable, has paid any Additional Amounts, the Issuer or any Guarantor, as applicable, shall be reimbursed for the amount of any such refund or credit by means of offsets against any additional payments owing under the Notes to such Holder or beneficial owner.

At the date of this Offering Memorandum, no Dutch Taxes, Canadian Taxes or Other Taxes are imposed on Holders other than Excluded Holders, and therefore no Additional Amounts would be payable in respect of such taxes, in respect of any sum payable by the Issuer as principal of, or premium or interest on the Notes. In respect of any sum payable by each of HKM and HOP in its capacity as Guarantor, however, Kazakhstani Taxes may be imposed on Holders and therefore Additional Amounts would be payable in respect of such taxes.

In addition, the Issuer or the Guarantors will pay any stamp, issue, registration, documentary or other similar taxes and duties, including interest and penalties thereon, if any, in respect of the creation and issue of the Notes payable in the Netherlands, Canada, the United States, Kazakhstan or any political subdivision thereof or taxing authority of or in the foregoing. The Issuer and the Guarantors, as applicable, will also pay and indemnify the Trustee and the Holders of the Notes from and against all court fees and taxes or other taxes and duties, including interest and penalties, paid by any of them in any jurisdiction in connection with any action permitted to be taken by the Holders to enforce the Obligations of the Issuer or the Guarantors under the Notes, the Indenture or the Guarantees, as applicable.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Note or the net proceeds received on the sale or exchange of any Note, such

mention shall be deemed to include the payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

Optional Tax Redemption

If as a result of any change in or amendment to the laws, treaties, regulations or rulings of the Netherlands, Canada, Kazakhstan or other jurisdictions with which the Issuer or any Guarantor has any connection (other than the United States) or of any political subdivision or taxing authority thereof or therein or any change in the administrative or official position of the applicable taxing authority regarding the application or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change or amendment, as the case may be, is proposed and becomes effective on or after the date of the Indenture, in making any payment due or to become due under the Notes, the Guarantees or the Indenture, the Issuer or any of the Guarantors (if any of the Guarantees are called) is or would be required on the next succeeding interest payment date to pay Additional Amounts notwithstanding reasonable efforts to avoid such requirement, or to deduct or withhold any tax of the Netherlands, Canada, Kazakhstan or other jurisdiction with which the Issuer or any Guarantor has any connection (other than the United States) or any political subdivision or taxing authority thereof or therein, the Notes may be redeemed at the option of the Issuer, in whole but not in part, upon not less than 30 nor more than 60 days' notice given as provided in the Indenture, at any time, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest, if any, to the date fixed for redemption, *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obligated to make such withholding if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption in accordance with the foregoing, the Issuer shall deliver to the Trustee an Officers' Certificate stating that the Issuer is entitled to effect such redemption based on an opinion of counsel or an opinion of a qualified expert, such counsel or qualified expert being independent of the Issuer and the Guarantors and reasonably acceptable to the Trustee, that the Issuer or any Guarantors (if any of the Guarantees are called) has or will become obligated to pay Additional Amounts as a result of such change or amendment. Such notice, once delivered by the Issuer to the Trustee, will be irrevocable.

Mandatory Redemption

Except as set forth below under "Description of the Notes — Repurchase at the Option of Holders", the Company is not required to make any mandatory redemption or purchase payments with respect to the Notes prior to the maturity date.

Repurchase at the Option of Holders

Change of Control

The Indenture will provide that upon the occurrence of a Change of Control, each Holder of Notes will have the right to require the Issuer to repurchase all or any part (equal to $10,000 or an integral multiple of $1,000 in excess thereof) of such Holder's Notes pursuant to the offer described below (the "Change of Control Offer") at an offer price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest, if any, thereon to the date of purchase (the "Change of Control Payment"). Within 30 days following any Change of Control, the Issuer will mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder in connection with the repurchase of the Notes as a result of a Change of Control.

The Change of Control Offer will remain open for a period of at least 20 Business Days following its commencement but no longer than 30 days (the "Offer Period"), except to the extent that a longer period is required by applicable law (the "Change of Control Offer Period"). No later than five Business Days after the termination of the Change of Control Offer Period (the "Change of Control Purchase Date"), the Issuer will purchase all Notes validly tendered and not properly withdrawn pursuant to the Change of Control Offer. Payment for any Notes so purchased will be made in the same manner as interest payments are made on the Notes.

If the Change of Control Purchase Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest, if any, will be paid to the Person in whose name a note is registered at the close of business on such record date, and no additional interest will be payable to Holders who tender Notes pursuant to the Change of Control Offer.

On the Change of Control Purchase Date, the Issuer will, to the extent lawful, (i) accept for payment all Notes or portions thereof validly tendered and not properly withdrawn pursuant to the Change of Control Offer, (ii) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so validly tendered and not properly withdrawn and (iii) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer. Upon receipt of such amount, the Paying Agent will promptly mail to each Holder of Notes so validly tendered and not properly withdrawn the Change of Control Payment for such Notes and upon receipt of a written order signed by one Officer, the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any, *provided* that each such new Note will be in a principal amount of $10,000 or an integral multiple of $1,000 in excess thereof. The Issuer will publicly announce the results of the Change of Control Offer on the Change of Control Purchase Date.

To the extent payments are made to the Holders by any Guarantor in respect of any Change of Control Offer, the amount of the Intercompany Loan shall be correspondingly reduced and deemed repaid by HKM to the Issuer to the extent of such reduction.

The Issuer's ability to repurchase Notes pursuant to a Change of Control Offer may be limited by a number of factors. Any future credit agreements or other agreements relating to Senior Debt to which the Company or its Subsidiaries (including the Issuer) become party may contain restrictions and provisions which prohibit the Issuer or its Subsidiaries (including the Issuer) from purchasing any Notes prior to their Maturity, including pursuant to a Change of Control Offer. In the event that a Change of Control Offer occurs at a time when the Issuer does not have sufficient available funds to (i) pay the Change of Control Purchase Price for all Notes validly tendered pursuant to such offer, or (ii) at a time when the Issuer is prohibited from purchasing the Notes (and the Issuer is unable either to obtain the consent of the holders of the relevant Indebtedness or to repay such Indebtedness), an Event of Default would occur under the Indenture. The failure by the Issuer to purchase tendered Notes would constitute a breach of the Indenture which could, in turn, constitute a default under other Indebtedness and could lead to the acceleration of such other Indebtedness. In any such event, any security granted in respect of any such Indebtedness could result in the Holders of the Notes receiving less ratably than other creditors of the Issuer, the Company or the other Guarantors.

Except as described herein with respect to a Change of Control, the Indenture does not contain any other provisions that permit Holders of Notes to require that the Issuer or any Guarantor repurchase or redeem Notes in the event of a takeover, recapitalization or similar restructuring. The foregoing provisions may not necessarily afford the Holders of the Notes protection in the event of a highly leveraged transaction, including a reorganization, restructuring, merger or other similar transaction involving the Company or another Guarantor, that may adversely affect the Holders because such transactions may not involve a shift in voting power or beneficial ownership or, even if they do, may not involve a shift of the magnitude required under the

definition of Change of Control to require the Issuer to make a Change of Control Offer. In addition, the existence of the Holder's right to require the Issuer to repurchase such Holder's Notes upon the occurrence of a Change of Control may or may not deter a third party from seeking to acquire shares of the Company in a transaction that would constitute a Change of Control.

"*Change of Control*" means (i) such time as a "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act) has become, directly or indirectly, the "beneficial owner", by way of merger, consolidation or otherwise, of 50% or more of the voting power of the voting stock of the Company; (ii) the sale, conveyance, lease or transfer of all or substantially all of the assets of the Company and its Restricted Subsidiaries taken as a whole to any person or group (as defined above); (iii) during any period of two consecutive calendar years, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with any new directors whose election by the Board of Directors of the Company or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of the Company then in office, (iv) the adoption of a plan relating to the liquidation or dissolution of the Company or (v) the Company consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of such Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance).

One of the events that constitutes a Change of Control under the Indenture is a sale, conveyance, lease or transfer of all or substantially all of the assets of the Company and its Restricted Subsidiaries taken as a whole. The Indenture will be governed by New York law, and there is no established quantitative definition under New York law of "substantially all" of the assets of a corporation. Accordingly, if the Company and/or its Restricted Subsidiaries were to engage in a transaction in which it or they disposed of less than all of the assets of the Company and its Restricted Subsidiaries taken as a whole, a question of interpretation could arise as to whether such disposition was of "substantially all" of its or their assets, as the case may be, and whether the Company was required to make a Change of Control Offer.

Asset Sales

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, engage in an Asset Sale unless (i) the Company (or the Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests sold or otherwise disposed of and, in the case of a lease of assets, a lease providing for rent and other conditions which are no less favorable to the Company (or the Restricted Subsidiary, as the case may be) in any material respect than the then prevailing market conditions (as determined in good faith by the Board of Directors which determination shall be conclusive evidence of compliance with this provision and shall be set forth in a Board Resolution) and (ii) at least 75% (100% in the case of lease payments) of the consideration therefor received by the Company or such Restricted Subsidiary is in the form of cash or Cash Equivalents or Replacement Assets. For purposes of this covenant (and not for purposes of any other provision of the Indenture), the term "cash" shall be deemed to include (x) any Notes or marketable securities received by the Company or any such Restricted Subsidiary that are converted into cash or Cash Equivalents promptly but in no event more than 180 days after the date of the Asset Sale, and (y) any Indebtedness and any other liabilities not constituting trade or service accounts payable of the Company or such Restricted Subsidiary (as

shown on the most recent balance sheet of the Company or such Restricted Subsidiary) that are assumed by the transferee of the assets which are the subject of such Asset Sale as consideration therefor in a transaction the result of which is that the Company and all of its Subsidiaries are released from all liability for such assumed liabilities, and which liabilities immediately prior to such assumption (A) were not by their terms subordinated in right of payment to the Notes, and (B) were not owed to the Company or any Affiliate of the Company.

Within 360 days after the receipt of any Net Proceeds from an Asset Sale, the Company (or the Restricted Subsidiary, as applicable) may apply, or enter into binding contracts (subject only to obtaining required governmental approvals) irrevocably committing the Company or such Restricted Subsidiary to apply, within 390 days after the receipt of such Net Proceeds, such Net Proceeds to (a) an Investment in another business (*provided* that such Investment constitutes a Permitted Investment or a permitted Restricted Payment), (b) an acquisition of Equity Interests in a Person engaged in the Oil and Gas Business that, upon consummation of such acquisition, becomes a Restricted Subsidiary, or an acquisition of outstanding Equity Interests of a Restricted Subsidiary from a Person other than such Restricted Subsidiary, the Company or an Affiliate of the Company, (c) the making of a capital expenditure or the acquisition of Replacement Assets, or (d) a permanent reduction of any senior Indebtedness of the Company or a permanent reduction of any senior Indebtedness of such Restricted Subsidiary (with a permanent reduction of availability in the case of revolving credit borrowings). Pending the final application of any such Net Proceeds from an Asset Sale, the Company (or the Restricted Subsidiary, as applicable) may temporarily reduce its borrowings or otherwise invest such Net Proceeds in any manner that is not prohibited by the Indenture. Any Net Proceeds from Asset Sales that are not applied or invested or committed to be applied or invested, as provided in the first sentence of this paragraph, will be deemed to constitute "Excess Proceeds". On the earliest of (i) the 370th day (or the 400th day, if a binding contract has been entered into within such 360-day period) after such receipt of Net Proceeds from an Asset Sale, (ii) the tenth Business Day after a governmental authority declines to grant or issue any required approval in relation to a binding contract or (iii) such date as the Board of Directors of the Company or the Restricted Subsidiary determines not to apply the Net Proceeds relating to such Asset Sale in the manner set forth above, if the aggregate amount of Excess Proceeds exceeds $10.0 million, the Issuer and the Company will be required to make a pro rata offer (an "Asset Sale Offer") to all Holders of Notes and holders of Senior Debt, if and to the extent that the Company is required by the instruments governing such Senior Debt to make such an offer, to purchase the maximum principal amount of Notes and such Senior Debt that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, thereon to the date of purchase, in accordance with the procedures set forth in the Indenture and, in the case of such other Senior Debt, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of purchase, in accordance with the procedures set forth in the Indenture. To the extent that the aggregate amount of Notes or such other Senior Debt so validly tendered and not properly withdrawn pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Company may use any remaining Excess Proceeds for general corporate purposes. If the aggregate principal amount of Notes tendered by Holders thereof exceeds the amount of Excess Proceeds allocated to the Notes, the Trustee shall select the Notes to be purchased on a pro rata basis. Upon completion of such Asset Sale Offer, the amount of Excess Proceeds shall be reset at zero.

The Asset Sale Offer will remain open for a period of at least 20 Business Days following its commencement but no longer than 30 days, except to the extent that a longer period is required by applicable law (the "Asset Sale Offer Period"). No later than five Business Days after the termination of the Asset Sale Offer Period (the "Asset Sale Purchase Date"), the Issuer or the Company will purchase the principal amount of Notes required to be purchased pursuant to this covenant (the "Asset Sale Offer Amount") or, if less than the Asset Sale Offer Amount has been validly tendered and not properly withdrawn, all Notes validly tendered and not properly withdrawn in response to the Asset Sale Offer. Payment for any Notes so purchased will be made in the same manner as interest payments are made on the Notes.

If the Asset Sale Purchase Date is on or after an interest record date and on or before the related interest payment date, accrued and unpaid interest, if any, will be paid to the Person in whose name a note is registered at the close of business on such record date, and no additional interest will be payable to Holders who tender Notes pursuant to the Asset Sale Offer.

On or before the Asset Sale Purchase Date, the Issuer will, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Asset Sale Offer Amount of Notes or portions thereof so validly tendered and not properly withdrawn pursuant to the Asset Sale Offer, or if less than the Asset Sale Offer Amount has been validly tendered and not properly withdrawn, all Notes validly tendered and not properly withdrawn, and will deliver to the Trustee an Officers' Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this covenant. The Issuer, the Depositary or the Paying Agent, as the case may be, will promptly (but in any case not later than five days after the Asset Sale Purchase Date) mail or deliver to each tendering Holder an amount equal to the purchase price of the Notes validly tendered and not properly withdrawn by such Holder and accepted by the Issuer for purchase, and the Issuer will promptly issue a new Note, and the Trustee, upon delivery of an Officers' Certificate from the Issuer will authenticate and mail or deliver such new Note to such Holder, in a principal amount equal to any unpurchased portion of any Notes validly tendered and not properly withdrawn. Any Note not so accepted will be promptly mailed or delivered by the Issuer to the Holder thereof. The Issuer will publicly announce the results of the Asset Sale Offer on the Asset Sale Purchase Date.

To the extent payments are made to the Holders by any Guarantor in respect of any Asset Sale Offer, the amount of the Intercompany Loan shall be correspondingly reduced and deemed repaid by HKM to the Issuer to the extent of such reduction.

In the event of the transfer of substantially all (but not all) of the property and assets of the Company or a Guarantor to a Person in a transaction permitted by the covenant described under "— Merger, Consolidation or Sale of Assets" (and in compliance with the provisions of the Indenture described under "Repurchase at the Option of Holders — Change of Control"), the acquiring Person shall be deemed to have sold the properties and assets of the Company or such Guarantor not so transferred for purposes of this covenant, and will comply with the provisions of the Indenture described under "— Asset Sales" with respect to such deemed sale as if it were an Asset Sale.

The Issuer will comply, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder in connection with the repurchase of the Notes pursuant to any Asset Sale Offer.

Certain Covenants

Restricted Payments

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly: (i) declare or pay any dividend or make any distribution on account of the Company's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Company) (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company or dividends or distributions payable to the Company or any Restricted Subsidiary of the Company); (ii) purchase, redeem or otherwise acquire or retire for value any Equity Interests of the Company or any Restricted Subsidiary of the Company; (iii) prepay (whether prior to its maturity date, scheduled amortization date or otherwise), purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated to the Notes or the Guarantees, as applicable; or (iv) make any Restricted Investment (all such payments and other actions set forth in clauses (i) through (iv) above being collectively referred to as "Restricted Payments"), unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof;

(b) the Company would, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio Test set forth in the first paragraph of the covenant described under "Description of the Notes — Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock"; and

(c) such Restricted Payment, together with the aggregate of all other Restricted Payments made by the Company and its Restricted Subsidiaries after the date of the Indenture, does not exceed the sum of, without duplication, (i) 50% of the Consolidated Net Income of the Company for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the date of the Indenture to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit or loss, less 100% of such deficit or loss), plus (ii) to the extent not included in the amount described in clause (i) above, 100% of the aggregate net cash proceeds received after the date of the Indenture by the Company from the issue or sale of, or from additional capital contributions in respect of, Equity Interests of the Company or of debt securities of the Company that have been converted into or exchanged for Equity Interests of the Company (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of the Company, and other than Disqualified Stock), plus (iii) to the extent that any Restricted Investment that was made after the date of the Indenture is sold by the Company or any of its Restricted Subsidiaries to an unaffiliated purchaser for cash or otherwise liquidated or repaid for cash, to the extent such amount is not included in the Consolidated Net Income of the Company, the lesser of (A) the net proceeds of such sale or other liquidation or repayment (after deduction of items deducted in determining the Net Proceeds of an Asset Sale), and (B) the amount of the Restricted Investment, which amount was included in the calculation of the amount of Restricted Payments, plus (iv) to the extent such amount is not included in the Consolidated Net Income of the Company, the amount equal to the net reduction in Restricted Investments made subsequent to the date of the Indenture in Unrestricted Subsidiaries resulting from (A) payments of dividends or interest or other transfers of assets to the Company or any Restricted Subsidiary from Unrestricted Subsidiaries, (B) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries or (C) the receipt of proceeds by the Company or any Restricted Subsidiary from the sale or other disposition of any portion of any Investment in an Unrestricted Subsidiary, in each case not to exceed the lesser of (1) the amount of Restricted Investments previously made by the Company or any Restricted Subsidiary in such Unrestricted Subsidiary, which amount was included in the calculation of the amount of Restricted Payments, and (2) the Fair Market Value of the assets subject to such transfer, redesignation or sale.

The foregoing provisions will not prohibit the following Restricted Payments: (i) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the Indenture; (ii) the making of any Restricted Investment in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Company) of, or from substantially concurrent additional capital contributions in respect of, Equity Interests of the Company; (iii) the redemption, repurchase, retirement or other acquisition of any Equity Interests of the Company in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Company) of, or from substantially concurrent additional capital contributions (other than from a subsidiary of the Company) in respect of, other Equity Interests of the Company (other than any Disqualified Stock); (iv) the defeasance, redemption or repurchase of subordinated Indebtedness with the net cash proceeds from (X) an incurrence of Permitted Refinancing Indebtedness or (Y) the substantially concurrent sale (other than to a Subsidiary of the Company) of, or from substantially concurrent additional capital contributions (other than from a Subsidiary of the

Company) in respect of, Equity Interests of the Company (other than Disqualified Stock); (v) any dividend, distribution or other payment by any Restricted Subsidiary on shares of its Equity Interests that is paid pro rata to all holders of such Equity Interests; (vi) dividends required to be paid by the terms of the charters of HKM and HOP, respectively, for (X) HKM (as in effect on the Issue Date) on 292,483 shares of preferred stock, par value of 20 Tenge per share, of HKM issued and outstanding on the Issue Date and (Y) HOP (as in effect on the Issue Date) on 394,500 shares of preferred stock, par value of 1 Tenge per share, of HOP issued and outstanding on the Issue Date; (vii) to the extent of Excess Proceeds remaining after the Company's compliance with the covenant described in "Description of the Notes — Repurchase at the Option of Holders — Asset Sales" and to the extent required by the indenture or other agreement or instrument pursuant to which any Indebtedness subordinated to the Notes was issued, a repurchase of such subordinated Indebtedness pursuant to such an offer to purchase relating to such a disposition of assets; (viii) upon a Change of Control to the extent required by the indenture or other agreement or instrument pursuant to which Indebtedness subordinated to the Notes was issued, a repurchase of such subordinated Indebtedness pursuant to an offer to purchase, *provided* that the Issuer and the Company are then in compliance with the covenant described in "Description of the Notes — Repurchase at the Option of Holders — Change of Control" and all amounts owing in respect of the Notes pursuant to such covenant have been paid in full; and (ix) any Restricted Payments in an aggregate amount not to exceed $75.0 million, so long as at the time of and in connection with any such Restricted Payment the Company would have been able to satisfy the requirement of clause (b) of the first paragraph of this covenant; *provided* that in the case of any transaction described in clauses (i) through (ix) no Default or Event of Default will have occurred and be continuing immediately after such transaction. In determining the aggregate amount of Restricted Payments made after the date of the Indenture, 100% of the amounts expended pursuant to the foregoing clauses (i) (unless already deducted in determining the amount of Restricted Payments previously paid upon a declaration of such dividend), (ii), (iii), (iv)(Y), (v) (to the extent that such dividends, distributions or other payments are not paid out of the Net Income of the applicable Restricted Subsidiary for the year in which such dividend, distribution, or payment occurs) and (vi) shall be included in such calculation and none of the amounts expended pursuant to the foregoing clauses (iv)(X), (vii) and (ix) shall be included in such calculation.

As of the Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries. The Board of Directors of the Company may designate any present or future Subsidiary (other than the Issuer, HKM, HOP and Valsera) to become an Unrestricted Subsidiary if such designation would not cause a Default. For purposes of making such determination, all outstanding Investments by the Company and its Restricted Subsidiaries (except to the extent repaid in cash) in the Subsidiary so designated will be deemed to be Restricted Payments at the time of such designation and will reduce the amount available for Restricted Payments under the first paragraph of this covenant. Such designation will only be permitted if such Restricted Payment would be permitted at such time and such Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

The amount of all Restricted Payments (other than cash) will be the greater of (i) book value or (ii) Fair Market Value on the date of the Restricted Payment of the asset(s) proposed to be transferred by the Company or the applicable Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. Not later than the date of making any Restricted Payment, the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this covenant were computed, which calculations may be based upon the Company's latest available internal financial statements.

Incurrence of Indebtedness and Issuance of Preferred Stock

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Indebtedness) and that the Company will not issue any

Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock, *provided* that the Company may incur Indebtedness (including Acquired Indebtedness) or issue shares of Disqualified Stock, and a Guarantor may incur Indebtedness (including Acquired Indebtedness) or issue shares of preferred stock that is not Disqualified Stock, if: (i) the Fixed Charge Coverage Ratio for the Company's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued would have been at least 2.5 to 1.0, determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness had been incurred, or the Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period; and (ii) no Default or Event of Default will have occurred and be continuing or would occur as a consequence thereof.

The foregoing provisions will not apply to:

(a) Existing Indebtedness;

(b) the incurrence by the Issuer, the Company and the Guarantors of Indebtedness represented by the Notes, the Guarantees, the Indenture and the Intercompany Loan;

(c) the incurrence by the Company or its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, Purchase Money Obligations or similar financing transactions relating to its properties, assets and rights acquired after the date of issue of the Notes; *provided* that the aggregate principal amount of such Indebtedness under this clause does not exceed 100% of the cost of such properties, assets and rights; *provided further* that the aggregate amount of Indebtedness incurred pursuant to this clause (c) does not at any time exceed $10.0 million;

(d) the incurrence by the Company or any Restricted Subsidiary of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund Indebtedness incurred under the first paragraph of this section;

(e) the incurrence by the Company or any Restricted Subsidiaries of intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries or between or among any Restricted Subsidiaries; *provided* that (A) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than a Restricted Subsidiary and (B) any sale or other transfer of any such Indebtedness to a Person that is not either the Company or a Restricted Subsidiary will be deemed, in each case, to constitute a new incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be; *provided further* that any Indebtedness of the Company or any Guarantor to a non-Guarantor Restricted Subsidiary shall be junior and subordinated to the Notes and the Guarantees, as applicable;

(f) (A) the incurrence, assumption or creation of Hedging Obligations of the Company or a Restricted Subsidiary pursuant to interest rate protection obligations, but only to the extent that the stated aggregate notional amounts of such obligations do not exceed 100% of the aggregate principal amount of the Indebtedness covered by such interest rate protection obligations; (B) the incurrence, assumption or creation of Hedging Obligations under currency exchange contracts entered into in the ordinary course of business for the purpose of limiting risks that arise in the ordinary course of business of the Company and its Restricted Subsidiaries not for the purpose of speculation; and (C) the incurrence, assumption or creation of hedging arrangements that the Company or a Restricted Subsidiary enters into in the ordinary course of business in the oil and gas industry for the purpose of protecting its production against fluctuations in oil or natural gas prices;

(g) the incurrence by the Company and its Restricted Subsidiaries of Indebtedness in connection with one or more standby letters of credit, guarantees, bid, surety and performance bonds or other reimbursement obligations, in each case, issued in the conduct of the Oil and Gas

Business and not in connection with the borrowing of money or the obtaining of advances or credit, not to exceed in the aggregate at any time outstanding 12.5% of the consolidated total assets of the Company;

(h) the incurrence by the Company and its Restricted Subsidiaries of Indebtedness in connection with one or more trade letters of credit or banker's acceptances in each case, issued in the conduct of the Oil and Gas Business and not in connection with the borrowing of money or the obtaining of advances or credit;

(i) the incurrence by the Company and its Restricted Subsidiaries of Indebtedness in respect of a guarantee or the coissuance of any Indebtedness otherwise permitted to be incurred under the Indenture;

(j) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness arising from agreements of the Issuer or such Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations in each case incurred in connection with the disposition of any business assets or Restricted Subsidiaries of the Company in a principal amount not to exceed the gross proceeds actually received by the Company or such Restricted Subsidiary in connection with such disposition; and

(k) the incurrence by the Company and its Restricted Subsidiaries of Indebtedness in an aggregate principal amount at any one time outstanding of up to $10.0 million (all or any portion of which may be borrowed under a Term Facility), which shall be in addition to amounts which may be incurred pursuant to clauses (a) through (j) above.

Notwithstanding any other provision of this covenant, a guarantee of Indebtedness permitted by the terms of the Indenture at the time such Indebtedness was incurred will not constitute a separate incurrence of Indebtedness; *provided* that if the Company or a Restricted Subsidiary guarantees Indebtedness of another Restricted Subsidiary and such Restricted Subsidiary is thereafter no longer a Restricted Subsidiary, such a guarantee will, at the time such Restricted Subsidiary ceases to be a Restricted Subsidiary, constitute an incurrence of Indebtedness by the Company or a Restricted Subsidiary.

In the event that Indebtedness falls within more than one category of permitted Indebtedness under the Indenture, the Company will determine (or later reclassify in whole or in part) the applicable category and such Indebtedness will only be counted in one category. If Indebtedness is issued at less than the principal amount thereof, the amount of such Indebtedness for purposes of the above limitations shall equal the amount of the liability as determined in accordance with GAAP, and all Indebtedness thereunder shall be deemed to have been incurred only on the date of the original issuance thereof.

The Indenture will provide that the Company will not permit any Unrestricted Subsidiary to incur any Indebtedness other than Non-Recourse Debt, *provided* that, if any such Indebtedness ceases to be Non-Recourse Debt, such event shall be deemed to constitute an incurrence of Indebtedness by the Company or a Restricted Subsidiary.

Sale and Leaseback Transactions

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction, *provided* that the Company may enter into a sale and leaseback transaction if (i) the Company could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such sale and leaseback transaction pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant "— Incurrence of Indebtedness and Issuance of Preferred Stock" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant "Description of the Notes — Certain Covenants — Liens", (ii) the net cash proceeds of such sale and leaseback

transaction are at least equal to the Fair Market Value of the property that is the subject of such sale and leaseback transaction and (iii) the transfer of assets in such sale and leaseback transaction is permitted by, and the proceeds of such transaction are applied in compliance with, the covenant under "Description of the Notes — Repurchase at the Option of Holders — Asset Sales".

Liens

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien on any asset now owned or hereafter acquired, or any income or profits therefrom or assign or convey any right to receive income therefrom (except for Permitted Liens), unless the Notes are secured on an equal and ratable basis with such senior Indebtedness until such time as such senior Indebtedness is no longer outstanding or is no longer so secured.

Limitation on Issuance of Guarantees by Restricted Subsidiaries

The Indenture provides that the Company may not permit any Restricted Subsidiary, directly or indirectly, to guarantee any Indebtedness of the Company or any other Obligor (other than the Notes) ("Guaranteed Indebtedness") unless (i) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for a Guarantee of payment of the Notes by such Restricted Subsidiary and (ii) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Guarantee. If the Guaranteed Indebtedness is *pari passu* with the Notes, then the guarantee of such Guaranteed Indebtedness shall be *pari passu* with or subordinated to the Guarantee; and if the Guaranteed Indebtedness is subordinated to the Notes, then the guarantee of such Guaranteed Indebtedness shall be subordinated to the Guarantee at least to the extent that all Guaranteed Indebtedness is subordinated to the Notes.

Notwithstanding the foregoing, any Guarantee by a Restricted Subsidiary that was incurred pursuant to the terms of the preceding paragraph (but not otherwise) shall provide by its terms that it shall be automatically and unconditionally released and discharged upon the release or discharge of the guarantee which resulted in the creation of such Restricted Subsidiary's Guarantee, except a discharge or release by, or as a result of, payment under such guarantee.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to (i)(A) pay dividends or make any other distributions to the Company or any of its Restricted Subsidiaries (1) on its Capital Stock or (2) with respect to any other interest or participation in, or measured by, its profits, or (B) pay any indebtedness owed to the Company or any of its Restricted Subsidiaries, (ii) make loans or advances to the Company or any of its Restricted Subsidiaries or (iii) transfer any of its properties or assets to the Company or any of its Restricted Subsidiaries, except for such encumbrances or restrictions existing under or by reason of (a) Existing Indebtedness as in effect on the date of the Indenture, (b) any Term Facility, *provided* that such encumbrances or restrictions are no more restrictive taken as a whole with respect to such dividend and other payment restrictions than those contained in the Indenture, (c) the Indenture and the Notes, (d) any instrument governing Acquired Indebtedness or Capital Stock of a Person acquired directly or indirectly by the Company or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Acquired Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the

property or assets of the Person, so acquired, *provided* that the Consolidated Cashflow of such Person is not taken into account in determining whether such acquisition was permitted by the terms of the Indenture, (e) purchase money obligations for property acquired in the ordinary course of business that impose restrictions of the nature described in clause (iii) above on the property so acquired, (f) by reason of customary non-assignment provisions in leases and licenses entered into in the ordinary course of business, (g) agreements relating to the financing of the acquisition of real or tangible personal property acquired after the date of the Indenture, *provided* that such encumbrance or restriction relates only to the property which is acquired and, in the case of any encumbrance or restriction that constitutes a Lien, such Lien constitutes a Purchase Money Lien, (h) applicable law, (i) any contracts for the sale of assets, including, without limitation, any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary, pending the closing of such sale or dispositions, *provided* that any such restriction relates solely to the assets that are the subject of such agreement, (j) restrictions on cash or other deposits or net worth imposed by leases or customer contracts entered into in the ordinary course of business, (k) Liens permitted to be incurred pursuant to the provisions of the covenant described under the caption "Description of the Notes — Certain Covenants — Liens", *provided* that any such restriction relates solely to the assets that are the subject of such Liens, (l) any agreement relating to a Sale and Leaseback Transaction, but only on the property subject to such Sale and Leaseback Transaction and only to the extent that such restrictions or encumbrances are customary with respect to such arrangements, or (m) any amendment, modifications, restatements, renewals, supplements, refunds, replacements or refinancings of contracts, instruments or obligations referred to in clauses (a) through (l) (except for clause (i)); *provided* that the provisions relating to such encumbrance or restriction contained in any such contract, instrument, agreement or obligation as amended, modified, restated, renewed, supplemented, refunded, replaced or refinanced are, taken as a whole, no less favorable to the Company in any material respect as determined by the Board of Directors of the Company in their reasonable and good faith judgement than the provisions relating to such encumbrance or restriction contained in such contract, instrument, agreement or obligation immediately prior to such amendment, modification, restatement, renewal, supplement, refunding, replacement or refinancing.

Limitation on the Sale or Issuance of Equity Interests of Restricted Subsidiaries

The Company shall not sell or otherwise dispose of any Equity Interests of a Restricted Subsidiary, and shall not permit any such Restricted Subsidiary, directly or indirectly, to issue or sell or otherwise dispose of any of its Equity Interests except (i) to the Company or a Restricted Subsidiary, (ii) if, immediately after giving effect to such issuance, sale or other disposition, neither the Company nor any of its Subsidiaries own any Capital Stock of such Restricted Subsidiary, (iii) directors' qualifying shares, (iv) other than with respect to Equity Interests of the Issuer, HKM, HOP or Valsera, if, immediately after giving effect to such issuance, sale or other disposition, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any Investment in such person remaining after giving effect thereto would have been permitted to be made under the covenant described under "Description of the Notes — Certain Covenants — Restricted Payments" if made on the date of such issuance, sale or other disposition, (v) for such issuance, sale or disposition which was entered into for the purpose of acquiring assets or making investments in the Oil and Gas Business, and if, immediately after giving effect to such issuance, sale or disposition, the Company and its Restricted Subsidiaries continue to collectively own at least 75% of the Equity Interests of the Restricted Subsidiaries owned immediately prior to such issuance, sale or disposition and the Board of Directors of the Company shall have determined, prior to such issuance, sale or disposition, that such issuance, sale or disposition will not have a material adverse effect on the ability of the Issuer, the Company or the Guarantors to perform their obligations under the Notes, the Guarantees, the Intercompany Loan or the Indenture, or (vi) preferred stock of HKM or HOP issued and sold pursuant to statutory pre-emptive rights provisions of applicable law; *provided* that any issuance of preferred stock by HKM or HOP pursuant to this clause (vi) shall not reduce Hurricane's proportionate economic or voting interest

in HKM or HOP respectively, from that existing on the Issue Date. The Indenture will provide that the proceeds of any issuance, sale or disposition permitted under clauses (ii), (iv), (v) and (vi) of the preceding sentence must be applied in accordance with the covenant described under "— Asset Sales".

Transactions with Affiliates

The Indenture will provide that the Company will not, and will not permit any of its Restricted Subsidiaries to, sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each of the foregoing, an "Affiliate Transaction"), unless (i) such Affiliate Transaction is in the ordinary course of business, (ii) the terms of such Affiliate Transaction are fair and reasonable to the Company or such Restricted Subsidiary, as the case may be, and are at least as favorable as the terms which could be obtained by the Company or such Restricted Subsidiary, as the case may be, in a comparable transaction made on an arm's-length basis between unaffiliated parties and (iii) the Company delivers to the Trustee (a) with respect to any Affiliate Transaction entered into after the date of the Indenture involving aggregate consideration in excess of $2.5 million, a resolution of the Board of Directors set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with clauses (i) and (ii) above and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors and (b) with respect to any Affiliate Transaction involving aggregate consideration in excess of $10.0 million, an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an investment banking firm or other appraisal firm of national standing (in the United States, Canada or a member state of the European Union as of the date of the Indenture) or a branch of such institution in Kazakhstan, *provided* that the following will not be deemed to be Affiliate Transactions: (u) reasonable fees and compensation paid to, and indemnity provided on behalf of, officers and directors of the Company or any Restricted Subsidiary as determined in good faith by the appropriate Board of Directors or senior management; (v) transactions with customers, clients, suppliers, joint venture partners or purchaser or sellers of goods or services, in each case in the ordinary course of business (including, without limitation, pursuant to joint venture agreements) and otherwise in compliance with the terms of the Indenture and which comply with the terms of clause (ii) above; (w) any employment agreement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of the Company or such Restricted Subsidiary (including, without limitation, any such employment agreements entered into prior to the date of the Indenture); (x) transactions between or among the Company and/or its Restricted Subsidiaries; and (y) transactions with joint ventures engaged in the Oil and Gas Business, *provided* that all equity interests which are not owned by the Company or its Restricted Subsidiaries in such joint venture are owned by a Person which is not an Affiliate of the Company otherwise than by reason of such Person's ownership of equity interests in such joint venture.

Limitation as to Unrestricted Subsidiaries

The Indenture will provide that the Company may designate a Subsidiary (including a newly formed or newly acquired Subsidiary) of the Company or any of its Subsidiaries (other than the Issuer, HKM, HOP and Valsera) as an Unrestricted Subsidiary; *provided* that (i) immediately after giving effect to the transaction, the Company could incur $1.00 of additional Indebtedness pursuant to the first paragraph of "Description of the Notes — Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock" and (ii) such designation is at the time permitted under "Description of the Notes — Certain Covenants — Restricted Payments". Notwithstanding any provisions of this covenant all Subsidiaries of an Unrestricted Subsidiary will be Unrestricted Subsidiaries.

The Indenture will provide that the Company will not permit any Unrestricted Subsidiary to create, assume, incur, guarantee or otherwise become liable in respect of any Indebtedness except Non-Recourse Debt. The Company and its Restricted Subsidiaries will not designate, create

or purchase any Unrestricted Subsidiary, unless the Board of Directors of the Company shall have made a determination (as set forth in the resolution approving such designation, creation or purchase) that the designation, creation and operation of the Unrestricted Subsidiary is not reasonably expected to materially and adversely affect the financial condition, business, or operations of the Company and its Restricted Subsidiaries taken together as a whole (which resolution shall be conclusive evidence of compliance with this provision).

Subject to the preceding paragraphs, an Unrestricted Subsidiary may be designated as a Restricted Subsidiary. The designation of a Subsidiary as an Unrestricted Subsidiary or the designation of an Unrestricted Subsidiary as a Restricted Subsidiary in compliance with the preceding paragraphs shall be made by the Board of Directors pursuant to a Board Resolution delivered to the Trustee and shall be effective as of the date specified in such Board Resolution, which shall not be prior to the date such Board Resolution is delivered to the Trustee. Any Unrestricted Subsidiary shall become a Restricted Subsidiary if it incurs any Indebtedness other than Non-Recourse Indebtedness. If at any time Indebtedness of an Unrestricted Subsidiary which was Non-Recourse Indebtedness no longer so qualifies, such Indebtedness shall be deemed to have been incurred when such Non-Recourse Indebtedness becomes Indebtedness.

Line of Business

The Company will not, and will not permit any Restricted Subsidiary to, engage in any line of business other than the Oil and Gas Business and any other line of business in which the Company or any of its Restricted Subsidiaries is engaged on the Issue Date, except that the Issuer may engage in certain specified activities relating to the Notes, as described in "—Limitations on Activities of Issuer and Valsera", and, with respect to Restricted Subsidiaries other than the Issuer, except to such extent as would not be material to the Company and its Subsidiaries taken as a whole.

Reports

The Indenture will provide that, whether or not required by the rules and regulations of the Commission, so long as any Notes are outstanding, the Company will furnish to the Holders of Notes, within 15 days after it is or would have been required to file such with the Commission, (i) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 20-F (or 40-F) and 10-Q if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, reports thereon by the certified independent accountants of the Company and (ii) all reports on Form 6-K (or any successor form) that would be required to be filed with the Commission if the Company were required to file such reports. In addition, whether or not required by the rules and regulations of the Commission, the Company will file copies of all such information and reports with the Commission for public availability (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, the Company has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish to the Trustee and the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. The Company has also agreed that for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require, the information referred to above shall also be made available in Luxembourg through the offices of the Paying Agent in Luxembourg.

Merger, Consolidation or Sale of Assets

The Indenture will provide that the Company shall not, in a single transaction or series of related transactions, consolidate, amalgamate or merge with or into (whether or not the Company is the surviving corporation), continue in any new jurisdiction or directly and/or indirectly through any

Restricted Subsidiary sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets determined on a consolidated basis for the Company and its Restricted Subsidiaries taken as a whole in one or more related transactions to another Person unless (a) the Company is the surviving corporation or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made is a corporation organized or existing under the laws of Canada, one of the provinces thereof, one of the states of the United States or the District of Columbia; (b) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made assumes all the obligations of the Company under the Notes and the Indenture pursuant to a supplemental indenture in a form reasonably satisfactory to the Trustee; (c) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis no Default or Event of Default exists; (d) the Company or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made (A) will have Consolidated Net Worth immediately after giving effect to the transaction or series of transactions on a *pro forma* basis equal to or greater than the greater of (x) the Consolidated Net Worth of the Company as of the Issue Date and (y) 80% of the Consolidated Net Worth of the Company immediately preceding the transaction and (B) will, at the time of such transaction and after giving *pro forma* effect thereto as if such transaction had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "Description of the Notes — Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock"; and (e) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel addressed to the Trustee with respect to the foregoing matters; *provided* that the provision of clause (d)(B) shall not apply to any merger or consolidation of a Restricted Subsidiary into or with, or any sale, assignment, transfer, lease conveyance or transfer or all or substantially all of the assets of the Company and its Restricted Subsidiaries taken as a whole into, the Company, or to any merger or consolidation of the Company into a Restricted Subsidiary solely for the purpose of changing the jurisdiction of incorporation of the Company.

The Indenture will provide that no Guarantor may consolidate, amalgamate or merge with or into (whether or not such Guarantor is the surviving Person), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions, to another Person unless (a) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than such Guarantor) or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the obligations of such Guarantor under its Guarantee, in form satisfactory to the Trustee; (b) immediately after such transaction, and after giving *pro forma* effect thereto, no Default or Event of Default exists; (c) the Company would, at the time of such transaction and after giving *pro forma* effect thereto as if such transaction had occurred at the beginning of the applicable fiscal quarter, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described under the caption "Description of the Notes — Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock"; (d) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer complies with the Indenture; and (e) if such Guarantor is the surviving entity, such Guarantor shall have delivered a written instrument in form satisfactory to the Trustee confirming its Guarantee after giving effect to such consolidation, merger or transfer. Notwithstanding the foregoing, any Guarantor may merge into, consolidate with or transfer all or part of its properties or assets to the Company, one or more Guarantors or one or more Subsidiaries that become Guarantors concurrently therewith.

Limitation on Activities of Issuer and Valsera

The Indenture will provide that neither the Issuer nor Valsera will engage in any business activity or undertake any other activity, except any activity (a) in the case of the Issuer, relating to the offering, sale or issuance of the Notes, the incurrence of Indebtedness represented by the Notes, lending or otherwise advancing the proceeds thereof to HKM and any other activities in connection therewith, (b) in the case of the Issuer, undertaken with the purpose of fulfilling any obligations under the Notes or the Indenture, (c) in the case of Valsera, relating to the ownership of shares of Capital Stock of HOP, or (d) directly related to the establishment and/or maintenance of the Issuer's or Valsera's corporate existence, as the case may be.

Neither the Issuer nor Valsera shall (a) incur any Indebtedness other than, in the case of the Issuer, the Indebtedness represented by the Notes, (b) issue any Capital Stock other than the issuance of its ordinary shares to the Company or its Restricted Subsidiaries or otherwise in a *de minimis* amount to the extent required by applicable law in the Netherlands or (c) acquire or receive any property or assets (including, without limitation, any Equity Interests or Indebtedness of any Person), other than, in the case of the Issuer, the Intercompany Loan or payments in respect thereof.

Neither the Issuer nor Valsera shall create, incur, assume or suffer to exist any Lien of any kind against or upon any of its property or assets, or any proceeds therefrom.

Subject to the next sentence, each of the Issuer and Valsera shall at all times remain a Wholly Owned Restricted Subsidiary of the Company or one of its Restricted Subsidiaries. Neither the Issuer nor Valsera shall merge, consolidate, amalgamate or otherwise combine with or into another Person except the Company or a Restricted Subsidiary, or sell, convey, transfer, lease or otherwise dispose of any material property or assets to any Person except the Company or a Restricted Subsidiary, *provided* that, in the event the Issuer so combines with the Company or a Restricted Subsidiary or so disposes of property or assets to the Company or a Restricted Subsidiary, immediately after such transaction the Company or such Restricted Subsidiary shall (a) assume all of the obligations of the Issuer under the Indenture and the Notes pursuant to a supplemental indenture in form reasonably satisfactory to the Trustee and (b) deliver to the Trustee an Officers' Certificate and an Opinion of Counsel, each of which complies with applicable provisions of the Indenture.

Whenever the Issuer receives a payment or prepayment under the Intercompany Loan, it shall use the funds received solely to satisfy its obligations (to the extent of the amount owing in respect of such obligations) under the Notes and the Indenture.

For so long as any Notes are outstanding, none of the Issuer, the Company or any other Guarantor or other Restricted Subsidiary will commence or take any action to cause a winding-up or liquidation of the Issuer.

Except as provided in the Indenture, the Issuer shall not, and the Company shall procure that the Issuer does not, assign or novate its rights under the Intercompany Loan.

The foregoing limitations shall not apply to Valsera during any period in which Valsera is a Guarantor in accordance with the terms of the Indenture.

Amendments to or Prepayments of the Intercompany Loan

Without the consent of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding, the Issuer and the Company will not, and will not permit any Restricted Subsidiary to, (i) prepay or otherwise reduce or permit the prepayment or reduction of the Intercompany Loan; or (ii) amend, modify or alter the Intercompany Loan in any manner adverse to the Holders of the Notes; *provided* that, without the consent of each Holder affected thereby, the Issuer and the Company will not, and will not permit any Restricted Subsidiary to, amend, modify or alter the Intercompany Loan to:

(1) other than as permitted by a majority of the Holders pursuant to (i) above, change the stated maturity of the principal of, or any installment of interest on such loan;

(2) reduce the rate of interest on such loan;

(3) change the currency for payment of principal or interest on such loan:

(4) reduce the above-stated percentage of Notes, the consent of whose Holders is necessary to modify or amend such loans;

(5) waive a default in the payment of any amount under such loan;

(6) sell or transfer such loan other than pursuant to its terms; or

(7) change the governing law of the Intercompany Loan.

Notwithstanding the foregoing, the Intercompany Loan may be prepaid or reduced to facilitate or otherwise accommodate or reflect a redemption or repurchase of outstanding Notes in accordance with the terms of the Indenture.

Events of Default and Remedies

The Indenture will provide that each of the following constitutes an event of default (an "Event of Default"): (a) default for 30 days in the payment when due of interest on, or Additional Amounts with respect to, the Notes; (b) default in payment when due of the principal of or premium, if any, on the Notes; (c) failure by the Issuer or the Company for 30 days after notice to comply with the provisions described under the captions "Description of the Notes — Repurchase at the Option of Holders — Change of Control", "Description of the Notes — Repurchase at the Option of Holders — Asset Sales", "Description of the Notes — Certain Covenants — Restricted Payments", or "Description of the Notes — Certain Covenants — Merger, Consolidation or Sale of Assets"; (d) failure by the Issuer, the Company or any Guarantor for 60 days after notice to comply with any of its other agreements in the Indenture or the Notes; (e) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the date of the Indenture, which default (i) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default unless being contested in good faith by appropriate proceedings (a "Payment Default") or (ii) results in the acceleration of such Indebtedness prior to its express maturity and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $10.0 million or more; (f) failure by the Company or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of $10.0 million, which judgments are not paid, discharged or stayed for a period of 30 days; (g) certain events of bankruptcy or insolvency with respect to the Issuer, the Company or any of its Significant Subsidiaries or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Company and its Subsidiaries), would constitute a Significant Subsidiary; (h) except as otherwise permitted by the Indenture, a Guarantee of the Company or any Restricted Subsidiary or the Intercompany Loan shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or the Company or such Restricted Subsidiary, as the case may be, shall deny or disaffirm its obligations under such Guarantee or, with respect to HKM, under the Intercompany Loan; or (i) any governmental authority or agency shall (i) condemn, expropriate, seize or compulsorily purchase assets constituting 25% or more of the total assets of the Company and its Restricted Subsidiaries taken as a whole, as reflected on the consolidated balance sheet of the Company for the most recently ended fiscal quarter, (ii) revoke, cancel or suspend any Material License which is not, within 180 days, replaced, substituted, reinstated or reissued to the holder of such Material License, the Company or any of its Restricted Subsidiaries, or (iii) take any action that prevents the Company or any of its Restricted Subsidiaries or their respective officers from carrying on a material part of the business or operations of the Company or any of its Restricted Subsidiaries for a period of 30 days or more.

If any Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to the Issuer, the Company, any Significant Subsidiary or any group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Company and its Subsidiaries), would constitute a Significant Subsidiary, then all outstanding Notes will become due and payable without further action or notice. Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest.

The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, premium, if any, on the Notes or except as would otherwise be prohibited under the Trust Indenture Act if it applied to this Indenture. The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Issuer is required upon becoming aware of any Default or Event of Default, promptly (but in any event within five Business Days) to deliver to the Trustee a statement specifying such Default or Event of Default.

In the event that a declaration of acceleration of the Notes because of an Event of Default specified in clause (e) of the first paragraph under "Events of Default and Remedies" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the holders of any Indebtedness described in clause (e) of the first paragraph under "Events of Default and Remedies" have rescinded the declaration of acceleration in respect of such Indebtedness within 30 days after the date of such declaration and if (A) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (B) all existing Events of Default, except for non-payment of principal of or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Company, as such, will have any liability for any obligations of the Issuer, the Company or the other Guarantors under the Notes, the Indenture, the Guarantees or for any claim based on, in respect of, or by reason of, such Obligations or their creation. Each Holder by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the United States federal securities laws, under applicable Canadian corporate and securities laws or under applicable Kazakhstani laws. It is the view of the Commission that such a waiver is against public policy.

Legal Defeasance and Covenant Defeasance

The Issuer may, at its option and at any time, elect to have all of the obligations of the Issuer and any Guarantor discharged with respect to the outstanding Notes ("Legal Defeasance") except for (i) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, and interest, if any, on such Notes when such payments are due from the trust referred to below, (ii) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust, (iii) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's obligations in connection therewith and (iv) the Legal Defeasance provisions of the Indenture. In addition, the

Issuer may, at its option and at any time, elect to have the obligations of the Issuer and any Guarantor released with respect to certain covenants that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the Notes. In the event that Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "Events of Default" will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance, (a) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest, if any, on the outstanding Notes on the stated maturity; (b) in the case of Legal Defeasance, (1) the Issuer will have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that (A) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of the Indenture, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred, (2) the Issuer will have delivered to the Trustee an Opinion of Counsel in the Netherlands, Kazakhstan and Canada reasonably acceptable to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for Dutch, Kazakhstani or Canadian tax purposes as a result of such Legal Defeasance and will be subject to Dutch, Kazakhstani and Canadian tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred and (3) the Issuer shall have delivered to the Trustee an Opinion of Counsel to the effect that, under the laws in the United States, the Netherlands, Kazakhstan and Canada in effect at the time of such deposit, payments made from the defeasance trust referred to in clause (a) above would not require the payment of Additional Amounts; (c) in the case of Covenant Defeasance, the Issuer will have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred and the Issuer will have delivered to the Trustee an Opinion of Counsel in the Netherlands, Kazakhstan and Canada reasonably acceptable to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for Dutch, Kazakhstani or Canadian tax purposes as a result of such Covenant Defeasance and will be subject to Dutch, Kazakhstani and Canadian tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; (d) no Default or Event of Default will have occurred and be continuing on the date of the deposit referred to in clause (a) above (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 366th day after the date of deposit; (e) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound; (f) the Issuer must have delivered to the Trustee an Opinion of Counsel to the effect that on the 366th day following the deposit referred to in clause (a) above, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally; (g) the Issuer must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders of Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or others; (h) the Issuer shall have taken any action

necessary to ensure that article 7:403 subsection 2 of the Dutch Civil Code does not apply; and (i) the Issuer must deliver to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Indemnification for Judgment Currency Fluctuations

The obligations of the Issuer and any Guarantor to any Holder of Notes shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the day following receipt by such Holder of Notes or the Trustee, as the case may be, of any amount in the Judgment Currency, such Holder of Notes or the Trustee may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such Holder of Notes or the Trustee, as the case may be, in the Agreement Currency, the Issuer and the Guarantors agree, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such Holder of Notes or the Trustee, as the case may be, such Holder of Notes or the Trustee, as the case may be, agrees to pay to or for the account of the Issuer such excess, *provided* that such Holder of Notes or the Trustee, as the case may be, shall not have any obligation to pay any such excess as long as a Default by the Issuer or any Guarantor in its obligations under the Notes, a Guarantee or the Indenture has occurred and is continuing, in which case such excess may be applied by such Holder of Notes or the Trustee, as the case may be, to such obligations. For the purposes of this paragraph, it will be sufficient for the Holder to certify that it would have suffered a loss had an actual purchase of U.S. Dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. Dollars on such date had not been practicable, on the first date on which it would have been practicable). To the extent permitted by applicable law, these indemnities shall constitute a separate and independent obligation from the Issuer's or any Guarantor's other Obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note or any other judgment or order.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a tender offer or exchange offer for Notes), and, subject to certain exceptions, any existing default or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a tender offer or exchange offer for Notes). In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Issuer or any of its Affiliates will be considered as though not outstanding.

Without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder): (a) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver, (b) reduce the rate of or change the time for payment of interest on any note, (c) reduce the principal of or change the fixed maturity of any Note, (d) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration), (e) make any note payable in money other than that stated in the Notes, (f) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of or premium, if any, or interest on, or any other amounts due in respect of, the Notes,

(g) waive a redemption payment with respect to any note, (h) release the Company or any other Guarantor from any of its obligations under any Guarantee of the Notes, or under the Indenture, except in accordance with the terms of the Indenture, (i) alter the Issuer's obligation to purchase any Notes arising under the Indenture, including, without limitation, to amend, modify or change the obligation of the Issuer to make or consummate a Change of Control Offer or make a Change of Control Payment or to make or consummate an Asset Sale Offer, or to waive any default in the performance thereof or modify any of the provisions or definitions with respect to any such offers, (j) make any change in the provisions described under "— Payment of Additional Amounts", (k) change the governing law of the Notes, the Guarantees or the Indenture or (l) make any change in the foregoing amendment and waiver provisions.

Notwithstanding the foregoing, without the consent of any Holder of Notes, the Issuer, the Guarantors and the Trustee may amend or supplement the Indenture or the Notes to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Issuer's obligations to Holders of Notes in the case of a merger, amalgamation or consolidation, to evidence the succession of another Person to the Issuer and the Guarantors and the assumption by such successor of the covenants and obligations of the Issuer in the Indenture and the Notes and the Guarantors in the Guarantees and the Indenture, to provide for security for the Notes and/or the Guarantees, to make any change that would provide any additional rights or benefits to the Holders of Notes or that does not adversely affect the legal rights under the Indenture of any such Holder, to add or release any Guarantor, or to comply with the requirements of the Commission for qualification of the Indenture under the Trust Indenture Act as if the Indenture were required to be qualified under the Trust Indenture Act, in each case in conformity with the covenant described under "Certain Covenants — Limitation as to Unrestricted Subsidiaries".

Satisfaction and Discharge

The Issuer may terminate its Obligations and the Obligations of the Guarantors under the Notes, the Guarantees and the Indenture (except as to surviving rights of registration of transfer or exchange of Notes, the obligations as to mutilated, destroyed, lost or stolen Notes, certain rights, powers, trusts, duties and immunities of the Trustee as expressly provided for in the Indenture) as to all outstanding Notes when (a) either (A) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment funds have been deposited in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the Trustee for cancellation and the Issuer has paid all sums payable by it under the Indenture or (B) all Notes not theretofore delivered to the Trustee for cancellation (x) have become due and payable, (y) will become due and payable at their maturity within one year or (z) are to be called for redemption within one year under irrevocable arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer, and the Issuer has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust an amount sufficient to pay and discharge the entire indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, including principal of, premium, if any, and accrued interest, if any, on such Notes, at such maturity or redemption date; (b) no Default or Event of Default with respect to the Indenture or the Notes shall have occurred and be continuing on the date of such deposit or shall occur as a result of such deposit and such deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer is a party or by which it is bound; (c) the Issuer and any Guarantor have paid or caused to be paid all other sums payable under the Indenture by the Issuer or such Guarantor; and (d) the Issuer has delivered to the Trustee an Officer's Certificate and Opinion of Counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge have been complied with and such satisfaction and discharge will not result in a breach or violation of, or constitute a Default under, the Indenture or breach or violation of any provision of any agreement to which the Issuer or any Guarantor is a party or by which any of them is bound.

Concerning the Trustee

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest, it must eliminate such conflict within 90 days, apply to the Commission for permission to continue or resign.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default occurs (which will not be cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder will have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

The Trustee is an affiliate of JPMorgan Europe Limited, who is acting as an initial purchaser of the Notes.

Additional Information

Anyone who receives this Offering Memorandum may obtain a copy of the Indenture without charge by writing to the Company at Suite 1460, Sun Life Plaza, North Tower, 140-4th Avenue S.W., Calgary, Alberta, T2P 3N3, Canada, Attention: Vice President, Investor Relations.

Book Entry, Delivery and Form

The Notes will initially be represented by two notes in global form that together will represent the aggregate principal amount of the Notes (in the case of the Notes sold in reliance on Rule 144A under the Securities Act, the "Rule 144A Global Note", in the case of the Notes sold in reliance on Regulation S under the Securities Act, the "Regulation S Global Note" and together, the "Global Notes"). When issued, the Regulation S Global Note will be deposited with JPMorgan Chase Bank, as common depositary for, and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear S.A./N.V., as operator of the Euroclear System ("Euroclear"), or Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Rule 144A Global Note will be deposited with, or on behalf of, the Depositary Trust Company ("DTC") and registered in the name of Cede & Co., as DTC's nominee. The Rule 144A Global Note will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note.

The Notes will be issued only in registered form. Notes will be issued in denominations of $10,000 and integral multiples of $1,000 in excess thereof. Notes will be issued on the Closing Date only against payment in immediately available funds.

Investors who are QIBs and who purchase Notes in reliance on Rule 144A may hold their interests in the Rule 144A Global Note directly through DTC if they are DTC participants (the "Participants") or indirectly through organizations that are DTC participants ("Indirect Participants").

Investors who purchase Notes in offshore transactions in reliance on Regulation S must hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in these systems, or indirectly through organizations that are participants in these systems. A beneficial interest in the Regulation S Global Note may at all times be held only through Euroclear or Clearstream, Luxembourg.

Regulation S prohibits purchasers of Notes under Regulation S from offering, selling or delivering the Notes until 40 days after the later of the commencement of the Offering and the original

issue date of the Notes within the United States or to or for the account or benefit of U.S. persons (such 40-day period being called the "Distribution Compliance Period"). Until the expiration of the Distribution Compliance Period, beneficial interests in the Regulation S Global Note may be transferred to a person who wishes to take delivery of such beneficial interests through the Rule 144A Global Note only in accordance with the certification requirements described below. Beneficial interests in the Rule 144A Global Note may only be exchanged for beneficial interests in the Regulation S Global Note in the limited circumstances described below. See "— Depositary Procedures — Exchanges Between the Global Notes". In addition, transfers of beneficial interests between the Global Notes will be subject to the applicable rules and procedures of DTC and its Participants and Indirect Participants and those of Euroclear and Clearstream, Luxembourg, which may change from time to time.

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note. Owners of beneficial interests in a Global Note will be entitled to have certificates registered in their names and to receive physical delivery of Notes only in the limited circumstances described below under "— Depositary Procedures — Exchange of Global Notes for definitive Notes".

The Notes will be subject to certain transfer restrictions and restrictive legends as described under "Transfer Restrictions".

Depositary Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream, Luxembourg is provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them from time to time. The Issuer takes no responsibility for these operations and procedures and urges investors to contact the systems or their participants directly to discuss these matters.

The holdings of book-entry interests in the Notes through DTC, Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution.

Payment of principal of, interest on, and premium, if any, on a Global Note will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as registered owner of the Global Note, by wire transfer of immediately available funds on the applicable payment date. Neither the Issuer nor the Trustee, nor any agent of either of them, will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

Distributions of interest, principal and premium (if any) with respect to book-entry interests in the Regulation S Note held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

The Issuer has been informed by DTC that, with respect to any payment of principal of, or premium or interest, if any, on, the Rule 144A Global Note, DTC's practice is to credit Participants' accounts on the applicable payment date, with payments in amounts proportionate to their respective beneficial interests in the Rule 144A Global Note as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to owners of beneficial interests in the Notes represented by the Global Note held through such Participants will be the responsibility of such Participants, as is now the case with securities held for the accounts of customers registered in "street name".

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the fifteenth day before the due date for such payment so long as the Notes are represented by a Global Note, and on the fifteenth day before the due date for such payment (the "Record Date") if the Notes are in definitive form ("Definitive Notes"). Trading between the Rule 144A Global Note and the Regulation S Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant interest payment date.

The laws of some States of the United States require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC, Euroclear and Clearstream, Luxembourg can act only on behalf of indirect participants, the ability of a person having beneficial interests in a Global Note to pledge such interests to persons or entities that do not participate in the relevant clearing system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Neither the Issuer nor the Trustee, nor any agent of either of them, will have responsibility for the performance of DTC, Euroclear, Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations. DTC has advised the Issuer that it will take any action permitted to be taken by a holder of a beneficial interest in the Rule 144A Global Note (including, without limitation, the presentation of the Global Note for exchange as described below) only at the direction of one or more Participants to whose accounts with DTC interests in a Global Note are credited, and only in respect of the Notes represented by the Global Note as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC reserves the right to exchange the Global Notes for Notes in definitive form, which it will distribute to its Participants.

DTC has also advised the Company that DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes to accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations such as the initial purchasers. Certain of such Participants (or their representatives), together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Participant, either directly or indirectly.

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

Exchange of Global Notes for Definitive Notes

A Rule 144A Global Note is exchangeable for Rule 144A Notes in registered definitive form ("Rule 144A Definitive Notes") if:

(a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Notes or has ceased to be a clearing agency registered under the Exchange Act and, in either case, the Issuer thereupon fails to appoint a successor depositary within 90 days after the date of such notice; or

(b) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of Definitive Notes.

A Regulation S Global Note is exchangeable for Regulation S Notes in registered definitive form ("Regulation S Definitive Notes") if:

(a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

(b) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of Definitive Notes.

In such circumstances, the relevant Global Note shall be exchanged for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders within 30 days of the relevant event. A person having an interest in a Global Note must provide the Issuer and the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Note and (ii) in the case of the Rule 144A Global Note only, a completed, signed certificate substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A or Regulation S, that the transfer is being made in compliance with the provisions of Rule 144A or Regulation S. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions".

Exchange of Definitive Notes for Global Notes

If issued, Definitive Notes may not be exchanged or transferred for beneficial interest in a Global Note.

Exchange of Definitive Notes for Definitive Notes

If issued, Definitive Notes may be exchanged or transferred by presenting or surrendering such Definitive Notes at the office of the Registrar located in New York, London or Luxembourg with a written instrument of transfer in form satisfactory to such Registrar, duly executed by the holder of the Definitive Notes or by its attorney, duly authorized in writing. If the Definitive Notes being exchanged or transferred have restrictive legends, such holder must also provide a written certificate (in the form provided in the Indenture) to the effect that such exchange or transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "Transfer Restrictions".

Exchanges Between the Global Notes

Prior to the expiration of the Distribution Compliance Period, beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if such exchange occurs in connection with a transfer of the Notes pursuant to Rule 144A

and the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that the Notes are being transferred to a person who the transferor reasonably believes to be a QIB within the meaning of Rule 144A, purchasing for its own account or the account of a QIB in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, whether before or after the expiration of the Distribution Compliance Period, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 under the Securities Act (if applicable).

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to such certification procedures as are described under "Transfer Restrictions"), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the Custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note and (ii) increase the amount of Notes registered in the name of the relevant nominee for the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

When book-entry interests in Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder holding a beneficial interest in the Regulation S Global Note to the account of a DTC participant wishing to purchase a beneficial interest in the 144A Global Note (subject to such certification procedures as are described under "Transfer Restrictions"), the Euroclear or Clearstream, Luxembourg accountholder must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (i) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of a nominee for the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although the foregoing sets out the procedures of DTC, Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Notes among the participants of DTC, Euroclear and Clearstream, Luxembourg, none of DTC, Euroclear or Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Trustee, nor any agent of either of them, will have any responsibility for the performance by DTC, Euroclear or Clearstream,

Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

Same-Day Settlement and Payment

The Notes represented by the Rule 144A Global Note will be eligible to trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any Definitive Notes would also be settled in immediately available funds.

Replacement, Transfer and Exchange

If any Note at any time is mutilated, destroyed, stolen or lost, such Note may be replaced at the cost of the applicant at the office of the Trustee or the office of the Registrar. The applicant for a new Note must, in the case of any mutilated Note, surrender such Note to the Trustee or the Registrar, as applicable, and, in the case of any lost, destroyed or stolen Note, furnish evidence satisfactory to the Trustee or the Registrar, as applicable, of such loss, destruction or theft, together with such indemnity as the Trustee or the Registrar, as applicable, and the Issuer may require.

A Holder may transfer or exchange Notes in accordance with the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Issuer may require a Holder to pay any transfer tax or similar governmental charge required by law. The Issuer and the Registrar are not required to transfer or exchange any Note selected for redemption. Transfers of Notes in definitive form may be made at the office of the Luxembourg Sub-Paying and Transfer Agent.

Notices

Any notice or communication to a Holder of Notes shall be mailed by first class mail, certified or registered, return receipt requested, or delivered by overnight air courier guaranteeing next day delivery, in each case to its address shown on the register kept by the Registrar. In addition, for so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, any such notice or communication (including, without limitation, any notice of redemption) to Holders shall be published in a newspaper having general circulation in Luxembourg, which newspaper may be the *Luxemburger Wort*, or if such newspaper ceases to be published or timely publication in it will not be practicable, in such other newspaper as the Trustee deems necessary to give fair and reasonable notice to the Noteholders.

Governing Law; Consent to Jurisdiction and Service; Arbitration

The Indenture and the Notes will be governed by and construed in accordance with the laws of the State of New York.

The Indenture will provide that the Issuer and each Guarantor will appoint CT Corporation as its agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes and the Guarantees and for any actions brought under U.S. federal or state securities laws brought in any U.S. federal or state court located in The City of New York and submit to such jurisdiction.

As of the date hereof, however, a judgment obtained in any U.S. federal or state court located in The City of New York against a Guarantor would not be enforceable against such Guarantor in Kazakhstan, as Kazakhstan is not party to any applicable treaty with the United States relating to the enforcement of foreign judgments. Accordingly, the Indenture will provide that, at the option of any Holder, any dispute or difference of whatever nature however arising under, out of or in connection with the Indenture, the Notes and/or the Guarantees held by such Holder

(including any dispute or difference regarding the existence, validity and termination of the Notes) may, regardless of the nature of any such dispute or difference, be referred to and finally resolved by arbitration under the Rules (the "Rules") of the London Court of International Arbitration ("LCIA"), which Rules will be deemed to be incorporated by reference into the Indenture. The number of arbitrators shall be three (or one as the parties may agree) appointed in accordance with such Rules. The place of any reference to arbitration shall be London. The procedural law of any reference to arbitration shall be, so far as possible, the laws of the State of New York. The language of any arbitral proceedings shall be English.

Certain Definitions

Set forth below are certain defined terms used in the Indenture and the foregoing summary of the terms of the Notes. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Indebtedness*" means, with respect to any specified Person, (i) Indebtedness of any other Person existing at the time such other Person is merged with or into or becomes a Subsidiary or is designated a Restricted Subsidiary of such specified Person, including, without limitation, Indebtedness incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Subsidiary or Restricted Subsidiary of such specified Person, and (ii) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"*Acquisition*" means the acquisition by the Company or any of its Restricted Subsidiaries after the date of the Indenture of all or any part of any business which has as its core business the Oil and Gas Business, including by way of the acquisition or purchase of shares or other equity interests in, or assets and/or revenues of, and/or the assumption of any liabilities and/or Indebtedness of such business.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise, *provided* that beneficial ownership of 10% or more of the voting securities of a Person shall be deemed to be control.

"*Approved Lender*" has the meaning set forth in the definition of "Cash Equivalents".

"*Asset Sale*" means (i) any direct or indirect sale, lease, conveyance or other disposition of any assets (including, without limitation, by way of a sale and leaseback, including any disposition by means of a merger, consolidation or similar transaction and including the issuance, sale or other transfer of any of the Capital Stock of any Restricted Subsidiary of such Person other than directors' qualifying shares) other than to the Company or to any of its Restricted Subsidiaries (including the receipt of proceeds of insurance paid on account of the loss of or damage to any asset and awards of compensation for any asset taken by condemnation, eminent domain, nationalization, expropriation or similar proceeding or action, but excluding the receipt of proceeds of business interruption insurance or environmental damage insurance or similar types of policies); and (ii) the issuance of Equity Interests in any Restricted Subsidiaries or the sale of any Equity Interests in any Restricted Subsidiaries, in each case, in one or a series of related transactions, *provided* that, notwithstanding the foregoing, the term "Asset Sale" shall not include: (a) the sale, lease, conveyance, disposition or other transfer of all or substantially all of the assets of the Company, as permitted pursuant to the covenant described under "Description of the Notes — Certain Covenants — Merger, Consolidation or Sale of Assets", (b) the sale or lease of equipment, inventory, accounts receivable or other assets in the ordinary course of business, (c) a transfer of assets by the Company to a Guarantor or by a Restricted Subsidiary to the Company or to a Guarantor, (d) an issuance of Equity Interests by a Restricted Subsidiary to

the Company or to a Guarantor, (e) the sale or other disposition of Cash Equivalents, (f) any cash dividend, distribution, Investment or payment made pursuant to the first paragraph of the "Description of the Notes — Certain Covenants — Restricted Payments" covenant, (g) sales, leases, conveyances or other dispositions of assets the aggregate gross proceeds of which do not exceed $500,000 in any twelve-month period, (h) the sale and disposition of surplus and other property or equipment of the Company or any of its Restricted Subsidiaries that, in the reasonable judgment of the Company (or the Restricted Subsidiary, if applicable), has become uneconomic, damaged, obsolete, worn out or otherwise unsuitable for use in connection with the business of the Company and its Restricted Subsidiaries, (i) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind, (j) the granting of Liens not prohibited under the Indenture, (k) the licensing of intellectual property, (l) any sale, conveyance, disposition or other transfer of properties that was permitted under "Description of the Notes — Certain Covenants — Restricted Payments" when made, and (m) the issuance of Preferred Stock of any Restricted Subsidiary permitted by the covenant described under "Description of the Notes — Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock".

"*Attributable Indebtedness*" in respect of a sale and leaseback transaction means, at the time of determination, the present value (discounted at the rate of interest implicit in such transaction, determined in accordance with GAAP) of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction (including any period for which such lease has been extended or may, at the option of the lessor, be extended).

"*Board of Directors*" of any Person means the board of directors of such Person, or any authorized committee of such board of directors.

"*Board Resolution*" means, with respect to any Person, a copy of a resolution certified by the Secretary or a Managing Director of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"*Business Day*" means any day other than a Legal Holiday.

"*Capital Lease Obligation*" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized on a balance sheet in accordance with GAAP.

"*Capital Stock*" means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"*Cash Equivalents*" means (a) securities issued or directly and fully guaranteed or insured by the United States of America or Canada or any agency or instrumentality thereof (*provided* that the full faith and credit of the United States or Canada, as the case may be, is pledged in support thereof) having maturities no more than twelve months from the date of acquisition; (b) direct obligations issued by any province of Canada maturing or subject to tender at the option of the holder thereof within 90 days after the date of acquisition thereof and having a rating of A or better from Standard & Poor's or A-2 or better from Moody's; (c) U.S. or Canadian dollar denominated (or foreign currency fully hedged) time deposits, certificates of deposit, Eurodollar time deposits or Eurodollar certificates of deposit of (i) any commercial bank of recognized standing organized under the laws of the United States or a State thereof, Canada or a member state of the European Union, having capital and surplus in excess of $500.0 million or (ii) any bank whose short-term commercial paper rating from Standard & Poor's is at least A-l or the

equivalent thereof or from Moody's is at least P-I or the equivalent thereof (any such bank being an "Approved Lender"), in each case with maturities of not more than twelve months from the date of acquisition; (d) commercial paper and variable or fixed rate Notes issued by any Approved Lender (or by the parent company thereof) or commercial paper or any variable rate Notes issued by, or guaranteed by, any U.S. or Canadian corporation rated A-l (or the equivalent thereof) by Standard & Poor's or P-l (or the equivalent thereof) by Moody's and maturing within twelve months of the date of acquisition; (e) repurchase agreements with a bank or trust company having capital and surplus in excess of $500.0 million for direct obligations issued by or fully guaranteed by the United States of America or Canada in which the Company shall have a perfected first priority security interest (subject to no other Liens) and having, on the date of purchase thereof, a Fair Market Value of at least 100% of the amount of repurchase obligations; (f) interests in money market mutual funds which invest solely in assets or securities of the type described in subparagraphs (a), (b) or (d) hereof; and (g) deposits available for withdrawal on demand with any commercial bank that is not an Approved Lender but which is organized under the laws of (i) any country that has been a member of the Organization for Economic Cooperation and Development for 10 years as of the Issue Date and has total assets in excess of $500.0 million or (ii) any other country in which the Company or any Restricted Subsidiary maintains its chief executive office or conducts material operations in the Oil and Gas Business, *provided* that, in either case (1) all such deposits are required to be made in such accounts in the ordinary course of business and (2) such deposits in any one country do not at any one time exceed in the aggregate the greater of (A) $20.0 million and (B) 5% of sales of the Company and its Restricted Subsidiaries in such country included in Consolidated Net Income of the Company for the last four full fiscal quarters for which internal financial statements are available, except that the restriction contained in clause (g)(ii)(2) shall not apply in respect of deposits made with any commercial bank which is a branch or subsidiary of an Approved Lender or a holding company of an Approved Lender.

"*Commission*" means the U.S. Securities and Exchange Commission.

"*Consolidated Cashflow*" means, with respect to the Company and its Restricted Subsidiaries for any period, the sum of, without duplication, (i) the Consolidated Net Income for such period, plus (ii) to the extent deducted from Consolidated Net Income for such period, (x) the Fixed Charges for such period, plus (y) non-cash dividends on the Company's preferred stock and HOP's preferred stock, plus (iii) Consolidated Income Taxes for such period, plus (iv) consolidated depreciation, amortization, depletion and other non-cash charges of the Company and its Restricted Subsidiaries required to be reflected as expenses on the books and records of the Company, minus (v) cash payments with respect to any nonrecurring, non-cash charges previously added back pursuant to clause (iv), minus (vi) the impact of foreign currency translations. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and other non-cash charges of, a Restricted Subsidiary of a Person shall be added to Consolidated Net Income to compute Consolidated Cashflow only to the extent that the Net Income of such Restricted Subsidiary was included in calculating the Consolidated Net Income of such Person and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to that Restricted Subsidiary or its stockholders.

"*Consolidated Income Taxes*" means, with respect to any Person for any period, taxes imposed upon such Person or other payments required to be made by such Person by any governmental authority which taxes or other payments are calculated by reference to the income, return on investment or profits of such Person or such Person and its Subsidiaries, divisions or operations (to the extent such income, returns on investment or profits were included in computing Consolidated Net Income for such period), regardless of whether such taxes or payments are required to be remitted to any governmental authority.

"*Consolidated Net Income*" means, with respect to any Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP, *provided* that (i) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting or by proportional consolidation shall be included only to the extent of the amount of dividends or distributions paid in cash to the referent Person or a Restricted Subsidiary thereof, (ii) the Net Income of, or any dividends or other distributions from, any Unrestricted Subsidiary, to the extent otherwise included, shall be excluded to the extent not distributed to such Person or one of its Restricted Subsidiaries, (iii) the Net Income of any Restricted Subsidiary shall be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (which has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, (iv) the Net Income of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded, (v) the cumulative effect of a change in accounting principles shall be excluded, (vi) income or loss attributable to discontinued operations shall be excluded, (vii) any increase in cost of sales or other write-offs resulting from the purchase accounting treatment of any acquisitions shall be excluded, (viii) all Asset Sales and all other extraordinary, unusual or nonrecurring gains and losses shall be excluded, (ix) any gain or loss, net of taxes, realized on the termination of any employee pension benefit plan shall be excluded, and (x) with regard to a non-Wholly Owned Restricted Subsidiary, any aggregate Net Income (or loss) in excess of such Person's or such Subsidiary's pro rata share of such non-Wholly Owned Restricted Subsidiary's Net Income (or loss) shall be excluded.

"*Consolidated Net Worth*" of a Person at any date means the amount by which the assets of such Person and its consolidated Restricted Subsidiaries (less any revaluation or other write-up subsequent to the date of the Indenture in any such assets (other than write-ups resulting from foreign currency translations and writeups of tangible assets of a going concern business made within twelve months after the acquisition of such business)) exceed the sum of (a) the total liabilities of such Person and its consolidated Restricted Subsidiaries, plus (b) any Disqualified Stock of such Person or any consolidated Restricted Subsidiaries of such Person issued to any Person other than such Person or a Wholly Owned Restricted Subsidiary of such Person, in each case determined in accordance with GAAP.

"*Default*" means any event that is or with the passage of time or the giving of notice or both would be an Event of Default.

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable or redeemable at the option of the Holder thereof, in whole or in part, on or prior to the date on which is 91 days after the date that the Notes mature.

"*$*", "*dollars*" and "*U.S. dollars*" denote the lawful currency of the United States of America.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Exchange Act*" means the U.S. Securities Exchange Act of 1934.

"*Existing Indebtedness*" means the Indebtedness of the Company and its Restricted Subsidiaries in existence on the date of the Indenture (including, without limitation, Indebtedness outstanding under any Term Facility) until such Indebtedness is repaid, other than Indebtedness owed to the Company or any of its Restricted Subsidiaries; *provided* that the Company's 12% Notes due 2006 (the "Dividend Notes") shall constitute "Existing Indebtedness" only up to and

including February 3, 2003, and the Dividend Notes shall thereafter be treated for all purposes as Indebtedness that was originally incurred on the day following the date on which the Dividend Notes ceased to be considered "Existing Indebtedness" under the Indenture.

"*Fair Market Value*" means, with respect to any asset or property, the price which could be negotiated in an arm's-length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value in excess of $2.5 million shall be conclusively determined by the Board of Directors of the Company acting in good faith and shall be evidenced by a Board Resolution, *provided* that if any transaction includes an aggregate Fair Market Value of more than $15.0 million, the Company shall provide to the Trustee with the Board Resolution a favorable opinion as to such Fair Market Value from an investment banking firm or other appraisal firm of national standing (in the United States, Canada or European Union or a member state of the European Union as of the date of the Indenture) or a branch of such institution in Kazakhstan.

"*Fixed Charges*" means, with respect to any Person for any period, the sum, without duplication, of (i) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization of original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letters of credit or bankers' acceptance financings, and net payments (if any) pursuant to Hedging Obligations but excluding the amortization or write-off of deferred financing costs), and (ii) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period, and (iii) any interest expense on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries (whether or not such guarantee or Lien is called upon), and (iv) the product of (a) all dividend payments, whether or not in cash, on any series of preferred stock of any such Person payable to a party other than the Company or a Wholly Owned Restricted Subsidiary, other than dividend payments on Equity Interests payable solely in Equity Interests of the Company, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state, provincial and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"*Fixed Charge Coverage Ratio*" means with respect to any Person for any period, the ratio of the Consolidated Cashflow of such Person and its Restricted Subsidiaries for such period to the Fixed Charges of such Person and its Restricted Subsidiaries for such period. In the event that the Company or any of its Restricted Subsidiaries incurs, assumes, guarantees, redeems or repays any Indebtedness (other than the incurrence or repayment of revolving credit borrowings used for working capital, except to the extent that a repayment is accompanied by a permanent reduction in revolving credit commitments) or issues preferred stock subsequent to the commencement of the four-quarter reference period for which the Fixed Charge Coverage Ratio is being calculated but prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio shall be calculated giving *pro forma* effect to such incurrence, assumption, guarantee, redemption or repayment of Indebtedness, or such issuance or redemption of preferred stock, as if the same had occurred at the beginning of the applicable four-quarter reference period. For purposes of making the computation referred to above, (i) acquisitions that have been made by the Company or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date shall be deemed to have occurred on the first day of the four-quarter reference period and shall give *pro forma* effect to the Consolidated Cashflow and Indebtedness of the Person which is the subject of any such acquisition, and (ii) the Consolidated Cashflow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, shall be

excluded, and (iii) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, shall be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the referenced Person or any of its Restricted Subsidiaries following the Calculation Date.

"*GAAP*" means generally accepted accounting principles in Canada which are in effect on the date of the Indenture.

"*Government Securities*" means direct obligations of, or obligations guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States is pledged.

"*guarantee*" means a guarantee (other than by the endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

"*Guarantee*" means an unconditional guarantee of the Notes and the Indenture given by a Guarantor pursuant to the terms of the Indenture or any supplemental indenture thereto.

"*Guarantor*" means (i) as of the date of the Indenture, the Initial Guarantors, and (ii) thereafter, unless released from such Guarantees as permitted by the Indenture, the Initial Guarantors and any other Restricted Subsidiary or other Person that becomes a guarantor of the Notes in compliance with the provisions of the Indenture and executes a supplemental indenture agreeing to be bound by the terms of the Indenture.

"*Hedging Obligations*" means, with respect to any Person, the obligations of such Person under (i) interest rate swap agreements, interest rate cap agreements, interest rate collar agreements and other agreements or arrangements designed to protect such Person against fluctuations in interest rates, (ii) currency swap agreements, forward exchange rate agreements, foreign currency futures or options, exchange rate collar agreements, exchange rate insurance and other agreements or arrangements, or any combination thereof, and other agreements or arrangements designed to provide protection against fluctuations in currency exchange rates, and (iii) oil and gas purchase, sale and/or swap agreements and other agreements or arrangements, or any combination thereof, financially tied to oil and gas prices that are customary in the Oil and Gas Business and designed to protect such Person against fluctuations in oil and gas prices.

"*HKM*" means Hurricane Kumkol Munai OJSC (formerly known as GAO Yuzhneftegaz), an open joint stock company organized under the laws of the Republic of Kazakhstan.

"*Holder*" means a Person in whose name a Note is registered on the Registrar's books.

"*HOP*" means Hurricane Oil Products OJSC (formerly known as Shymkentnefteorgsyntez OJSC), an open joint stock company organized under the laws of the Republic of Kazakhstan.

"*Indebtedness*" as applied to any Person means, at any time, without duplication, whether recourse is to all or a portion of the assets of such Person and whether or not contingent, (i) any obligation of such Person for borrowed money; (ii) any obligation of such Person evidenced by bonds, debentures, Notes or other similar instruments, including, without limitation, any such obligations incurred in connection with the acquisition of property, assets or businesses, excluding accounts payable made in the ordinary course of business which are not more than 90 days (or 180 days for Kazakhstani accounts payable) overdue or which are being contested in good faith and by appropriate proceedings; (iii) any obligation of such Person for all or any part of the purchase price of Property or for the cost of property or assets constructed or of improvements thereto (including any obligation under or in connection with any letter of credit

related thereto), other than accounts payable incurred in respect of property or assets and services purchased in the ordinary course of business which are no more than 90 days (or 180 days for Kazakhstani accounts payable) overdue or which are being contested in good faith and by appropriate proceedings; (iv) any obligation of such Person upon which interest charges are customarily paid (other than accounts payable incurred in the ordinary course of business); (v) any obligation of such Person under conditional sale or other title retention agreements relating to purchased property or assets; (vi) any obligation of such Person issued or assumed as the deferred purchase price of property or assets (other than accounts payable incurred in the ordinary course of business which are no more than 90 days (or 180 days for Kazakhstani accounts payable) overdue or which are being contested in good faith and by appropriate proceedings); (vii) any Capital Lease Obligation or Attributable Indebtedness pursuant to any sale and lease-back transaction of such Person; (viii) any obligation of any other Person secured by (or for which the obligee thereof has an existing right, contingent or otherwise, to be secured by) any Lien on property or assets owned or acquired, whether or not any obligation secured thereby has been assumed, by such Person; (ix) any obligation of such Person in respect of any letter of credit supporting any obligation of any other Person; (x) the maximum fixed repurchase price of Disqualified Stock of such Person (or if such Person is a Subsidiary, any preferred stock of such Person); (xi) any Hedging Obligations of such Person at the time of determination to the extent they appear as a liability on the balance sheet of such Person; and (xii) any obligation which is in economic effect a guarantee, regardless of its characterization (other than an endorsement in the ordinary course of business), with respect to any Indebtedness of another Person, to the extent guaranteed. For purposes of the preceding sentence, the maximum fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock or Subsidiary preferred stock as if such Disqualified Stock or Subsidiary preferred stock were repurchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture; *provided* that, if such Disqualified Stock or Subsidiary preferred stock is not then permitted to be repurchased, the repurchase price shall be the book value of such Disqualified Stock or Subsidiary preferred stock. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability of any guarantees at such date; *provided* that, for purposes of calculating the amount of any non-interest bearing or other discount security, such Indebtedness shall be deemed to be the principal amount thereof that would be shown on the balance sheet of the issuer dated such date prepared in accordance with GAAP but that such security shall be deemed to have been incurred only on the date of the original issuance thereof.

"*Investments*" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the forms of direct or indirect loans (including guarantees of Indebtedness or other obligations), advances or capital contributions (excluding commission, travel, relocation and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities and all other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP, *provided* that an acquisition of assets, Equity Interests or other securities by the Company for consideration consisting solely of common equity securities of the Company shall not be deemed to be an Investment; *provided further* that Investments shall exclude accounts receivable and other extensions of trade credit on commercially reasonable terms in accordance with normal trade practices. The amount of any Person's Investment shall be the original cost of such Investment to such Person, plus the cost of all additions thereto paid by such Person, minus the amount of any portion of such Investment repaid to such Person in cash as a repayment of principal or a return of capital, as the case may be, but without any other adjustments for increases or decreases in value, or write-ups, writedowns, or write-offs with respect to such Investment. In determining the amount of any Investment involving a transfer of any property or assets other than cash, such property or assets shall be valued at its Fair Market Value at the time of such transfer as determined in good faith by the Board of Directors (or comparable body) of the Person making such transfer. The Company

shall be deemed to make an "Investment" in the amount of the Fair Market Value of the net assets of a Restricted Subsidiary at the time such Restricted Subsidiary is designated an Unrestricted Subsidiary.

"*Issue Date*" means the date of the Indenture.

"*Legal Holiday*" means a Saturday, a Sunday or a day on which federal offices or banking institutions in The City of New York, in the city of the corporate trust office of the Trustee, or at a place of payment are authorized by law, regulation or executive order to remain closed. If a payment date is a Legal Holiday, payment may be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction).

"*Material License*" means any license, permit, registration, undertaking, commitment, contract or other similar instrument (including, without limitation, development and production licenses and hydrocarbon contracts, whether or not included in any license or other agreement) (a) granted to or entered into by the Company or a Restricted Subsidiary, as the case may be, or which the Company or a Restricted Subsidiary has entered into or by which the Company or a Restricted Subsidiary is bound, (b) pertaining to fields from which hydrocarbons are extracted and (c) total revenues with respect to which represented at least 25% of total consolidated revenues of the Company and its Restricted Subsidiaries, taken as a whole, as reflected on the consolidated income statement of the Company for the most recently ended fiscal quarter.

"*Material Restricted Subsidiary*" means, at any date of determination, any Restricted Subsidiary of the Company that, together with its Restricted Subsidiaries, for the most recent fiscal year of the Company, accounted for more than 5% of the consolidated revenues of the Company and its Subsidiaries or (ii) as of the end of such fiscal year, was the owner of more than 5% of the consolidated assets of the Company and its Subsidiaries, in each case all as set forth on the most recently available consolidated financial statements of the Company for such fiscal year.

"*Net Income*" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP, and before reduction for non-cash preferred stock dividends, excluding, however, (i) any gain or loss, together with any related provision for taxes on such gain or loss, realized in connection with (a) any Asset Sale (including, without limitation, dispositions pursuant to sale and leaseback transactions) or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries, and (ii) any extraordinary or nonrecurring gain or loss, together with any related provision for taxes on such extraordinary or nonrecurring gain or loss.

"*Net Proceeds*" means the aggregate cash proceeds received by the Company or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees, and sales commissions) and any relocation expenses incurred as a result thereof, taxes paid or payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP and net of all required payments made to any Person other than the Company or any Restricted Subsidiary on any Indebtedness which is secured by a Lien on the assets comprising such Asset Sale (with a permanent reduction of availability in the case of revolving credit borrowings), in accordance with the terms of the agreements related to such Lien.

"*Net Working Capital*" means (i) all current assets of the Company and its Restricted Subsidiaries excluding cash and Cash Equivalents, minus (ii) all current liabilities of the Company and its Restricted Subsidiaries, except current liabilities included in Obligations described in clauses (i), (ii) and (x) of the definition of "Indebtedness".

"*Non-Recourse Debt*" means Indebtedness (i) as to which neither the Company nor any of its Restricted Subsidiaries (a) provides any guarantee or credit support of any kind (including any undertaking, guarantee, indemnity, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable (as a guarantor or otherwise), (ii) no default with respect to which (including any rights that the Holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Company or any of its Restricted Subsidiaries to declare a default under such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity and (iii) the explicit terms of which provide that there is no recourse against any of the assets of the Company or its Restricted Subsidiaries.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Obligors*" means the Issuer and the Guarantors collectively; "Obligor" means the Issuer or any Guarantor.

"*Officer*" means, with respect to any Person, any Managing Director, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary or any Vice President of such Person.

"*Officers' Certificate*" means a certificate signed on behalf of a Person by two Officers of such Person, one of whom must be the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer of such Person.

"*Oil and Gas Business*" means (i) the acquisition, exploration, exploitation, development, operation or disposition of interests in oil, gas or other hydrocarbon properties; (ii) the gathering, drilling, marketing, treating, processing, storage, selling, transporting or refining of any production from such interests or properties; (iii) any business relating to or arising from exploration for or development, production, gathering, drilling, marketing, treatment, processing, storage, sale, transportation or refining of oil, gas and other minerals and products produced in association therewith; (iv) the development, construction, operating or owning of an interest in any electrical power generation facility and electrical transmission facilities related to such electrical power generation facility; (v) any business relating to or arising from the transporting, processing, blending, terminalling, storing, marketing, retailing, refining or distilling crude oil, condensate, natural gas liquids, petroleum blendstocks or refined products thereof or the acquisition, development, construction, operation or ownership of facilities relating thereto or any direct or indirect interest therein; or (vi) any activity that is ancillary, necessary or desirable to facilitate the activities described in clauses (i) through (v) of this definition.

"*Opinion of Counsel*" means an opinion from legal counsel who is reasonably acceptable to the Trustee. Unless otherwise provided in the Indenture, the counsel may be an employee of or counsel to the Company, any Subsidiary of the Company or the Trustee.

"*Permitted Investments*" means (a) any Investments in the Company or in a Restricted Subsidiary of the Company that is engaged in the Oil and Gas Business; (b) any Investments in Cash Equivalents; (c) Investments by the Company or any Restricted Subsidiary of the Company in a Person if as a result of such Investment (i) such Person becomes a Restricted Subsidiary of the Company and such Person is engaged in the Oil and Gas Business or (ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to,

or is liquidated into, the Company or a Wholly Owned Restricted Subsidiary of the Company that is engaged in the Oil and Gas Business; (d) Investments made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described under "— Asset Sales"; (e) Investments by the Company or any of its Restricted Subsidiaries in an aggregate amount not to exceed $10.0 million outstanding at any one time; (f) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any of its Subsidiaries or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any debtor; (g) any operating agreements, joint ventures, partnership agreements, joint stock companies, limited liability partnerships, limited liability companies (so long as any Investments therein are exclusively used in the ordinary course of business of the Oil and Gas Business), working interests, royalty interests, mineral leases, processing agreements, farm-out agreements, contracts for the sale, transportation or exchange of oil and natural gas, unitization agreements, pooling arrangements, area of mutual interest agreements, production sharing agreements or other similar or customary agreements, transactions, properties, interests, or arrangements, and Investments and expenditures in connection therewith or pursuant thereto, in each case made or entered into in the ordinary course of the Oil and Gas Business; (h) accounts receivable created or acquired, and prepaid expenses arising, in the ordinary course of business; (i) the endorsements of negotiable instruments for collection or deposit in the ordinary course of business; and (j) the incurrence, assumption or creation of Hedging Obligations that the Company or a Restricted Subsidiary of the Company enter into in the ordinary course of business in the oil and gas industry for the purpose of protecting its production against fluctuations in oil or natural gas prices or protecting against fluctuations in interest rates or currency exchange rates, as applicable, in each case in compliance with the Indenture.

"*Permitted Liens*" means, without duplication, (i) Liens securing Indebtedness under any Term Facility, *provided* that the aggregate amount of secured Indebtedness under all such Term Facilities shall not exceed the Secured Limit at any time; (ii) Liens securing Indebtedness permitted by clauses (b), (c) (to the extent that the Liens securing such Indebtedness are Purchase Money Liens, *provided* that Purchase Money Liens securing Capital Lease Obligations are permitted hereunder without reference to the limitation as to aggregate principal amount contained in such clause (c)), (f), (g) and (h) (to the extent that cash on deposit may be encumbered by the issuance of trade letters of credit) of the second paragraph of the covenant described under the caption "— Incurrence of Indebtedness and Issuance of Preferred Stock"; (iii) Liens in favor of the Company or any Restricted Subsidiary; (iv) Liens on property of a Person existing at the time such Person is merged into or consolidated with the Company or any Restricted Subsidiary of the Company, *provided* that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with the Company; (v) Liens on property of a Person existing at the time such Person becomes a Restricted Subsidiary of the Company, *provided* that such Liens were in existence prior to the contemplation of such acquisition; (vi) Liens on property existing at the time of acquisition thereof by the Company or any Restricted Subsidiary of the Company, *provided* that such Liens were in existence prior to the contemplation of such acquisition and do not extend to any assets other than those of the Person or assets acquired by the Company or such Restricted Subsidiary; (vii) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds, tenders, bids, leases or other obligations of a like nature incurred in the ordinary course of business; (viii) Liens existing on the date of the Indenture; (ix) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, *provided* that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefor; (x) carriers', warehousemen's, mechanics', materialmen's, repairmen's, or other similar Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith by appropriate proceedings diligently conducted; (xi) easements,

rights-of-way, restrictions, minor defects or irregularities in title and other similar charges or encumbrances not interfering in any material respect with the business of the Company or any of its Restricted Subsidiaries; (xii) statutory Liens of landlords or of mortgagees of landlords arising by operation of law, *provided* that the rental payments secured thereby are not yet due and payable; (xiii) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security; (xiv) Liens securing obligations arising under the Indenture; (xv) Liens on assets of Unrestricted Subsidiaries that secure Non-Recourse Debt of Unrestricted Subsidiaries; (xvi) attachment or judgment Liens not giving rise to a Default or an Event of Default, *provided* that such Liens are adequately bonded and any appropriate legal proceedings that may have been initiated for the review of the judgment, decree or order to which such Liens pertain shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired; and (xvii) other Liens arising in the ordinary course of business of the Company or any Restricted Subsidiary which do not secure the payment of Indebtedness and in the aggregate do not materially adversely affect the value of the assets of the Company and its Restricted Subsidiaries, taken as a whole, or materially impair the use of such properties for the purposes for which such properties are held by the Company or such Restricted Subsidiaries, *provided* that the aggregate amount to which all such Liens incurred pursuant to this clause (xvii), taken together, relates, does not at any one time exceed $10.0 million or its equivalent in any other currency or currencies.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of the Company or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of the Company or any of its Restricted Subsidiaries, *provided* that: (i) the principal amount (or the accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the original principal amount (or the then current accreted value, if applicable) of the Indebtedness so extended, refinanced, renewed, replaced, defeased or refunded (plus the amount of reasonable expenses incurred in connection therewith); (ii) such Permitted Refinancing Indebtedness has a final maturity date at least as late as the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; (iii) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the Notes on terms at least as favorable to the Holders of Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and (iv) such Indebtedness is incurred either by the Company or by the Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company, or other business entity or government or agency or political subdivision thereof (including any subdivision or ongoing business of any such entity or substantially all of the assets of any such entity, subdivision or business).

"*Purchase Money Lien*" means a Lien granted on an asset or property to secure a Purchase Money Obligation or Capital Lease Obligation permitted to be incurred under the Indenture and incurred solely to finance the purchase, or the cost of construction or improvement, of such asset or property, *provided* that such Lien encumbers only such asset or property and is granted within 180 days of such acquisition.

"*Purchase Money Obligations*" of any Person means any obligations of such Person to any seller or any other Person incurred or assumed to finance the purchase, or the cost of construction or improvement, of real or personal property to be used in the business of such Person or any of its Restricted Subsidiaries in an amount that is not more than 100% of the cost, or Fair Market

Value, as appropriate, of such property, and incurred within 180 days after the date of such acquisition (excluding accounts payable to trade creditors incurred in the ordinary course of business).

"*Replacement Assets*" means any long-term assets, including property, plant or equipment of a nature or type that in each case is used or usable in the Oil and Gas Business and any other line of business in which the Company or any of its Restricted Subsidiaries is engaged on the Issue Date.

"*Responsible Officer*", when used with respect to the Trustee, means any officer of the Trustee with responsibility for the administration of the Indenture and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Subsidiary*" of a Person means any Subsidiary of the referenced Person that is not an Unrestricted Subsidiary.

"*Secured Acquisition Amount*" means, in respect of an Acquisition, the portion of the price paid by the Company or one of its Restricted Subsidiaries in relation to such Acquisition which has been funded by Indebtedness incurred by the Company or such Restricted Subsidiary that is secured by a Lien.

"*Secured Limit*" means (1) $350.0 million or (2) if an Acquisition has been made after the date of the Indenture, an amount equal to the lesser of (a) the aggregate of $350.0 million and the sum of the Secured Acquisition Amount attributable to such Acquisition and any previous Acquisitions and (b) $450.0 million (or, in any such case, its equivalent in any other currency).

"*Securities Act*" means the U.S. Securities Act of 1933.

"*Senior Debt*" means any Indebtedness incurred by the Issuer or a Guarantor, unless the instrument under which such Indebtedness is incurred expressly provides that it is subordinated in right of payment to the Notes or such Guarantor's Guarantee, as applicable, *provided* that Senior Debt will not include (a) any liability for federal, state, provincial, local or other taxes owed or owing, (b) any Indebtedness owing to any Subsidiaries of the Company, (c) any trade payables or (d) any Indebtedness that is incurred in violation of the Indenture.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act and the Exchange Act, as such Regulation is in effect on the date of the Indenture.

"*Subsidiary*" means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

"*Term Facility*" means any facility provided under any senior credit agreement by and among the Company and/or one or more of its Restricted Subsidiaries and one or more nationally or internationally recognized financial institutions (as designated by the Board of Directors of the Company in its sole judgment, and conclusively evidenced by a Board Resolution) (including, without limitation, the facility evidenced by U.S.$225,000,000 Facility Agreement, dated January

2, 2003, among HKM, as borrower, the Company, Hurricane Hydrocarbons Ltd. and Hurricane Marketing Limited, as guarantors, BNP Paribas, ING Bank N.V. and Natexis Banques Populaires, as joint mandated arrangers, Natexis Banques Populaires, as facility agent and security agent and BNP Paribas, as hedge counterparty, and the other parties thereto from time to time), as any such facility may from time to time be amended, renewed, supplemented, modified, refinanced, refunded or replaced, including increases in the principal amount thereof.

"*Trust Indenture Act*" means the U.S. Trust Indenture Act of 1939 as in effect on the date of the Indenture.

"*Unrestricted Subsidiary*" means (i) any Subsidiary (other than the Issuer, HKM, Valsera or HOP) that is designated by the Board of Directors as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors of the Company; but only to the extent that such Subsidiary: (a) has no Indebtedness other than Non-Recourse Debt; (b) is not party to any agreement, contract, arrangement or understanding with the Company or any Restricted Subsidiary of the Company unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company; (c) is a Person with respect to which neither the Company nor any of its Restricted Subsidiaries has any direct or indirect obligation (1) to subscribe for additional Equity Interests or (2) to maintain or preserve such Person's financial condition or to cause such Person to achieve or maintain any specified levels of profitability (it being understood that agreements entered into in the ordinary course of the Oil and Gas Business relating to transportation or throughput commitments will not constitute such an obligation); and (d) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Company or any of its Restricted Subsidiaries. Any such designation by the Board of Directors of the Company shall be evidenced to the Trustee by filing with the Trustee a resolution of the Board of Directors of the Company giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing conditions and was permitted by the covenant described under the caption " — Restricted Payments". If, at any time, any Unrestricted Subsidiary would fail to meet the foregoing requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary of the Company as of such date. The Board of Directors of the Company may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary, *provided* that such designation shall be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Company of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation shall only be permitted if (i) such Indebtedness is permitted under the covenant described under the caption " — Incurrence of Indebtedness and Issuance of Preferred Stock" and (ii) no Default or Event of Default would be in existence following such designation. As of the Issue Date, Hurricane Investments shall be an Unrestricted Subsidiary.

"*Valsera*" means Valsera Holdings B.V., an intermediate holding company organized under the laws of the Netherlands.

"*Voting Stock*" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment, by (ii) the then outstanding principal amount of such Indebtedness.

"*Wholly Owned Restricted Subsidiary*" of any Person means a Restricted Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests (other than directors' qualifying shares or shares or other ownership interests required by applicable law to be held by third parties) of which shall at the time be owned by such Person or by one or more Wholly Owned Restricted Subsidiaries of such Person. Unrestricted Subsidiaries shall not be included in the definition of Wholly Owned Restricted Subsidiary for any purposes of the Indenture.

Certain Tax Considerations

Certain U.S. Federal Income Tax Considerations

The following discussion is a summary of the principal U.S. federal income tax consequences of the ownership and disposition of the notes to a U.S. holder (as defined below) who purchases notes pursuant to this offering at the price set forth on the cover page. This discussion is based upon existing U.S. federal income tax law, including the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), administrative pronouncements, judicial decisions and Treasury Regulations, as in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect.

This summary assumes that each of the notes are held as a capital asset as defined in Section 1221 of the Internal Revenue Code, in the hands of U.S. holders at all relevant times. This summary does not discuss all aspects of U.S. federal income taxation that may be applicable to holders of notes, nor does it address any aspects of foreign, state or local taxation. Furthermore, this summary does not discuss all the tax consequences that may be relevant to a U.S. holder in light of such holder's particular circumstances, nor to U.S. holders subject to special rules including certain financial institutions, regulated investment companies, insurance companies, dealers in securities or currencies, tax-exempt organizations, persons who hold notes as part of a position in a "straddle" or "appreciated financial position" or as part of a "hedging" or "conversion" transaction or other integrated transaction, persons engaged in a trade or business in the U.S. or persons who have ceased to be U.S. citizens or to be taxed as resident aliens, and U.S. holders whose functional currency is not the U.S. dollar.

As used herein, "U.S. holder" means a holder of notes who or that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation organized under the laws of the United States or any political subdivision thereof (including the States and the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, (iv) a trust if a court within the U.S. is able to exercise primary jurisdiction over its administration and one or more U.S. persons have authority to control all substantial decisions of the trust, or (v) any other person that is subject to U.S. federal income tax on its worldwide income. This summary does not discuss any U.S. federal income tax consequences to holders that are not U.S. holders.

The following discussion is for general information only and is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of notes and no opinion or representation with respect to the U.S. federal income tax consequences to any such holder or prospective holder is made. Holders of notes are urged to consult their tax advisors with respect to the U.S. federal, state and local tax consequences, the foreign tax consequences and the non-tax consequences of the acquisition, ownership and disposition of notes.

Payment of Interest

Interest paid on a note generally will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. holder's method of accounting for U.S. federal income tax purposes. In addition to interest on the notes, a U.S. holder will be required to include in income any additional amounts and certain foreign taxes withheld from interest payments, notwithstanding that the U.S. holder does not in fact receive such withheld taxes. A U.S. holder may be entitled to deduct or credit withholding tax withheld by the issuer and paid over to the applicable taxing authorities or for any of those taxes paid directly to the applicable taxing authorities, subject to applicable limitations in the Internal Revenue Code. The rules governing the foreign tax credit are complex. Potential holders are urged to consult their tax advisors regarding the availability of the foreign tax credit in their particular circumstances. Interest income on a note generally will constitute foreign source income and generally will be considered "passive" income or "financial services" income (or, if withholding tax at a rate of 5% or more were to be imposed, as "high withholding tax interest"), which are treated separately from other types of income in computing the foreign tax credit allowable to U.S. holders under the Internal Revenue Code.

Sale, Redemption or Retirement of the Notes

Upon the sale, redemption or retirement of a note, a U.S. holder will generally recognize capital gain or loss in amount equal to the difference between (i) the amount of cash plus the fair market value of any property received (not including any amount attributable to accrued but unpaid interest not previously included in income, which will be taxable as ordinary income) and (ii) such U.S. holder's adjusted tax basis in the note. A U.S. holder's tax basis in a note will generally be the U.S. dollar cost to the holder of such note. Such gain or loss will be long-term capital gain or loss if the note was held by the U.S. holder for more than one year. If the U.S. holder is a U.S. resident (as defined in Section 865 of the Internal Revenue Code), gains realized upon disposition of a note by such U.S. holder generally will be U.S.-source income, and disposition losses generally will be allocated to reduce U.S-source income.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of interest on, and the proceeds of disposition of, a note to U.S. holders other than certain exempt recipients (such as corporations). A U.S. holder that is not an exempt recipient will generally be subject to backup withholding at the then applicable rate (currently 30%) with respect to such payments unless the U.S. holder provides a taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules will be creditable against the U.S. holder's U.S. federal income tax liability or refundable to the extent that it exceeds such liability, provided the required information is furnished to the Internal Revenue Service. A U.S. holder who does not provide a correct taxpayer identification number may be subject to penalties. Holders of notes should consult their tax advisors regarding the application of backup withholding in their particular situation, the availability of an exemption from backup withholding and the procedure for obtaining such an exemption, if available.

Certain Kazakhstan Income Tax Considerations

The following discussion summarizes certain Kazakhstan income tax considerations that may be relevant to the acquisition, ownership and disposition of the notes by an initial beneficial owner of the notes. The following discussion is based on the current Code of the Republic of Kazakhstan on Taxes and Other Mandatory Payments to the Budget, dated 12 June 2001, as amended, or Code, applicable regulations, orders and instructions promulgated and proposed thereunder, judicial and administrative interpretations, as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. We cannot assure the investor that the Government of Kazakhstan will not challenge one or more of the tax consequences described below, and we have not obtained, nor do we intend to obtain, a ruling or pronouncement from the Government of Kazakhstan or an opinion of counsel with respect to the Kazakhstan income tax consequences of acquiring, holding or disposing of the notes. In this discussion we do not purport to address all tax considerations that may be important to a prospective investor or a particular holder in light of the holder's circumstances, or to certain categories of investors that may be subject to special rules or treaty relationships.

INVESTORS CONSIDERING THE PURCHASE OF THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF KAZAKHSTAN INCOME TAX LAWS AND THE LAWS OF THEIR RESPECTIVE TAX JURISDICTION AND THE APPLICABILITY OF THEIR LOCAL, PROVINCIAL, FOREIGN TAX LAWS AND TAX TREATY RELATIONSHIPS.

Payments by Guarantors

The notes will be guaranteed by affiliated guarantors organized under the laws of Canada, the Netherlands and Kazakhstan. Payments of "considered" interest under the guarantees by the Kazakhstan guarantors will be subject to withholding of Kazakhstan tax at a rate of 15%, and payments of "considered" principal, fees and commissions, penalties or fines (if any) or other

income may be subject to withholding of Kazakhstan tax at a rate of up to 20% unless reduced or exempted by an applicable double taxation treaty. Payments, if any, under the guarantee to a noteholder entitled to the benefits of a Kazakhstan double taxation treaty may be subject to a reduced rate of withholding tax. For example, noteholders entitled to the benefits of the Kazakhstan double taxation treaty with United States, Germany, Italy, Sweden or the United Kingdom would be entitled to a reduced rate of withholding tax of 10%.

Consequences to Foreign Holders

Under the Code, as presently in effect, payments of principal and interest on the notes to an individual who is a beneficial owner and is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of management) in the Republic of Kazakhstan, nor maintains a permanent establishment (under the Code or applicable treaty) or otherwise in any manner has no taxable presence in Kazakhstan will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments.

Payments under the Kazakhstan-Netherlands Income Tax Treaty

HKM, is a resident for Kazakhstan income tax and treaty purposes. The issuer will on-lend the loan proceeds to HKM. HKM will make payments of principal and interest to the issuer to fund the issuer's obligations to make payments under the Notes. The interest payments made from HKM to the issuer will be subject to Kazakhstan withholding tax at ten (10) percent pursuant to the CONVENTION BETWEEN THE KINGDOM OF THE NETHERLANDS AND THE REPUBLIC OF KAZAKHSTAN FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME AND CAPITAL, effective January 1, 1996. The intercompany loan agreement between HKM and the issuer will contain assurances that any amounts paid subject to withholding will be grossed-up to compensate for any withholding tax withheld and that the issuer will receive the full amount of the payment required as if no withholding tax were paid on such payments.

Certain Dutch Income Tax Considerations

General

The information set out below is only a summarised description of certain material Dutch tax consequences of the purchase, holding and disposition of the notes and it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the notes. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the Netherlands.

This summary is based on the tax laws of the Netherlands as in effect on the date of this offering memorandum, as well as regulations, rulings and decisions of the Netherlands and its taxing and other authorities available on or before such date and now in effect. All of the foregoing is subject to change, which change could apply retroactively and could affect the continued validity of this summary.

Because it is a general summary, holders of the notes should consult their own tax advisors as to the Dutch or other tax consequences of the purchase, holding and disposition of the notes, including, in particular, the application to their particular situations of the tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

Withholding tax

All payments to be made by the issuer under the notes may be made free of withholding or deduction for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

Tax on Income and Capital Gains

A holder of a note will not be subject to Dutch taxation on (deemed) income or capital gains in respect of that note, provided that such holder of a note:

(i) is neither a tax resident nor deemed to be a tax resident of the Netherlands, nor, if such holder is an individual, has elected to be taxed as a resident of the Netherlands;

(ii) does not have an enterprise, or an interest in an enterprise, which is, in whole or in part, carried on through a permanent establishment or permanent representative in the Netherlands to which or to whom such (deemed) income or capital gains are attributable or are deemed attributable;

(iii) is not entitled to a share in the profits of or has an interest in an enterprise effectively managed in the Netherlands other than by way of the holding of securities or through an employment contract, to which enterprise the (deemed) income or capital gains are attributable;

(iv) in the case such holder is an individual, does not perform activities in the Netherlands with respect to the notes that exceed normal asset management;

(v) in the case such holder is an individual, does not have, and certain persons related or deemed related to that holder do not have, directly or indirectly, a substantial interest, as defined in the Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), in the issuer, or in any company that legally or in fact, directly or indirectly, has the disposition of any part of the proceeds of the notes; and

(vi) in the case such holder is not an individual, does not have, directly or indirectly, a substantial interest or a deemed substantial interest, as defined in the Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), in the Company, or, in the event that the holder does have such interest, it forms part of the assets of an enterprise.

If a holder of a Note is not a resident or a deemed resident in the Netherlands, but is a resident in another country the following may apply. If a double taxation convention is in effect between the Netherlands and the country in which such holder of a note is resident, such holder may, depending on the terms of and subject to compliance with the procedures for claiming benefits under such double taxation convention, be eligible for a full or partial exemption from Netherlands taxes (if any) on (deemed) income or capital gains in respect of a note provided such holder is entitled to the benefits of that treaty.

Gift, Estate, or Inheritance Tax

No gift, estate or inheritance tax will arise in the Netherlands on a transfer of a note by way of gift by, or on the death of a holder of a note who is neither a resident, nor a deemed resident of the Netherlands, provided that:

(i) such transfer is not construed as an inheritance, a bequest or a gift by or on behalf of a person who, at the time of the gift or his death, is or was a resident or a deemed resident of the Netherlands;

(ii) such holder of a note does not have an enterprise, or an interest in an enterprise, which is carried on through a permanent establishment or permanent representative in the Netherlands and to which enterprise the note is or was attributable; and

(iii) such holder of a note is not entitled to a share in the profits of an enterprise effectively managed in the Netherlands other than by way of the holding of securities or through an employment contract, to which enterprise the note is or was attributable; and

such holder of a note does not die within 180 days after the date of a gift of a Note made while that holder was a resident or a deemed resident of the Netherlands.

Value Added Tax

No Netherlands value added tax shall be payable by a holder of a note in consideration for the issue of the notes or in respect of the payment of interest or principal under the notes or the transfer of the notes.

Other Taxes or Duties

No Netherlands registration tax, custom duty, transfer tax, stamp duty or any other similar tax or duty, other than court fees, will be payable in the Netherlands by a holder of a note in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of the Netherlands) of the notes or the performance by the issuer of its obligations under the notes.

Residence

A holder of a note will not be treated as a tax resident in the Netherlands by reason only of the holding of a note or the execution, performance, delivery and/or enforcement of a note.

Proposed EU Savings Directive

On 18 July 2001, the European Commission published a Proposal for a Directive to ensure effective taxation of savings income in the form of interest within the European Community. On 21 January 2003 the EU Council reached an agreement on the Directive and committed itself to adopt it before its meeting in March of 2003. The Council decided that the effective date of the Directive will depend on agreements being reached with certain non-Member States. Under the Directive, subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments. The Netherlands has indicated that it will not opt for a withholding system, but please note that this does not affect current or possible future withholding taxes on interest under domestic law.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE HOLDING OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

Subject to the terms and conditions in the subscription agreement dated February 11, 2003 among the issuer, the guarantors and the initial purchasers, the issuer has agreed to sell to the initial purchasers, and the initial purchasers have agreed to purchase from the issuer, the entire principal amount of the notes. The issuer and the guarantors will pay to the initial purchasers a commission of 0.875% of the principal amount of the notes. The issuer and the guarantors will agree to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments which the initial purchasers may be required to make in respect of such liabilities. The subscription agreement provides that the initial purchasers will purchase all the notes if any of them are purchased.

The initial purchasers initially propose to offer the notes for resale at the issue price that appears on the cover of this offering memorandum. After the initial offering, the initial purchasers may change the offering price and any other selling terms. The initial purchasers may offer and sell notes through certain of their affiliates.

United States

The notes and the guarantees have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The initial purchasers have agreed that, except as permitted by the subscription agreement, they will not offer or sell the notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the issue date, within the United States or to, or for the account or benefit of, U.S. persons, and they will have sent to each dealer to which they sell notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. The subscription agreement provides that the initial purchasers may directly or through their U.S. broker-dealer affiliates arrange for the offer and resale of notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the notes, an offer or sale of notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

In the subscription agreement, the initial purchasers will represent and agree that (a) they have not offered or sold and, prior to the expiry of a period of six months from the issue date of the notes, will not offer or sell any notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted in and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (b) they have only communicated or caused to be communicated and will only communicate or caused to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by them in connection with

the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the issuer or the guarantors, and (c) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the notes in, from or otherwise involving the United Kingdom.

The Netherlands

The notes are and will be offered in the Netherlands exclusively to persons who trade or invest in securities in the conduct of their profession or trade (which includes banks, securities intermediaries (including brokers and dealers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities in a professional manner) (referred to as "Professional Investors"). In the purchase agreement, the initial purchasers will represent and agree that they have not and will not offer the notes, and that any offer of the notes and any announcement thereof has stated and will state that the notes are not and will not be offered, in the Netherlands other than to Professional Investors.

Canada

The notes have not been and will not be qualified for sale under the securities laws of Canada or any province or territory of Canada. The notes may not be offered or sold, and the initial purchasers have agreed not to offer or sell the notes, directly or indirectly, in Canada, or to or for the benefit of any resident of Canada, in violation of the securities laws of Canada or any province or territory of Canada.

Kazakhstan

The notes when issued will not be registered as a domestic distribution with the National Bank of the Republic of Kazakhstan, or the NBK, but will be certified as notes issued under foreign jurisdiction by a financing subsidiary of a resident Kazakhstan company and accepted for circulation in Kazakhstan. Upon receipt of the acceptance certificate of NBK, HKM will apply to the Kazakhstan Stock Exchange, or KASE to list the notes on KASE. Certain institutional investors in Kazakhstan, such as banks and pension funds, are prohibited from holding the notes if such notes are not listed in KASE.

The initial purchasers have agreed that they will not offer or sell the notes in Kazakhstan except in compliance with the laws of Kazakhstan.

Italy

The offering of the notes in Italy has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation and, accordingly, the initial purchasers have represented and agreed that they have not offered, and will not offer, any notes in the Republic of Italy in a solicitation to the public at large (*sollecitazione all'investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, and that sales of the notes in the Republic of Italy shall only be: (a) to investors qualifying under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of 1 July 1998, as amended, and such notes shall be placed, sold and/or offered, neither in the primary nor in the secondary market to individuals residing in the Republic of Italy; and (b) effected in compliance with Article 129 of the Legislative Decree no. 385 of 1 September 1993 and the implementing instructions of the Bank of Italy, pursuant to which the issue or offer of securities in the Republic of Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending inter alia on the amount of the issue and the characteristics of the securities, applies; and (c) effected in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy; and (d) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of Italian law.

Pre-Issue Trades Settlement

It is expected that delivery of the notes will be made against payment therefor on the issue date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, trades in the United States secondary market generally are required to settle within three business days ("T+3"), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes in the United States on the date of pricing or the next succeeding business days until the issue date will be required, by virtue of the fact that the notes will initially settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of notes may be affected by such local settlement practices and purchasers of notes who wish to trade notes between the date of pricing and the issue date should consult their own advisers.

General

No action has been or will be taken in any jurisdiction by the issuer or the guarantors that would permit a public offering of the notes, or possession or distribution of this offering memorandum, in any country or jurisdiction where action for that purpose is required. The initial purchasers have agreed that they will comply with all applicable laws and regulations in each jurisdiction in which they acquire, offer, sell or deliver notes or have in their possession or distributed this offering memorandum, in all cases at their own expense. None of the issuer or any guarantor nor the initial purchasers will have any responsibility for, and the initial purchasers have agreed that they will obtain any consent, approval or permission required by them for, the acquisition, offer, sale or delivery by them of notes under the laws and regulations in force in any jurisdiction to which they are subject or in or from which they make any acquisition, offer, sale or delivery.

The notes are a new issue of securities, and there is currently no established trading market for the notes. In addition, the notes are subject to certain restrictions on resale and transfer as described under "Transfer Restrictions". We have applied for the notes to be listed on the Luxembourg Stock Exchange and the Irish Stock Exchange and intend to maintain one such listing. In addition, we will apply to list the notes on the Kazakhstan Stock Exchange. We cannot assure you that a liquid trading market will develop for the notes, that you will be able to sell your notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

In connection with this offering, J.P. Morgan Europe Limited, or any person acting for it, may over-allot or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there may be no obligation on J.P. Morgan Europe Limited or any agent of it to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought at any time and must be brought to an end after a limited period. Overallotment involves sales in excess of the offering size, which creates a short position for J.P. Morgan Europe Limited. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions. Such stabilizing activities will not be carried out by J.P. Morgan Europe Limited as agent for the issuer and J.P. Morgan Europe Limited will not account to the issuer for any resulting profit nor will they be liable for any loss.

Transfer Restrictions

Rule 144A Notes

By purchasing notes within the United States pursuant to Rule 144A and accepting delivery of this offering memorandum, you will be deemed to have represented, agreed and acknowledged that:

(1) You are a qualified institutional buyer within the meaning of Rule 144A ("QIB"), acquiring such notes for your own account or for the account of a QIB and you are aware that the initial purchasers are selling the notes to you in reliance on Rule 144A.

(2) You understand that such notes and the guarantees have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that you and any person acting on your behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(3) You understand that such notes will bear a legend substantially to the following effect:

> THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

(4) The issuer, the registrar, the initial purchasers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If you are acquiring any notes for the account of one or more QIBs, you represent that you have sole investment discretion with respect to each such account and that you have full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(5) You understand that the notes offered in reliance on Rule 144A will be represented by a Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note, you will be required to provide the registrar with a written certification (in the form provided in the indenture) as to compliance with applicable securities laws.

You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

By purchasing notes outside the United States pursuant to Regulation S and in resales prior to the expiration of the distribution compliance period, and by accepting delivery of this offering memorandum and the notes, you will be deemed to have represented, agreed and acknowledged that:

(1) You are, or at the time notes are purchased will be, the beneficial owner of such notes and (a) you are not a U.S. person and you are located outside the United States (within the meaning of Regulation S) and (b) you are not an affiliate of the issuer, any guarantor or a person acting on behalf of such an affiliate.

(2) You understand that such notes and the guarantees have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, you will not offer, sell, pledge or otherwise transfer such notes except (a) in accordance with Rule 144A under the Securities Act to a person that you and any person acting on your behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) The issuer, the registrar, the initial purchasers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

(4) You understand that the notes offered in reliance on Regulation S will be represented by the Unrestricted Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Note, it will be required to provide the registrar with a written certification (in the form provided in the indenture) as to compliance with applicable securities laws.

Legal Matters

Certain legal matters will be passed upon for the issuer and the guarantors by Paul, Weiss, Rifkind, Wharton & Garrison LLP, London, England and for the initial purchasers by Linklaters, London, England. Certain matters of Dutch law relating to the notes will be passed upon by Stibbe, Dutch counsel for the issuer and the guarantors. Certain matters of Kazakhstani law relating to the notes will be passed upon by Bracewell & Patterson L.L.P., Kazakhstani counsel for the issuer and the guarantors, and Denton Wilde Sapte, Kazakhstani counsel for the initial purchasers. Certain matters of Canadian law relating to the notes will be passed upon by Gowling Lafleur Henderson LLP, Canadian counsel to the issuer and the guarantors.

Independent Accountants

The consolidated financial statements of Hurricane Hydrocarbons Ltd. at December 31, 2000 and 2001, and for each of the three years ended December 31, 2001, included in this offering memorandum, have been audited by TOO Deloitte & Touche, independent auditors, as stated in their report appearing elsewhere in this offering memorandum.

Experts

The estimates of our oil reserves included in this document have been excerpted from and included in reliance upon the McDaniel Reports dated March 7, 2002 and March 7, 2002 with an effective date as of January 1, 2002, and upon the authority of McDaniel as experts in the estimation of petroleum reserves.

Where You Can Find More Information

We were incorporated under the laws of the province of Alberta, Canada in 1986, as a subsidiary of Brana Oil & Gas Ltd., formerly a public oil and gas company listed on the Alberta Stock Exchange. In 1987, Brana Oil & Gas spun off Hurricane to its shareholders. In 1987, its common shares were listed on the Alberta Stock Exchange, which is now the Canadian Venture Exchange. Our Class A Common shares, or common shares, are listed on the Toronto Stock Exchange and the New York Stock Exchange and trade under the symbol "HHL" and on the Frankfurt Stock Exchange under the symbol "HHCA". Our corporate headquarters are located at Suite 1460, SunLife Plaza, North Tower, 140 - 4th Avenue S.W., Calgary, Alberta, Canada T2P 3N3, and our phone number is (403) 221-8435.

We are currently subject to the periodic reporting and other informational requirements of the Exchange Act. The reports and other information that we filed with the Commission can be inspected and copied at prescribed rates at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the public reference facilities by calling the Commission at 1-800-SEC-0330.

As long as the notes are listed on the Luxembourg Stock Exchange, we will maintain copies of such materials at the specified office of the paying agent in Luxembourg where they will be made available upon request. You can also obtain copies of such materials from us upon request.

We have agreed that, whether or not we are required to do so by the rules and regulations of the Commission, for so long as any of the notes remain outstanding, we will furnish to the trustee for your benefit as a holder of the notes and will, if permitted, file with the Commission:

- all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 20-F (or Form 40-F) and IO-Q if we were required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to audited information only, a report thereon by our certified independent accountants; and

- all reports on Form 6-K (or any successor form) that would be required to be filed with the Commission if we were required to file such reports.

The Issuer and the Guarantors

Hurricane Finance B.V.

Hurricane Finance B.V., the issuer of the notes, is a private company with limited liability incorporated under the laws of the Netherlands with its registered office and principal administrative office at Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The issuer was incorporated in the Netherlands on April 6, 2001 and registered with the chamber of commerce and industry for Rotterdam with number 34154318. Article 2.1 sub e of the articles of association of the issuer (as lastly amended on August 6, 2002) permits it, *inter alia,* to lend and borrow funds. So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, copies of the statutory documents of the issuer will be available for inspection at the office of the paying agent in Luxembourg. The outstanding share capital of the issuer consists of 200 ordinary shares (authorized share capital of Euro 100,000 and issued and fully paid-up share capital of Euro 20,000, divided into 200 ordinary shares of Euro 100 nominal value each). Other than the notes, it is not intended that the issuer will issue any additional securities. The issuer has no direct or indirect subsidiaries. See the organizational chart on page 9 of this offering memorandum for a description of the issuer in relation to other members of the Hurricane group.

The issuer's principal activities consist of acting as a finance subsidiary for the Hurricane group. The issuer has not engaged in any other business activity since its inception and will be restricted by the terms of the indenture from engaging in any business activity or undertaking any other activity other than certain activities relating to the notes. See "Description of the Notes — Certain Covenants — Limitation on Activities of Issuer and Valsera". The issuer has generated no revenues during the last two fiscal years. The issuer does not have any facilities and does not own any real estate. The issuer is not dependent on any patents, licenses, industrial, commercial or financial contracts or manufacturing processes and is not party to any legal or arbitration proceedings. Other than in connection with the intercompany loan, the issuer has not made over the last three fiscal years and will not make any investments in assets or other entities.

The issuer does not prepare separate financial statements. Other than those relating to the notes, the issuer does not have and will not have any outstanding indebtedness, borrowings or contingent liabilities. The sole managing director of the issuer is Equity Trust Co. N.V.

Hurricane Hydrocarbons Ltd.

Hurricane Hydrocarbons Ltd., one of the guarantors of the notes, is a corporation organized under the laws of the province of Alberta, Canada with its registered office and principal administrative office at SunLife Plaza, North Tower, Suite 1460, 140—4th Avenue S.W., Calgary, Alberta T2P 3N3, Canada and a principal administrative office at 31 Sheet Street, Windsor, Berkshire, SL4 1BY, England. Hurricane was incorporated in 1986. See "Business — Corporate Development" and "— Downstream Operations — History of HOP". The memorandum of association of Hurricane permits it to engage in any activity in which a Canadian corporation may engage not otherwise prohibited by Canadian law. So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, copies of the statutory documents of Hurricane will be available for inspection at the office of the paying agent in Luxembourg. As reported in the notes to Hurricane's most recent audited financial statements, the authorized share capital consists of an unlimited number of Class A common shares and an unlimited number of Class B redeemable preferred stock, issuable in series. As of December 31, 2001, 80,103,784 Class A common shares were issued and outstanding and no shares of Class B redeemable preferred stock were issued and outstanding. Hurricane's Class A common shares are publicly traded on the Toronto and New York Stock Exchanges. Hurricane is the parent holding company for the members of the Hurricane group. See the organizational chart on page 9 of this offering memorandum for a description of Hurricane in relation to other members of the Hurricane group.

Hurricane's principal activities consist of acting as the parent holding company for the members of the Hurricane group and investment in companies engaged in the exploration for, and production, refining and export of, crude oil and the marketing of crude oil and refined products in the Republic of Kazakhstan. Hurricane provides various corporate services to the group and conducts no operating activities, which are conducted through its direct and indirect subsidiaries. See "Business — Upstream Operations" and "— Downstream Operations". Hurricane had consolidated total revenues of $603.1 million and $523.2 million for 2001 and 2000, respectively. Hurricane leases office space in Calgary, Alberta and Windsor, England, but does not own any real estate. Hurricane is not dependent on any patents, licenses, industrial, commercial or financial contracts or manufacturing processes. For a discussion of Hurricane's interest in the Turgai Petroleum joint venture which operates the Kumkol North and East Kumkol fields, see "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business — Corporate Development — Turgai Petroleum", "Business — Upstream Operations", Note 3 to the unaudited consolidated financial statements included herein and Note 6 to the audited consolidated financial statements included herein. Reserve information with respect to each of these fields is set forth in "Business — Upstream Operations — Oil and Gas Reserves".

Information concerning the board of directors and principal officers of Hurricane is set forth under "Management".

Hurricane Kumkol Munai OJSC

Hurricane Kumkol Munai OJSC, one of the guarantors of the notes, is an open joint stock company organized under the laws of the Republic of Kazakhstan with its registered office at 13 Kazybek bi street, Kyzlorda, Republic of Kazakhstan and its principal administrative office at 204 Karasai Batyr Street, Almaty, Republic of Kazakhstan. HKM was organized in Kazakhstan on March 21, 1991 under the Law of KazakhSSR On Enterprises in KazakhSSR dated February 13, 1991, as amended, in the form of Industrial Enterprise Yuzhkazneftegaz. On May 13, 1994, HKM was re-registered as State Joint Company Yuzhneftegas. HKM was re-registered under its current name on June 10, 1997. Its registration number as shown in the uniform State register of legal entities maintained by the Ministry of Justice of Kazakhstan is 2685-1900-AO(IU). See "Business — Corporate Development". Article 1.5 of HKM's charter permits it to engage in any activity in which a Kazakhstan corporation may engage not otherwise prohibited by Kazakhstan law. So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, copies of the statutory documents of HKM will be available for inspection at the office of the paying agent in Luxembourg. The outstanding securities of HKM consist of 4,573,024 shares (authorized, issued and paid in capital of 91,460,480 Tenge divided into 4,093,192 voting common shares of 20 Tenge nominal value each and 479,832 voting preferred shares of 20 Tenge nominal value each). See the organizational chart on page 9 of this offering memorandum for a description of HKM in relation to other members of the Hurricane group.

HKM's principal activities consist of the exploration for, and production of, crude oil in the Republic of Kazakhstan and with Hurricane's 50% interests in the Turgai and Kazgermunai joint ventures comprise the upstream operations of the Hurricane group. See "Business — Upstream Operations". Hurricane's upstream operations generated unconsolidated revenues (before intercompany eliminations) of $446.6 million and $322.7 million for 2001 and 2000, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations", Notes 4 and 6 to the audited consolidated financial statements and Notes 2 and 3 to the unaudited consolidated financial statements included herein for a segment breakdown of downstream versus upstream operating results and amounts relating to the joint ventures which have been included in Hurricane's upstream results on the basis of proportionate consolidation. Factors affecting these results are discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Factors affecting our results". HKM's primary assets consist of exploration and production license interests in eleven fields. See "Business — Upstream Operations — Principal Properties" for a description of these fields, how they have been developed and the terms of the related licenses and hydrocarbon contracts. See "Business — Upstream Operations — Oil and Gas Reserves" for a description of the reserves relating to these fields. HKM does not own any real estate. HKM is not dependent on any patents, licenses, industrial, commercial or financial contracts or manufacturing processes other than the licenses and hydrocarbon contracts relating to its fields. See "Business — Upstream Operations — Material Licenses" and " — Material Agreements". For a discussion of HKM's interest in the Kazgermunai joint venture which operates the Akshabulak, Nurali and Aksai fields, see "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business — Corporate Development — Kazgermunai LLP", "Business — Upstream Operations", Note 3 to the unaudited consolidated financial statements included herein and Note 6 to the audited consolidated financial statements included herein. Reserve information with respect to each of these fields is set forth in "Business — Upstream Operations — Oil and Gas Reserves".

The board of directors of HOP consists of Messrs. Marlo Thomas and Mike Azancot. See "Management".

Hurricane Oil Products OJSC

Hurricane Oil Products OJSC, one of the guarantors of the notes, is an open joint stock company organized under the laws of the Republic of Kazakhstan with its registered office at 5th Km. of

Lengesskoe Shosse, Shymkent, Yuzhna-Kazakhstanskaya Oblast, Republic of Kazakhstan and its principal administrative office at 204 Karasai Batyr Street, Almaty, Republic of Kazakhstan. Shymkent Oil Refinery was first commissioned in 1985. On December 31, 1993, it was registered as Shymkentnefteorgsyntez Open Joint Stock Company by Resolution No. 251 of the South Kazakhstani Territorial State Property Committee dated December 30, 1993. On September 11, 2002, it was re-registered under its current name and its registration number as shown in the uniform State register of legal entities maintained by the Ministry of Justice of Kazakhstan is 79-1958-AO(IU). See "Business — Corporate Development" and "— Downstream Operations — History of HOP". Article 1.5 of HOP's charter permits it to engage in any activity in which a Kazakhstan corporation may engage not otherwise prohibited by Kazakhstan law. So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, copies of the statutory documents of HOP will be available for inspection at the office of the paying agent in Luxembourg. The outstanding securities of HOP consist of 62,322,701 shares (authorized charter capital of 100,000,000 Tenge and issued and paid-in share capital of 62,322,701 Tenge, divided into 61,928,201 voting common shares of 1 Tenge nominal value each and 394,500 voting preferred shares of 1 Tenge nominal value each). See the organizational chart on page 9 of this offering memorandum for a description of HOP in relation to other members of the Hurricane group.

HOP's principal activities consist of the downstream operations of the Hurricane group: the refining and export of crude oil and the marketing of crude oil and refined products in the Republic of Kazakhstan. See "Business — Downstream Operations". HOP had unconsolidated revenues (before intercompany eliminations) of $349.7 million and $402.1 million for 2001 and 2000, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations", Note 4 to the audited consolidated financial statements and Note 2 to the unaudited consolidated financial statements included herein for a segment breakdown of downstream versus upstream operating results. Factors affecting these results are discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Factors affecting our results". HOP's primary assets consist of the Shymkent oil refinery. See "Business — Downstream Operations — Refining" for a description of the Shymkent oil refinery. HOP is not dependent on any single patent, license, industrial, commercial or financial contract or manufacturing process.

The board of directors of HOP consists of Messrs. Marlo Thomas and Christian Cleret. See "Management".

General

For a discussion of legal or arbitration proceedings affecting Hurricane, HKM and HOP, see "Business — Legal Proceedings", Note 13 to the unaudited consolidated financial statements included herein and Note 16 to the audited consolidated financial statements included herein.

For a discussion of significant investments made by Hurricane, HKM and HOP over the last three fiscal years, see "Business — Corporate Development — The HOP Acquisition", Note 6 to the unaudited consolidated financial statements included herein and Note 3 to the audited consolidated financial statements included herein.

For a discussion of capital expenditures and commitments of Hurricane, HKM and HOP, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Expenditures" and "— Commitments", "Business — Upstream Operations — Material Licenses", "— Downstream Operations — The HOP Privatization Agreement" and Note 16 to the audited consolidated financial statements included herein.

For a discussion of indebtedness and the capitalization of Hurricane, HKM and HOP, see "Capitalization", "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources", "Description of Certain Financing Arrangements", Notes 8, 9 and 10 to the unaudited consolidated financial statements included herein and Notes 10, 11, 12 and 13 to the audited consolidated financial statements included herein. For a discussion of material guaranteed indebtedness of Hurricane, HKM and HOP, see "Description of Certain Financing Arrangements". For a discussion of sources of liquidity to and their uses by Hurricane, HKM and HOP, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources", "Description of Certain Financing Arrangements", Hurricane's audited and unaudited consolidated statements of cash flows included herein, Notes 8, 9 and 10 to the unaudited consolidated financial statements included herein and Notes 10, 11, 12 and 13 to the audited consolidated financial statements included herein

For a discussion of contingent liabilities of Hurricane, HKM and HOP, see "Business — Environmental", "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" and "Description of Certain Financing Arrangements", Note 13 to the unaudited consolidated financial statements included herein and Note 16 to the audited consolidated financial statements included herein.

General Listing Information

1 Application has been made to list the notes on the Luxembourg Stock Exchange. In connection with the application to list the notes on the Luxembourg Stock Exchange, copies of the articles of association of the issuer, and a legal notice relating to the issue of the notes, will have been deposited prior to listing with the Chief Registrar of the District Court of Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where such documents may be inspected and copies obtained upon request for so long as any of the notes are outstanding.

2 The issuer was incorporated in the Netherlands on April 6, 2001, with its corporate seat at Amsterdam, the Netherlands. The registered address is Schouwburgplein 30-34, 3012 CL Rotterdam, the Netherlands. Other than the issuance of common shares to its parent, HKM, the issuer has not issued any other securities and, except with regard to the notes, it is not intended that the issuer will issue any additional securities. In addition, the issuer has not engaged in any business activity and will be restricted by the terms of the indenture from engaging in any business activity or undertaking any other activity other than certain activities relating to the notes. See "Description of the Notes—Certain Covenants—Limitation on Activities of Issuer and Valsera".

3 So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, copies of the statutory documents of the issuer and the guarantors, the indenture (including the terms of the guarantees) and the intercompany loan will be available for inspection at the office of the paying agent in Luxembourg. Hurricane prepares annual audited and quarterly unaudited financial statements on a consolidated basis in accordance with Canadian GAAP. Hurricane does not prepare financial statements on an unconsolidated basis, except that Hurricane prepares annual unconsolidated financial statements for HOP which are prepared in accordance with IAS and which are only made public in Kazakhstan. So long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, copies of audited annual consolidated and unaudited quarterly consolidated financial statements of Hurricane will be available, and may be obtained free of charge, during normal business hours on any business day (except Saturdays, Sundays and legal holidays) at the office of the paying and transfer agent referred to in paragraph 8 below. Hurricane prepares its financial statements in accordance with Canadian GAAP.

4 The issue of the notes was authorized by a resolution of the issuer's management board adopted on January 23, 2003. The guarantee of the notes by Hurricane was approved by its board of directors by resolutions adopted on February 3, 2003. The guarantee of the notes by HKM was approved by its managing board by resolutions adopted on April 17, 2002 and by its shareholders by resolutions adopted on May 24, 2002. The guarantee of the notes by HOP was approved by its managing board by resolutions adopted on April 18, 2002 and by its shareholders by resolutions adopted on May 24, 2002.

5 Except as disclosed in this offering memorandum, there has been no material adverse change in the financial position of the issuer since the date of its incorporation.

6 Except as disclosed in this offering memorandum, there has been no material adverse change in the financial position of Hurricane and its direct and indirect subsidiaries since December 31, 2001.

7 Except as disclosed in this offering memorandum, we are not involved in, and have no knowledge of a threat of, any litigation, administrative proceeding or arbitration which is or may be material in the context of the issue of the notes.

8 We have appointed J.P. Morgan Bank Luxembourg S.A. as the paying and transfer agent for the notes in Luxembourg. We reserve the right to vary such appointment. So long as the notes are listed on the Luxembourg Stock Exchange, we will maintain a paying and transfer agent in Luxembourg.

9 The notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream, Luxembourg. The Restricted Global Note has a CUSIP number of 447793AA8 and the Unrestricted Global Note has a Common Code of 016268038 and an ISIN of XS0162680382.

10 According to Chapter VI, Article 3, point A/II/2 of the rules and regulations of the Luxembourg Stock Exchange, the securities shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

Index to Financial Statements

	Page
Interim consolidated financial statements for the periods ended September 30, 2002 and 2001 (unaudited)	
Interim consolidated statements of income and deficit	F-2
Interim consolidated balance sheets	F-3
Interim consolidated statements of cash flows	F-4
Notes to interim consolidated financial statements	F-5
Management's Report	F-18
Independent auditors' report	F-19
Comments by Auditor for U.S. readers on Canada-U.S. reporting difference	F-20
Consolidated financial statements for the years ended December 31, 2001, 2000 and 1999:	
Consolidated statements of income and deficit	F-21
Consolidated balance sheets	F-22
Consolidated statements of cash flow	F-23
Notes to the consolidated financial statements	F-24

Hurricane Hydrocarbons Ltd.

Interim consolidated statements of income and deficit

(expressed in thousands of U.S.$) unaudited

	9 months ended Sept. 30, 2002	3 months ended Sept. 30 2002	9 months ended Sept. 30 2001	3 months ended Sept. 30 2001
Revenue				
Crude oil	319,606	143,820	193,342	64,344
Refined products	240,476	101,031	264,774	89,977
Processing fees	2,112	678	8,623	3,273
Interest and other income	6,497	2,433	8,094	3,149
	568,691	247,962	474,833	160,743
Expenses				
Production	41,669	15,256	29,681	10,404
Royalties and taxes	43,709	21,538	30,748	14,461
Transportation	100,131	50,194	34,218	12,324
Refining	17,607	5,280	14,606	4,709
Crude oil and refined product purchases	50,414	11,765	60,862	18,662
Selling	18,724	8,102	15,057	4,528
General and administrative	42,270	14,440	35,355	12,795
Interest and financing costs	26,078	8,828	12,126	5,773
Depletion and depreciation	29,064	11,686	24,618	9,041
Foreign exchange loss (gain)	1,771	1,362	435	(217)
	371,437	148,451	257,706	92,480
Income before unusual items	197,254	99,511	217,127	68,263
Unusual items				
Arbitration settlement	7,134	43	—	—
Defense costs related to potential takeover bid	—	—	6,000	—
Income before income taxes	190,120	99,468	211,127	68,263
Income taxes (note 11)				
Current provision	64,706	36,358	67,377	22,992
Future income tax	6,312	2,206	(3,699)	(2,126)
	71,018	38,564	63,678	20,866
Net income before minority interest	119,102	60,904	147,449	47,397
Minority Interest	1,672	391	1,153	907
Net income	117,430	60,513	146,296	46,490
Retained earnings, (deficit), beginning of period	(66,366)	(9,465)	(18,887)	80,904
Purchase of common shares (Note 10)	(2,164)	(2,164)	—	—
Common share dividends	—	—	(209,710)	(209,710)
Preferred share dividends	(23)	(7)	(17)	(2)
Retained earnings, (deficit), end of period	48,877	48,877	(82,318)	(82,318)
Basic net income per share (note 14)	1.45	0.74	1.83	0.58
Diluted net income per share (note 14)	1.39	0.71	1.73	0.55

Hurricane Hydrocarbons Ltd.

Interim consolidated balance sheets

(expressed in thousands of U.S.$) unaudited

	As at September 30, 2002	As at December 31, 2001
Assets		
Current		
Cash and cash equivalents	162,246	64,812
Accounts receivable (Note 4)	81,907	52,287
Inventory	30,353	29,946
Prepaids (Note 5)	52,174	17,319
Current portion of future income tax asset	6,874	5,766
	333,554	170,130
Long term investments	—	40,000
Future income tax asset	20,891	29,444
Capital assets	382,939	332,896
Total assets	737,384	572,470
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	78,205	48,758
Short term debt (Note 8)	75,278	52,557
Prepayments for crude oil and refined products	11,309	7,422
	164,792	108,737
Long-term debt (Note 9)	293,197	277,767
Provision for future site restoration costs	3,904	3,148
Future income tax liability	17,826	24,988
	479,719	414,640
Minority interest	10,357	25,599
Preferred shares of subsidiary	85	91
Commitments and contingencies (note 13)		
Shareholders' equity		
Share capital (Note 10)	198,346	198,506
Retained earnings, (Deficit)	48,877	(66,366)
	247,223	132,140
Total liabilities and shareholders' equity	737,384	572,470

APPROVED BY THE BOARD OF DIRECTORS

(signed) BERNARD ISAUTIER
Director

(signed) ROBERT KAPLAN
Director

Hurricane Hydrocarbons Ltd.

Interim consolidated statements of cash flow

(expressed in thousands of U.S.$) unaudited

	9 months ended Sept. 30, 2002	3 months ended Sept. 30, 2002	9 months ended Sept. 30, 2001	3 months ended Sept. 30, 2001
Cash provided by (used in):				
Operating activities				
Net income	117,430	60,513	146,296	46,490
Items not affecting cash:				
Depletion and depreciation	29,064	11,686	24,618	9,041
Other non-cash charges	3,739	3,111	(1,042)	(493)
Minority interest	1,672	391	1,153	907
Future income tax	6,312	2,206	(3,699)	(2,126)
Cash flow	158,217	77,907	167,326	53,819
Changes in non-cash operating working capital items (Note 15)	(31,548)	(6,033)	(47,558)	7,702
Cash flow from operating activities	126,669	71,874	119,768	61,521
Financing activities				
Short term debt	18,721	12,659	49,478	22,478
Common share dividends	—	—	(31,830)	(31,830)
Redemption of series 5 warrants	—	—	(9,425)	—
Long term debt (Note 15)	18,811	244	(38,355)	(2,722)
Proceeds from issue of share capital, net of share issuance costs	740	127	491	458
Shares repurchased (Note 10)	(3,066)	(3,066)	—	—
Preferred share dividends	(23)	(7)	(18)	(2)
Funds provided by (used for) financing	35,183	9,957	(29,659)	(11,618)
Investing activities				
Long-term investment	40,000	—	—	—
Capital additions	(101,559)	(48,055)	(50,096)	(27,773)
Purchase of preferred shares of subsidiary	(2,859)	(2,852)	(63)	(8)
Funds provided by (used for) investing	(64,418)	(50,907)	(50,159)	(27,781)
Increase in cash	97,434	30,924	39,950	22,122
Cash and cash equivalents position, Beginning of period	64,812	131,322	59,298	77,126
Cash and cash equivalents position, End of period	162,246	162,246	99,248	99,248

Hurricane Hydrocarbons Ltd.

Notes to interim consolidated financial statements

(expressed in United States dollars, tabular amounts in thousands of dollars) unaudited

1 Significant Accounting Policies

The Interim Consolidated Financial Statements of Hurricane Hydrocarbons LTD. ("Hurricane" or the "Corporation") have been prepared by management in accordance with generally accepted accounting principles in Canada. Certain information and disclosures normally required to be included in the notes to the annual financial statements has been omitted or condensed. The Interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto in Hurricane's Annual Report for the year ended December 31, 2001. The accounting principles applied are consistent with those as set out in the corporation's annual financial statements for the year ended December 31, 2001, except as described in Note 10.

2 Segmented Information

	9 months ended September 30, 2002			
	Upstream	**Downstream**	**Corporate Services**	**Consolidated**
Revenue				
Crude oil	319,606	—	—	319,606
Refined products	91,850	148,626	—	240,476
Processing fees	—	2,112	—	2,112
Interest and other income	4,443	755	1,299	6,497
	415,899	151,493	1,299	568,691
Expenses				
Production	41,669	—	—	41,669
Royalties and taxes	43,557	152	—	43,709
Transportation	100,131	—	—	100,131
Refining	—	17,607	—	17,607
Crude oil and refined product purchases	20,806	29,608	—	50,414
Selling	7,404	11,320	—	18,724
General and administrative	24,985	11,815	5,470	42,270
Interest and financing costs	6,295	1,165	18,618	26,078
Depletion and depreciation	20,163	8,831	70	29,064
Foreign exchange loss	884	760	127	1,771
	265,894	81,258	24,285	371,437
Income before unusual items	150,005	70,235	(22,986)	197,254
Unusual item				
Arbitration settlement	7,134	—	—	7,134
Income before income taxes	142,871	70,235	(22,986)	190,120
Income taxes				
Current provision	48,000	14,535	2,171	64,706
Future income tax	5,369	943	—	6,312
	53,369	15,478	2,171	71,018
Minority interest	—	1,672	—	1,672
Net income	89,502	53,085	(25,157)	117,430
Intersegment revenue	71,460	35,144	—	—

Included in the upstream crude oil revenue, for the nine months ended September 30, 2002, is sales to one external customer in the amount of $90.8 million.

	3 months ended September 30, 2002			
	Upstream	Downstream	Corporate Services	Consolidated
Revenue				
Crude oil	143,820	—	—	143,820
Refined products	63,695	37,336	—	101,031
Processing fees	—	678	—	678
Interest and other income	1,706	425	302	2,433
	209,221	38,439	302	247,962
Expenses				
Production	15,256	—	—	15,256
Royalties and taxes	21,137	401	—	21,538
Transportation	50,194	—	—	50,194
Refining	—	5,280	—	5,280
Crude oil and refined product purchases	9,625	2,140	—	11,765
Selling	6,267	1,835	—	8,102
General and administrative	8,820	4,391	1,229	14,440
Interest and financing costs	2,024	489	6,315	8,828
Depletion and depreciation	8,351	3,311	24	11,686
Foreign exchange loss	496	801	65	1,362
	122,170	18,648	7,633	148,451
Income before unusual items	87,051	19,791	(7,331)	99,511
Unusual Item				
Arbitration settlement	43	—	—	43
Income before income taxes	87,008	19,791	(7,331)	99,468
Income taxes				
Current provision	28,959	5,593	1,806	36,358
Future income tax	4,410	(2,204)	—	2,206
	33,369	3,389	1,806	38,564
Minority interest	—	391	—	391
Net income	53,639	16,011	(9,137)	60,513
Intersegment revenue	17,211	5,945	—	—

Included in the upstream crude oil revenue, for the three months ended September 30, 2002, is sales to one external customer in the amount of $28.1 million.

	9 months ended September 30, 2001			
	Upstream	Downstream	Corporate Services	Consolidated
Revenue				
Crude oil	191,318	2,024	—	193,342
Refined products	7,916	256,858	—	264,774
Processing fees	—	8,623	—	8,623
Interest and other income	6,893	662	539	8,094
	206,127	268,167	539	474,833
Expenses				
Production	29,681	—	—	29,681
Royalties and taxes	30,748	—	—	30,748
Transportation	34,218	—	—	34,218
Refining	—	14,606	—	14,606
Crude oil and refined product purchases	—	60,862	—	60,862
Selling	4,333	10,724	—	15,057
General and administrative	17,501	14,792	3,062	35,355
Interest and financing costs	6,137	814	5,175	12,126
Depletion and depreciation	17,167	7,171	280	24,618
Foreign exchange loss (gain)	438	319	(322)	435
	140,223	109,288	8,195	257,706
Income before unusual items	65,904	158,879	(7,656)	217,127
Unusual item				
Defense costs related to potential takeover bid	—	—	6,000	6,000
Income before income taxes	65,904	158,879	(13,656)	211,127
Income taxes				
Current provision	55,001	11,202	1,174	67,377
Future income tax	(33,969)	30,270	—	(3,699)
	21,032	41,472	1,174	63,678
Minority interest	—	1,153	—	1,153
Net income	44,872	116,254	(14,830)	146,296
Intersegment revenue	143,291	13,026	—	—

Included in the upstream crude oil revenue, for the nine months ended September 30, 2001, is sales to one external customer in the amount of $80 million.

	3 months ended September 30, 2001			
	Upstream	Downstream	Corporate Services	Consolidated
Revenue				
Crude oil	64,359	(15)	—	64,344
Refined products	5,899	84,078	—	89,977
Processing fees	—	3,273	—	3,273
Interest and other income	2,349	77	723	3,149
	72,607	87,413	723	160,743
Expenses				
Production	10,404	—	—	10,404
Royalties and taxes	14,461	—	—	14,461
Transportation	12,324	—	—	12,324
Refining	—	4,709	—	4,709
Crude oil and refined product purchases	—	18,662	—	18,662
Selling	1,225	3,303	—	4,528
General and administrative	5,172	6,405	1,218	12,795
Interest and financing costs	1,939	464	3,370	5,773
Depletion and depreciation	6,397	2,424	220	9,041
Foreign exchange loss (gain)	(110)	(124)	17	(217)
	51,812	35,843	4,825	92,480
Income before unusual items	20,795	51,570	(4,102)	68,263
Unusual item				
Defense costs related to potential takeover bid	—	—	—	—
Income before income taxes	20,795	51,570	(4,102)	68,263
Income taxes				
Current provision	16,188	6,618	186	22,992
Future income tax	(8,699)	6,573	—	(2,126)
	7,489	13,191	186	20,866
Minority interest	—	907	—	907
Net income	13,306	37,472	(4,288)	46,490
Intersegment revenue	44,273	8,927	—	—

Included in the upstream crude oil revenue, for the three months ended September 30, 2001, is sales to one external customer in the amount of $26.7 million.

	As at September 30, 2002			
	Upstream	Downstream	Corporate Services	Consolidated
Total assets	494,809	132,353	110,222	737,384
Liabilities	225,675	39,443	214,601	479,719
Capital additions	94,885	212	6,462	101,559

	As at December 31, 2001			
	Upstream	Downstream	Corporate Services	Consolidated
Total assets	344,176	191,955	36,339	572,470
Liabilities	162,543	50,288	201,809	414,640
Capital additions	91,957	10,046	729	102,732

3 Joint Ventures

The Corporation has the following interests in two joint ventures:

a) 50% equity shareholding with equivalent voting power in CJSC Turgai Petroleum ("Turgai"), formerly Kumkol Lukoil CJSC, which operates the northern part of the Kumkol field in Kazakhstan.

b) 50% equity shareholding with equivalent voting power in LLP Kazgermunai ("Kazgermunai"), which operates three oil fields in Kazakhstan: Akshabulak, Nurali and Aksai.

The following amounts are included in the Corporation's financial statements as a result of the proportionate consolidation of its joint ventures:

	9 months ended September 30, 2002		
	Turgai	**Kazgermunai**	**Total**
Cash	3,863	17,465	21,328
Current assets, excluding cash	11,620	14,942	26,562
Capital assets, net	24,583	57,021	81,604
Current liabilities	13,069	5,167	18,236
Long term debt	—	62,684	62,684
Revenue	52,795	33,022	85,817
Expenses	31,303	26,473	57,776
Net income	21,492	6,549	28,041
Cash flow from operating activities	9,766	11,616	21,382
Cash flow from financing activities	—	1,617	1,617
Cash flow used in investing activities	(7,402)	(7,284)	(14,686)

	3 months ended September 30, 2002		
	Turgai	**Kazgermunai**	**Total**
Revenue	22,209	17,767	39,976
Expenses	13,160	12,687	25,847
Net income	9,049	5,080	14,129
Cash flow from operating activities	5,383	12,713	18,096
Cash flow from financing activities	—	243	243
Cash flow used in investing activities	(3,132)	(4,395)	(7,527)

The crude oil sales for the nine months ended September 30, 2002 includes $15.5 million and $21.6 million of crude oil sales made by Turgai Petroleum to HOP & HKM respectively and $5.8 million of crude oil sales made by Kazgermunai to HOP.

The crude oil sales for the three months ended September 30, 2002 includes $14.5 million of crude oil sales made by Turgai to HKM.

	9 months ended September 30, 2001		
	Turgai	Kazgermunai	Total
Cash	5,320	11,516	16,836
Current assets, excluding cash	41,853	12,193	54,046
Capital assets, net	12,086	56,017	68,103
Current liabilities	7,143	8,782	15,925
Long term debt	—	61,729	61,729
Revenue	52,618	37,751	90,369
Expenses	19,963	30,313	50,276
Net income	32,655	7,438	40,093
Cash flow from operating activities	7,384	15,818	23,202
Cash flow used in financing activities	(18,000)	(20,318)	(38,318)
Cash flow used in investing activities	(5,145)	(2,639)	(7,784)

	3 months ended September 30, 2001		
	Turgai	Kazgermunai	Total
Revenue	19,729	14,167	33,896
Expenses	9,404	11,239	20,643
Net income	10,325	2,928	13,253
Cash flow from operating activities	4,502	8,729	13,231
Cash flow (used in) from financing activities	(7,500)	1,086	(6,414)
Cash flow used in investing activities	(3,041)	(1,623)	(4,664)

The crude oil sales for the nine months ended September 30, 2001 includes $41.2 million of crude oil sales made by Turgai to HOP and $1.2 million of crude oil sales made by Kazgermunai to HOP

The crude oil sales for the three months ended September 30, 2001 includes $15.4 million of crude oil sales made by Turgai to HOP and $1.2 million of crude oil sales made by Kazgermunai to HOP.

4 Accounts Receivable

	September 30, 2002	December 31, 2001
Trade accounts receivable	65,903	25,930
Value added tax recoverable	384	10,153
Withholding tax recoverable	5,000	5,000
Other receivables	10,620	11,204
	81,907	52,287

5 Prepaids

	September 30, 2002	December 31, 2001
Advances for services and equipment	18,971	14,788
Prepayment of transportation for FOB sales	29,313	1,104
Prepayment for pipeline tariff	3,890	1,427
	52,174	17,319

6 Acquisition of OJSC Shymkentnefteorgsyntez ("ShNOS")

During the third quarter of 2002, the Corporation acquired a further 5.6% of the issued common shares of ShNOS now known as Hurricane Oil Products (HOP) for cash consideration of $2.8 million.

The following table sets out the accounting for the transaction:

Minority interest purchased	16,914
Reduction of fixed assets	(20,087)
Future income tax liability	6,026
Cash consideration	2,853

7 Accounts Payable and Accrued Liabilities

	September 30, 2002	December 31, 2001
Trade accounts payable	42,472	38,258
Crude royalties payable	15,777	7,312
Accrued income taxes payable	17,549	1,823
Others	2,407	1,365
	78,205	48,758

8 Short Term Debt

	September 30, 2002	December 31, 2001
Working capital facilities	21,278	42,557
Current portion of term facility	48,000	4,000
Joint venture loan payable	6,000	6,000
	75,278	52,557

9 Long Term Debt

	September 30, 2002	December 31, 2001
12% notes	208,280	190,880
Kazgermunai debt	62,684	61,068
Term facility	12,000	16,000
ShNOS bonds	13,162	13,227
Issue costs	(2,929)	(3,408)
	293,197	277,767

12% Notes

$18.6 million of the Notes outstanding as at December 31, 2001 were sold during the nine months ended September 30, 2002.

Term Facility

The Corporation entered into a secured, Term Facility for $60 million. The facility will be repaid in fifteen equal monthly installments commencing October 2002 and bears interest at LIBOR plus 3.5%. As at September 30, 2002 the Corporation had drawn $60 million under this facility, $48 million of which is classified as short-term debt as of September 30, 2002.

The issue costs related to the Notes are $1.8 million and are recorded as deferred charges, and are amortized, as well as $0.8 million of deferred charges related to the Term Facility (see below).

Repayment

Long term debt principal repayments due for each of the next five years and in total are as follows:

	2002	2003	2004	2005	2006	Total
12% Notes	—	—	—	—	208,280	208,280
Term facility	—	12,000	—	—	—	12,000
ShNOS bonds	—	—	13,162	—	—	13,162
	—	12,000	13,162	—	208,280	233,442

The Kazgermunai debt does not have fixed repayment terms.

Interest Expense

Interest expense for the nine months ended September 30, 2002 and three months ended September 30, 2002 was $26.1 million and $8.8 million respectively of which interest related to long term debt was $25.3 million and $8.7 million respectively.

Interest expense for the nine months ended September 30, 2001 and three months ended September 30, 2001 was $12.1 million and $5.8 million respectively of which interest related to long term debt was $10.8 million and $5 million respectively.

10 Share Capital

The Corporation maintains an incentive stock option plan ("plan") under which directors, officers and key personnel may be granted options to purchase class A common shares of the Corporation. The Corporation has reserved 8,076,050 class A common shares for issuance upon the exercise of options granted under the terms of the plan. The board of directors determines the exercise price of each option, provided that no option shall be granted with an exercise price at a discount to market. The vesting periods established under the Corporation's stock option plan and the term of the options are set by the board of directors, subject to a maximum term for any option of 10 years.

The Corporation has adopted the recommendations of the Canadian Institute of Chartered Accountants regarding stock based compensation. The Corporation has elected to use the intrinsic value method of accounting for stock options and to disclose the pro forma results of using the fair value method. The new recommendations apply to options granted after January 1, 2002. There have been no stock options granted during the nine month period ended September 30, 2002.

During the third quarter, the Corporation adopted a normal course issuer bid under the rules of the Toronto Stock Exchange to repurchase, for cancellation, up to 5,253,238 common shares during the period from August 7, 2002 to August 6, 2003. As at September 30, 2002, the Corporation had cancelled 366,461 shares at an average price of $13.13 Canadian per share. The excess of cost over the book value for the shares purchased was applied to the retained earnings.

11 Income Taxes

The provision for income taxes differs from the results, which would have been obtained by applying the statutory tax rate of 30% to Hurricane's income before income taxes. This difference results from the following items:

	9 months ended Sept. 30, 2002	3 months ended Sept. 30, 2002	9 months ended Sept. 30, 2001	3 months ended Sept. 30, 2001
Income before income tax	190,120	99,468	211,127	68,263
Effective Kazakhstan income tax rate	30%	30%	30%	30%
Expected tax expense	57,036	29,840	63,338	20,479
Non-deductible amounts, net	11,129	8,724	5,404	387
Prior year losses carry-forward	—	—	(668)	—
Future income tax recognised	2,853	—	(4,396)	—
Income tax expense	71,018	38,564	63,678	20,866

12 Financial Instruments

The fair value of current assets and current liabilities approximates their carrying value due to the short-term maturity of these instruments. The fair value of long-term debt also approximates its carrying value.

The Corporation has entered into a commodity-hedging program where it is utilizing derivative instruments to manage the Corporation's exposure to fluctuations in the price of crude oil. The Corporation has entered into the following contracts with major financial institutions.

Contract Amount (bbls per month)	Contract Period	Contract Type	Price Ceiling or Contracted Price	Price Floor
166,667	October 2002 to December 2002	Brent IPE futures	25.22	—
187,500	January 2003 to December 2003	Zero cost collar	29.00	17.00
75,000	January 2003 to December 2003	Zero cost collar	30.00	17.00
75,000	January 2003 to December 2003	Zero cost collar	29.50	19.00

13 Commitments and Contingencies

Government taxes and legislation

The Corporation, through its operating subsidiaries in Kazakhstan, has disputed certain tax assessments for 1998 and 1999 as disclosed in note 16 to the financial statements in the December 31, 2001 Annual Report.

The Corporation has been engaged in two court cases in Kazakhstan pertaining to the disputed assessments. The first involved ShNOS and was for approximately $8.8 million. ShNOS has successfully argued its case at the first level of the court system in Kazakhstan and at the Supreme Court level. There is a possibility that the Ministry of State Revenue may appeal to the ultimate appellate level, the Supervisory Commission of the Supreme Court. No provision has been made in the financial statements for this assessment.

The second case involved HKM and was for a total of approximately $10.5 million including taxes, fines, interest and penalties. HKM was successful at the first level of the court system and was unsuccessful on the majority of the issues at the Supreme Court level. HKM will appeal to the ultimate appellate level, the Supervisory Commission of the Supreme Court. The Corporation has provided for $2.9 million of the $10.5 million in the September 30, 2002 financial statements. The Corporation continues to dispute this assessment, as it believes the tax stability provisions of its Hydrocarbons Contract establish that HKM is not subject to the assessed taxes.

The Corporation has provided for a further $5.5 million of taxes relating to the assessments for 1998 and 1999 for the years 2000, 2001 and for the first nine months of 2002.

The Corporation, through its operating subsidiaries in Kazakstan received tax assessments for 2000 and 2001 amounting to $56 million, which have been reduced through negotiations to $44 million. The Corporation has not provided for these assessments and has filed or will shortly file court cases disputing these assessments.

Legal proceedings

The Corporation has been named as a defendant in a claim filed by a company alleging it was retained under a consulting contract as disclosed in Note 16 to the financial statements in the December 31, 2001 Annual Report. The arbitration decision has been received and the Corporation has accrued and paid $7.1 million for full settlement of the claim.

14 Net Income Per Share

The income per share calculations are based on the weighted average and diluted numbers of Class A common shares outstanding during the period as follows:

	9 months ended Sept. 30, 2002	3 months ended Sept. 30, 2002	9 months ended Sept. 30, 2001	3 months ended Sept. 30, 2001
Weighted average number of common shares outstanding	81,042,900	81,301,955	79,875,296	79,994,874
Dilution from exercisable options (including convertible securities)	3,440,217	3,440,217	4,586,261	4,663,052
Diluted number of shares outstanding	84,483,117	84,742,172	84,461,557	84,657,926

No options were excluded from the calculation of diluted number of shares outstanding during the nine months ended September 30, 2002 and three months ended September 30, 2002. During the nine months ended September 30, 2001 and three months ended September 30, 2001 one hundred thousand options were excluded from the calculation.

15 Cash Flow Information

Changes in non-cash operating working capital items include:

	9 months ended Sept. 30, 2002	3 months ended Sept. 30, 2002	9 months ended Sept. 30, 2001	3 months ended Sept. 30, 2001
(Increase)/decrease in accounts receivable	(29,620)	(19,031)	(19,545)	5,719
(Increase)/decrease in inventory	(407)	(1,472)	(1,227)	181
(Increase)/decrease in prepaids	(34,855)	(16,215)	(20,139)	(8,920)
Increase/(decrease) in accounts payable and accrued liabilities	29,447	24,617	(4,863)	12,474
(Decrease)/increase in prepayments for crude oil and refined products	3,887	6,068	(1,784)	(1,752)
	(31,548)	(6,033)	(47,558)	7,702

Change in long-term debt includes:

	9 months ended Sept. 30, 2002	3 months ended Sept. 30, 2002	9 months ended Sept. 30, 2001	3 months ended Sept. 30, 2001
Proceeds from ShNOS bonds	—	—	13,305	(18)
12% notes repurchased	—	—	(849)	(849)
12% notes sold, net of discount	17,195	—	—	—
Repayment of Canadian and US Notes	—	—	(25,811)	(811)
Repayment of Kazgermunai debt	—	—	(25,000)	(1,044)
Change in interest on Kazgermunai debt	1,616	249	—	—
	18,811	249	(38,355)	2,722

16 Comparative Figures

The presentation of certain accounts for previous periods has been changed to conform with the presentation adopted for the current period.

17 Reconciliation of Results from Canadian GAAP to U.S. GAAP for the Nine Months ended September 30, 2002 and 2001

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which conform in all material respects with those applicable in the United States ("U.S. GAAP"), except as set forth below:

Income Taxes

Effective January 1, 2000 the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for future income taxes and applied this policy retroactively without restatement of prior period financial statements. Please refer to Note 1 of the Consolidated Financial Statements for the year ended December 31, 2000. This new method differs from United States GAAP due to the application of transitional provisions and the accounting for certain tax incentives. In prior years a valuation allowance had been made against the deferred tax asset for U.S. GAAP purposes. This valuation allowance was released in 2000.

Foreign Currency Translation

Hurricane's principal operating subsidiaries are HKM and HOP and for Canadian GAAP are classified as integrated which leads to the use of the temporal method of translation. Please refer to Note 1 of the Consolidated Financial Statements for the year ended December 31, 2000. Under United States GAAP, the Corporation, on a consolidated basis, is required to translate the accounts of its principal operating subsidiaries using the current rate method. The significant changes which result from this difference are a reduction in the carrying value of capital assets and the creation of a cumulative translation account within the equity section of the balance sheet, which reduces total equity.

Accounting For Oil And Gas Properties

There are certain differences between the full cost method of accounting for oil and gas assets as applied in Canada and as applied in the United States. The Corporation has reviewed such differences and determined that no variances in financial statement balances would have resulted from the application of full cost accounting in accordance with United States GAAP.

Consolidated Statements Of Income

The application of United States GAAP would have the following effects on net income as reported:

	9 months ended Sept. 30, 2002	9 months ended Sept. 30, 2001
Net income as reported in accordance with Canadian GAAP	117,430	146,296
Amortization of debt issue costs	(29)	—
NET INCOME UNDER UNITED STATES GAAP	117,401	146,296
Comprehensive Income		
Foreign exchange translation adjustment	(8,064)	(600)
TOTAL COMPREHENSIVE INCOME	109,337	145,696
Basic income per share under United States GAAP	1.45	1.83
Diluted income per share under United States GAAP	1.39	1.73

Stock Based Compensation

The Corporation has a stock-based compensation plan as more fully described in Note 13 to the Consolidated Financial Statements for the year ended December 31, 2001. With regard to its stock option plan, the Corporation applies APB Opinion No. 25 in accounting for this plan and

accordingly no compensation cost has been recognized. Had compensation expense been determined based on fair value at the grant dates for the stock option grants consistent with the method of SFAS No. 123, the Corporation's net income and net income per share would have been reduced to the pro forma amounts as indicated below:

	9 months ended Sept. 30, 2002	9 months ended Sept. 30, 2001
Net income under U.S. GAAP:		
As reported	117,401	146,296
Pro forma	115,882	144,735
Basic earnings per share:		
As reported	1.45	1.83
Pro forma	1.43	1.81
Stock options vested during period (thousands)	1,225	1,312
Weighted average exercise price	3.05	2.62
Weighted average fair value of options granted during the period	1.24	1.19

The foregoing information is calculated in accordance with the Black-Scholes option pricing model, using the following data and assumptions: volatility, as of the date of grant, computed using the prior one to three-year weekly average prices of the Corporation's Common Shares, which ranged from 52% to 124%; expected dividend yield—0%; option terms to expiry—4 to 5 years as defined by the option contracts; risk-free rate of return as of the date of grant—4.86% to 5.96%, based on five year Government of Canada Bond yields.

Consolidated Balance Sheets

The application of United States GAAP would have the following effects on balance sheet items as reported:

	As Reported	Increase (Decrease)	United States GAAP
September 30, 2002			
Current assets	333,554		333,554
Capital assets	382,939	(54,473)	328,466
Future income tax assets	20,891	(6,157)	14,734
Current liabilities	164,792		164,792
Long term debt	293,197		293,197
Future income tax liability	17,826		17,826
Provision for future site restoration costs	3,904		3,904
Minority interest	10,357		10,357
Preferred shares of subsidiary	85		85
Shareholders' equity	247,223	(60,630)	186,593
September 30, 2001			
Current assets	206,911		206,911
Capital assets	292,660	(45,411)	247,249
Future income tax assets	27,582		27,582
Current liabilities	117,170		117,170
Long term debt	249,125		249,125
Future income tax liability	24,341		24,341
Provision for future site restoration costs	2,800		2,800
Minority interest	24,825		24,825
Preferred shares of subsidiary	93		93
Shareholders' equity	108,799	(45,411)	63,387

IMPACT OF NEW AND IMPENDING U.S. GAAP ACCOUNTING STANDARDS

Statement Of Financial Accounting Standards No. 141 ("FAS 141")—Business Combinations

In June 2001, the Financial Accounting Standards Board ("FASB") approved SFAS No 141 "Business Combinations" and issued this statement in July 2001. FAS 141 establishes new standards for accounting and reporting requirements for business combinations and will require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling of interest method will be prohibited. Management does not believe that FAS 141 will have a material impact on the Company's financial statements.

Statement Of Financial Accounting Standards No. 142 ("FAS 142")—Goodwill And Other Intangible Assets

In June 2001, the FASB approved SFAS No 142 "Goodwill and Other Intangible Assets", which supercedes APB Opinion No 17 "Intangible Assets". The FASB issued this statement in July 2001. FAS 142 establishes new standards for goodwill acquired in a business combination and eliminates amortization of goodwill and instead sets forth the method to periodically evaluate goodwill for impairment. Management does not believe that FAS 142 will have a material impact on the Company's financial statements.

Statement Of Financial Accounting Standards No. 143 ("FAS 143")—Accounting For Asset Retirement Obligations

FAS 143, Accounting for Asset Retirement Obligations, is effective for financial statements issued for fiscal years beginning after June 15, 2002. FAS 143 applies to the legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, development and/or the normal operation of a long- lived asset, except for certain obligations of lessees. The Corporation has not yet evaluated the effect that FAS No 143 will have on financial reporting.

Statement Of Financial Accounting Standards No. 144 ("FAS 144")—Accounting For The Impairment Or Disposal Of Long-lived Assets

FAS 144, Accounting for the Impairment or Disposal of Long Lived Assets, supersedes both FAS No. 121 and the accounting and reporting provisions of APB Opinion No.30. FAS 144 retains the fundamental provisions of FAS121 for recognizing and measuring impairment losses on long-lived assets. FAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity rather than a segment of a business. FAS 144 is effective for all fiscal years beginning after December 15, 2001. Adoption of FAS 144 on January 2002 will not have a material impact on the Corporation's financial position or net income.

Consolidated Statements Of Income And Deficit Reclassifications

Interest and other income is presented within revenue under Canadian GAAP, under the United States GAAP this would be presented as a separate line item after operating income.

Interest and financing costs is presented within expenses under Canadian GAAP, under United States GAAP this would be presented as a separate line item after operating income.

Unusual items as presented under Canadian GAAP would be included within expenses under United States GAAP.

Management's Report

All information in this annual report is the responsibility of management. The financial statements necessarily include amounts that are based on estimates, which have been objectively developed by management using all relevant information. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal accounting control designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee of the Board of Directors, comprised of three non-management Directors, has reviewed the financial statements with management and Deloitte & Touche. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

(signed)
Bernard F. Isautier
President and Chief Executive Officer

(signed)
Nicholas H. Gay
Senior Vice President Finance and
Chief Financial Officer

Independent auditors' report

To the Shareholders of
Hurricane Hydrocarbons Ltd.

We have audited the consolidated balance sheets of Hurricane Hydrocarbons Ltd. (the "Corporation") as at December 31, 2001 and 2000, and the consolidated statements of income and deficit and cash flow for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the year ended December 31, 2001 and 2000 we conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for the year ended December 31, 1999, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000, and the results of its operations and cash flows for each of the three years ended in the period December 31, 2001 in accordance with generally accepted accounting principles in Canada.

(signed)
Deloitte & Touche
Almaty, Kazakhstan

February 28, 2002, except for Note 22, as to which the date is June 27, 2002

Comments by auditor for U.S. readers on Canada-U.S. reporting differences

To the Shareholders of
Hurricane Hydrocarbons Ltd.

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Corporation's financial statements, such as the change described in Note 1 to the financial statements. Our report to the shareholders dated February 28, 2002 is expressed in accordance with Canadian reporting standards, which do not require a reference to such a change in accounting principles in the auditor's report when the change is properly accounted for and adequately disclosed in the financial statements.

(signed)
Deloitte & Touche
Almaty, Kazakhstan

February 28, 2002, except as to Note 22, as to which the date is June 27, 2002

Hurricane Hydrocarbons Ltd.

Consolidated statements of income and deficit

years ended December 31st

(expressed in thousands of U.S. $)

	2001	2000	1999
Revenue			
Crude oil	252,981	301,216	153,047
Refined products	328,958	203,728	—
Processing fees	11,008	11,884	—
Interest and other income	10,109	6,373	2,196
	603,056	523,201	155,243
Expenses			
Production	43,040	35,302	34,443
Royalties	35,504	33,709	16,652
Transportation	50,237	25,152	17,016
Refining	20,562	12,583	2,197
Crude oil and refined product purchases	78,788	48,100	—
Selling	19,277	7,728	—
General and administrative	55,204	44,565	35,039
Interest and financing costs	19,530	18,708	23,874
Depletion and depreciation	34,254	14,680	4,991
Foreign exchange loss (gain)	1,453	(2,266)	7,647
	357,849	238,261	141,859
Income before unusual items	245,207	284,940	13,384
Unusual items			
Defense costs related to potential takeover	5,546	—	—
Gain recognized on sale of assets	—	—	(12,800)
Waiver fees and debt restructuring costs	—	20,373	—
Income before income taxes	239,661	264,567	26,184
Income taxes (Note 14)			
Current provision	79,679	100,708	17,671
Future income tax	(11,285)	(1,051)	—
	68,394	99,657	17,671
Net income before minority interest	171,267	164,910	8,513
Minority interest	1,927	9,980	—
Net income	169,340	154,930	8,513
Deficit, beginning of year	(18,887)	(192,827)	(201,286)
Common share dividends (Note 12 and 13 h)	(209,168)	—	—
Premium on redemption of series 5 warrants (Note 13 b)	(7,626)	—	—
Future income tax restatement (Note 1)	—	19,061	—
Preferred share dividends	(25)	(51)	(54)
Deficit, end of year	(66,366)	(18,887)	(192,827)
Basic net income per share (Note 17)	2.12	2.19	0.19
Diluted net income per share (Notes 1 and 17)	2.02	2.12	0.19

Hurricane Hydrocarbons Ltd.

Consolidated balance sheets

as at December 31st

(expressed in thousands of U.S. $)

	2001	2000
Assets		
Current		
Cash and cash equivalents	64,812	59,298
Accounts receivable (Note 7)	52,287	35,714
Inventory (Note 8)	29,946	20,808
Prepaid expenses	17,319	10,230
Current portion of future income tax assets (Note 14)	5,766	4,540
	170,130	130,590
Long term investments (Note 5)	40,000	—
Future income tax assets (Note 14)	29,444	19,470
Capital assets (Note 9)	332,896	264,466
Total assets	572,470	414,526
Liabilities		
Current		
Accounts payable and accrued liabilities	48,758	59,802
Short term debt (Note 10)	52,557	1,000
Prepayments for crude oil and refined products	7,422	11,974
Debt and accrued interest (Notes 2 and 11)	—	24,006
	108,737	96,782
Long-term debt (Note 12)	277,767	82,048
Provision for future site restoration costs	3,148	1,750
Future income tax liability (Note 14)	24,988	25,075
	414,640	205,655
Minority interest	25,599	23,724
Preferred shares of subsidiary	91	104
Shareholders' Equity		
Share capital (Note 13)	198,506	203,930
Deficit	(66,366)	(18,887)
	132,140	185,043
Total liabilities and shareholders' equity	572,470	414,526

APPROVED BY THE BOARD OF DIRECTORS

(signed) BERNARD ISAUTIER
Director

(signed) ROBERT KAPLAN
Director

Hurricane Hydrocarbons Ltd.

Consolidated statements of cash flow

years ended December 31st

(expressed in thousands of U.S. $)

	2001	2000	1999
Cash provided by (used in):			
Operating activities			
Net income	169,340	154,930	8,513
Items not affecting cash:			
Depletion and depreciation	34,254	14,680	2,891
Ceiling test write-down	—	—	2,100
Other non-cash charges	418	907	3,463
Minority interest	1,927	9,980	—
Future income tax	(11,285)	(1,051)	—
Cash flow	194,654	179,446	16,967
Changes in non-cash operating working capital items (Note 18)	(48,396)	31,532	28,472
Cash flow from operating activities	146,258	210,978	45,439
Financing activities			
Short term debt	51,557	1,000	—
Common share dividends (Note 12)	(31,830)	—	—
Redemption of series 5 warrants	(9,425)	—	—
Redemption of series 5 corresponding convertible securities	(3,878)	—	—
Long term debt (Note 18)	(5,083)	(173,860)	(907)
Change in long term receivables	—	1,393	—
Proceeds from issue of share capital, net of share issuance costs	685	26,743	—
Preferred share dividends	(25)	(51)	(54)
Funds provided by (used in) financing	2,001	(144,775)	(961)
Investing activities			
Capital additions	(102,732)	(16,977)	(15,196)
Long term investment (Note 5)	(40,000)	—	—
Acquisition of ShNOS, net of cash acquired (Note 3)	—	(37,229)	—
Cash acquired on proportionate consolidation of Kazgermunai (Note 6)	—	16,638	—
Purchase of preferred shares of subsidiary	(13)	(85)	—
Funds used for investing	(142,745)	(37,653)	(15,196)
Increase in cash	5,514	28,550	29,282
Cash and cash equivalents position, beginning of year	59,298	30,748	1,466
Cash and cash equivalents position, end of year	64,812	59,298	30,748

Hurricane Hydrocarbons Ltd.

Notes to consolidated financial statements

(expressed in United States dollars, tabular amounts in thousands of dollars)

1 Significant Accounting Policies

Principles of consolidation

Hurricane Hydrocarbons Ltd. ("Hurricane", the "Corporation" or the "Company") is an independent integrated oil and gas corporation, operating in the Republic of Kazakhstan, engaged in the acquisition, exploration, development and production of oil and gas, refining of oil, and the sale of oil and oil products.

The consolidated financial statements of Hurricane have been prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Corporation, which is incorporated under the laws of Alberta, together with the accounts of its subsidiaries which are incorporated under the laws of Canada, Cyprus, England, Netherlands and Kazakhstan.

These financial statements have been reconciled to U.S. GAAP in Note 21.

On August 28, 1996, the Corporation entered into a Share Sale-Purchase Agreement (the "Agreement") with the Republic of Kazakhstan for the purchase of 100% of the issued common shares of OJSC Hurricane Kumkol Munai ("HKM"), a state owned joint stock company, operating in the South Turgai Basin, located in South Central Kazakhstan.

As more fully explained in Note 3, effective March 31, 2000, the Corporation acquired 88.36% of the common shares of OJSC Shymkentnefteorgsyntez ("ShNOS"). Accordingly, the consolidated financial statements for the year ended December 31, 2000, as presented, include the operations of ShNOS as at and for the nine months ended December 31, 2000.

Joint ventures

As more fully explained in Note 6, certain of Hurricane's activities are conducted jointly with others through incorporated joint ventures. Accordingly, these consolidated financial statements reflect Hurricane's proportionate interest in such activities.

Foreign currency translation

Foreign currency amounts, including those of foreign subsidiaries, are expressed in United States dollars using the temporal method as follows:

(a) Monetary assets and liabilities—at the rate in effect at year end;

(b) Other assets and liabilities—at historical rates; and

(c) Revenues and expenses—at the average exchange rates during the period, except for provisions for depletion and depreciation, which are translated on the same basis as the related assets.

Gains or losses resulting from such conversions are charged to operations, except that gains or losses on conversion to United States Dollars of long-term monetary assets and liabilities are deferred and amortized over the remaining useful lives of the assets or liabilities.

Cash and cash equivalents

Cash and cash equivalents include term deposits with original maturity terms not exceeding 90 days.

Inventories

Inventories of crude oil, oil products and other inventories are recorded at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, which have been incurred in bringing the inventories to their present

location and condition. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Capital assets

a) Petroleum and natural gas properties

Hurricane follows the full cost method of accounting for oil and gas operations whereby all exploration and development expenditures are capitalized. Such expenditures include land acquisition costs, geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and nonproductive wells, gathering and production facilities and equipment and overhead expenses related to exploration and development activities. Proceeds from sales of oil and gas properties are recorded as reductions of capitalized costs, unless the cost centre's depreciation and depletion rate would change by a factor of 20% or more, whereupon gains or losses are recognized as income. Maintenance and repair costs are expensed as incurred, while improvements and major renovations to assets are capitalized.

Costs accumulated within each cost centre, including provision for future site restoration expenditures, are depleted using the unit-of-production method based upon estimated proved developed reserves before royalties. Significant development projects and expenditures on exploration properties are excluded from the depletion calculation prior to assessment of the existence of proved reserves. Costs for unproved properties and major developments are evaluated periodically for impairment.

Capitalized costs are subject to a cost recovery test (the "ceiling test"). Under this test, costs accumulated are limited to the estimate of future undiscounted net revenues from production of estimated proved developed reserves at prices and costs in effect at the year end, plus the cost of major developments and unproved developed properties less any impairment of such costs, and less estimated future interest expense, administrative costs, future site restoration costs and income taxes attributable to those operations. If the net carrying cost exceeds the ultimate recoverable amount as computed under the test, a write down is recorded.

b) Refining facilities and properties

The refinery assets have been recorded at March 31, 2000 based upon the ascribed value assigned to such assets resulting from accounting for the acquisition of ShNOS on that date, under the purchase method of accounting for business combinations. Depreciation is recorded from April 1, 2000 based on the remaining useful lives of the respective assets or categories of assets.

Maintenance and repairs, including minor renewals and improvements are charged to income as incurred. The cost of major renovations and improvements, which increase useful lives, are capitalized. Direct costs incurred in the construction of fixed assets, including labour, materials and supplies are capitalized.

c) Depreciation of refining facilities

Depreciation is calculated on the straight-line method using the following useful economic lives:

Buildings, warehouses and storage facilities	20 – 40 years
Process machinery and equipment	5 – 20 years
Transport equipment	5 – 30 years
Other tangible fixed assets	3 – 15 years

d) Depreciation of other capital assets

Depreciation is provided on other capital assets using the declining balance method at the rate of 20% per annum.

Site restoration

Estimated future site restoration costs are provided for on the unit of production basis. Costs are based on engineering estimates of the anticipated method and extent of site restoration, in

accordance with current legislation, industry practices and costs. Provision is being made for site restoration costs that the Corporation expects to incur.

Revenue recognition

Sales of petroleum and refined products are recorded in the period in which the sale occurs. Produced but unsold products are recorded as inventory until sold.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements.

Income taxes

Effective January 1, 2000, the Corporation adopted the new recommendation of the Canadian Institute of Chartered Accountants with respect to future income taxes. Under this method, future income tax assets and liabilities are computed based on temporary differences between the accounting and taxation basis of assets and liabilities. At January 1, 2000 the Corporation recorded a future income tax asset of $19.1 million on the basis that realization of such asset is more likely than not. This restatement was applied retroactively without restatement of figures of prior years. This increased retained earnings at January 1, 2000 by $19.1 million.

Earnings per Share

Effective January 1, 2001, the Corporation adopted the new recommendation of the Canadian Institute of Chartered Accountants with respect to earnings per share. The comparative diluted earnings per share amounts for the years ended December 31, 2000 and 1999 have been restated, as follows, to give effect to the new recommendation.

	Reported	**As Restated**
Diluted net income per share 2000	1.92	2.12
Diluted net income per share 1999	0.19	0.19

Stock option plan

The Corporation has a stock option plan as described in Note 13. No compensation expense is recognized for the plan when stock options are issued to employees.

2 Companies' Creditors Arrangement Act

On May 14, 1999, Hurricane Hydrocarbons Ltd. and a subsidiary Hurricane Overseas Services Inc. applied for and obtained an order from the Court of Queen's Bench of Alberta (the "Court") under the Companies' Creditors Arrangement Act. On February 28, 2000, the creditors of the Corporation approved and the Court sanctioned the Fourth Amended and Restated Plan of Compromise and Arrangement ("the Plan").

The Plan was implemented on March 31, 2000; thereby releasing the Corporation from the protection of the Companies' Creditors Arrangement Act. Pursuant to the Plan the Corporation has made the following payments to the holders of the U.S. and Canadian Notes:

(a) On March 31, 2000, $87.0 million, comprised of $23.2 million for outstanding interest and liquidated damages payments, $13.6 million in waiver fees and $50.2 million of principal repayments;

(b) On June 30, 2000, $30.2 million, comprised of $15.0 million of principal, a $10.0 million prepayment of principal and $5.2 million in interest;

(c) On September 30, 2000, $54.2 million, comprised of $19.0 million of principal, a $31.0 million prepayment of principal and $4.2 million in interest;

(d) On December 31, 2000, $32.2 million, comprised of $19.0 million of principal, an $11.0 million prepayment of principal and $2.2 million in interest;

(e) On March 31, 2001, $1 million in interest;

(f) On June 21, 2001, $24.7 million comprised of $23.8 million of principal and $0.9 million in interest. The US and Canadian note holders were fully repaid as of this date.

In addition, creditors with undisputed claims amounting to $3.3 million plus interest have been paid in full.

3 Acquisition of OJSC Shymkentnefteorgsyntez ("ShNOS")

On March 31, 2000 the Corporation completed the ShNOS acquisition, acquiring 88.36% of the issued and outstanding common shares of ShNOS, an open joint stock company in Kazakhstan listed on the Kazakhstan Stock Exchange, for initial consideration of $118 million. Subsequently, the Corporation acquired a further 3.1% of the issued common shares of ShNOS for further cash consideration of $3.8 million. During the year ended December 31, 2001, pursuant to an agreement with the vendor of ShNOS, the Corporation cancelled 153,657 of the shares issued for the acquisition of ShNOS for $0.4 million. ShNOS is the owner and operator of an oil refinery based in Shymkent, located in South Central Kazakhstan through which the Corporation processes crude oil.

The total consideration for the acquisition consists of:

Cash consideration	48,846
Issuance of 19,430,543 common shares of the Corporation from treasury (Note 13)	57,082
Cancellation of 153,657 shares (Note 13)	(440)
Issuance of 4,067,381 special warrants convertible into 4,067,381 common shares with no additional payment, on the same basis as the special warrants (Note 13)	11,949
Issuance of corresponding convertible securities in quantities, which allow the holder to exercise such corresponding options and warrants which Hurricane, has outstanding, such that the holder may maintain its percentage ownership of the shares outstanding. The corresponding convertible securities are recorded at their fair market value (Note 13)	2,910
Costs of combination	1,012
	121,359

The acquisition of ShNOS was accounted for under the purchase method with an effective date of March 31, 2000. The results of the operations of the acquired business are included in the accompanying financial statements since the date of acquisition.

Hurricane's total purchase price of $121.4 million was assigned to the net assets acquired as follows:

Working capital, including cash of $12.6 million	46,176
Fixed assets	110,099
Minority interest	(13,744)
Future income tax liability	(21,172)
Aggregate consideration	121,359

Following the acquisition of ShNOS, the Corporation has made, as required by Kazakhstan law, a follow up offer to the minority shareholders of ShNOS on the same basis as the acquisition to acquire the remaining outstanding common and preferred shares.

In addition the Corporation has now assumed the rights and obligations under the ShNOS privatization agreement, whereby the government of Kazakhstan privatized ShNOS. Under this agreement, the Corporation is required to invest, or cause ShNOS to invest, the Tenge equivalent of $150 million in capital expenditures or investments by December 31, 2001. If the expenditure level is not met, the Corporation may be required under the terms of the agreement to pay a penalty of 15% of the shortfall to the government of Kazakhstan.

As of December 31, 2001, the Corporation believes it has met this commitment. The 2001 expenditures and commitments remain subject to audit and certification by the government of Kazakhstan under the terms of the privatization agreement.

4 Segmented Information

Following the acquisition of ShNOS in 2000, the Corporation became an integrated oil and gas company. All of the commercial activity of the Corporation is concentrated in the Republic of Kazakhstan in Central Asia.

On a primary basis the business segments are:

- Upstream comprising the exploration and production of crude oil resources in Kazakhstan for further sale.
- Downstream comprising the refining and marketing of crude oil into refined products for further sale.

Year ended December 31, 2001	Upstream	Downstream	Eliminations	Consolidated
Revenue				
Crude Oil	421,858	2,034	(170,911)	252,981
Refined products	15,656	328,603	(15,301)	328,958
Processing fees	—	18,649	(7,641)	11,008
Interest and other income	9,126	420	(540)	9,006
	446,640	349,706	(194,393)	601,953
Expenses				
Production	46,478	—	(3,438)	43,040
Royalties	35,904	—	(400)	35,504
Transportation	51,992	—	(1,755)	50,237
Refining	—	20,562	—	20,562
Crude oil and refined product purchases	14,044	248,628	(183,884)	78,788
Selling	13,099	13,656	(7,478)	19,277
General and administrative	31,703	17,906	—	49,609
Interest and financing costs	7,815	1,029	—	8,844
Depletion and depreciation	25,127	9,764	(1,011)	33,880
Foreign exchange loss	342	1,478	—	1,820
	226,504	313,023	(197,966)	341,561
Segment income	220,136	36,683	3,573	260,392
Unallocated amounts				
Interest and financing costs				(10,686)
Defense costs related to potential takeover				(5,546)
Corporate expenses, net				(4,499)
Income before income taxes				239,661
Income tax expense				(68,394)
Minority interest				(1,927)
Net income				169,340

December 31, 2001	Upstream	Downstream	Consolidated
Assets			
Assets	344,176	191,955	536,131
Unallocated corporate assets	—	—	36,339
Consolidated total assets			572,470
Liabilities			
Liabilities	162,543	50,288	212,831
Unallocated corporate liabilities	—	—	201,809
Consolidated total liabilities			414,640

	Upstream	Downstream	Eliminations	Consolidated
Year ended December 31, 2000				
Revenue				
Crude Oil	316,882	185,425	(201,091)	301,216
Refined products	—	203,728	—	203,728
Processing fees	—	12,414	(530)	11,884
Interest and other income	5,810	563	—	6,373
	322,692	402,130	(201,621)	523,201
Expenses				
Production	35,832	—	(530)	35,302
Royalties	33,709	—	—	33,709
Transportation	25,152	—	—	25,152
Refining	—	12,583	—	12,583
Crude oil and refined product purchases	4,242	233,604	(189,746)	48,100
Selling	—	7,728	—	7,728
General and administrative	30,365	14,200	—	44,565
Interest and financing costs	193	580	—	773
Depletion and depreciation	7,707	6,973	—	14,680
Foreign exchange (gain) loss	(3,152)	884	2	(2,266)
	134,048	276,552	(190,274)	220,326
Segment income (loss)	188,644	125,578	(11,347)	302,875
Unallocated amounts				
Interest and financing costs				(17,935)
Waiver fees and debt restructuring costs				(20,373)
Income before income taxes				264,567
Income tax expense				(99,657)
Minority interest				(9,980)
Net income				154,930

	Upstream	Downstream	Consolidated
December 31, 2000			
Assets			
Assets	258,345	152,491	410,836
Unallocated corporate assets	—	—	3,690
Consolidated total assets			414,526
Liabilities			
Liabilities	142,214	39,435	181,649
Unallocated corporate liabilities	—	—	24,006
Consolidated total liabilities			205,655

5 Long Term Investments

The Corporation has entered into a Sale and Purchase Agreement to acquire a 49.9% interest, with equal management rights in a company, which has a 1.75% interest in the Caspian Pipeline Consortium ("CPC pipeline"). The first payment of $40 million was made on December 28th, 2001. The second payment of $30 million is due on or before March 29, 2002, with a third payment due on or before August 30, 2002 of $10 million for total payments of $80 million.

The Corporation has also agreed to assume a $20 million obligation with respect to potential future liabilities undertaken by the previous owner.

The first payment is reimbursable except as to a $10 million non-refundable break up fee in the event the second payment is not made and certain conditions precedent are not met. Management expects to finalize this transaction on or before the end of March 2002 and does not believe the break up fee will be applicable.

The deferred payments bear interest at LIBOR plus one half of a percent per annum applicable to the second payment and LIBOR plus five percent per annum, which applies to the third payment.

6 Joint Ventures

The Corporation has the following interests in two joint ventures:

(a) 50% equity shareholding with equivalent voting power in CJSC Turgai Petroleum ("Turgai"), formerly Kumkol Lukoil CJSC, which operates the northern part of the Kumkol field in Kazakhstan.

(b) 50% equity shareholding with equivalent voting power in LLP Kazgermunai ("Kazgermunai"), which operates three oil fields in Kazakhstan: Akshabulak, Nuraly and Aksai. From November 28, 2000 Hurricane assumed a more active role in the management of Kazgermunai. As a result, the Corporation commenced to account for their interest by way of proportionate consolidation from that date.

As at November 28, 2000 the Corporation's share of the net assets of Kazgermunai was as follows:

Working capital, including cash of $ 16.6 million	18,171
Fixed assets	63,172
Long term debt	(81,343)
Total net assets	—

Kazgermunai is restricted from paying dividends until all outstanding loans have been repaid in full. The long-term debt is non-recourse to the Corporation (as more fully disclosed in Note 12).

The Corporation's interests in these joint ventures have been accounted for using the proportionate consolidation method. Under this method, the Corporation's balance sheets, statements of income and deficit and cash flows incorporate the Corporation's share of income, expenses, assets, liabilities and cash flows of these joint ventures.

The following amounts are included in the Corporation's financial statements as a result of the proportionate consolidation of its joint ventures and before consolidation eliminations, as at December 31:

	Turgai	Kazgermunai	Total
2001			
Cash	1,500	11,516	13,016
Current assets, excluding cash	7,426	12,728	20,154
Capital assets, net	19,394	55,031	74,425
Current liabilities	16,899	5,598	22,497
Long term debt	—	61,068	61,068
Revenue	67,819	49,803	117,622
Expenses	31,758	39,092	70,850
Net income	36,061	10,711	46,772
Cash flow from operating activities	43,748	18,227	61,975
Cash flow used in financing activities	(50,000)	(20,980)	(70,980)
Cash flow used in investing activities	(13,330)	(4,386)	(17,716)

The crude oil sales elimination of $170.9 million shown in Note 4 for the year ended December 31, 2001 includes $52.9 million of net crude oil sales made by Turgai to ShNOS and $2.6 million of net crude oil sales made by Kazgermunai to ShNOS.

	Turgai	Kazgermunai	Total
2000			
Cash	21,082	18,655	39,737
Current assets, excluding cash	3,294	8,375	11,669
Capital assets, net	8,372	62,405	70,777
Current liabilities	7,545	5,315	12,860
Long term debt	—	82,048	82,048
Revenue	50,686	3,884	54,570
Expenses	25,931	2,370	28,301
Net income	24,755	1,514	26,269
Cash flow from operating activities	21,397	2,017	23,414
Cash flow from financing activities	—	—	—
Cash flow used in investing activities	(4,493)	—	(4,493)

The crude oil sales elimination of $201.0 million shown in Note 4 for the year ended December 31, 2000 includes $17.5 million of net crude oil sales made by Turgai to ShNOS.

7 Accounts Receivable

Accounts receivable consist of the following:

	2001	2000
As at December 31		
Trade accounts receivable	25,930	17,156
Due from joint venture	—	—
Value added tax recoverable	10,153	17,199
Withholding tax recoverable	5,000	—
Other receivables	11,204	1,359
	52,287	35,714

8 Inventory

Inventory consists of the following:

As at December 31	2001	2000
Refined products finished goods	4,029	2,226
Refined products work in process	7,319	7,762
Crude oil	2,584	1,043
Raw materials and supplies	16,014	9,777
	29,946	20,808

9 Capital Assets

December 31, 2001	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties and equipment	466,732	274,955	191,777
Refining	130,587	16,939	113,648
	597,319	291,894	305,425
Other capital assets	30,319	2,848	27,471
	627,638	294,742	332,896

December 31, 2000	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties and equipment	378,095	252,970	125,125
Refining	114,311	6,973	107,338
	492,406	259,943	232,463
Other capital assets	34,228	2,225	32,003
	526,634	262,168	264,466

Excluded from the depletable base of oil and gas properties are undeveloped properties of $32.3 million (December 31, 2000—$32.3 million).

Construction in progress of $23.0 million (December 31, 2000—$25.8 million) included in other capital assets is not depreciated.

10 Short Term Debt

	As at December 31	
	2001	2000
Working capital facilities	42,557	1,000
Current portion of term facilities	4,000	—
Joint venture loan payable	6,000	—
	52,557	1,000

The working capital facilities are revolving, for terms of 1 to 8 years, are secured and have interest rates ranging from 14% per annum to Libor plus 3.5% per annum.

11 Debt and Accrued Interest

Debt and accrued interest includes the following:

	As at December 31	
	2001	2000
Canadian Notes	—	9,891
U.S. Notes	—	14,115
	—	24,006

Canadian notes

On March 26, 1997, Hurricane issued C$110 million (U.S. $80 million) of Special Warrants under a Special Warrant Indenture (the "Indenture"). Under the terms of the Indenture, each Special Warrant was exercisable by the holder thereof, at no additional cost, into one unit, with each unit comprised of one C$1,000 principal amount Note and 45 Series 5 Warrants. In accordance with generally accepted accounting principles for compound financial instruments, C$107,525,000 (U.S.$78,245,525) was ascribed to long-term debt and the remaining C$2,475,000 (U.S.$1,801,048) to share capital. As of July 27, 1997, all of the Special Warrants were exercised or were deemed to have been exercised. As a result, Hurricane issued C$110 million of 11% senior unsecured notes due 2002 (the "Canadian Notes") under the Indenture.

The Canadian Notes were to mature on March 27, 2002 and all outstanding principal would have been payable on maturity. Interest on the Canadian Notes accrued at the rate of 11% per annum and was payable on June 1 and December 1 in each year through 2001, commencing June 1, 1997, with the final interest payment on March 26, 2002.

The Canadian Notes were general unsecured obligations of Hurricane and ranked equally in right of payment to all existing and future unsecured debt of Hurricane not subordinated by its express terms. The Canadian Notes ranked senior in right of payment to any and all existing and future subordinated debt of Hurricane. The Canadian Notes were not callable or otherwise redeemable at the option of the Corporation at any time prior to their stated maturity date.

The Canadian Notes contained certain covenants, which restricted the Corporation's activities, including limitation of indebtedness, dividends, restricted payments, sale of assets, liens and related party transactions.

U.S. notes

On November 7, 1997, Hurricane issued $105 million of 11.75% senior unsecured notes due 2004 (the "U.S. Notes"). The U.S. Notes were to mature on November 1, 2004 and all outstanding principal would have been repayable on maturity.

Interest on the U.S. Notes accrued at the rate of 11.75% per annum and was payable on May 1 and November 1 of each year, commencing May 1, 1998.

The U.S. Notes were general unsecured obligations of Hurricane and ranked equally in right of payment with all existing and future unsecured debt of Hurricane, which is not subordinated by its express terms. The U.S. Notes ranked senior in right of payment to any and all existing and future unsecured subordinated debt of Hurricane.

The U.S. Notes contained certain covenants, which restricted the Corporation's activities, including limitation of indebtedness, dividends, restricted payments, sales of assets, liens and related party transactions.

CCAA plan

Pursuant to the Companies' Creditors Arrangement Act Plan (CCAA Plan) implemented on March 31, 2000, the terms of the Notes were amended as detailed in Note 2. The remaining principal amounts were repaid by June 30, 2001.

12 Long Term Debt

Long term debt is represented by:

	As at December 31	
	2001	**2000**
12% Notes	189,976	—
Kazgermunai debt	61,068	82,048
Term facility	16,000	—
ShNOS bonds	13,227	—
Issue costs	(2,504)	—
	277,767	82,048

12% notes

The Corporation declared a special dividend of C$4.00 per share to the shareholders of record as of August 2, 2001 in the form of $208,610,000, 12% Notes (the "Notes") issued on August 3, due in 2006. These Notes are unsecured, bear interest at the rate of 12% per annum payable semi-annually on August 3 and February 3 and mature on August 4, 2006. The Notes are redeemable at the Corporation's option in whole or in part on the interest payment dates at 102% up to and including February 3, 2003, at 101% up to and including February 3, 2004 and at 100% thereafter. Each holder of the Notes has the right, upon the occurrence of a change in control, to require the Corporation to repurchase all or any part (equal to $10,000 or an integral multiple thereof) of the Notes at a price of 101% of the aggregate principal plus accrued and unpaid interest.

Upon issuance, the Corporation paid fractional interests and withholding taxes of $31.83 million in cash and retained a corresponding amount of the Notes. The Corporation repurchased $900 thousand of these Notes on the market and subsequently sold $15 million of the Notes, retaining $18.65 million as of December 31, 2001.

The issue costs related to the Notes are $1.8 million and are recorded as deferred charges, and will be amortized, as well as $0.7 million of deferred charges related to the Term Facility (see below).

Long term debt of Kazgermunai

The Kazgermunai debt is non-recourse to the Corporation. The amounts included below represent 50% of the total debt, which has been included in the financial statements on a proportionate consolidation basis (see Note 6).

	As at December 31	
	2001	**2000**
Kazgermunai senior debt	27,319	50,167
Kazgermunai subordinated debt	22,181	21,196
Loan from government of Kazakhstan	11,568	10,685
	61,068	82,048

Kazgermunai senior debt

The senior debt bears interest at LIBOR plus 3% and is unsecured. Accrued interest is added to the principal on a semi-annual basis.

During the year ended December 31, 2001 Kazgermunai repaid $26.7 million of principal and interest accrued on its senior debt.

Kazgermunai subordinated debt

The subordinated debt bears interest at LIBOR plus 3% and is unsecured. Accrued interest is added to the principal on a semi-annual basis. Repayment of the debt will begin after full repayment of the senior partner debt.

Loan from government of Kazakhstan

The loan from the government of Kazakhstan relates to exploration and development work performed by Yuzneftegas, a state owned enterprise that was purchased by Hurricane Kumkol Limited in 1996 and Yuzneftegas subsequently had its name changed to Hurricane Kumkol Munai, on the Akshabulak, Nuraly and Aksai fields prior to the formation of Kazgermunai. The loan bears interest at LIBOR plus 3% and is unsecured. Accrued interest is added to the principal on a semi-annual basis. Repayment of the debt will begin after full repayment of the senior debt.

Kazgermunai is restricted from paying dividends until all outstanding loans have been repaid in full.

Term facility

The Corporation entered into a secured, Term Facility for $60 million. The facility will be repaid in fifteen equal monthly installments commencing October 2002 and bears interest at LIBOR plus 3.5%. As at December 31, 2001 the Corporation had drawn $20 million under this facility, $4 million of which is classified as short-term debt as of December 31, 2001.

ShNOS bonds

On March 20, 2001 ShNOS registered 250,000 unsecured bonds (par value $100) in the amount of $25 million with the National Securities Commission of the Republic of Kazakhstan (the "ShNOS bonds"). The ShNOS bonds have a three-year maturity, are due on March 31, 2004 and bear a coupon rate of 10% per annum. The ShNOS bonds are listed on the Kazakh Stock Exchange.

As at December 31, 2001 134,800 bonds had been issued for consideration of $13.2 million.

The ShNOS bonds contain certain covenants including a limitation on indebtedness.

Interest expense

Interest expense for the year ended December 31, 2001 and 2000 was $19.5 million and $18.7 million respectively of which interest related to long term debt was $15.87 million and $0.11 million respectively. Interest expense for the year ended December 31, 1999 was $23.87 million all of which was related to short-term debt.

13 Share Capital

(a) Authorized share capital consists of an unlimited number of Class A common shares, and an unlimited number of Class B redeemable preferred shares, issuable in series.

Issued Class A common shares:

	As at December 31			
	2001		2000	
	Number	Amount	Number	Amount
Balance, beginning of year	79,808,673	203,930	44,512,359	105,245
Stock options exercised for cash	353,550	589	1,771,900	2,256
Shares issued for ShNOS acquisition (Note 3)	—	—	19,430,543	57,082
Special Warrants issued and converted on ShNOS acquisition (e)	—	—	4,067,381	11,949
Corresponding convertible securities, converted (f (i))	93,018	96	675,710	872
Special Warrants issued for cash and converted (d)	—	—	9,346,000	25,082
Corresponding convertible securities	—	—	—	2,910
Series 5 warrants converted (b)	2,200	8	4,780	20
Redemption of Series 5warrants (b)	—	(1,799)	—	—
Redemption of corresponding convertible securities (c)	—	(3,878)	—	—
Cancelled shares (g)	(153,657)	(440)	—	
Less costs of issue	—	—	—	(1,486)
Balance, end of year	80,103,784	198,506	79,808,673	203,930

(b) On March 26, 1997, the Corporation issued 110,000 Special Warrants (see Note 11). Each Special Warrant was exercisable, partially into 45 Series 5 Warrants. As described in Note 11, C$2.5 million (U.S.$1.8 million) of the proceeds were allocated to the Series 5 Warrants. Each Series 5 Warrant entitled the holder to purchase one common share of the Corporation at a price of Canadian $6.25 until March 26, 2002. The Special Warrants were deemed to be exercised 5 days after a receipt was issued for the prospectus which was dated July 21,1997; accordingly, 4,950,000 Series 5 Warrants were issued. All 4,950,000 Series 5 warrants were outstanding at December 31, 1999. 2,200 warrants were exercised during the period ended December 31, 2001 (4,780 during the period ended December 31, 2000).

The Corporation reached an agreement with the Series 5 warrant holders to redeem 4,943,020 of the outstanding Series 5 warrants on February 23, 2001 at C$2.90 per warrant for a total consideration of $9.425 million. $1.799 million was recorded as a reduction of share capital based upon the average cost of each warrant at issuance, and the remaining $7.626 was recorded as an increase in the Corporation's deficit. On February 23, 2001, 2,200 Series 5 warrants were exercised and as at December 31, 2001 there were no outstanding Series 5 warrants.

(c) Simultaneously, the corresponding convertible securities associated with the Series 5 warrants were redeemed under the same terms as the Series 5 warrants at C$2.90 per corresponding convertible security for total consideration of $3.878 million. On February 23, 2001, 906 of these corresponding convertible securities were exercised and as at December 31, 2001 there were no outstanding corresponding convertible securities associated with the Series 5 warrants.

(d) On March 7, 2000, the Corporation completed a private placement of 9,346,000 Special Warrants at a price of C$36 million (equivalent U.S. $25 million). Each Special Warrant entitled the holder thereof to acquire, at no additional cost, one Common Share of the Corporation until five days after receipt was issued for the prospectus, which was dated July 6, 2000. All of the Special Warrants were exercised before the expiry date.

(e) On March 31, 2000, in connection with the acquisition of ShNOS, the Corporation issued 4,067,381 Corresponding Special Warrants, which enabled the holder to acquire, at no additional cost, one common share of the Corporation under the same terms as the Special Warrants discussed in (d) above. All of the Corresponding Special Warrants were exercised before the expiry date.

(f) On March 31, 2000, also in connection with the acquisition of ShNOS, the Corporation issued Corresponding Convertible Securities as follows:

i. Options to purchase 1,105,753 Common Shares of the Corporation at prices and terms which are identical to those options outstanding at March 31, 2000, but in each case the number of options equals 41.16% of the outstanding options. This percentage was changed to 40.80% of the outstanding options granted prior to March 31, 2000.

ii. Warrants to purchase 2,037,420 Common Shares of the Corporation at $6.25 per share under the same terms as the Series 5 Warrants which were outstanding at March 31, 2000. As at December 31, 2000, 2,035,453 of these warrants are outstanding. On February 23, 2001, 906 of these corresponding convertible securities were exercised and all the remaining 2,034,547 were redeemed under the same terms as the Series 5 warrants at C$2.90 per corresponding convertible security for the total consideration of $3.878 million. As at December 31, 2001 there were no outstanding corresponding convertible securities associated with the Series 5 warrants.

(g) The Corporation cancelled 153,657 of the shares issued for the acquisition of ShNOS to correct an error made upon issuance.

(h) A summary of the status of the Corporation's stock option plan as of December 31, 2000 and the changes during the years ended December 31, 2001 is presented below (expressed in Canadian dollars):

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 1999	2,861,500	2.94
Granted	3,990,000	3.31
Granted under corresponding securities arrangement	1,105,763	2.16
Exercised	(2,447,610)	1.29
Cancelled	(823,948)	3.77
Outstanding at December 31, 2000	4,685,705	3.15
Granted	1,644,243	9.71
Granted under corresponding securities arrangement	—	—
Exercised	(446,568)	2.28
Cancelled	(146,500)	7.89
Outstanding at December 31, 2001	5,736,880	3.07

All stock options outstanding as of August 3, 2001 were re-priced in connection with the special dividend that was issued by the Corporation. The exercise price was reduced by C$3.78 per share. Certain options had exercise prices less than C$3.78. For these options, the Corporation recorded the cash payable upon exercise of $0.558 million as a dividend.

As at December 31, 2001						
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
0 to 2.5	3,755,426	3.09	0.36	3,549,176	0.42	3.12
2.5 to 7.5	578,711	3.43	5.54	169,348	5.22	1.84
7.5 to 12.5	1,402,743	4.61	9.32	600,000	9.71	4.87
0 to 12.5	5,736,880	3.48	3.07	4,318,524	1.90	3.31

14 Income Taxes

The Corporation and its subsidiaries are required to file tax returns in each of the jurisdictions in which they operate. The prime operating jurisdiction is Kazakhstan with substantially all income earned in Kazakhstan.

The provision for income taxes differs from the results, which would have been obtained by applying the statutory tax rate of 30% to the Corporation's income before income taxes. This difference results from the following items:

	Years ended December 31st		
	2001	**2000**	**1999**
Effective Kazakhstan income tax rate	30%	30%	30%
Expected tax expense	71,898	79,370	7,855
Non-deductible amounts, net	7,619	23,726	10,229
Lower tax rate for South Kumkol field	(2,338)	(2,388)	(413)
Income tax withheld on joint venture dividend	2,500	—	—
Deferred tax recognized	(11,285)	(1,051)	—
Income tax expense	68,394	99,657	17,671

The following are the future income tax assets and liabilities arising from temporary differences between the carrying values and tax bases of the following assets and liabilities:

	As at December 31, 2001	
	2001	**2000**
Future income tax assets:		
Fixed assets	23,045	12,692
Provision for doubtful accounts	5,265	5,704
Provision for obsolete inventories	1,134	1,832
Provision for royalties	2,068	—
Provision for inter-company profit eliminations	3,698	3,403
Other	—	379
Total future income tax assets	35,210	24,010
Less: current portion of future income tax assets	5,766	4,540
Long-term future income tax assets	29,444	19,470
Future income tax liabilities:		
Fixed assets	24,988	25,002
Other	—	73
	24,988	25,075

The Corporation's principal subsidiaries, HKM and ShNOS, and the Corporation's other subsidiaries and joint ventures operating in Kazakhstan are separate taxpayers under Kazakhstani tax legislation.

Taxes are payable in Kazakhstan based on financial statements prepared in accordance with the laws of Kazakhstan rather than financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The majority of the differences between the two sets of financial statements are temporary differences where an expense or revenue item is recorded for Canadian GAAP purposes in a different period than allowed under Kazakhstani law. The provision for Kazakhstani income taxes has been calculated by applying the Kazakhstani statutory tax rate of 30% to the income of Hurricane's Kazakhstan subsidiaries.

15 Fair Value of Financial Instruments

As at December 31, 2001 the fair value, the related method of determining fair value and the carrying value of the Corporation's financial instruments were as follows.

The fair value of current assets and current liabilities approximates their carrying amounts due to the short-term maturity of these instruments.

The fair value of long-term debt is based on publicly quoted market values and current market conditions for instruments of a similar nature.

	Carrying Value	Fair Value
Long-term debt	277,767	270,643

16 Commitments and Contingencies

Kazakhstani environment

Kazakhstan, as an emerging market, has a business infrastructure that is not as advanced as those usually existing in more developed free market economies. As a result, operations carried out in Kazakhstan can involve risks that are not typically associated with those in developed markets.

Government taxes and legislation

The tax environment in the Republic of Kazakhstan is subject to change and inconsistent application, interpretation and enforcement. Non-compliance with Kazakhstan laws and regulations can lead to the imposition of penalties and interest.

During the year ended December 31, 2000, the Corporation was subject to a number of detailed investigations by the tax authorities, which resulted in assessments of further taxes and penalties totaling $19.5 million. The Corporation has provided for $2.5 million in the financial statements as at December 31, 2000. The Corporation disputes the remaining assessments and believes it is fully in compliance with current tax laws and regulations. Accordingly, no further provision has been made in the financial statements.

Production licenses

The Corporation has a 50% interest in the Kumkol North field through a joint venture. The joint venture, Turgai, is the operator of the Kumkol North field. Turgai, under the exploration and production license dated December 20, 1995 (the "Kumkol North License") for the Kumkol North producing oil field, has committed to invest 5.3 billion Tenge, 5.4 billion Tenge, 2.6 billion Tenge and 2.5 billion Tenge in 1996, 1997, 1998 and 1999, respectively, which, at the exchange rate in effect at December 31, 1995, would be approximately $82.0 million, $84.8 million, $41.1 million and $38.8 million, respectively.

Turgai did not satisfy this commitment in 1996, 1997, 1998 or 1999. There can be no assurance that the government of Kazakhstan will waive the breach of the capital investment commitments under such license. The failure to satisfy the capital investment commitments with respect to the Kumkol North producing oil field may result in the cancellation of the Kumkol North License. However, the Central Commission on developing oil and gas fields under the Ministry of Energy, Industry & Economy approved a new project for the development of the Kumkol oilfield dated June 24, 1999 providing for reduced capital expenditures which Turgai anticipated to meet or exceed and to date, the Corporation has received no notice from the government of Kazakhstan of its intent to terminate the Kumkol North License. The Kumkol North producing oil field represents approximately 29% of the Corporation's net proved reserves. Under the Share Sale-Purchase Agreement, HKM has the right to have the license for the Kumkol North producing oil field reissued to HKM in the event of the cancellation of the existing Kumkol North License.

Capital expenditures commitment

Pursuant to the Share Sale-Purchase Agreement with the Republic of Kazakhstan, a commitment was made to invest, in Kazakhstan, an aggregate of $280 million in capital expenditures,

investments or other items that may be treated as capital assets of HKM on or before December 31, 2002. These expenditures will be used to further exploit and develop existing fields and to explore for new additional reserves to enhance future production and revenues. If the required investment is not made within the agreed time period, Hurricane may be required under the terms of the Agreement to pay a penalty of 15% of the amount not invested. As at December 31, 2001, the Corporation believes it has met this commitment. The 2001 expenditures and commitments remain subject to audit and certification by the government of Kazakhstan, under the terms of the Share Sale-Purchase Agreement.

For ShNOS capital commitments see Note 3.

Legal proceedings

The Corporation has been named as defendant in a claim filed by a company alleging it was retained under a consulting contract since January 17, 1997 until services were suspended in May, 1999. The liquidated principal amount being claimed is, in aggregate, $6.6 million and an additional unspecified amount is being claimed as an alleged penalty provision, with the total claim not to exceed $35 million. The Corporation believes this claim is without merit and, accordingly, no amount has been recorded in the consolidated financial statements at December 31, 2001. An arbitration hearing was held in December 2001 and a decision is currently awaited. At this time it is not possible to assess, what liability, if any, the Corporation may have by reason of this claim.

The Corporation has been named as defendant in a claim filed by a company alleging breach of a consulting contract, in aggregate of $4.7 million. The Corporation believes this claim is without merit and, accordingly, no amount has been recorded in the consolidated financial statements at December 31, 2001.

The Corporation has been named as a defendant in a claim filed by a company alleging a breach of an agreement in the amount of $2.4 million. The Corporation believes this lawsuit is without merit and, accordingly, no amount has been recorded in the consolidated financial statements at December 31, 2001.

Excess profit tax

The Corporation through its subsidiary HKM and joint venture Turgai, is subject to excess profit tax under the terms of the Hydrocarbon Exploration and Production contracts they have for oil and gas production. The contracts are specific to each field.

Excess profit tax is in addition to statutory income taxes, which are at a rate of 30%, and excess profit tax takes effect after the field has achieved a cumulative internal rate of return higher than 20% for the specific field. The excess profit tax ranges from 0% to 30% of taxable income for the year for HKM and from 0% to 50% for Turgai. The Corporation did not incur excess profits tax in 2001; it may be subject to excess profit tax for the year ended December 31, 2002 and subsequent years in certain of its fields.

Environmental matters

The Corporation believes it is currently in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations or the interpretation thereof may change in the future.

17 Net Income Per Share

The income per share calculations are based on the weighted average and diluted numbers of Class A common shares outstanding during the period as follows:

	Years ended December 31st		
	2001	2000	1999
Weighted average number of common shares outstanding	79,807,038	70,590,314	44,512,359
Dilution from exercisable options (including convertible securities)	3,842,122	1,637,198	181,865
Dilution from Series 5 warrants	—	901,642	—
Diluted number of shares outstanding	83,649,160	73,129,154	44,694,224

No options were excluded from the calculation of diluted number of shares outstanding in 2001 and in 2000, 385,870 options were excluded from the calculation (1999—1,266,500) as the exercise price was in excess of market price.

18 Cash Flow Information

Interest and income taxes paid:

	Years ended December 31st		
	2001	2000	1999
Interest paid	7,491	35,366	9,367
Income taxes paid	102,238	81,082	6,772

Changes in non-cash operating working capital items include:

	Years ended December 31st		
	2001	2000	1999
(Increase)/decrease in accounts receivable	(16,573)	(30,414)	27,638
(Increase)/decrease in inventory	(9,138)	(15,677)	10,821
(Increase)/decrease in prepaid expenses	(7,089)	(7,381)	(99)
Increase/(decrease) in accounts payable and accrued liabilities	(11,044)	30,395	(1,359)
(Decrease)/increase in prepayments for crude oil and refined products	(4,552)	11,974	(975)
Decrease/(increase) in receivable from joint venture	—	7,554	(7,554)
ShNOS working capital acquired, excluding cash (Note 3)	—	33,548	—
Kazgermunai working capital acquired on proportionate consolidation, excluding cash (Note 5)	—	1,533	—
	(48,396)	31,532	28,472

Change in long-term debt includes:

	Years ended December 31st		
	2001	2000	1999
Proceeds from ShNOS bonds	13,227	—	—
Proceeds from term facility	16,000	—	—
12% Notes repurchased	(900)	—	—
12% Notes sold, net of discount	14,080	—	—
Accrued interest on Kazgermunai debt	5,679		
Repayment of Kazgermunai debt	(26,659)	—	—
Repayment of Canadian and US notes	(24,006)	(173,860)	—
Deferred financing charges on term facility	(720)	—	—
Deferred issue costs on 12% Notes	(1,784)	—	—
Deferred financing costs	—	—	(907)
	(5,083)	(173,860)	(907)

19 Related Party Transactions

During the year ended December 31, 2001 the Corporation purchased crude oil from Turgai for $105.8 million, out of which 50%, being $52.9 million, was eliminated on consolidation of the Corporation's 50% joint venture interest. The remaining 50% remains in cost of purchased crude oil.

During the year ended December 31, 2000 the Corporation purchased crude oil from Turgai for $35.1 million, out of which 50%, being $17.5 million was eliminated on consolidation of the Corporation's 50% joint venture interest. The remaining 50% remains in cost of purchased crude oil.

During the year ended December 31, 2001 the Corporation purchased crude oil from Kazgermunai for $5.2 million, out of which 50%, being $2.6 million was eliminated on consolidation of the Corporation's 50% joint venture interest. The remaining 50% remains in cost of purchased crude oil. There were no purchases of crude oil from Kazgermunai during the year ended December 31, 2000.

20 Comparative Figures

The presentation of certain accounts for previous years has been changed to conform with the presentation adopted for the current year.

21 Reconciliation of Results from Canadian GAAP to U.S. GAAP for the Years Ended December 31, 2001, 2000 and 1999

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which conform in all material respects with those applicable in the United States ("U.S. GAAP"), except as set forth below:

Income taxes

Effective January 1, 2000 the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for future income taxes and applied this policy retroactively without restatement of prior period financial statements (Note 1). This new method differs from United States GAAP due to the application of transitional provisions and the accounting for certain tax incentives. In prior years a valuation allowance had been made against the deferred tax asset for U.S. GAAP purposes. This valuation allowance was released in 2000.

Foreign currency translation

Hurricane's principal operating subsidiaries are HKM and ShNOS and for Canadian GAAP are classified as integrated which leads to the use of the temporal method of translation (See Note 1). Under United States GAAP, the Corporation, on a consolidated basis, is required to translate the accounts of its principal operating subsidiaries using the current rate method. The significant changes which result from this difference are a reduction in the carrying value of capital assets and the creation of a cumulative translation account within the equity section of the balance sheet, which reduces total equity.

Accounting for oil and gas properties

The Corporation has completed a ceiling test calculation under United States GAAP at December 31, September 30, June 30 and March 31, in 2001, 2000 and 1999. These calculations indicated that write-downs of the carrying value of the Corporation's oil and gas properties were required during the first six months of 1999.

There are certain differences between the full cost method of accounting for oil and gas assets as applied in Canada and as applied in the United States. The Corporation has reviewed such differences and determined that no variances in financial statement balances would have resulted from the application of full cost accounting in accordance with United States GAAP.

Consolidated statements of income

The application of United States GAAP would have the following effects on net income as reported:

	Years ended December 31		
	2001	**2000**	**1999**
Net income as reported in accordance with Canadian GAAP	169,340	154,930	8,513
Accounting for income taxes	(6,157)	19,061	(1,687)
Amortization of debt issue costs	(540)	(7,039)	(324)
Amortization of discount on debt	—	(981)	—
Net income under United States GAAP	**162,643**	**165,971**	**6,502**
Comprehensive income			
Foreign exchange translation adjustment	(1,598)	(6,111)	(28,600)
Total comprehensive income	**161,045**	**159,860**	**(22,098)**
Basic income per share under United States GAAP	2.04	2.35	0.15
Diluted income per share under United States GAAP	1.94	2.26	0.14

Stock based compensation

The Corporation has a stock-based compensation plan as more fully described in Note 12. With regard to its stock option plan, the Corporation applies APB Opinion No. 25 in accounting for this plan and accordingly no compensation cost has been recognized. Had compensation expense been determined based on fair value at the grant dates for the stock option grants consistent with the method of SFAS No. 123, the Corporation's net income and net income per share would have been reduced to the pro forma amounts as indicated below:

	Years ended December 31		
	2001	**2000**	**1999**
Net income under U.S. GAAP:			
As reported	162,643	165,971	8,513
Pro forma	161,409	157,791	7,563
Basic earnings per share:			
As reported	2.04	2.35	0.19
Pro forma	2.02	2.23	0.17
Stock options issued during period (thousands)	342	3,990	1,795
Weighted average exercise price	6.21	3.35	0.71
Weighted average fair value of options granted during the period	3.61	2.05	0.53

The foregoing information is calculated in accordance with the Black-Scholes option pricing model, using the following data and assumptions: volatility, as of the date of grant, computed using the prior one to three-year weekly average prices of the Corporation's Common Shares, which ranged from 52% to 124%; expected dividend yield—0%; option terms to expiry—4 to 5 years as defined by the option contracts; risk-free rate of return as of the date of grant—4.86% to 5.96%, based on five year Government of Canada Bond yields.

Consolidated Balance Sheets

The application of United States GAAP would have the following effects on balance sheet items as reported:

	As reported	Increase (Decrease)	United States GAAP
December 31, 2001			
Current assets	170,130		170,130
Capital assets	332,896	(46,409)	286,487
Future income tax assets	29,444	(6,157)	23,287
Long-term investments	40,000		40,000
Current liabilities	108,737		108,737
Long term debt	277,767	(29)	277,738
Future income tax liability	24,988		24,988
Provision for future site restoration costs	3,148		3,148
Minority interest	25,599		25,599
Preferred shares of subsidiary	91		91
Shareholders' equity	132,140	(52,537)	79,603
December 31, 2000			
Current assets	130,590		130,590
Capital assets	264,466	(44,812)	219,654
Future income tax assets	19,470		19,470
Deferred charges and other assets	—	569	569
Current liabilities	96,782		96,782
Long term debt	82,048		82,048
Future income tax liability	25,075		25,075
Provision for future site restoration costs	1,750		1,750
Preferred shares of subsidiary	104		104
Minority interest	23,724		23,724
Shareholders' equity	185,043	(44,243)	140,800

Impact of new and impending U.S. GAAP accounting standards

Statement of financial accounting standards no. 141 ("FAS 141")—business combinations

In June 2001, the Financial Accounting Standards Board ("FASB") approved SFAS No 141 "Business Combinations" and issued this statement in July 2001. FAS 141 establishes new standards for accounting and reporting requirements for business combinations and will require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling of interest method will be prohibited. Management does not believe that FAS 141 will have a material impact on the Company's financial statements.

Statement of financial accounting standards no. 142 ("FAS 142")—goodwill and other intangible assets

In June 2001, the FASB approved SFAS No 142 "Goodwill and Other Intangible Assets", which supercedes APB Opinion No 17 "Intangible Assets". The FASB issued this statement in July 2001. FAS 142 establishes new standards for goodwill acquired in a business combination and eliminates amortization of goodwill and instead sets forth method to periodically evaluate goodwill for impairment. Management does not believe that FAS 142 will have a material impact on the Company's financial statements.

Statement of financial accounting standards no. 143 ("FAS 143")—accounting for asset retirement obligations

FAS 143, Accounting for Asset Retirement Obligations, is effective for financial statements issued for fiscal years beginning after June 15, 2002. FAS 143 applies to legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction,

development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. The Corporation has not yet evaluated the effect that FAS No 143 will have on financial reporting.

Statement of financial accounting standards no. 144 ("FAS 144")—accounting for the impairment or disposal of long-lived assets

FAS 144, Accounting for the Impairment or Disposal of Long Lived Assets supersedes both FAS No. 121 and the accounting and reporting provisions of APB Opinion No.30. FAS 144 retains the fundamental provisions of FAS 121 for recognizing and measuring impairment losses on long-lived assets. FAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity rather than a segment of a business. FAS 144 is effective for all fiscal years beginning after December 15, 2001. Adoption of FAS 144 on January 2002 will not have a material impact on the Corporation's financial position or net income.

Consolidated statements of income and deficit reclassifications

Interest and other income is presented within revenue under Canadian GAAP, under the United States GAAP this would be presented as a separate line item after operating income.

Interest and financing costs is presented within expenses under Canadian GAAP, under United States GAAP this would be presented as a separate line item after operating income.

Unusual items as presented under Canadian GAAP would be included within expenses under United States GAAP.

Consolidated statements of cash flow reclassifications

Under Canadian GAAP within "Repayment of debt and accrued interest" in Financing Activities is $7,491 thousand of US Dollars of interest which would be included in Operating Activities under United States GAAP.

22 Subsequent Events

The Corporation, through its operating subsidiaries in Kazakhstan, has disputed certain tax assessments as disclosed in Note 16 to the financial statements.

The Corporation has been engaged in two court cases in Kazakhstan pertaining to the disputed assessments. The first involved ShNOS and was approximately $8.8 million. ShNOS has successfully argued its case at the first level of the court system in Kazakhstan and at the Supreme Court level. There is a possibility that the Ministry of State Revenue may appeal to the ultimate appellate level, the Supervisory Commission of the Supreme Court. No provision has been made in the financial statements for this assessment.

The second case involved HKM and was for a total of approximately $8 million excluding any potential fines or penalties, which may be approximately $2 million. HKM was successful at the first level of the court system and was unsuccessful on the majority of the issues at the Supreme Court level. HKM will appeal to the ultimate appellate level, the Supervisory Commission of the Supreme Court. The Corporation has provided for $4.2 million of the $8 million in the March 31, 2002 financial statements. The Corporation continues to dispute this assessment, as it believes that tax stability provisions of its Hydrocarbons Contracts establish that HKM is not subject to the assessed taxes.

Legal Proceedings

The Corporation has been named as a defendant in a claim filed by a company alleging it was retained under a consulting contract as disclosed in Note 16 to the financial statements. The arbitration decision has been received and the Corporation has accrued $6.1 million for full settlement of the claim.

Long Term Investments

The conditions set out in the Sale and Purchase Agreement for the purchase of our interest in the CPC pipeline were not met by the deadline of June 13, 2002 and the agreement was therefore terminated. The entire first payment of $40 million was reimbursed. The impact on the financial statements is a $40 million increase in cash and a corresponding decrease in Long Term Investments.

APPENDIX A: Glossary of Selected Oil and Natural Gas Terms

The following are definitions of certain oil and natural gas terms used in this offering memorandum:

API gravity . . . . An indication of density of crude oil or other liquid hydrocarbons as measured by a system recommended by the American Petroleum Institute, API, measured in degrees relative to the specific gravity scale. The higher the API gravity measure, the lighter the compound. For example, asphalt has an API gravity of 8, and gasoline has an API gravity of 50.

Bbl . . . . Abbreviation for a barrel, which is 42 U.S. gallons.

BFPD . . . . Barrels of fluid per day.

BOPD . . . . Barrels of oil per day.

Completion . . . . Installation of permanent equipment for the production of oil or gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

Development well . . . . A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

Exploratory well . . . . A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir.

FCA sales . . . . Export sales made under freight carriage assurance terms. Title to the crude oil passes in Kazakhstan, normally at the rail terminal at Tekesu, adjacent to the Shymkent refinery. The price achieved for these export sales is shown net of a differential to the prevailing Brent price at the time of the sale.

Field . . . . An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.

future net cash flows . . . . Amounts that are the result of subtracting future development and production costs and future income tax expenses from future cash inflows. Future cash inflows are computed by applying year-end prices of oil and gas relating to the enterprise's proved reserves to the year end quantities of those reserves.

Gross . . . . Gross oil and gas wells or gross acres are the total number of wells or acres in which we have an interest, without regard to the size of that interest.

Mazut . . . . Heavy fuel oil.

Mbbls . . . . One thousand barrels of oil or other liquid hydrocarbons.

MMbbls . . . . One million barrels of oil or other liquid hydrocarbons.

MMcfd . . . . One million cubic feet of natural gas per day.

Net . . . . Net oil and gas wells or net acres are determined by multiplying gross wells or acres by our working interest in those wells or acres.

Non-FCA sales .... Export sales made on terms under which title passes to crude oil outside Kazakhstan. Under these sales, we arrange all transportation to the port and assume the obligation for this transportation. These sales include sales made FOB (free on board), CIF (cost, insurance and freight), CPT (carriage paid to) and DAF (delivery at Frontier). In the tables in this offering memorandum, these sales are shown as "Crude sales sold FOB".

Oil .... Crude oil and condensate.

Operator .... The individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.

Payout .... Recoupment of costs of production by a driller or developer.

present value .... When used with respect to oil and gas reserves, the estimated future gross revenues to be generated from the production of proved reserves, net of estimated production and future development cost, using prices and costs in effect as of the date indicated without future escalation, except as otherwise provided by contract, without giving effect to non-property related expenses such as general and administrative expenses, debt service and future income tax expenses or to depreciation, depletion and amortization, discounted using specified discount rates.

Producing well .... A well that is producing oil or gas or that is capable of production.

Proved developed producing reserves .... Proved reserves that are actually on production, or if not producing, that could be recovered from existing wells or facilities and where the reason for the current non-producing status is the choice of the owner. Reserves assigned to non-producing zones in producing wells were classified as producing if the reserve quantities were estimated to be minor relative to our reserves in the area.

proved developed non-producing reserves .... Reserves recoverable from existing wells that require relatively minor capital expenditures to produce.

proved developed reserves .... Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods under existing economic and operating conditions.

proved reserves .... Estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.*, prices and costs as of the date the estimate is made.

proved undeveloped reserves .. Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Recompletion .... Recompletion refers to extensive maintenance operations conducted on existing wells which often include the reperforation of well bores and which are designed to restore production from wells closer to their original productive potential.

reserve life .... The proved reserves divided by the average annualized production volumes based on year end production rates.

Reservoir .... A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

royalty interest .... An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.

Seismic .... The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.

3-D seismic survey .... Seismic that is run, acquired and processed to yield a three-dimensional picture of the subsurface. Three dimensional seismic is relatively expensive because it takes a considerable amount of computer time to process the data.

shell capacity .... Design capacity.

Undeveloped acreage .... Acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether such acreage contains proved reserves.

working interest .... The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and to a share of production, subject to all royalties, overriding royalties and other burdens, and to all costs of exploration, development and operations and all risks in connection therewith.

Workover .... Routine maintenance operations on a producing well in order to maintain, restore or increase production.

APPENDIX B: The Republic of Kazakhstan

The following statistics and information relating to Kazakhstan have been extracted from certain publicly available information and are provided for background purposes only.

Introduction

Kazakhstan is a sovereign democratic republic and, after Russia, is the largest in terms of land mass of the nations formed upon the dissolution of the Soviet Union in 1991. The country is rich in natural resources, including oil, gas and minerals. Kazakhstan is a leading producer of copper, zinc, manganese, coal, uranium, lead and, to a lesser extent, gold and silver. The country is also a significant exporter of oil, grain, wool and meat. Kazakhstan has relatively high levels of foreign direct investment, particularly in the oil and gas sector.

Economic and structural reforms undertaken since 1991, including the most significant privatization effort in the region, have helped to revive Kazakhstan's economy after the decline experienced upon the dissolution of the Soviet Union. Following several years of falling GDP after the Soviet Union was disbanded, real GDP in Kazakhstan grew by 0.5 per cent. in 1996 and by 1.7 per cent. in 1997. While it fell by 1.9 per cent. in 1998, in 1999 Kazakhstan's GDP increased by 2.7 per cent. and in 2000, it grew by 9.6 per cent. Through 1 January 2002, real GDP growth was 13.2 per cent. The year-on-year rate of consumer price inflation in Kazakhstan decreased from 1,158.3 per cent. at the end of 1994 to 1.9 per cent. at the end of 1998, although it rose in 1999 and at the end of the year stood at 17.8 per cent. At year end 2000, the year-on-year rate of consumer price inflation was 9.8 per cent. and at January 2002, it was 6.4 per cent. By the end of June 2002, the period-on-period inflation rate had fallen to 5.8 per cent.

An extensive legal framework has been put in place to continue the development of a market oriented economy, including tax, securities, bankruptcy, joint-stock company and auditing laws. In 2002 Kazakhstan was deemed a "Market Economy Country" by the United States and European Union. In January 1998 a pension reform program, the first of its type in the former Soviet Union, was commenced with the aim of transforming the current "pay as you go" system into a "fully funded" private system, regulated by the State. To date the pension reform program is one of the most successful in the CIS.

Price liberalization has occurred in most sectors of the economy, although certain state monopolies such as utility companies still provide services at below cost which nevertheless are being adjusted toward cost recovery levels. In November 2002 Moody's Credit Rating Agency assigned an investment grade credit rating.

Area and Population

Kazakhstan is located in Central Asia and it is bordered by Russia to the north, China's Xinjiang-Uigur Autonomous Region to the east, The Kyrgyz Republic, Uzbekistan and Turkmenistan to the south and the Caspian Sea in the west. In December 1997, the capital moved from Almaty to Astana (formerly known as Akmola), which is located in central Kazakhstan, and the President, the Parliament and most ministries have relocated to Astana. Reasons for this move include the strategic desire to move the capital closer to Kazakhstan's industrial center. Almaty remains, however, the financial and scientific capital of the country and is by far the largest city in Kazakhstan.

The country covers an area of 2,725 million square kilometers, approximately the same size as Western Europe, and spans two time zones from the Caspian Sea in the west to the Altai mountains in the east. In terms of land mass, Kazakhstan is the ninth largest country in the world and the second largest country, after Russia, belonging to the CIS.

As of 1 January 2002, the population of Kazakhstan was approximately 14.8 million, a decrease of almost 1.2 million since January 1989, primarily due to continuing emigration by ethnic Russians and Germans. Kazakhstan is one of the most sparsely populated countries in the world with an average population density of approximately 5.5 people per square kilometer. The population of Kazakhstan is ethnically diverse.

Kazakhs are the largest among the country's approximately 126 different ethnic groups, accounting for 53 per cent. of the population, followed by Russians (31 per cent.), Ukrainians (4.4 per cent.), Tartars, Germans, Uzbeks, Poles and others. The relative size of the Kazakh ethnic group has increased since the country's independence, mainly because of the emigration of non-Kazakh ethnic groups and because of the return of many ethnic Kazakhs to the country.

Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official language, is spoken by approximately 50 per cent. of the population. Russian is spoken by more than three-quarters of the population and is also officially recognized for use in State matters and local government.

State education is provided free of charge and is compulsory from the age of six or seven; usually children attend at least 11 years of school. The majority of the population has a primary, junior and secondary school education. Entrance examinations are required for all universities and colleges, and approximately one-tenth of the population has a degree from a college or university level institution. Kazakhstan's adult literacy rate exceeds 97 per cent. The secular nature of the country is enshrined in Kazakhstan's constitution, which also ensures the right to religious freedom. Various religious and ethnic groups generally live in peaceful coexistence. The principal religions are Islam and Orthodox Christianity, but these faiths are actively practiced only by a minority of the population. The country is also home to Jews, Catholics and Protestants, particularly in the German communities.

Constitution, Government and Political Parties

Constitution

Kazakhstan has been one of the most politically stable countries of the CIS. The country's current constitution (the "Constitution"), adopted in August 1995, provides for a tripartite structure of government in which power is divided between the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President, the Parliament, the Government, the Constitutional Council and local governments and administrations and establishes an independent judicial system. Under President Nazarbayev, the Presidency has to date largely dominated the other branches of government.

Executive Branch

Under the Constitution the President is the head of state and its highest official with primary responsibility for domestic and foreign policy and the function of representing Kazakhstan in international relations, including the power to negotiate and sign international treaties. The President is also Commander-in-Chief of the armed forces. The President has the power to issue decrees and orders having the force of law (provided they are consistent with the Constitution), to determine the priority of legislation before Parliament and to call a national referendum on matters of special importance. The President also has the power to dissolve Parliament in the event of a Parliamentary vote of no confidence in the Government or the President, or following the failure by Parliament on two occasions to approve the appointment of the Prime Minister. In addition, the President may dismiss Parliament due to "political crises resulting from differences between the chambers of Parliament or between Parliament and other branches of State power" (including the President).

Under the Constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister subject to the approval of the Parliament, but the President may dismiss the Prime Minister and members of the Government without Parliamentary approval. In addition, the President has the power to appoint and remove the Governor of Kazakhstan's central bank, the NBK, whose appointment is subject to the approval of Parliament.

The Constitution provides that the President is elected to office by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of death, resignation or impeachment. New presidential elections must be held within two months of any such early termination.

The then First Secretary of the Communist Party of Kazakhstan, Nazarbayev, became President of Kazakhstan with the formation of the newly independent State in December 1991 and has held the position of head of the executive branch of the State since that time. His presidency has been confirmed in referenda in December 1991 and April 1995. President Nazarbayev was re-elected in elections held in January 1999 and his current term of office expires in 2006.

President Nazarbayev has had and continues to have a dominant influence on economic and political life in the country. In December 1993, Kazakhstan's Parliament voted to dissolve itself prior to the end of its term and to give the President the power to adopt laws. In March 1995, Parliament was again dissolved following a ruling of the former Constitutional Court declaring the 1995 Parliamentary elections invalid due to election law violations. Thus, from December 1993 until April 1994, and from March 1995 through January 1996, legislative functions were vested solely in the President. During these periods, the President brought into effect over 100 ordinances and decrees which represent the legislative framework for much of the economic and structural reforms currently being pursued by the Government.

The Government comprises the Prime Minister, as its executive head, and deputy prime ministers and ministers as members of the cabinet. The Government is formed by the President, based on recommendations of the Prime Minister, for a term of five years, and is automatically dissolved after each presidential election, to allow for the formation of a new administration by the President. Neither the Prime Minister nor the members of the cabinet are members of Parliament. The Government is responsible for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy, carrying out social policy and defending the rights and freedoms of citizens.

In January 1999, the President re-organized the Government following his re-election. Nurlan U. Balgimbayev, formerly President of Kazakhoil, was re-appointed Prime Minister having held that position since 1997. In October 1999, Mr. Balgimbayev resigned as Prime Minister, returning to Kazakhoil as its president. He was succeeded by Kasymzhomart Tokayev, the former Foreign Minister of Kazakhstan and Mazhit Esenbayev, a governor of one of Kazakhstan's regions, became Minister of Finance.

On 28 January 2002, Mr. Tokayev resigned as Prime Minister and was replaced by Imangali Tasmagambetov, who was appointed by the President and confirmed by Parliament. The previous major restructuring of the Kazakhstan Government occurred in December 2000.

Presidential Decree No. 931, dated 28 August 2002, called for the reorganization of state administration in the Republic. The former Ministry of Economy and Commerce was split into the Ministry of Economy and Budget Planning and the Ministry of Industry and Commerce, the latter assuming responsibility, inter alia, for development of industry, construction and trade. The Ministry of Industry and Commerce also assumed responsibility in the state support of direct investment and small business. The former Ministry of Finance was split into the Ministry of Finance and the Agency for State Procurement. The budgetary planning responsibility of both ministries were transferred to the Ministry of Economy and Budget Planning. The former Ministry

of State Revenue was merged with the Ministry of Finance. The state revenue planning responsibility of both ministries were transferred to the Ministry of Economy and Budget Planning. At the same time, the Agency for Strategic Planning was merged with the Ministry of Economy and Budget Planning.

Legislative Branch

The legislative branch of the State is the Parliament, which consists of an upper chamber (the "Senate") of 39 deputies and a lower chamber (the "Majilis") of 77 deputies. Seven of the deputies in the Senate are appointed by the President and the remainder are appointed by representative bodies of the regional and city authorities. The deputies in the Majilis are elected by direct popular vote.

Judicial Branch

Judicial authority is vested in the Supreme Court, regional courts and district courts. The Supreme Court is the highest judicial body for all civil and criminal matters. The Chairman of the Supreme Court, the chairpersons of the Supreme Court benches and judges of the Supreme Court are elected by the Senate from the candidacies submitted by the President based on the recommendations of the Supreme Judicial Council.

Constitutional Council

The Constitution provides for a seven member Constitutional Council which is vested with the responsibility for resolving disputes over presidential and parliamentary elections and public referenda, providing official interpretation of the provisions of the Constitution, ensuring the constitutionality of legislation and international agreements, implementing procedures under the constitution for the removal of the President from office and investigating claims brought under the Constitution in relation to the exercise of presidential power. Each of the President, the Chairman of the Senate and the Chairman of the Majilis appoints two members of the Constitutional Council. In addition, the President appoints the Council's Chairman.

Local Government

The structure of local government was established in December 1993 and is performed by local representative bodies ("maslikhats") and local executives ("akims") for each of the country's 14 regions ("oblasts") and the cities of Astana and Almaty, which together represent the first tier of territorial administration. Approximately 160 rural districts ("rayons") and a further 82 cities together make up the second tier of territorial administration. The maslikhats and akims are responsible for collection of local taxes and provision of certain social services, including health care, education and emergency services, preparation and adoption of social plans and local budgets.

Political Parties

The principle of political plurality is enshrined in the Constitution. There are a total of sixteen political parties registered with the Ministry of Justice, the main ones being the Socialist Party, the People's Congress Party of Kazakhstan, the Republican Party of Kazakhstan, the Communist Party, the Republic Labor Party, the Civil Party, the "Otan" (Homeland) Party and the Justice Party. Opposition is centered on the nationalist, socialist and communist parties. However, political parties in Kazakhstan have not played a significant role to date, due in part to the fact that deputies in Parliament have been elected not on the basis of political parties, but rather as individuals representing specific constituencies. In early 2002 a new party, Ak Zhol, was officially registered. Ak Zhol was founded by a number of former high-ranking Government officials and leading businessmen, and stated its primary aim as political and economic liberalization.

International Organizations and International Relations

Kazakhstan's Position in the International Community

Kazakhstan has established diplomatic relations with over 120 countries. Kazakhstan is a full member of the United Nations, the International Monetary Fund (the "IMF"), the World Bank, the United Nations Educational, Scientific and Cultural Organization, the International Atomic Energy Agency, the EBRD, the Asian Development Bank, the International Development Association, the Multilateral Investment Guarantee Agency, the IFC, the International Organization of Securities Commissions and the Islamic Development Bank, although its voting rights in some of these organizations or agencies thereof have been suspended pending payment of overdue contributions. Kazakhstan has observer status with the World Trade Organization and the Government is actively pursuing full membership, expecting to achieve this within the next few years.

In 1994, Kazakhstan agreed to an economic stabilization program with the IMF supported by a one-year Standby Agreement ("SBA"). A second one-year SBA was signed in June 1995 after agreement on the terms of a Systemic Transformation Facility ("STF"). Both the SBAs and the STF were substantially utilized. In July 1996, Kazakhstan entered into an Extended Fund Facility ("EFF") under which SDR309,400,000 was available for borrowing. The available period for the EFF expired in July 1999 with almost half of it undrawn. The Government and the IMF signed a new three-year SDR 329.1 million EFF in December 1999. To date, no amounts have been drawn under such EFF.

In January 1995, Kazakhstan signed a Partnership and Co-operation Agreement with the European Union ("EU"), which came into force on 1 July 1999. Kazakhstan also cooperates with the EU in various scientific and environmental programs. In May 1994, Kazakhstan joined NATO's Partnership for Peace Program. Peacekeeping exercises took place during September 1997 in Kazakhstan and Uzbekistan, with the participation of 1,400 troops from the United States, Russia, Kazakhstan, Uzbekistan, The Kyrgyz Republic, Turkey, Georgia and Latvia. In June 1998, Kazakhstan participated in peacekeeping exercises in the United States, together with 15 other states. Peacekeeping exercises also took place in the autumn of 1998 in Kazakhstan, Uzbekistan and The Kyrgyz Republic. Further peacekeeping exercises took place in the second quarter of 1999 in the United States with forces from the United States, Russia, Kazakhstan, Uzbekistan, The Kyrgyz Republic, Turkey, Georgia and Ukraine participating.

As of 30 June 2002, Kazakhstan had signed double taxation treaties with 36 countries, of which 33 have been ratified, including those with the United States, Russia, the Netherlands and the United Kingdom.

Kazakhstan and CIS Cooperation

Kazakhstan, Russia and Belarus entered into the CIS customs union in January 1995 which, among other things, provides for the removal of trade restrictions between the signatory countries and establishes a common external tariff. The Kyrgyz Republic joined this customs union in March 1996 and Tajikistan joined in February 1999. In October 2000, all five member states of the CIS customs union signed a treaty establishing a new Eurasian Economic Union on the basis of the CIS customs union. The policy of the Kazakhstan Government advocates further economic co-operation with other CIS countries. In July 1994, Kazakhstan, The Kyrgyz Republic and Uzbekistan signed an agreement to establish a multinational bank, the Central Asian Bank, and an intergovernmental council of prime ministers, foreign ministers and defense ministers. In June 1995, Kazakhstan ratified a treaty on the creation of a single economic zone between Kazakhstan, The Kyrgyz Republic and Uzbekistan in order to promote free trade, movement of capital and work force and to harmonize credit, budget, tax, price, customs and currency policies. The treaty is still in the process of being implemented. In March 1998 at a meeting of the heads

of state of the members of this economic zone, it was decided to admit Tajikistan to full membership. In addition, a treaty on the development of security markets was signed by the member states and the Government and the executive committee of the interstate council of Kazakhstan, The Kyrgyz Republic and Uzbekistan concluded an agreement to promote and monitor economic relations among these three countries.

Kazakhstan has maintained significant political and economic relations with Russia since gaining independence from the Soviet Union. After the dissolution of the Soviet Union, Kazakhstan concluded a so-called zero option agreement with Russia which provided for Russia's acceptance of responsibility for virtually all external debt liabilities contracted on behalf of the former Soviet Union, in return for Kazakhstan waiving all claims on former Soviet Union assets located outside the territory of Kazakhstan.

In May 1997, Kazakhstan, Russia and Oman (together with other oil producers) signed the Caspian Pipeline Consortium (the "CPC" or the "Consortium") agreement for the construction of a pipeline linking the Tengiz oil field in the western part of Kazakhstan with the Black Sea port of Novorossiisk in Russia. Successful completion of the project is expected to increase substantially Kazakhstan's ability to take advantage of its oil reserves and to attract foreign investment. Work on the pipeline began in January 1999. The first phase was completed and it is believed it will become fully operational by the end of second quarter 2003.

Kazakhstan and Russia have reached agreement regarding the division of mineral rights in the Kazakhstan-Russian part of the Caspian basin on a sectoral basis. It was also agreed that these rights in the basin, which is estimated to contain significant liquid hydrocarbon deposits, would be exploited by Kazakhstan and Russia on a broadly simultaneous basis. In October 2000, the Presidents of Russia and Kazakhstan signed a declaration of co-operation in this regard. In May 2002, Kazakhstan and Russia agreed on the exact position of a separation line between the two countries relating to subsurface usage rights and also on the development of three major oil and gas deposits situated off the Russian and Kazakhstani coasts in the Caspian Basin. The Government hopes to reach agreement on similar sectoral divisions with the other littoral states but the absence of such agreements is not anticipated to delay exploitation in the Kazakhstani or Russian sectors. Test drilling in both sectors started in August 1999. See " – Natural Resources – Oil and Gas". In addition, both countries have reached agreement relating to the long-term use by Kazakhstan of the Russian oil pipeline network.

Space exploration began in 1957 when the first satellite was launched by the former Soviet Union from the Baikonur Space Center located in south-western Kazakhstan. In 1994, Kazakhstan concluded a series of agreements with Russia (the "Baikonur Agreements") on the future use of the Baikonur Space Center. Under the Baikonur Agreements, the Government has leased the facilities to Russia for 20 years (with an option to extend the agreement for an additional 10 years) in return for the payment of annual rent of U.S.$115 million.

Kazakhstan and Russia recognize the necessity of regulating mutual financial obligations in accordance with bilateral agreements, treaties and protocols. Thus, pursuant to an agreement made in October 1998 between Kazakhstan and Russia, mutual financial obligations amounting to almost U.S.$1.7 billion, which included unpaid rent under the Baikonur Agreement, were cancelled in full.

At the end of 1998, Kazakhstan and Russia agreed to a temporary ban on the export to Kazakhstan of food items from Russia. The ban came into effect on 11 January 1999 and expired on 23 June 1999. Currently, there is a temporary ban on the export of zinc-plated sheets to Russia.

In 2001 Kazakhstan adopted a number of resolutions temporarily prohibiting the export of specific goods or establishing anti-dumping fees for specific goods imported from neighboring countries, including Russia.

The Kazakhstan Economy

Overview

Kazakhstan has experienced extensive economic transformation since the introduction of the national currency, the tenge, in mid-November 1993. By mid 1999, the Government's structural reforms had achieved significant results in the key areas of financial stabilization, privatization and price liberalization. Real GDP, which had fallen by 38.6 per cent. between 1990 and 1995, grew by 0.5 per cent. in 1996 and 1.7 per cent. in 1997. In 1998, real GDP fell by 1.9 per cent. in the aftermath of the Asian and Russian financial crises which exacerbated the effect of significantly decreased commodities prices. The flotation of the tenge in April 1999, coupled with the improvement in the global economic environment and strong agricultural growth enhanced the international competitiveness of Kazakhstan's exports and enabled the economy to revive and in 1999 full year real GDP growth was 2.7 per cent. By the end of the year 2001, year-on-year real GDP growth had reached 13.2 per cent.

Gross Domestic Product

The informal, or "black", sector constitutes a significant portion of Kazakhstan's economy and the NSA makes adjustments to its GDP data in accordance with approved IMF practices in order to reflect this. For example, the 1999 data reflect adjustments made on the basis of the NSA's estimate that the informal economy (including the household sector) contributed in the region of 37.0 per cent. of GDP in that year. Others have, however, given even higher estimates of the contribution of the informal economy.

The following table sets forth certain information on Kazakhstan's GDP for the periods indicated:

	Six months ended 30 June 2002	Year ended 31 December				
		2001	2000	1999	1998	1997
Nominal GDP (Tenge millions)[1]	1,670,700	3,285,400	2,595,965	2,016,240	1,733,264	1,672,142
Real GDP (Tenge millions)[1]	_	2,089,700	1,846,045	1,667,345	1,640,060	1,672,142
Real GDP (per cent. change to the previous year)	9.2[2]	13.2	9.6	2.7	(1.9)	1.7
Real GDP (per capita (Tenge))[1]	_	41,000	124,400	112,644	108,827	109,045
Population (millions average annual)	14.8	14.82	14.84	14.9	15.1	15.3

Source: NSA

Notes:
(1) Amounts in Tenge adjusted to 1997 Tenge equivalents.
(2) Per cent. change for the same period in 2001.

According to NSA data, real GDP fell by over 30 per cent. between 1991 and 1995. This decline was due to a combination of factors, including the recession in the Russian economy, which had traditionally been the primary market for Kazakhstan's exports and a major source of the country's imports, the disruption caused by the transition from a centrally-planned, command economy to a market economy, poor economic performance in the agricultural sector as a result of abnormal drought conditions, poor performance in other industrial sectors as a result of the disruption to established economic relationships between the countries of the former Soviet Union and the lack of adequate working capital to sustain the business sector in the initial stages of the transition to independent statehood.

However, real GDP increased by 0.5 per cent. in 1996 and by 1.7 per cent. in 1997. The reversal of the decline in GDP was principally the result of three factors: systemic reforms, including price and trade liberalization as well as privatization; foreign investment which revitalized enterprises,

especially in the oil and gas and non-ferrous metallurgy sectors; and the recovery of agricultural production after the poor grain harvest in 1995. Real GDP, however, fell by 1.9 per cent. in 1998 in the wake of the Russian and Asian financial crises which exacerbated the effect of significantly reduced commodity prices and the rapid contraction of the Russian market. As a result of strong growth in agriculture coupled with the flotation of the tenge in April 1999, leading to an increase in Kazakhstan's exports, real GDP in 1999 increased by 2.7 per cent. and in 2000 it increased by 9.6 per cent. year-on-year. The NSA estimates that real GDP increased by 13.2 per cent. in 2001.

GDP by Source

The following table sets forth the composition of nominal GDP by source for the periods indicated:

	Year ended 31 December				
	2001	**2000**	**1999**	**1998**	**1997**
	(per cent. share of GDP)				
Industry	32.0	31.9	28.2	24.4	21.4
Construction	5.4	5.3	4.8	4.9	4.2
Agriculture	8.7	8.7	9.9	8.6	11.4
Transportation and Telecommunications	10.9	12.0	12.0	13.9	11.7
Trade	11.8	12.6	13.6	15.2	15.6
Other[(1)]	31.2	29.5	31.5	33.0	35.7
Total[(2)]	100.0	100.0	100.0	100.0	100.0

Source: NSA

Notes:

(1) Includes finance and non-production sectors such as medicine, education, culture, defense and state administration, as well as taxes.

(2) Components of GDP by source are measured on the basis of factor cost, whereas total GDP is at market prices (including net taxes).

The composition of Kazakhstan's GDP has changed over recent years, with the shares of construction and agriculture decreasing and those of transportation and telecommunications, trade and industry increasing.

Inflation

Tight monetary and credit policies brought the year-on-year rate of increase in the consumer price index down from 1,158.3 per cent. at the end of 1994 to 1.9 per cent. at the end of 1998, enabling the NBK to cut interest rates, thus lowering the annual yield on Treasury bills from over 200 per cent. in 1994 to 14.0 per cent. by December 2000. In 1999, inflationary pressures increased as a result of the flotation of the tenge in April of that year, growth in world oil prices and an increase in the money supply. As a result, year-on-year consumer price inflation was 17.8 per cent. at year end 1999. Inflation decreased in 2000 from 1999 levels and by the end of 2001, year-on-year consumer price inflation was 6.4 per cent. As at the end of June 2002, inflation had fallen to 5.8 per cent.

The following table sets forth the year-on-year rates of consumer price inflation and producer price inflation as at the dates indicated:

	Six months ended 30 June 2002[(1)]	31 December				
		2001	**2000**	**1999**	**1998**	**1997**
		(per cent. share of GDP)				
Consumer Prices	3.1	6.4	9.8	7.8	1.9	17.7
Producer Prices	5.5	(14.1)	12.8	51.0	(4.5)	15.6

Source: NSA

(1) Per cent. change from December 2001

Principal Sectors of the Economy

Historically, metallurgy (including mining and mineral processing) has been the main industrial activity in Kazakhstan, although oil and gas related industries have become an increasingly important component of the country's industrial base. The mineral products sector, which accounts for over 30 per cent. of exports, is Kazakhstan's largest employer. In 1999, industrial production in the fuel industry sector increased by 14.3 per cent. from 1998 levels largely as a result of increases in the price of oil and other commodities. However, in 2000, coal production increased by 28.2 per cent. and there was an increase in crude oil production of 15.9 per cent. compared to 1999. In 2001, coal production increased by 25.4 per cent. (based upon revenues derived from coal produced as compared with 2000) and oil production increased by 4.5 per cent. (based upon revenues derived from oil produced as compared with 2000). See also " – Natural Resources".

Agriculture has traditionally been the second largest sector in the economy, both in terms of employment and contribution to GDP. However, its relative importance has diminished in recent years due to the severe disruption of trade with the former Soviet Union, the breakdown of the agricultural credit system, as well as a lack of vital components such as fuel, fertilizers and spare parts for machinery. All agricultural production is now in the private sector and, generally, producer prices reflect world market prices.

Cereal grains are an important component of agricultural output and Kazakhstan is a major producer of hard wheat, with annual production normally in the 6.8 to 8.4 million ton range. In 1998, 13.5 million hectares were sown with grain, of which 10.6 million hectares were sown with wheat and beans producing a total harvest in the region of 6.4 million tons. In 1999, the area sown with grain decreased by 8.1 per cent. compared to 1998. However, due to favorable weather conditions and the introduction of new farm machinery, gross production was 28.0 per cent. higher in 1999 than in 1998. In 2000, the area sown with grain increased by 6 per cent. compared to 1999 but total production in this sector decreased by 3.3 per cent. in 2000. In 2001 the area sown with grain remained the same as in 2000 but total production was 15.9 million tons, 37.0 per cent. higher than in 2000.

Employment and Wages

In 2001, on average 6.7 million people were employed in Kazakhstan representing approximately 89.6 per cent. of the eligible workforce. Of the eligible workforce, approximately 22.7 per cent. were employed in the public sector, and approximately 66.9 per cent. of the eligible workforce were employed in the private sector.

Officially registered unemployment was close to zero in the 1980s. At the end of 2001, the officially registered unemployment figure was 780,000 or 10.4 per cent. of those eligible to work.

Average wages vary significantly from sector to sector. In 2001, the financial sector had the highest average wage (more than twice the national average) while wages were lowest in the agricultural sector, nearly three times less than the national average. Wages in industry currently average 37.0 per cent. higher than the national average. In 2001, the average monthly wage was 17,364 Tenge, an increase of 10.4 per cent. In real terms and 26.0 per cent. in nominal terms compared with 2000.

Social Security System

In the years following independence, pension arrears gradually accumulated. However, by the end of 1997, the Government had cleared outstanding State pension arrears amounting to 36 billion Tenge. The funding to clear these arrears came partially from reduced Government expenditures (10.7 billion Tenge) and an increase in the 1997 budget deficit from the originally budgeted 3.16 per cent. of GDP to 3.66 per cent. of GDP. All arrears in pensions were paid at the end of 1999 and the State is now current in payments.

The Government has made radical reform of the pension system and, in June 1997, "enacted" a new law and made amendments to various other laws facilitating pension reform (together the "Pension Laws"). The Pension Laws establish a legal framework for the transfer of the pension system from a State "pay as you go" system to a "fully funded" accumulative pension system. The aim is that private individual retirement accounts will be the main source of pension payments. Social allowances for qualifying persons (e.g., disabled persons), which had previously been paid through the State pension system, are now paid through local budgets. Individual accounts are maintained with pension funds managed by pension asset management companies licensed and supervised by the NBK. Pension asset management companies are subject to regulations, including various financial ratios (such as capital adequacy requirements) similar to those imposed on banks and investment requirements. As of 1 January 2002, pension fund assets amounted to 182.4 billion Tenge compared to 112.9 billion Tenge as of 1 January 2001 and 64.6 billion Tenge as of 1 January 2000. The percentage of assets accumulated by the State accumulative pension fund as of 1 January 2002, equaled 32.3 percent. of the total volume of accumulated pension assets (compared to 38.9 per cent. as of 1 January 2001 and 52.5 percent. as of 1 January 2000). As of 30 June 2002, the pension fund assets had increased to 222.1 billion tenge.

The Pension Laws increased the pension age from 55 to 58 for women and from 60 to 63 for men. A social tax of 21 per cent. of total wages is payable by employers and employees are obliged to pay 10 per cent. of their salaries into their private pension and are permitted to make additional contributions to their respective private pension funds.

Although the changeover to a fully funded system will take many years to complete and until then the legacy of the old system will remain a burden on the State's resources, the introduction of a "fully funded" pension system has been successful and it has achieved significant results within its first four years. The sound growth of the pension industry provides is basis of the rapid development in the Kazakhstan's financial and capital markets.

Environment

Kazakhstan faces significant environmental problems which, to a large extent, stem from the period when it was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produce heavy pollution, mostly in the north and east of the country. Semipalatinsk, a city in north east Kazakhstan, has a military facility which until 1990 was used for nuclear testing and many locations in the vicinity are heavily contaminated by radioactive waste. Other locations in Kazakhstan were used by the Soviet Union for the testing of biological weapons and are as a result contaminated with various pathogens.

The former Soviet Union's "Virgin Lands" policy of the 1950s and 1960s, whereby large areas of Kazakhstan's steppe land were ploughed to increase Soviet grain production, has led to soil erosion on a wide scale and up to 66 per cent. of Kazakhstan's agricultural land is under threat of desertification. Excess irrigation has halved the surface area of the Aral Sea in southern Kazakhstan exposing land which is unsuitable for agriculture. Further, the Caspian Sea suffers from serious pollution due to industrial dumping.

In 2001, the Ministry of Natural Resources and Environmental Protection's budget for environmental protection and the safe-guarding of the water supply was 4.97 billion Tenge.

Natural Resources

Introduction

The extraction and production of hydrocarbons and minerals are the most significant industries in the Kazakhstan economy. The export of hydrocarbons and minerals accounted for 58.0 per cent. of total exports in 2001. According to official estimates, oil and gas reserves are significant and to a large extent have not been fully explored.

Oil and Gas

For Oil and Gas see Annex C

Mineral Resources

Despite being a major mineral producer with an annual production valued at over 194.6 billion tenge, Kazakhstan's mining output has been relatively modest in relation to its estimated reserves. Moreover, further reserves are known to exist which have not yet been fully surveyed. Although much of Kazakhstan's mineral production has historically been exported in unprocessed form, with a view to retaining domestically part of the value added by processing such minerals, it has recently started exporting a progressively greater proportion of semi-processed minerals. Significant investments will be required to take advantage of Kazakhstan's mineral resources.

According to *The BP Statistical Review of World Energy* of June 2001, Kazakhstan produced 38.4 million tons of coal in 2000, approximately 1.8 per cent. of total coal produced globally in 2000. According to Government estimates, less than 3 per cent. of the country's coal reserves have been mined so far.

Kazakhstan has uranium reserves estimated to be in excess of 1 million tons, of which reserves amounting to 469,777 tons have been prospected.

Kazakhstan produces a significant amount of precious metals. According to the Kazakhstan Institute of Geology, the country has gold reserves in excess of 1,000 tons and produced approximately 28.2 tons in 2000 and 27.1 tons in 2001. Kazakhstan produces a significant amount of the world's silver, producing approximately 981.9 tons in 2001 and 927.1 tons in 2000.

Kazakhstan has substantial reserves of non-ferrous minerals, including lead, zinc, copper and manganese. By reserves, Kazakhstan is ranked second in the world in lead, first in zinc, third in manganese and fifth in copper. Kazakhstan's manganese reserves are exceeded only by those of South Africa and Ukraine. In 1999, Kazakhstan produced 92,300 tons of lead, 288,300 tons of zinc, 373,500 tons of copper and 536,000 tons of manganese.

In 2000, Kazakhstan produced 185,800 tons of lead, 262,200 tons of zinc, 413,900 tons of copper and 664,600 tons of manganese.

In 2001, Kazakhstan produced 158,800 tons of lead, 276,900 tons of zinc and 433,300 tons of copper.

Balance of Payments and Foreign Trade

Current Account

The current account deficit in 2001 was U.S.$1,748.7 million compared with a surplus of U.S.$411.8 million in 2000.

Capital and Financial Account

The current account deficit has been offset by inflows of foreign direct investment, which amounted to U.S.$1,143.3 million or 5.2 per cent. of GDP in 1998, U.S.$1,468.0 million or 8.7 per cent. of GDP in 1999 and U.S.$1,244.3 million (excluding repaid direct investment) or 6.8 per cent. of GDP in 2000. Due to the surplus of U.S.$1,094.3 million in the capital and financial account, the 1999 balance of payments surplus was U.S.$253.6 million compared to the 1998 deficit of U.S.$442.5 million. The capital and financial account surplus in 2000 was U.S.$1,032.2 million. The 2000 balance of payment surplus was U.S.$585.1 million. The current account deficit for 2001 has been offset by the inflow of foreign direct investments in the amount of U.S.$2,759.7 million. The capital and financial account surplus for 2001 was U.S.$2,282.6 million.

Foreign Trade

Following the devaluation of the tenge in 1999, Kazakhstan's exports increased by 2.0 per cent. in 1999 to U.S.$5,988.5 million, while imports decreased by 15.3 per cent. to U.S.$5,648.2 million, resulting in a surplus trade balance of U.S.$340.3 million. In 2000, the surplus trade balance increased to U.S.$2.4 billion, with Kazakhstan's exports increasing by 36 per cent. to U.S.$9.3 billion and imports increasing by 21 per cent. to U.S.$6.8 million. General merchandise trade data are based on external trade statistics compiled by the Statistics Agency from customs declarations. The data are adjusted by the NBK in respect of coverage classification and valuation for balance of payments purposes. The main adjustments are to exclude the cost of freight and insurance from imports, to include "shuttle" and undeclared trade and to adjust for barter operations.

The following table sets out Kazakhstan's foreign trade for the periods indicated:

	Year ended 31 December				
	2001	2000	1999	1998	1997
	(In U.S.$ millions)				
Exports	9,119.7	9,288.1	5,988.5	5,870.6	6,899.2
Imports	(8,223.9)	(6,848.2)	(5,648.2)	(6,671.5)	(7,175.6)
Trade balance	895.7	2,439.9	340.3	(800.9)	(276.4)

Source: NBK

Official International Reserves

The NBK managed to increase its international reserves in 1999 while servicing Kazakhstan's highest external debt volume over the past few years due to an improvement in external trade conditions and receipts from international borrowings and privatizations. Gross international reserves grew by 2.0 per cent. (U.S.$38.9 million) to U.S.$2.0 billion in 1999. Kazakhstan's gross international reserves increased from 3.1 months of import coverage at the end of 1998 to 3.6 months at the end of 1999. In 2000, gross international reserves grew by U.S.$93.1 million to U.S.$2.1 billion.

Kazakhstan's international reserves are administered and controlled by the NBK, which is a separate legal entity. Kazakhstan's law provides that such international reserves may not be pledged, nor may the NBK be required to make international reserves available to support the Government's borrowings.

The Government has established the National Fund of Kazakhstan (the "National Fund") in August, 2000. The National Fund accumulates state revenues earned from the sale of Kazakhstan's hydrocarbons and mineral resources. By December 2001, the National Fund had accumulated U.S.$1,240.4 million in assets and total international reserves, including the National Fund, were U.S.$3,748.4 million. By 30 June 2002, the National Fund had U.S.$1,655.6 million and total international reserves were U.S.$4,491.9 million.

The following table sets forth Kazakhstan's total gross international reserves as at the dates indicated:

	30 June 2002[(2)]	31 December				
		2001	2000	1999	1998	1997
	(In U.S.$ millions)					
Foreign exchange reserves	2,278.4	1,995.0	1,594.0	1,479.9	1,460.2	1,767.4
Gold[(1)]	555.7	510.7	501.8	522.8	503.6	523.9
Gross international reserves	2,834.1	2,505.7	2,095.8	2,002.7	1,963.8	2,291.2
Import coverage (including gold) (months.	N/A	3.6	3.0	3.6	3.1	3.3

Source: NBK

Notes:

(1) Gold is valued at the market price prevailing at the beginning of the relevant period.

(2) Data as at 30 June 2002 does not include the National Fund.

Public Finance

Introduction

Fiscal policy since Kazakhstan's independence has been characterized by fiscal tightening in order to reduce inflation and limit expenditure, initially to compensate for the loss of budgetary transfers from the former Soviet Union that amounted to 4.5 per cent. of GDP in 1991. The general Government deficit as a percentage of GDP has been reduced sharply, from 7.2 per cent. of GDP in 1996 to a deficit of 0.2 per cent. in 2001. The Government has increasingly financed this deficit through sales of Treasury bills and foreign borrowings.

These fiscal deficits have historically been mitigated, in part, through postponement or cancellation of expenditures and increases in wage and pension arrears. However, the Government paid all wage and pension arrears by the end of 1997 and paid all pensions due in 1998, 1999 and 2000.

The following table sets forth information on certain trends in Kazakhstan's actual State revenues and expenditures (excluding quasi-fiscal operations) from 1996 through 2000:

	Six months ended 30 June 2002	Year ended 31 December				
		2001	2000	1999	1998	1997
			(in KZT millions)			
Revenues	259,303	743,550	598,700	430,900	379,623	405,623
Expenditures	250,501	749,092	602,000	498,978	451,594	469,622
Budget surplus (deficit)	8,801	(5,542)	(3,300)	(68,078)	(72,074)	(63,998)
Surplus (deficit) as a percentage of GDP	0.5	(0.2)	0.1	(3.7)	(4.2)	(3.8)

Source: Ministry of Finance

Taxation

Kazakhstan's tax system has been significantly reformed and simplified during recent years. A comprehensive reform of the tax system took place in 1995 and as a result the principal taxes are now corporate income tax ("CIT"), personal income tax ("PIT"), a value added tax on goods and services ("VAT") and various property taxes. The Government has developed a new tax code that is intended to further simplify the tax structure and facilitate tax administration in order to improve the collection rate which came into effect on 1 January 2002.

The CIT rate is currently 30 per cent., reduced to 10 per cent. for farming corporations. Dividends are subject to a 15 per cent. withholding of CIT. PIT is levied at progressive rates, ranging from 5 per cent. to 30 per cent. This maximum PIT rate was reduced to 30 per cent. from 40 per cent. in 1998.

In general, all business activity in Kazakhstan was subject to a flat rate VAT of 20 per cent. From 1 July 2001, VAT was reduced to 16 per cent. Corporations are subject to property tax at the rate of 1 per cent. of the value of basic production and non-production assets. The rate imposed on real property of individuals ranges from 0.1 per cent. to 0.3 per cent. Fees to the Government related to the extraction of oil, gas and other natural resources are established by individual agreements with the Government or its agencies.

In 1998, the Government amended the tax code to provide tax-free periods to foreign investors investing in designated priority sectors of the economy, which do not include the oil and gas sector. Eligible investors receive exemption on income, property and land taxes on an individual basis.

Revenues

As a result of improved efficiency in tax administration, with the assistance of international advisers, including the World Bank and the IMP, tax revenues increased in 1997 by 18 per cent. compared to 1996. During 1999, tax revenues as a percentage of GDP decreased to 16.4 per cent. compared to 16.8 per cent. in 1998. However, in 2001, tax revenues increased to 19.9 per cent. of GDP. The Ministry of Finance attributes these increases to the impact of the new tax code and improved tax administration. Of particular importance were the increases in property tax rates, the extension of excise tax to further products, including crude oil and gas condensate and a change of method of tax calculation.

Monetary and Financial System

Overview

Since mid-1994 Kazakhstan has adhered to a strict macro-economic stabilization program, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates. At the end of 1999, the annualized rate of consumer price inflation was 18.1 per cent., giving an average rate for the year of 8.3 per cent. There has been a significant overall decrease in the annualized rate of consumer price inflation over the last five years, during which it fell from 1,158.3 per cent. at year-end 1994, mainly as a result of co-ordinated policies by the Government and the NBK. The devaluation of the tenge following its flotation in April 1999, however, caused inflation to rise in 1999 but by the end of 2000 the annualized rate of consumer price inflation had decreased to 9.8 per cent. giving an average rate for the year of 13.2 per cent. Inflation continued to fall in 2001 and the annualized rate of consumer price inflation decreased to 6.4 per cent., while the average rate for the year was 8.4 per cent.

Monetary Policy

The main targets of the monetary policy are maintenance of low inflation rates, maintenance of positive real interest rates and improvement of the quality of financial intermediation. The NBK has stated that it expects to continue policies aimed at financial stabilization and long-term price and exchange rate stability, as well as sustainable economic growth.

Currently, the NBK implements monetary policy through instruments such as regulation of volume of credits to commercial banks; determination of the refinancing rate ; foreign exchange market interventions; and Treasury bill operations, including repo and reverse repo operations. In addition to the refinancing rate, the NBK also maintains Lombard and overnight rates.

In February 2002, the NBK introduced a repurchase rate ("REPO") as a new tool to regulate liquidity. The NBK currently establishes weekly overnight, seven day and 14 day REPO rates. After the banks become accustomed to the instrument, NBK will start to establish a monthly official REPO rate. On 7 February 2002, NBK established an indicative REPO rate at the level of 4.5 per cent. annually for the attraction of money and 7.5 per cent. for the provision of money. Currently, the NBK overnight rate is 9.0 per cent.

Money Supply

To counteract the effects of the financial crisis in Russia, a decrease in prices of main exported raw materials and increasing expectations of devaluation, the NBK implemented a variety of strict monetary and credit policies during the course of 1998 and 1999 aimed at preventing the negative influences that such crisis might have on Kazakhstan's financial system. In addition, interest rates were raised from 18.5 per cent. to 25 per cent. The adoption of such policies mitigated the impact of the crisis on Kazakhstan.

The exchange rate regime adopted in April 1999 positively affected the money supply aggregates. The monetary base grew in 1999 by 55.7 per cent. as compared to the 1998 monetary base and amounted to 126.7 billion tenge. An increase in the NBK's net international reserves contributed to the expansion of the monetary base.

The following table presents the main monetary aggregates in Kazakhstan as at the dates indicated:

	30 June	31 December				
	2002	2001	2000	1999	1998	1997
			(In KZT millions)			
Monetary base	174,258	175,000	134,400	126,749	81,427	115,389
M0 (cash in circulation)	134,966	131,200	106,400	103,486	68,728	92,796
M1	—	222,400	195,400	162,115	104,372	141,135
M2	—	344,600	290,600	237,260	133,447	164,151
M3 (money supply)	615,729	569,100	397,000	273,880	148,549	72,999

Source: NBK

Interest Rates

One of the objectives of the NBK's monetary policy has been to maintain a positive real refinancing interest rate to stimulate investments into the real economy and to promote an effective functioning of financial markets. The following table sets out the annual refinancing rates, average yields of Treasury bills and the NBK's own short-term notes as at the dates indicated:

	Refinancing	Treasury Bill Yields(1)	NBK Note Yields(2)
		(per cent.)	
31 December 1997	18.5	16.04	11.55
31 December 1998	25.0	25.77	25.68
31 December 1999	18.0	16.57	14.36
31 December 2000	14.0	6.75	7.00
31 December 2001	9.0	5.93(3)	6.02
30 June 2002	8.0	N/A	N/A

Source: NBK

Notes:
(1) Effective annual yield of three-month Treasury bills.
(2) Effective annual yield of NBK Notes.
(3) 95.8 per cent. of Treasury bills had a term of more than twelve months at the end of 2001. The twelve month bills yield was 7.64 per cent. and the twenty-four months bills yield was 11.03 per cent. at the end of 2001.

Exchange Rates

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April, 1999, the NBK maintained a managed floating exchange rate system with the rate being determined on the basis of market developments and the NBK's role in setting the exchange rate being limited to interventions in the internal currency market in order to prevent volatile exchange rate fluctuations caused by short-term changes in supply and demand. In 1995 and 1996, this resulted in a real appreciation of the Tenge against the U.S. Dollar and a real depreciation against the U.S. Dollar in 1997 and 1998.

As a result of the economic crises in Asia and Russia and the resulting currency devaluations, primarily in Russia and other former Soviet Republics, Kazakhstan's exports became less competitive while imports from such countries increased. In addition, the decline in world commodity prices, particularly of oil, base and precious metals and grain, reduced Kazakhstan's foreign currency revenues. The resulting trade imbalance, as well as lower than expected

privatization revenues, weakened the tenge. The NBK supported the Tenge by intervening in the foreign exchange markets. Such intervention, together with the servicing of Kazakhstan's external debt, resulted in a decline of foreign exchange reserves. See " – Balance of Payments and Foreign Trade – Official International Reserves."

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. Such decision was supported by international financial organizations such as the IMF. As a result, the Tenge devalued from a pre-announcement rate of 88 Tenge per U.S. Dollar to a rate of about 130 Tenge per U.S. Dollar by May 1999. Since then, the Tenge has continued to decline in nominal terms against the U.S. Dollar. During 2000 the Tenge depreciated in nominal terms against the U.S. Dollar by 5.2 per cent. and during 2001 it depreciated by 3.81 per cent.

The following table sets out the average and period-end Tenge/U.S. Dollar exchange rates reported by the NBK:

	Average	Period-end
31 December 1997	75.44	75.55
31 December 1998	78.30	83.80
31 December 1999	119.53	138.20
31 December 2000	142.13	144.50
31 December 2001	146.74	150.20
30 June 2002	152.55	153.1

Source: NBK

Foreign Exchange Regulations

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only outflowing capital account operations need to be licensed by or registered with the NBK. Capital inflows are registered and monitored for statistical purposes only, but are not restricted.

New licensing rules adopted at the beginning of 2002 liberalized the treatment of the outflow of capital. The NBK intends to further liberalize licensing rules in the next few years. One of the purposes of liberalization is to avoid the pressure caused by the influx of dollars into Kazakhstan due to high market prices for Kazakhstan's export goods by directing export revenues abroad.

Public Debt

As a percentage of GDP, total public debt decreased in 2000 from 26.7 per cent. of GDP at 31 December 1999 to 21.6 per cent. of GDP as at 31 December 2000. In nominal terms, Kazakhstan's total public debt has grown from 139.6 billion tenge at 31 December 1994 to 560.2 billion tenge at 31 December 2000. The growth in public debt has come primarily from external borrowing and has been used to finance budget deficits.

The following table sets forth data regarding Kazakhstan's nominal public debt (not including private sector debt or State-guaranteed debt) at the dates indicated:

	30 June 2002	31 December 2001	2000	1999	1998	1997
Internal Public Debt						
(Tenge millions)	101,992	3,976.8	87,418.0	136,339.4	83,910.2	67,442.7
As a percentage of GDP	—	2.6	3.4	6.8	4.8	4.0
External Public Debt[1]						
(Tenge millions)	500,603	489,982.4	472,799.0	400,568.0	203,674.6	177,330.8
As a percentage of GDP.	—	14.9	18.2	19.9	11.6	10.6
Total Public Debt						
(Tenge millions)	602,595	573,959.2	560,217.0	536,907.4	287,584.8	244,773.5
As a percentage of GDP	—	17.5	21.6	26.7	16.5	14.6

Source: NSA

Note:
(1) External Public Debt comprises only debt of the Government and the NBK.

The Government is required annually to adopt a ten-year borrowing program. The current ten year program, covering the years 1999 to 2008, provides for external and domestic capital market borrowing to finance the State budget deficit. The current ten-year program also contains estimates of Kazakhstan's increasing debt burdens and related debt servicing costs and provides recommendations as to the most effective utilization of borrowed funds.

(This page has been left blank intentionally.)

(This page has been left blank intentionally.)

APPENDIX C: The Oil Industry in Kazakhstan

The following statistics and information relating to the oil sectors in Kazakhstan have been extracted from certain public documents and are provided for background purposes only.

Introduction

The oil and gas sector is of strategic importance to the Government of Kazakhstan, as it is the principal source of the country's export earnings and reserves, fiscal revenue and future foreign direct investment flows. Traditionally the raw materials supplier to the Soviet Union, Kazakhstan has sizeable, largely unexploited endowments of oil, natural gas and minerals. The Caspian region is expected to yield growth in proven reserves which will result in an improvement in Kazakhstan's position in world oil and gas league tables in the longer term. Existing oil and gas fields, and the prospect of major new finds, have attracted significant amounts of foreign direct investment inflows. The Government's stated intention is to preserve Kazakhstan's position as the major destination of foreign direct investment flows within the CIS.

Reserves

The actual level of oil reserves remains difficult to assess. According to Kazakhstan's official estimates, the recoverable reserves of oil are believed to total 21.9 billion barrels. However, Kazakhstan's methods of classifying reserves are based on the system employed in the former Soviet Union and, accordingly, differ significantly from the standard international methodology. The BP Statistical Review of World Energy of June 2001 estimated Kazakhstan's total reserves at the end of 2000 were 8 billion barrels, or 0.8% of world reserves, with a reserve/production life of 31.1 years. Kazakhstan's potentially large offshore Caspian Kashagan field will further add reserves to the estimates. The Agip Kazakhstan North Caspian Operating Company NV (formerly OKIOC), the international consortium which is exploring the Kashagan offshore oil field, places potential reserves at between 8.8 and 49.8 billion barrels.

Production

Kazakhstan is the second largest oil producer in the CIS after Russia. In 2000, Kazakhstan produced 258.8 million barrels of oil and gas condensate, which represents a 17.2% increase over 1999. In 2001, Kazakhstan produced 293.1 million barrels. It is expected that oil production will reach 337.6 million barrels in 2002.

The following table sets out oil and gas condensate production levels in Kazakhstan.

	Six months ended 30 June 2002	2001	2000	1999	1998
Oil and Gas Condensate (millions of barrels)	162.1	292.8	257.7	219.7	189.0
Production Volume (millions of tonnes)	22.2	40.1	35.3	30.1	25.9

Refineries

Kazakhstan has three oil refineries with a combined capacity of around 136.7 million barrels per annum, which were estimated to operate at an average of approximately 41% of capacity in 2001. The Atyrau and Shymkent refineries use Kazakhstan crude oil, while the Pavlodar refinery, which is located a greater distance from Kazakhstan's oil fields, has to obtain the majority of its oil supplies from Russia. Utilization is estimated at 27% of capacity at the Pavlodar refinery, at 51% of capacity at the Shymkent refinery and at 47% of capacity at the Atyrau refinery

Exports

General

In 2001, the export of hydrocarbons and minerals accounted for 58% of Kazakhstan's total exports, which totaled $8.6 billion, were oil and gas condensate. Despite Kazakhstan's substantial hydrocarbon resources, the production and export of hydrocarbons has been constrained by Kazakhstan's land-locked position and its significant dependence on Russia's transportation network. Russia retains the right to suspend and impose restrictions on the flow of Kazakhstan's oil into the Russian transportation network and Russian enterprises have priority access to Russian export terminals. Russia imposes an annual quota on Kazakhstan's exports through Russia, which is currently set at 121 million barrels, excluding the CPC of which 102.6 million barrels will be transported via the Atyrau-Samara pipeline and 18.3 million barrels through the Makhachkala-Novorossiysk route. Kazakhstan has also been invited to participate in the development of other export routes, including Russia's Baltic Pipeline System, the Bourgas-Alexandropolis pipeline and the integration of the Druzhba and Adria pipelines. Modernization of the Atyrau-Samara pipeline, conducted in 2000, boosted that pipeline's annual throughput capacity from about 7.3 billion barrels to about 10.9 billion barrels.

Other export outlets will be needed in order for Kazakhstan to realize the full economic potential of its oil and gas reserves. The Government and the Company are participating in several projects to diversify export routes and to expand export capacity.

The Caspian Pipeline Consortium

The CPC was established for the purpose of developing a 1,500 kilometer export pipeline from the Tengiz oil field to the Russian seaport of Novorossiysk on the Black Sea, together with oil pumping stations and oil storage and loading facilities. The CPC was formed in July 1992 by Russia, the Sultanate of Oman, Kazakhstan and a number of international oil companies.

In April 1996, CPC members and a group of eight oil companies signed a protocol on restructuring the CPC, which called for the oil companies to provide all of the new capital for the completion of the pipeline in return for 50% ownership of the overall project. The Russian, Kazakhstani and Oman governments agreed to reduce their stakes in the CPC to 24%, 19% and 7%, respectively. The other shareholders of the CPC are Chevron Caspian Pipeline Consortium Company (15%), LukArco B.V. (a joint venture between LukOil and Arco) (12.5%), Rosneft-Shell Caspian Ventures Ltd. (a joint venture between Rosneft and Shell) (7.5%), Mobil Caspian Pipeline Consortium Company (7.5%), BG Overseas Holdings Ltd. (2%), Agip International (N.A.) N.V. (2%), Oryx Caspian Pipeline Ltd. (1.75%) and Kazakhstan Pipelines Ventures L.L.C. (1.75%).

A consortium comprising the American company, Fluor Daniel, and Giprovostokneft Institute from Russia, have the contract to build the pipeline. The first stage of construction of a pipeline with a capacity of 205 million barrels per year was completed and is expected to be fully operational by the end of the second quarter of 2003. The second stage to expand the capacity of the pipeline up to 490 million barrels per year is expected to take up to three years.

Oil Swaps

In 1997, Kazakhstan and Iran entered into a ten-year oil swap agreement. Under its terms, Kazakhstan has the right to ship 15 million barrels of oil per year to Iran for the first two years of the agreement, increasing to 44 million barrels annually by the sixth year. The oil is to be shipped via the Caspian Sea to refineries in Tehran and Tabriz for refining and distribution in the northern Iranian provinces. Iran, in turn, will supply equivalent amounts of Iranian oil from the Persian Gulf to customers of Kazakhstan.

The United States prohibits American companies from purchasing or selling Iranian oil. Further, there have been technical problems refining the oil in Iran associated with the high sulphur content of the oil received. As a result, there has been little progress to date with the Iranian swaps. Kazakhstan has delivered only a trial shipment of 461,790 barrels of its oil.

Other Export Routes

The Government is considering the development of additional export outlets, including routes through Iran, Azerbaijan, Georgia and Turkey. However, these options remain in the preliminary planning stages.

Foreign Investment in Oil and Gas

In 2000, foreign investors invested $2,160 million in Kazakhstan's oil and gas sector. As of the end of the first nine months of 2001, foreign investors had invested $2,472 million in Kazakhstan's oil and gas sector. The most significant foreign investment has been in the Tengiz oil field where, under the terms of a 40 year joint-venture agreement, Tengizchevroil ("TCO") is expected to invest a total of approximately $20 billion in the field. Since the signing of the CPC Protocol, Mobil Corporation acquired a 50% interest in the Government's interest in TCO. The development of the CPC pipeline is estimated to allow production at the Tengiz oil field to increase from current levels of around 120,000 barrels per day to around 700,000 barrels per day.

In addition to direct investment in transportation, exploration and production projects, there have also been significant purchases by foreign investors of state-owned oil and gas enterprises. In 1997, the Kazakhstani government sold 60% of JSC Aktobemunaigas to China National Petroleum. China National Petroleum, as controlling shareholder in JSC Aktobemunaigas, has agreed to invest up to $4 billion over a period of 20 years in developing the Aktobe field.

In November 1997, during the visit of President Nazarbayev to the United States, two agreements were signed: a development agreement relating to Karachaganak's oil and gas fields and a production-sharing agreement relating to the north Caspian Sea. The agreement relating to Karachaganak is with an international consortium of oil companies for a term of 40 years and provides for investments of $16 billion. The consortium members plan to construct an oil pipeline connecting the Karachaganak fields to the CPC pipeline. The agreement relating to the north Caspian Sea is with another international consortium of oil companies, also for a term of 40 years.

Regulation of the Oil Industry

Ministry of Energy and Mineral Resources

The Ministry of Energy and Mineral Resources, or MEMR, was organized by Presidential Decree No. 507 dated December 13, 2000, as a result of the restructuring of the Ministry of Energy, Industry and Trade and the Ministry of Mineral Resources and Environmental Protection. MEMR represents the interests of the Government of Kazakhstan in enterprises engaged in the exploration, extraction and processing of hydrocarbons. That same decree also transferred to the MEMR the responsibilities for regulation of subsoil exploration and production.

KazMunaiGas

In 2002, the President Nursultan Nazarbayev issued Decree No. 811 establishing a new national oil and gas company, Closed Joint Stock Company National Oil and Gas Company KazMunaiGas, or KMG, as a successor of Kazakhoil and holding company for KazTransOil and KazTransGas. The exact role of KMG is yet to be determined but it is believed that KMG will monitor investment projects in the oil and gas industry and will be responsible for the implementation of the following functions as set forth in the Petroleum Law:

- participating in the development of strategy for production rates and for further increases of petroleum resources;
- representing national interests in the contracts with contractors conducting petroleum operations by means of mandatory share participation in such contracts, in the manner defined by the Government;

- preparing and implementing new projects connected with petroleum operations; and
- monitoring and controlling the observance of subsoil use contracts jointly with the relevant competent Government bodies.

Subsoil Use

The Law on Subsoil Use provides that mineral rights in Kazakhstan are owned by the Republic. The right to explore and produce minerals is granted by the Republic pursuant to a contract with the relevant investor selected as a result of open or closed tender. A contract may be an exploration contract or a combined contract for exploration and production. Other forms of contract may also be permitted depending upon specific operational conditions. Contracts must include royalty and/or bonus terms, which are negotiated on a project-by-project basis based upon the particular economic characteristics of the project. A contract is entered into between the MEMR and the relevant investor and is effective from the time of its registration.

National Fund

Since Kazakhstan's economy is so dependent on oil revenues, in August 2000, President Nazarbayev issued Decree No. 402 establishing the National Fund to make the Republic less vulnerable to changing prices for energy and commodities exports. The National Fund accumulates State revenues earned from income tax of oil and other producing companies, value added tax from the sale of Kazakhstan's hydrocarbons and mineral resources, signing bonuses and royalties paid by foreign partners in joint ventures.

KAZAKHSTAN
65°
MAYBULAK
ARYSKUM
QYZYLKIYA
To Dzhusaly
QAM
KUMKOL NORTH
EAST KUMKOL
KUMKOL SOUTH
SOUTH KUMKOL
20" and 28" Oil Pipelines to Shymkent (670 km)
QAM Pipeline (16" x 177 km)
NURALI
46°
AKSAI
AKSHABULAK
KAZGERMUNAI
COMPANY FIELDS % of OWNERSHIP
50%
100%
Exploration Licenses
Existing Pipeline
Planned Pipeline

THE ISSUER

Hurricane Finance B.V.
Schouwburgplein 30-34
3012 CL Rotterdam
The Netherlands

THE GUARANTORS

Hurricane Hydrocarbons Ltd.
Sun Life Plaza, North Tower Suite 1460
140-4th Avenue S.W.
Calgary, Alberta T2P 3N3
Canada

Hurricane Kumkol Munai OJSC
13 Kazybek Bi Street
Qyzlorda 467001
Republic of Kazakhstan

Hurricane Oil Products OJSC
Lengerskoye Shosse, 5th Kilometer
Shymkent 486050
Republic of Kazakhstan

OUR LEGAL ADVISORS

As to United States law

Paul, Weiss, Rifkind, Wharton & Garrison LLP
Alder Castle
10 Noble Street
London EC2V 7JU
United Kingdom

As to Kazakhstani law

Bracewell & Patterson L.L.P.
65 Kazybek bi Street
Suite 400
Almaty 480091
Republic of Kazakhstan

As to Canadian law

Davies Ward Phillips & Vineberg LLP
P.O. Box 63, Suite 4400
1 First Canadian Place
Toronto, Ontario
Canada M5X 1B1

Gowling Lafleur Henderson L.L.P.
1400 Scotia Centre
700 – 2nd Street S.W.
Calgary, Alberta
Canada T2P 4V5

As to Dutch law

Stibbe
Strawinskylaan 2001
1077 ZZ Amsterdam
The Netherlands

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to United States law

Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Kazakhstani law

Denton Wilde Sapte
273 Furmanova, 3rd Floor
Almaty 480099
Republic of Kazakhstan

OUR AUDITORS

TOO Deloitte & Touche
81, Abylai Khan Av.
4th Floor
Almaty 480091
Republic of Kazakhstan

TRUSTEE

J.P. Morgan Corporate Trustee Services Limited
Trinity Tower
9 Thomas More Street
London E1W 1YT
United Kingdom

PRINCIPAL PAYING AGENT AND CO-REGISTRAR

JPMorgan Chase Bank
Trinity Tower
9 Thomas More Street
London E1W 1YT
United Kingdom

REGISTRAR AND PAYING AGENT

JPMorgan Chase Bank
4 New York Plaza, 15th Floor
New York, New York 10004
U.S.A.

LISTING AGENT, PAYING AGENT AND CO-REGISTRAR

J.P. Morgan Bank Luxembourg S.A.
5 rue Plaetis
L-2338 Luxembourg