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*This announcement is for information purposes only and does not constitute an invitation or solicitation of an offer to acquire, purchase or subscribe for securities or an invitation to enter into an agreement to do any such things, nor is it calculated to invite any offer to acquire, purchase or subscribe for any securities.*

*This announcement is not an offer of securities for sale or the solicitation of an offer to buy any securities in the United States of America or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. The securities have not been and will not be registered under and may not be offered or sold in the United States of America or to US persons (as defined in Regulation S of the Securities Act of 1933 of the United States of America, as amended (the "Securities Act")) unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Company does not intend to make any public offering of the securities in the United States of America.*

# MIE HOLDINGS CORPORATION

# MI能源控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1555)**

## OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Reference is made to the announcements of MIE Holdings Corporation (the "**Company**") dated April 26, 2011, May 6, 2011 and May 12, 2011 (the "**Announcements**") in relation to the issue of the Notes. Unless the context requires otherwise, terms used herein have the same meaning as those defined in the Announcements.

Please refer to the attached offering memorandum in relation to the Notes (the "**Offering Memorandum**"), which was published on the website of the Singapore Exchange Securities Trading Limited on May 13, 2011.

The posting of the Offering Memorandum on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.09(2) of the Listing Rules, and not for any other purposes.

The Offering Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

The Offering Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Offering Memorandum.

By Order of the Board
**MIE Holdings Corporation**
**Mr. Zhang Ruilin**
*Chairman*

Hong Kong, May 13, 2011

*As at the date of this announcement, our executive Directors are Mr. Zhang Ruilin (Chairman), Mr. Zhao Jiangwei, Mr. Forrest L. Dietrich and Mr. Allen Mak, our non-executive Director is Mr. Wang Sing, Mr. Stephen Cheuk Kin Law (alternate to Mr. Wang Sing) and our independent non-executive Directors are Mr. Mei Jianping, Mr. Jeffrey W. Miller and Mr. Cai Rucheng.*

**STRICTLY CONFIDENTIAL – DO NOT FORWARD**

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) UNDER RULE 144A OR (2) PERSONS OUTSIDE THE UNITED STATES.**

**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the offering memorandum attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

**Confirmation of Your Representation:** By accepting the e-mail and accessing the attached offering memorandum you shall be deemed to have represented to Merrill Lynch International, Deutsche Bank AG, Singapore Branch and UBS AG, Hong Hong Branch (each an ''Initial Purchaser'' and together, the ''Initial Purchasers'') that (1) (i) you are not in the United States and, to the extent you will purchase the securities described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), OR (ii) you are acting on behalf of, or you are, a qualified institutional buyer ("QIB"), as defined in Rule 144A under the Securities Act, AND (2) you consent to the delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

The attached offering memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the MIE Holdings Corporation (the "Issuer") or the Initial Purchasers or any of their respective directors, employees, representatives, affiliates or agents accept any liability or responsibility whatsoever in respect of any discrepancies between the offering memorandum distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

**Restrictions:** The attached document is an offering memorandum and is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein. You are reminded that the information in the attached offering memorandum is not complete and may be changed.

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.**

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer or Initial Purchasers to subscribe for or purchase any of the securities described herein, and access has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers and their respective affiliates on behalf of the Issuer in such jurisdiction.

You are reminded that you have accessed the attached offering memorandum on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

**Actions that You May Not Take:** You should not reply by e-mail to this communication, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

**YOU ARE NOT AUTHORIZED TO AND MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**OFFERING MEMORANDUM** **CONFIDENTIAL**

# US$400,000,000

# MIE Holdings Corporation

*(Incorporated in the Cayman Islands with limited liability)*

## 9.75% Senior Notes due 2016

This is an offering of US$400,000,000 9.75% Senior Notes due 2016 (the "Notes") by MIE Holdings Corporation ("MIE" or the "Company"). The Notes will bear interest at the rate of 9.75% per annum. The Notes will bear interest from the Original Issue Date, payable semi-annually in arrears on May 12 and November 12 of each year, commencing November 12, 2011. The Notes will mature on May 12, 2016. At any time on or after May 12, 2014, we may redeem the Notes in whole or in part, at the redemption prices specified under "Description of the Notes – Optional Redemption." At any time prior to May 12, 2014 the Notes may be redeemed at the option of the Company, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium (as defined in the "Description of the Notes") applicable to the Notes as of, plus accrued and unpaid interest, if any, to, the redemption date. Before May 12, 2014 we may redeem up to 35% in aggregate principal amount of the Notes, at a redemption price equal to 109.75% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date, with the proceeds from sales of certain kinds of our capital stock. The Notes may be redeemed at the option of the Company, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, together with accrued and unpaid interest, if any, to the redemption date, in the event of certain changes in specified tax laws or other circumstances. Upon the occurrence of a Change of Control (as defined in the "Description of the Notes"), the Company must make an offer to purchase all the Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the purchase date. See "Description of the Notes – Repurchase of Notes Upon a Change of Control."

The Notes are general senior obligations of the Company guaranteed by all its existing subsidiaries and future subsidiaries other than certain subsidiaries specified in the "Description of the Notes" (such subsidiaries guaranteeing the Notes are referred to herein as the "Subsidiary Guarantors," and the guarantees of such Subsidiary Guarantors are referred to herein as the "Subsidiary Guarantees") (i) on a senior basis by the Subsidiary Guarantors that are not obligors under Designated Senior Indebtedness (as defined in the "Description of the Notes") and (ii) on a senior subordinated basis by certain Subsidiary Guarantors that are obligors under Designated Senior Indebtedness (such Subsidiary Guarantors referred herein as "Senior Subordinated Subsidiary Guarantors"). The Notes will (1) be senior obligations of the Company, (2) rank at least *pari passu* with all our other unsecured, unsubordinated indebtedness (subject to any priority rights pursuant to applicable law), (3) be effectively subordinated to all existing and future obligations of our non-guarantor subsidiaries, and (4) be effectively subordinated to our secured obligations and those of the Subsidiary Guarantors, to the extent of the assets (other than the Collateral) serving as security therefor. The Subsidiary Guarantors will guarantee the Notes on a senior or a senior subordinated basis in certain circumstances more fully described herein. However, applicable law may limit the enforceability of the Subsidiary Guarantees and the pledge of any collateral. The Collateral (as defined herein) to be pledged for the benefit of Noteholders will be shared with certain other creditors of ours. See "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees."

**Offering Price: 100%**
**Plus accrued interest, if any, from the Closing Date**

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or other securities laws and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (1) to qualified institutional buyers ("QIBs") in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) outside the United States in compliance with Regulation S under the Securities Act. 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."

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or information contained in this offering memorandum. Approval in-principle for the listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the offering, the Company, the Subsidiary Guarantors, their respective subsidiaries or associated companies (if any), the Subsidiary Guarantee or the Notes. Currently, there is no public market for the Notes.

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 23.**

It is expected that delivery of the Notes will be made against payment therefore in immediately available funds through the facilities of The Depository Trust Company ("DTC") on or about May 12, 2011 (the "Closing Date").

*Sole Global Coordinator*

**BofA Merrill Lynch**

*Joint Bookrunners and Joint Lead Managers*

**BofA Merrill Lynch** **Deutsche Bank**

*Lead Co-Manager*

**UBS**

The date of this offering memorandum is May 5, 2011.

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**This confidential offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any note offered hereby by any person in any jurisdiction in which it is unlawful to make such an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date hereof.**

**In connection with this offering, Merrill Lynch International, as the stabilizing manager, or any person acting for it, may purchase and sell the Notes in the open market. However, there is no obligation on Merrill Lynch International to do so. These transactions may, to the extent permitted by applicable laws and regulations, include short sales, stabilizing transactions and purchases to cover positions created by short sales. These activities may stabilize, maintain or otherwise affect the market price of the Notes. As**

**a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time and must in any event be brought to an end after a limited time. These activities will be undertaken solely for the respective accounts of Merrill Lynch International, Deutsche Bank AG, Singapore Branch and UBS AG, Hong Kong Branch (collectively, the "Initial Purchasers"), and not for or on behalf of us.**

No representation or warranty, express or implied, is made or given by the Initial Purchasers, Citicorp International Limited (the "Trustee"), Citigroup Global Markets Deutschland AG (the "Registrar") and Citibank, N.A., London Branch (the "Paying Agent"), as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation by the Initial Purchasers as to the past or future. We have furnished the information contained in this offering memorandum. Each investor should assume that the information appearing in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Our business, financial condition or results of operations may have changed since that date.

You should rely only on the information contained in this offering memorandum. We have not, and the Initial Purchasers have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the Initial Purchasers are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Notes, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading "Transfer Restrictions" in this offering memorandum. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

This offering memorandum has been submitted confidentially to a limited number of institutional investors so that they can consider a purchase of the Notes. We have not authorized its use for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. See "Transfer Restrictions."

Each person receiving this offering memorandum acknowledges that (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein, (ii) such person has not relied on the Initial Purchasers or any person affiliated with any of the Initial Purchasers in connection with any investigation of the accuracy of such information or its investment decision and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes or the Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

Prospective purchasers are hereby notified that sellers of the securities (the Notes and the Subsidiary Guarantees) may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. We are not, and the Initial Purchasers are not, making an offer to sell the securities (the Notes and the Subsidiary Guarantees) in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum comes are required by the Issuer and the Initial Purchasers to inform themselves about and to observe any such restriction. No action is being taken to permit a public offering of the Notes and the Subsidiary Guarantees or the distribution of this offering memorandum in any jurisdiction where action would be required for such purposes. None of the Initial Purchasers, the Trustee, the Registrar and the Paying Agent (each as defined herein) or their respective affiliates or legal advisors has independently verified certain market share and industry data and forecast and statistics such information and assumes no responsibility for its accuracy or completeness.

Nothing contained in this offering memorandum is, or shall be relied upon as a promise, representation, or warranty by the Trustee, the Registrar, the Paying Agent or their respective affiliates or legal advisors.

This offering memorandum is based on information provided by us and by other sources that we believe are reliable. We cannot assure you that the market data from third parties is accurate or complete. This offering memorandum summarizes certain documents and other information to which we refer you for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of our company and the terms of the offering and the Notes and Subsidiary Guarantees, including the merits and risks involved.

We are not making any representation to any purchaser of the Notes and Subsidiary Guarantees regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

Neither we, the Initial Purchasers, the Trustee, the Registrar, the Paying Agent nor any of our or the Initial Purchasers' respective representatives are making any representation to any purchaser of the securities (the Notes and the Subsidiary Guarantees) regarding the legality of an investment in the securities (the Notes and the Subsidiary Guarantees) by such purchaser under any legal investment or similar laws or regulations. Investors should not consider any information in this offering memorandum to be legal, business or tax advice. Each investor should consult its own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

In making an investment decision, you must rely on your own examination of our business and the terms of the offering, including the merits and risks involved. Each person receiving this offering memorandum acknowledges that such person has not relied on the Initial Purchasers, the Trustee, the Registrar, the Paying Agent or any person affiliated with the Initial Purchasers in connection with his or her investigation of the accuracy of such information or his or her investment decision.

NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EFFECTIVE FROM THE DATE OF COMMENCEMENT OF DISCUSSIONS, A POTENTIAL INVESTOR, AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE POTENTIAL INVESTOR, MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL INCOME TAX TREATMENT AND TAX STRUCTURE DESCRIBED IN THIS OFFERING MEMORANDUM AND ALL MATERIALS OF ANY KIND, INCLUDING OPINIONS OR OTHER TAX ANALYSES, THAT ARE PROVIDED TO THE RECIPIENTS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. THIS AUTHORIZATION TO DISCLOSE THE TAX TREATMENT AND TAX STRUCTURE DOES NOT PERMIT DISCLOSURE OF INFORMATION IDENTIFYING THE COMPANY, THE INITIAL PURCHASERS, OR ANY OTHER PARTY TO THE TRANSACTION DESCRIBED IN THIS OFFERING MEMORANDUM OR THE PRICING TERM SHEET (EXCEPT TO THE EXTENT PRICING IS RELEVANT TO TAX STRUCTURE OR TAX TREATMENT).

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these Notes or the Subsidiary Guarantees or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

The Company and the Initial Purchasers reserve the right to reject any offer to purchase any Notes, in whole or in part, for any reason, or to sell less than the aggregate principal amount of Notes offered by this offering memorandum.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B 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 QUALIFICATION 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.**

## PRESENTATION OF FINANCIAL INFORMATION

The financial information included in this offering memorandum relating to the Group has been derived from its financial statements. The financial information included in this offering memorandum relating to Emir-Oil, LLC has been derived from its financial statements. Unless otherwise indicated, financial information in this offering memorandum has been prepared in accordance with International Financial Reporting Standards ("IFRS").

This offering memorandum also includes certain unaudited pro forma consolidated financial information of the Group giving effect to the Acquisition, which we anticipate will close by or before November 14, 2011.

Solely for the convenience of the reader, this offering memorandum contains translations of certain Renminbi amounts into U.S. dollars. All such U.S. dollar translations have been made at the rate of RMB6.6000 to US$1.00, the noon buying rate in The City of New York for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2010. On April 15, 2011, the noon buying rate for U.S. dollars in The City of New York for cable transfers in Renminbi as certified for custom purposes by the Federal Reserve Bank of New York was RMB6.5317 = US$1.00. These translations are provided for reference and convenience only. No representation is made that the Renminbi amounts stated herein could have been, or could be, converted into U.S. dollars at such rates or at any other rate. See "Exchange Rates."

Any discrepancies in any table between the total shown and the sum of the amounts listed are due to rounding.

## CAUTIONARY NOTE REGARDING RESERVES

The estimates of the Group's oil and gas reserves and resources as at December 31, 2010 presented in this offering memorandum have been made at our request by Ryder Scott Company L.P., an international oil and gas consultant ("Ryder Scott") in a report dated December 31, 2010 together with a letter dated April 26, 2011 (the "2010 Ryder Scott Report") included as Annex I to this offering memorandum. The reserves estimates presented in the Ryder Scott Reports have been prepared according to standards established by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists, and Society of Petroleum Evaluation Engineers Petroleum Resources Management System ("SPE-PRMS") and not according to U.S. Securities and Exchange Commission ("SEC") standards. The SEC has recently adopted revisions to the SEC standards that make them more consistent with the PRMS standards, including allowing for the voluntary disclosure of probable and possible reserves. Prospective investors should read "Business – Overview" and the 2010 Ryder Scott Report for more information on the Group's reserves and resources, the assumptions, methods

and procedures used in the preparation of the reserve estimates and the underlying assumptions thereof and the reserves and resources definitions that the Group uses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – General Factors Affecting Our Reports of Operations – Uncertainty of Reserve Estimates" and "– Critical Accounting Policies and Estimates – Estimate of Proved Reserves" for more information on how reserve estimates affect our financial results.

The estimates of the Emir-Oil LLC's oil and gas reserves and resources as at December 31, 2010 presented in this offering memorandum have been made at our request by Chapman Petroleum Engineering Ltd., an international oil and gas consultant, in a report dated March 18, 2011, together with a letter dated April 26, 2011 (the "2010 Chapman Report") included as Annex I to this offering memorandum. The reserves estimates presented in the 2010 Chapman Report have been prepared according to standards set out in the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society) and the SPE-PRMS and not according SEC standards. Prospective investors should read "Emir-Oil – Oil and Natural Gas Reserves" and the 2010 Chapman Report for more information on Emir-Oil's reserves and resources, the assumptions, methods and procedures used in the preparation of the reserve estimates and the underlying assumptions thereof and the reserves and resources definitions that the Group uses. See "Emir-Oil – Factors Affecting Results of Operations – Critical Accounting Policies – Estimation of proved oil reserves" for more information on how reserve estimates affect our finanical results.

## INDUSTRY AND MARKET DATA

This document includes market share and industry data and forecasts that we have obtained from both public and private sources, including industry publications and surveys, reports of governmental agencies and internal company surveys. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. While reasonable actions have been taken by us to ensure that the information is extracted accurately and in its proper context, we have not independently verified any of the data from third party sources or ascertained the underlying economic assumptions relied upon therein.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains "forward-looking" statements that relate to future events, which are, by their nature, subject to significant risks and uncertainties. All statements, other than statements of historical fact contained in this offering memorandum including, without limitation, those regarding our future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where they participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "project," "estimate," "anticipate," "predict," "seek," "should" or similar words or expressions, are forward-looking statements. The future events referred to in these forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which it will operate in the future and are not a guarantee of future performance. Important factors that could cause the actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our mergers and acquisitions, including the Acquisition;
- our business and operating strategies and our ability to implement such strategies;
- our capital expenditure and funding plans;
- the amount and nature of, and potential for, future development of our business;

- various business opportunities that we may pursue;
- the availability and costs of bank loans and other types of financing;
- our dividend policy;
- changes in laws and government regulations in the PRC and Kazakhstan (including laws and government regulations on taxes and remittance of funds), policies and approval processes in the regions where we develop or manage our projects;
- future developments and competitive environment for the oil and gas industry in the PRC and Kazakhstan;
- changes in competitive conditions and our ability to complete under these conditions;
- exchange rate fluctuations and restrictions;
- catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters; and
- other factors beyond our control.

This list of important factors is not exhaustive. Additional factors that could cause the actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors." When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Accordingly, you should not place undue reliance on any forward-looking statements.

## AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resale of the Notes, we are required to furnish upon request of a holder of a Note and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are not subject to the periodic reporting requirements of Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from such reporting requirements pursuant to Rule 12g3-2(b) thereunder.

As a company whose shares are listed on the Main Board of the Stock Exchange of Hong Kong, we are subject to the reporting, announcement and compliance obligations set forth in the Listing Rules from time to time.

## ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated in the Cayman Islands with limited liability. The Cayman Islands has a different body of securities laws from that of the United States and protections for investors may differ. Substantially all of our assets are located in the PRC. In addition, substantially all of our directors and officers are residents of the PRC, and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the PRC or Hong Kong, including

judgments predicated upon the civil liability provisions of the U.S. federal or state securities laws. The Company and each Subsidiary Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. Federal or New York State court in the Borough of Manhattan in the City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint CT Corporation System for receipt of service of process in any such suit, action or proceeding.

Maples and Calder, our Cayman Islands counsel, has advised us that there is uncertainty as to whether the courts of the Cayman Islands would (i) recognize or enforce judgments of U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (ii) entertain original actions brought in the courts of the Cayman Islands, against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

Maples and Calder has further advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that: (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

We have been advised by Latham & Watkins, our Hong Kong legal counsel, that there is doubt as to the enforceability in Hong Kong, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the laws of the United States (including its federal securities laws or the securities laws of any state or territory within the United States).

Further, we have been advised by Zhong Lun Law Firm, our PRC legal counsel, that there is uncertainty as to whether the courts of the PRC would (i) enforce judgments of U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (ii) entertain original actions brought in the courts of the PRC, against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

We have been informed by GRATA Law Firm, our Kazakhstan legal counsel, that 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 between Kazakhstan and the United States. Since Kazakhstan is a party to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "Convention"), foreign arbitration awards are generally recognized and enforceable in Kazakhstan, subject to qualifications provided in the Convention and in the laws of Kazakhstan.

De Brauw Blackstone Westbroek, our Dutch legal counsel, has advised us that a judgment rendered by U.S. courts will not be recognized by a Dutch court and cannot be directly enforced in the Netherlands. However, if a person has obtained a final and conclusive judgment for the payment of money rendered by a U.S. court which is enforceable in the United States and files a claim with the competent Dutch court, the Dutch court will generally give binding effect to the foreign judgment, provided that it has been rendered on grounds which are internationally acceptable and that proper legal procedures have been observed, unless such foreign judgment contravenes Dutch public policy. Enforcement and recognition of judgments of U.S. courts in the Netherlands are solely governed by the Dutch rules of civil procedure.

## GLOSSARY

In this offering memorandum, unless the context otherwise requires, the following terms shall have the meanings set out below.

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| "Acquisition" | the purchase by us of all of BMB's interests in its wholly-owned operating subsidiary, Emir-Oil, pursuant to the Purchase Agreement |
| "ADE Block" | an area of approximately 200 square kilometers of land, comprised of the Aksaz, Dolinnoe and Emir oilfields, over which Emir-Oil has certain rights under the Exploration Contract |
| "Articles of Association" or "Articles" | the articles of association of our company approved by the written resolutions of our shareholders on November 27, 2010, as amended or supplemented from time to time |
| "BMB" | BMB Munai, Inc., a company incorporated in the state of Nevada, originally incorporated in the state of Utah in July 1981 and the parent company of Emir-Oil |
| "Board of Directors" or "Board" | our board of directors |
| "CAGR" | compound annual growth rate |
| "Cayman Companies Law" | the Companies Law (2010 Revision) (as consolidated and revised from time to time) of the Cayman Islands |
| "Chapman" | Chapman Petroleum Engineering Ltd., an independent appraisal firm located in Canada and Emir-Oil's independent petroleum engineering firm |
| "CITIC Bank Facility" | a 5-year term loan and revolving credit facility entered into on July 28, 2009 between, among others, CITIC Ka Wah Bank Ltd. (subsequently renamed as CITIC Bank International Limited) and CITIC Bank Guangzhou as lenders and MIE as borrower, in the amount of US$200 million, as amended or supplemented from time to time |
| "CNOOC" | CNOOC Limited, a company listed on the Hong Kong Stock Exchange and the New York Stock Exchange, which was incorporated in Hong Kong in August 1999 |
| "CNPC" | China National Petroleum Corporation |
| "company," "our company," "we," "us" or "our" | MIE Holdings Corporation, a company incorporated in the Cayman Islands on March 20, 2008 as an exempted company with limited liability, and its subsidiaries, as the context requires |

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| "Competent Authority" ..... | the central executive agency, from time to time designated by the government of Kazakhstan to act on behalf of Kazakhstan to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. Until recently this agency was the Ministry of Energy and Mineral Resources of Kazakhstan, which on March 12, 2010 was reorganized into the MOG with respect to the oil and gas industry |
| "Contract Area" ..... | comprises four existing oilfields and six identified prospects with hydrocarbon potential, including (a) the ADE Block, (b) the Southeast Block and (c) the Northwest Block, over which Emir-Oil has certain rights under the Exploration Contract |
| "Controlling Shareholder"..... | FEEL |
| "Emir-Oil"..... | Emir-Oil, LLC, a legal entity organized under the laws of the Republic of Kazakhstan on March 20, 2002 and the wholly-owned subsidiary of BMB |
| "Enlarged Group"..... | the Company and its subsidiaries following the Acquisition |
| "Exploration Contract" ..... | the contract for the exploration of hydrocarbons in the "Aksaz-Dolinnoe-Emir" Area in Tubkaraganskii Region in Mangystau Oblast between the Agency of the Republic of Kazakhstan for Investments, and "Zhanaozenskii Remontno-mechanicheskii Zavod" Limited Liability Partnership, being the contractor, dated June 9, 2000 (registration no. 482), and as amended from time to time, to which Emir-Oil became the contractor in September 2002 |
| "FEEL" ..... | Far East Energy Limited, a company incorporated in Hong Kong on May 16, 2003 with limited liability, controlled by Mr. Zhang and Mr. Zhao |
| "GDP"..... | gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth) |
| "GOC" ..... | Global Oil Corporation, a company incorporated in the Bahamas |
| "Group"..... | the company and its subsidiaries (or the company and any one or more of its subsidiaries, as the context may require), and where the context so requires, in respect of the period before the company became the holding company of its present subsidiaries, or the present subsidiaries of the company |
| "HK$," "HKD," or "Hong Kong dollars" ..... | Hong Kong dollars, the lawful currency for the time being of Hong Kong |
| "Independent Upstream Oil Company(ies)"..... | non-integrated oil company which receives most of the revenue from oil production at the wellhead, is exclusively engaged in the upstream exploration and production segment of the oil industry, with no downstream refining or marketing operations |

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| "Jilin Guotai" ..... | Jilin Guotai Petroleum Development Company, a company incorporated in the PRC on June 14, 2004 and held as to 70% by Zhao Jiangbo, the wife of Mr. Zhang, and 30% by Mr. Zhao |
| "License No. 1552"..... | license series AI no. 1552, which was issued by the government of Kazakhstan on April 30, 1999 for exploration of raw hydrocarbons in the Aksaz-Dolinnoe-Emir area located in the territory of Tubkaraganskii Region, Mangystau Oblast, Kazakhstan |
| "Listing Rules" ..... | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time |
| "MIE" ..... | MI Energy Corporation, a company incorporated in the Cayman Islands on May 22, 2001 with limited liability and our wholly owned subsidiary |
| "MIE New Ventures" ..... | MIE New Ventures Corporation (previously known as MI Energy (Kazakhstan) Corporation), a company incorporated in the Cayman Islands on August 6, 2010 with limited liability and our wholly owned subsidiary |
| "MOFCOM" ..... | Ministry of Commerce of the PRC |
| "MOG" ..... | Ministry of Oil and Gas of the Republic of Kazakhstan |
| "Mr. Shang"..... | Mr. Shang Zhiguo, an individual who owns 0.01% of the issued share capital of FEEL |
| "Mr. Zhang" ..... | Mr. Zhang Ruilin, an individual who owns 9.99% of the issued share capital of FEEL. He is an executive director, chairman and chief executive officer of our company. He also controls the Controlling Shareholder |
| "Mr. Zhao" ..... | Mr. Zhao Jiangwei, an individual who owns 90% of the issued share capital of FEEL. He is an executive director and senior vice president of our company. He also controls the Controlling Shareholder |
| "NDRC" ..... | National Development and Reform Commission of the PRC |
| "NEB"..... | National Energy Bureau of the PRC |
| "New EIT Law"..... | Enterprise Income Tax Law of the People's Republic of China |
| "Northwest Block" ..... | an area of 360 square kilometers of land to the northwest of the ADE Block extending to the Caspian Sea, over which Emir-Oil has certain rights under the Exploration Contract |
| "PBOC" ..... | the People's Bank of China, the central bank of the PRC |
| "PetroChina"..... | PetroChina Company Limited |

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| "PRC" or "China" | the People's Republic of China. References in this offering memorandum to the PRC or China exclude Hong Kong, Macau and Taiwan |
| "PRMS" | The Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007 as amended, supplemented or otherwise modified from time to time |
| "Purchase Agreement" | The Participation Interest Purchase Agreement between us and BMB, pursuant to which we agreed to purchase all of BMB's interest in its wholly-owned operating subsidiary, Emir-Oil, together with shareholder loans from BMB to Emir-Oil |
| "Renminbi" or "RMB" | the lawful currency of the PRC |
| "SAFE" | State Administration of Foreign Exchange of the PRC |
| "Sinopec" | China Petroleum & Chemical Corporation, a company listed on the Shanghai, Hong Kong, New York and London Stock Exchanges which was incorporated in February 2000 under the laws of the PRC |
| "Southeast Block" | an area of approximately 260 square kilometers of land adjacent to the ADE Block, which includes the Kariman oil and gas field and the unexplored Borly and Yessen structures, over which Emir-Oil has certain rights under the Exploration Contract |
| "Standing Committee of the National People's Congress" | the Standing Committee of the National People's Congress of the PRC |
| "State Council" | the State Council of the PRC |
| "Subsoil Use Law" | the Kazakhstan Law "On Subsoil and Subsoil Use" (no. 291-IV, dated June 24, 2010, effective as of July 7, 2010, as amended) |
| "Tax Code" | the Tax Code of the Republic of Kazakhstan (Kazakhstan Law no. 100-IV, dated December 10, 2008, effective January 1, 2009, as amended) |
| "TPG" | TPG Star Energy Ltd., an exempted company incorporated in Cayman Islands on November 15, 2007 with limited liability and one of our shareholders |
| "TPG LLC" | TPG Star Energy Co-Invest, LLC, a limited liability company formed in the State of Delaware on August 28, 2009 and one of our shareholders |
| "USD" or "US$" | United States dollars, the lawful currency of the United States |

The following technical glossary contains explanations of certain terms used in this offering memorandum in connection with our company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

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| "API gravity" | an indication of the density of crude oil or other liquid hydrocarbons as measured by a system recommended by the American Petroleum Institute, measured in degrees. The lower the API gravity, the heavier the compound. |
| "barrel" | equivalent to approximately 0.135 tons of oil (assuming an API gravity of 35.2 degrees). |
| "bcf" | billion cubic feet. |
| "BOE" | barrel of oil equivalent. |
| "contract area" | an area demarcated by geographical coordinates as set out in the production sharing contract for the cooperative exploitation of oil resources. |
| "developed reserves" | under the PRMS, developed reserves are reserves of any category that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well, and through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well. |
| "development costs" | for a given period, costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil. |
| "dry hole" or "dry well" | an exploration well that is not commercial, i.e. economically feasible to develop. The full costs incurred in such drillings are charged as an expense. |
| "gross" | as used in "gross development wells," "gross productive wells" and "gross production," represents the total wells or production under the production sharing contracts. |
| "infill drilling" | addition of new wells in an existing field within the original well patterns to accelerate recovery or to test recovery methods. |
| "injector" | well used as a conduit to pump water into the reservoir as part of the waterflood process. |
| "lifting costs" | for a given period, costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. Also known as production costs. |

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| "Mbarrels" | thousands of barrels. |
| "MMcf" | million cubic feet. |
| "net" | as used in "net development wells," "net productive wells" and "net production," represents a party's interest in wells or the production under the production sharing contracts. |
| "net proved reserves" | a party's interest in proved reserves under the production sharing contracts. |
| "net reserves" | a party's interest in reserves under the production sharing contracts. |
| "oil operations" | the development, production, operation and other related activities conducted in carrying out a production sharing contract. |
| "permeability" | a measure of the ability of a porous mass such as rocks to transmit oil or natural gas. |
| "porosity" | a measure of the void spaces in a material and generally refers to the fraction of the total volume in which flow of oil is effectively taking place. |
| "possible reserves" | additional reserves that are less certain to be recovered than probable reserves. |
| "primary recovery" | the first stage of oil production, in which natural reservoir energy, such as gasdrive, waterdrive or gravity drainage, displaces oil from the reservoir, into the wellbore and up to surface. |
| "probable reserves" | additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. |
| "proved developed reserves" | under the PRMS, proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included in proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved. |
| "proved reserves" | under the PRMS, proved reserves are 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. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. |

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| "proved undeveloped reserves" ..... | under the PRMS, proved undeveloped reserves are proved 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. Reserves on undrilled acreage is limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir. |
| "reserve-to-production ratio"..... | for any given well or oilfield, the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas. |
| "reservoir"..... | an underground accumulation of oil or natural gas. Analysis of reservoirs at the simplest level requires an assessment of their porosity (to calculate the volume of *in situ* oil or natural gas) and their permeability (to calculate how easily oil or natural gas will flow out of them). |
| "secondary recovery"..... | the second stage of oil production during which an external fluid such as water or gas is injected into the reservoir through injection wells located in rock that has fluid communication with production wells. The purpose of secondary recovery is to maintain reservoir pressure and to displace oil toward the wellbore. |
| "ton," "tons," "tonne" or "tones" ... | a unit of measure of weight, equal to 1,000 kilograms. |
| "undeveloped reserves"..... | under the PRMS, undeveloped reserves are reserves of any category 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. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty. |
| "water cut"..... | for given production volume of crude oil, the percentage that water constitutes of all fluids extracted from wells. |

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| "waterflood" ..... | a method of secondary recovery of oil in which water is injected into an oil reservoir to force additional oil out of the reservoir rock and into producer wells. |
| "wellbore" ..... | a hole that is drilled to aid in the exploration and recovery of natural resources including oil, gas or water. A wellbore is the actual hole that forms the well. A wellbore can be encased by materials such as steel and cement, or it may be uncased. |

## SUMMARY

*The following summary highlights information contained in, and is qualified in its entirety by, the more detailed information and financial information including the notes thereto, appearing elsewhere in this offering memorandum. For certain factors that you should consider before purchasing our Notes, see "Risk Factors" beginning on page 23.*

### Overview

We are one of the leading Independent Upstream Oil Companies operating onshore in the PRC as measured by gross production under production sharing contracts. We operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, the largest oil company in China. In addition, we pursue exploration, development and production opportunities in China and internationally.

As of December 31, 2010, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 32.9 million barrels, 19.6 million barrels and 13.9 million barrels of crude oil, respectively. Our daily crude oil production has grown significantly since 2001, when we took over the operations of the three oilfields. Our net production averaged 8,150 barrels, 7,637 barrels and 9,349 barrels of crude oil per day in 2008, 2009 and 2010, respectively. Since FEEL acquired MIE in August 2003, our net production of crude oil grew from an average of 1,855 barrels per day in 2004 to 9,349 barrels per day in 2010, representing a CAGR of 32.0%. In 2008, 2009 and 2010, we concurrently operated 24, 25 and 28 drilling rigs, respectively. As of December 31, 2010, we operated an aggregate 1,641 gross productive wells in our three oilfields.

Under each of the production sharing contracts, we provide funding, technology and managerial experience for the development and production of oil resources in these oilfields. In exchange, we share in the production of crude oil with PetroChina after the successful development of oil reserves according to the formula set forth in the production sharing contracts. As the operator of the Daan, Moliqing and Miao 3 oilfields, we hold a 90% participating interest in the foreign contractors' entitlement and obligations under the production sharing contracts. GOC, a passive foreign contractor that is not directly involved in the operations of the oilfields, holds the remaining 10% participating interest. In a given period during the commercial production phase under the production sharing contracts, the revenue and operating costs may be allocated to the foreign contractors in the range of 48% to 80%, based on whether the foreign contractors have fully recovered their development costs. See "Business – Production Sharing Contracts" for more information on the revenue and cost allocations under the production sharing contracts. All of the oil produced in our three oilfields is sold to PetroChina. The production sharing contracts for the Daan, Moliqing and Miao 3 oilfields will expire in 2024, 2028 and 2028, respectively. We have already recovered our development costs in the Daan oilfield, although we will incur further development cost in the future pursuant to approved development plans, and expect to recover our development costs in the Moliqing and Miao 3 oilfields by 2013 and 2015, respectively.

Our operating success and effective application of know-how are evidenced by our strong track record and high success rates. From January 1, 2001 to December 31, 2010, we drilled 1,573 gross development wells in our oilfields, of which only seven were dry holes. As of December 31, 2008, 2009 and 2010, we operated 1,218, 1,383 and 1,641 gross productive wells, respectively. We believe our oilfields have strong growth potential, and we are continually expanding our operations by drilling more wells in the oilfields we operate, which we believe will substantially increase our net production of crude oil over the next several years. As of December 31, 2010, we had identified 2,623 potential locations for future drilling and within our estimated net reserves we include estimated net proved, probable and possible undeveloped reserves of 12.4 million barrels, 12.0 million barrels and 8.8 million barrels, respectively, for these locations.

In 2008, 2009 and 2010, our revenue amounted to RMB1,971.7 million, RMB1,166.8 million and RMB1,805.0 million (US$273.5 million), respectively. In 2008, 2009 and 2010, our EBITDA amounted to RMB1,256.8 million, RMB687.0 million and RMB1,162.6 million (US$176.2 million), respectively, and our Adjusted EBITDA amounted to RMB1,127.9 million, RMB821.3 million and RMB1,236.7 million (US$187.4 million), respectively. EBITDA refers to earnings before finance income, finance costs, income tax and

depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude certain non-cash and one time items including share-based compensation expense, impairment of property, plant and equipment, impairment of inventory, net loss/(gain) on forward foreign exchange contracts, realized and unrealized loss/(gain) on the oil put option and accrual/write-back of safety fees. See "– Summary Financial Information and Other Data" for a reconciliation of EBITDA and Adjusted EBITDA to net profit. Our net profit amounted to RMB611.1 million, RMB110.5 million and RMB420.9 million (US$63.8 million) for the years ended December 31, 2008, 2009 and 2010, respectively.

**Key Operating Data**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| **Volumes, Prices and Costs:** | | | |
| Sales volume (millions of barrels) | 2.72 | 2.92 | 3.42 |
| Net annual production volume (millions of barrels) | 2.98 | 2.79 | 3.41 |
| Average daily net crude oil production (in barrels) | 8,150 | 7,637 | 9,349 |
| Daan oilfield | 6,492 | 6,000 | 7,110 |
| Moliqing oilfield | 1,505 | 1,453 | 1,744 |
| Miao 3 oilfield | 153 | 184 | 495 |
| Average sales price (US$ per barrel of crude oil) | 104.78 | 58.58 | 77.99 |
| Daan oilfield | 105.66 | 59.05 | 78.19 |
| Moliqing oilfield | 101.51 | 56.83 | 77.33 |
| Miao 3 oilfield | 102.03 | 56.57 | 77.26 |
| Lifting costs (US$ per barrel of crude oil) | 6.52 | 7.69 | 7.09 |
| Daan oilfield | 4.23 | 6.21 | 5.65 |
| Moliqing oilfield | 13.26 | 11.82 | 10.78 |
| Miao 3 oilfield[(1)] | 31.06 | 25.86 | 15.36 |

(1) Miao 3 oilfield has higher lifting costs than the other two oilfields because it is in the early stage of development with higher fixed cost per unit of production.

**The Acquisition**

On February 14, 2011, we entered into a Participation Interest Purchase Agreement (the "Purchase Agreement") with BMB, pursuant to which we agreed to purchase all of BMB's interest in its wholly-owned operating subsidiary, Emir-Oil, together with shareholder loans from BMB to Emir-Oil. In connection with the purchase, all intercompany notes of Emir-Oil in favor of BMB will be transferred to us.

***Emir-Oil***

Emir-Oil is an entity organized under the laws of the Republic of Kazakhstan on March 20, 2002 and is the sole operating subsidiary of BMB. The principal business activity of Emir-Oil is oil and natural gas exploration and production in Kazakhstan. It owns an exploration contract (the "Exploration Contract") which allows it to conduct the exploration of hydrocarbons on the Aksaz-Dolinnoe-Emir oilfields in the Mangystau Oblast in the southwestern region of Kazakhstan. Emir-Oil became the contractor under the Exploration Contract in 2002 under an agreement of transfer of the subsoil use right. Since then, Emir-Oil has successfully negotiated several amendments to the Exploration Contract that have extended its term to January 9, 2013. As a result of Emir-Oil's drilling and exploration activities, this block currently contains the Aksaz, Dolinnoe, Emir and Kariman oil and gas fields and the unexplored Borly and Yessen structures. The whole Contract Area is contiguous and is approximately 850 square kilometers, of which the reserve bearing area has been covered by 3D seismic studies. Under the terms of the Exploration Contract, Emir-Oil has the right to sell all oil and natural gas produced in the Contract Area during the term of the Exploration Contract and the exclusive right to apply for and negotiate a production contract with the MOG if its commercial discoveries are approved and put on balance with the State Reserves Committee of Kazakhstan.

As of December 31, 2010, Emir-Oil had 1,080 gross proved developed producing acres, 240 gross acres of proved undeveloped reserves and approximately 111,926 gross unproved undeveloped acres. As of December 31, 2010, Emir-Oil drilled a total of 24 wells in the Contract Area under the Exploration Contract with an average production rate of approximately 2,321 barrels per day for nine months ended December 31, 2010, compared to 2,961 barrels per day and 2,784 barrels per day for year ended March 31, 2009 and 2010, respectively. Emir-Oil produced approximately 1 million barrels of oil or oil equivalent in each of 2009 and 2010 (of which over 90% was crude oil). According to a reserve report as of December 31, 2010 prepared by Chapman, the Contract Area has estimated proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 23.6 million, 61.5 million and 29.7 million barrels of crude oil, respectively, and 26,842, 36,821 and 34,155 MMcf of natural gas, respectively. Based on that report, as of December 31, 2010, resource potential of 139.1 million barrels of oil and 156 bcf of natural gas were estimated for the two identified Triassic formations (Borly and Esen). Resource potential of 25.3 million barrels of oil has been estimated for three structures in the original ADE Block (Aksaz, Dolinnoe, Emir) and two structures in the extended license territory (Borly, Kariman) for Jurassic formations. The probability of success has been determined to be 15%, resulting in ultimate total risk-adjusted hydrocarbon resources of 28.6 million BOE for the Contract Area.

**Key Operating Data of Emir-Oil**

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2009** | **2010** |
| **Net Production Data:** | | | | | |
| Oil (barrels) | 907,823 | 1,080,895 | 1,016,221 | 751,648 | 638,335 |
| Natural gas (Mcf) | – | – | – | – | 967,688 |
| Barrels of Oil equivalent (BOE) | 907,823 | 1,080,895 | 1,016,221 | 751,648 | 799,615 |
| Net Sales Data[3]: | | | | | |
| Oil (barrels) | 896,256 | 1,073,754 | 1,036,070 | 785,044 | 626,741 |
| Natural gas (Mcf) | – | – | – | – | 824,382 |
| Barrels of Oil equivalent | 896,256 | 1,073,754 | 1,036,070 | 785,044 | 764,137 |
| Average Sales Price: | | | | | |
| Oil (US$ per barrel) | 67.16 | 64.84 | 55.28 | 53.16 | 64.92 |
| Natural gas (US$ per Mcf) | – | – | – | – | 1,438 |
| Equivalent price (US$ per BOE) | 67.16 | 64.84 | 55.28 | 53.16 | 54.49 |
| Expenses (US$ per BOE)[1]: | | | | | |
| Oil and gas operating[2] | 6.15 | 7.01 | 8.27 | 8.59 | 8.67 |
| Depreciation, depletion and amortization[3] | 23.93 | 9.60 | 14.47 | 10.15 | 13.86 |

(1) Emir-Oil uses sales volume rather than production volume for calculation of per unit cost because not all volume produced is sold during the period. The related production costs are expensed only for the units sold, not produced, based on a matching principle of accounting. Oil and gas operating expense per BOE is calculated by dividing oil and gas operating expenses for the year by the volume of oil sold during the year.

(2) Includes transportation cost, production cost and ad valorem taxes (excluding rent export tax).

(3) Represents depletion of oil and gas properties only.

For more information see "Emir-Oil."

***Purchase Agreement***

On February 14, 2011, we entered into the Purchase Agreement with BMB, pursuant to which we agreed to purchase all of BMB's interest in its wholly-owned operating subsidiary, Emir-Oil (the "Acquisition"). In connection with the purchase, all intercompany loans of Emir-Oil in favor of BMB will be transferred to us. The purchase price under the Purchase Agreement is US$170 million, of that amount, US$36 million will be subject to a twelve-month escrow agreement for indemnification purposes. At, and 90 days after, the closing date, the purchase price will be adjusted downward to reconcile specified changes to Emir-Oil's balance sheet occurring between December 31, 2010 and the closing date. For more information on purchase price adjustments, see "The Acquisition – Purchase Agreement – Consideration."

We and BMB have made representations and warranties in the Purchase Agreement customary for a transaction of this nature. BMB has also agreed to various covenants in the Purchase Agreement, including, among other things, to conduct its business between signing and closing in the ordinary course.

The transaction closing is subject to the satisfaction or waiver of a number of conditions, including regulatory approvals, other customary closing conditions and the following:

- approval by the stockholders of BMB;
- consent of the MOG;
- consent of the Kazakhstan anti-monopoly authority;
- registration of the assignment of the Intercompany Notes with the National Bank of the Republic of Kazakhstan; and
- Emir-Oil's entry into a duly registered production contract for production of petroleum at each of Emir-Oil's Kariman, Dolinnoe and Aksaz oilfields.

For more information on closing conditions, please see "The Acquisition – Purchase Agreement – Conditions to Closing."

The Purchase Agreement may be terminated for a number of reasons, including the following:

- by mutual written consent of the parties;
- by either us or BMB, if the closing has not occurred on or before August 15, 2011, or in the event that only certain regulatory requirements remain outstanding and extended by either party, on or before November 14, 2011 (as applicable, the "End Date");
- by us if BMB relinquishes any portion of the areas or blocks subject to an exploration contract it has entered into, breaches its representations or warranties or fails to perform covenants or agreements that would result in the failure to satisfy the closing conditions (each a "Closing Condition Failure");
- by BMB if we breach our representations or warranties or fail to perform covenants or agreements that would result in the failure to satisfy the closing conditions;
- by either us or BMB, if any governmental authority in Kazakhstan, the United States or any other country takes any action restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by the Purchase Agreement and such order or other action is final and non-appealable (each a "Governmental Order");

- by either us or BMB if BMB's stockholders' approval is not obtained;

- by us if BMB changes its recommendation to its stockholders with respect to approval of the Purchase Agreement, fails to satisfy its obligations to distribute proxy materials and hold a stockholder meeting, pursues an Acquisition Proposal in breach of the terms of the Purchase Agreement, or authorizes or publicly proposes any of the foregoing (collectively, the "Proxy Solicitation Failure"); and

- by BMB in the event of a Superior Proposal.

For more information on termination rights and fees, see "The Acquisition – Purchase Agreement – Termination."

We expect to complete the closing of the Purchase Agreement in the third calendar quarter of 2011.

**Our Competitive Strengths**

We believe the following strengths have contributed to our growth and differentiate us from our competitors:

- One of the leading Independent Upstream Oil Companies operating onshore in China with a large reserve base to support stable cash flow generation and long term growth;

- Proven track record of developing and operating low permeability oilfields;

- Competitive cost structure and operational efficiency;

- Effective recovery of development and operating costs and strong cash flow generation through the production sharing contract structure;

- Long-standing and strong relationship with PetroChina; and

- Strong management team with international experience.

**Our Strategies**

We believe we can maintain our competitiveness and growth by implementing the following strategies:

- Increase production through the development of proved undeveloped reserves;

- Increase our net reserves and net production by securing new production sharing contracts and acquiring existing production sharing contracts in China;

- Continue to improve operational efficiency through the application of advanced technologies; and

- Realize the benefits of the Acquisition.

**Our Relationship With PetroChina**

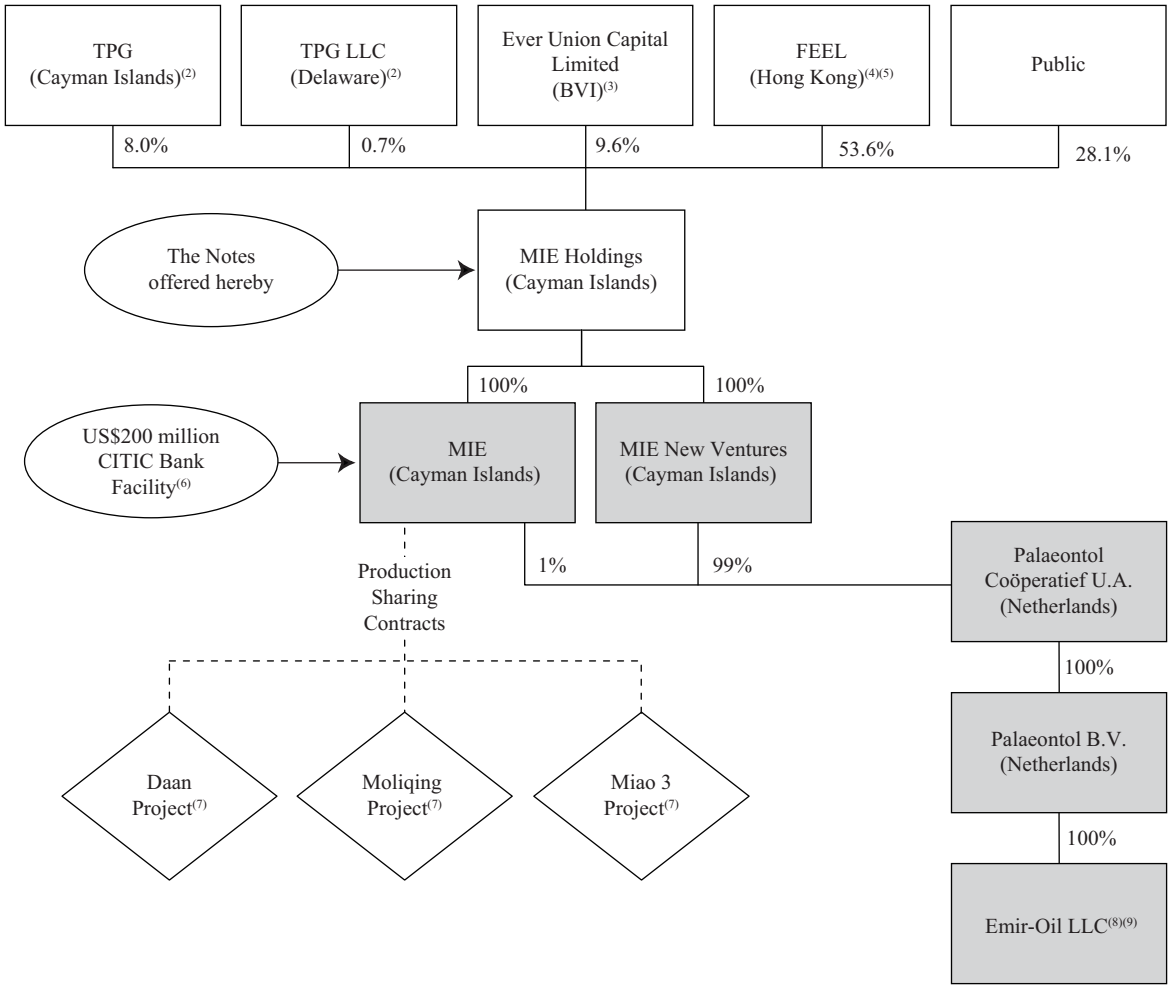
We have a long-standing relationship and a history of close cooperation with PetroChina, with which we currently have three production sharing contracts. PetroChina, the largest of the three state-owned oil companies in the PRC, has the highest number of production sharing contracts covering onshore oilfields. We have worked closely with PetroChina since 2001, when we took over the operations of the three oilfields. In 2008, 2009 and 2010, PetroChina was our sole customer and accounted for all of our revenue. Our cooperation deepened as the Daan, Moliqing and Miao 3 oilfields entered commercial production phases. Our production sharing contracts with PetroChina do not require that we sell our allocation of oil to them; historically we have sold all of our oil to PetroChina because they pay international prices and pay in a timely manner, Our strong relationship with PetroChina is one of the key factors that will contribute to our future growth, and we believe we are well positioned to further develop our working relationship with PetroChina in current and future projects.

While we intend to leverage our relationship with PetroChina to secure future production sharing contracts with them, we also intend to selectively acquire existing production sharing contracts from other independent oil producers in China that may be capital-constrained or lack sufficient technical ability and expertise to successfully develop their areas under contract. We believe our proven track record in developing and operating low permeability oilfields, which represent approximately 31% of China's overall oil reserves according to the Ordos Basin Extra-low Permeability Oilfield Development publication published in March 2007, may help us secure new production sharing contracts or acquire existing production sharing contracts in China.

**Corporate History and Structure**

GOC and CNPC entered into the original production sharing contracts for the oilfields at Daan and Miao 3 on December 16, 1997, and for the oilfield at Moliqing on September 25, 1998. In 1999, CNPC assigned to PetroChina most of its commercial and operational rights and obligations under the production sharing contracts, although CNPC remains a party to these contracts. On October 25, 2000, each of the three production sharing contracts was amended to effect the transfer and assignment of certain interests and obligations under the contracts from GOC to Microbes, Inc. On August 11, 2003, FEEL acquired an equity interest in MIE, then a subsidiary of Microbes, Inc., and held the interests in the three production sharing contracts. MIE is the sole operator and one of the two foreign contractors of the oilfields at Daan, Moliqing and Miao 3. The other foreign contractor, GOC, continues to hold a 10% interest of the foreign contractors' entitlement and obligations under each of our production sharing contracts but does not directly participate in operational decisions. Our company was incorporated on March 20, 2008 as an investment holding company with limited liability. On January 12, 2009, FEEL completed a restructuring and our company became the holding company of MIE.

The following diagram illustrates our corporate structure following the consummation of the Offering and the Acquisition.[1]




(1) The shaded boxes indicate the Subsidiary Guarantors in the corporate structure of the group. The Subsidiary Guarantors that are not obligors under Designated Senior Indebtedness will guarantee the Company's obligations under the Notes on a senior basis. As of the date of this offering memorandum, MIE, MIE New Ventures, Palaeontol Cooperatief UA and Palaeontol BV will provide guarantees on a senior basis. Certain Subsidiary Guarantors that become obligors under the Designated Senior Indebtedness will guarantee the Company's obligations under the Notes on a senior subordinated basis. On the date of the issuance of the Notes and upon application of the proceeds as described under "Use of Proceeds," the Company and its Subsidiaries will have no Designated Senior Indebtedness.

(2) TPG is a leading global private investment firm and TPG LLC is an affiliate of TPG.

(3) Held directly and indirectly through Harmony Energy Limited, a direct wholly owned subsidiary of Ever Union Capital Limited and an independent third party.

(4) FEEL is owned 9.99%, 90% and 0.01% by Mr. Zhang, Mr. Zhao and Mr. Shang, respectively.

(5) FEEL which is controlled by Mr. Zhang and Mr. Zhao is our Controlling Shareholder.

(6) On the date of the issuance of the Notes, MIE Holdings will use part of the proceeds from this offering to repay the CITIC Bank Facility in full. Upon application of the proceeds as described under "Use of Proceeds," the Company will have no extraordinary indebtedness for borrowed money outstanding other than the Notes.

(7) The Daan, Moliqing and Miao 3 oilfields are all operated by our Company pursuant to respective production sharing contracts and are located in the PRC.

(8) Pursuant to the Participation Interest Purchase Agreement, Palaeontol B.V. has agreed to purchase 100% of the interest in Emir-Oil from BMB. The Acquisition is expected to close during the third quarter of 2011, and is subject to certain conditions precedent. See "The Acquisition."

(9) Upon consummation of the Acquisition, Emir-Oil will guarantee the Company's obligations under the Notes on a senior basis.

**General Information**

We were incorporated as a limited liability company under the laws of Cayman Islands on March 20, 2008 with Registration No. MC-207100. On December 14, 2010, we listed our ordinary shares on the Main Board of the Hong Kong Stock Exchange. Our principal executive offices are located at Suite 406, Block C, Grand Place, 5 Hui Zhong Road, Chaoyang District, Beijing 10010, People's Republic of China, and our telephone number is (86) 10-8489-2298. Our website address is www.mienergy.com.cn. Information contained on our website does not form part of this offering memorandum.

## The Offering

*The following is a brief summary of the term of this offering and is qualified in its entirety by the remainder of this offering memorandum. Terms used in this summary and not otherwise defined shall have the meanings given to them in "Description of the Notes."*

| | |
|---|---|
| Issuer ..... | MIE Holdings Corporation |
| Notes Offered ..... | US$400,000,000 aggregate principal amount of 9.75% Senior Notes due 2016. |
| Maturity ..... | The Notes will mature on May 12, 2016. |
| Interest Rate ..... | The Notes will bear interest at an annual rate of 9.75% and will be payable semi-annually in arrears on May 12 and November 12 of each year, commencing on November 12, 2011. |
| Rankings of the Notes ..... | The Notes are:<br>• general senior obligations of the Company;<br>• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;<br>• at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);<br>• guaranteed by the Senior Guarantors on a senior basis, subject to the limitations described in "Description of the Notes – The Subsidiary Guarantees" and "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees";<br>• guaranteed by Senior Subordinated Subsidiary Guarantors on a senior subordinated basis, subject to the limitations described in "Description of the Notes – The Subsidiary Guarantees" and "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees";<br>• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below); and<br>• effectively subordinated in right of payment to certain secured debt of the Subsidiary Guarantors permitted to be Incurred under the Indenture to the extent of any security other than the Collateral. |

| | |
|---|---|
| Subsidiary Guarantees ..... | Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes.<br><br>On the Original Issue Date, (i) MI Energy Corporation ("MIE"), MIE New Ventures Corporation ("MIE New Ventures"), Palaeontol Cooperatief U.A. ("Palaeontol") and Palaeontol B.V. (the "Purchaser") will be Senior Guarantors, (ii) there will be no Senior Subordinated Subsidiary Guarantors and (iii) there will be no Non-Guarantor Subsidiaries. If after the Original Issue Date, MIE Incurs Indebtedness pursuant to a Credit Facility, its Guarantee in favor of the Notes will become a Senior Subordinated Subsidiary Guarantee. MIE will at all times remain a Subsidiary Guarantor.<br><br>None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future.<br><br>A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances. See "Description of the Notes – The Subsidiary Guarantees – Release of the Subsidiary Guarantees."<br><br>Each future Subsidiary of the Company (other than Subsidiaries organized under the laws of the PRC) will provide a guarantee of the Notes immediately upon becoming a Restricted Subsidiary.<br><br>Notwithstanding the foregoing, the Company shall not be obligated to cause a Restricted Subsidiary to Guarantee the Notes, or shall be entitled to limit the value of any such Guarantee, as applicable, to the extent that such Guarantee would be expected to give rise to or result in (now or in the future) any violation of applicable law. |
| Rankings of the Subsidiary Guarantees ..... | The Subsidiary Guarantee of each Subsidiary Guarantor that is a Senior Guarantor:<br><br>• is a general senior obligation of such Subsidiary Guarantor;<br><br>• is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of any assets other than the Collateral serving as security therefor;<br><br>• is senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and<br><br>• ranks at least *pari passu* with all other existing and future unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law). |

The Subsidiary Guarantee of each Subsidiary Guarantor that is a Senior Subordinated Subsidiary Guarantor:

- is a general senior subordinated obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of any assets other than the Collateral serving as security therefor;
- is subordinated in right of payment to all future Designated Senior Indebtedness Incurred by such Subsidiary Guarantor;
- is senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all existing and future Senior Subordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

After the pledge of the Collateral by the Company and the Subsidiary Guarantor Pledgor as described below under the caption "Security to be Granted," subject to the limitations described in "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees," the Subsidiary Guarantee of the Subsidiary Guarantor Pledgor will be secured by a pledge of the Collateral as described below under the caption "Security to be Granted" and will:

- be entitled to a first priority lien on the Collateral pledged by such Subsidiary Guarantor Pledgor (subject to any Permitted Collateral Liens); and
- rank effectively senior in right of payment to unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral pledged by such Subsidiary Guarantor Pledgor securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

| | |
|---|---|
| Security to be Granted..... | The Company has agreed, for the benefit of the holders of the Notes, to grant, or cause each Subsidiary Guarantor to pledge grant a first-priority share pledge (each a "Share Pledge"), over the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC and Senior Subordinated Subsidiary Guarantors) after the Original Issue Date, immediately upon such Person becoming a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee.<br><br>On the Original Issue Date, none of the Capital Stock of the Restricted Subsidiaries will be pledged.<br><br>Notwithstanding the foregoing, that the Company shall not be obligated to pledge or cause such Capital Stock to be pledged, to the extent that such pledge would reasonably be expected to give rise to or result in (now or in the future) any violation of applicable law. None of the Capital Stock of any future Restricted Subsidiary organized under the laws of the PRC will be pledged at any time in the future.<br><br>None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. |
| Optional Redemption..... | At any time on or after May 12, 2014, the Company may redeem the Notes, in whole or in part, at redemption prices specified under "Description of the Notes – Optional Redemption." At any time prior to May 12, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to May 12, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 109.75% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date. |
| Repurchase of Notes Upon a Change of Control ..... | Not later than 30 days following a Change of Control, the Company will make an offer to purchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase. |
| Optional Tax Redemption ..... | Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date of redemption, if the Company or a Subsidiary Guarantor would be obligated to pay certain Additional Amounts (as defined in the "Description of the Notes") as a result of certain changes in specified tax laws or other circumstances. See "Description of the Notes – Redemption for Tax Reasons." |

| | |
|---|---|
| Covenants..... | The Notes, the Indenture and the Subsidiary Guarantees will limit the Company's ability and the ability of its Restricted Subsidiaries to, among other things:<br><br>• incur additional Indebtedness and issue preferred stock;<br><br>• make investments or other Restricted Payments;<br><br>• pay dividends or make other distributions or repurchase or redeem capital stock;<br><br>• guarantee Indebtedness;<br><br>• enter into certain transactions with affiliates;<br><br>• create Liens;<br><br>• enter into Sale and Leaseback Transactions;<br><br>• sell assets;<br><br>• enter into agreements that restrict the Company's Restricted Subsidiaries' ability to pay dividends;<br><br>• issue and sell Capital Stock of Restricted Subsidiaries;<br><br>• effect a consolidation or merger; and<br><br>• engage in different business activities.<br><br>All of these limitations are subject to a number of important qualifications and exceptions. See "Description of the Notes – Certain Covenants." |
| Form, Denomination and Registration..... | The Notes sold within the United States in reliance on Rule 144A and outside the United States in reliance on Regulation S will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of The Depository Trust Company. |
| Book-Entry..... | The Notes sold within the United States in reliance on Rule 144A and outside the United States in reliance on Regulation S will be issued in book-entry form through the facilities of DTC for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see "Description of the Notes – Book-Entry; Delivery and Form." |

| | |
|---|---|
| Delivery of the Notes | The Company expects to make delivery of the Notes, against payment in same-day funds on or about May 12, 2011, which is expected to be the fifth business day following the date of this offering memorandum. See "Plan of Distribution." |
| Trustee | Citicorp International Limited |
| Principal Paying Agent, Transfer Agent | Citibank, N.A. London Branch |
| Registrar | Citigroup Global Markets Deutschland AG |

CUSIP, Common Code and ISIN

| | CUSIP | Common Code | ISIN |
|---|---|---|---|
| Rule 144A Notes | 55309D AA1 | 062214759 | US55309D AA19 |
| Regulation S Notes | G61157 AA4 | 062214716 | USG61157 AA45 |

| | |
|---|---|
| Ratings | The Notes have been rated "B+" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc ("Standard & Poor's") and "B" by Fitch Ratings ("Fitch"). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. |
| Use of Proceeds | We estimate that the net proceeds of this offering, after deducting Initial Purchasers' discounts, fees, commissions and other estimated expenses payable in connection with this offering, will be approximately US$390 million. We intend to use these proceeds (i) to fund the Acquisition or other potential future acquisitions, (ii) to repay the CITIC Bank Facility in full, and (iii) for working capital and general corporate purposes. The proceeds of this offering must be applied towards repaying the CITIC Bank Facility in full before they can be used for any other purposes. |
| Listing | Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. |
| Governing Law | The Notes, the Subsidiary Guarantees and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. |
| Risk Factors | Investing in the Notes involves substantial risks. You should carefully consider all the information in this offering memorandum prior to investing in the Notes. In particular, we urge you to consider carefully the factors set forth under "Risk Factors" beginning on page 23 of this offering memorandum. |

## Summary Financial Information and Other Data

***Our Summary Financial Information and Other Data***

You should read this summary financial information and other data in conjunction with our audited consolidated financial information, including the notes thereto, included elsewhere in this offering memorandum and information set forth in "The Acquisition," "Use of Proceeds," "Selected Consolidated Financial Data and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Other Indebtedness" and "Description of the Notes." The summary historical financial information set forth below has been derived from our audited consolidated statements of comprehensive income for the years ended December 31, 2008 and 2009 and audited consolidated statements of financial position as at December 31, 2008 and 2009 included in the accountant's report dated December 1, 2010, and our audited consolidated statements of comprehensive income for the year ended December 31, 2010 and audited consolidated statements of financial position as at December 31, 2010, including the notes thereto, included elsewhere in this offering memorandum. The consolidated financial information has been prepared in accordance with IFRS. Our historical financial information is not necessarily indicative of the results to be expected for any other period.

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US$'000 |
| **Consolidated statements of comprehensive income:** | | | | |
| Revenue | 1,971,688 | 1,166,827 | 1,804,976 | 273,481 |
| Operating expenses | | | | |
| Purchases, services and other | (96,905) | (123,587) | (126,517) | (19,169) |
| Employee compensation costs | (69,014) | (67,651) | (110,346) | (16,719) |
| Depreciation, depletion and amortization | (475,172) | (445,824) | (528,582) | (80,088) |
| Impairment of property, plant and equipment | (32,000) | – | – | – |
| Distribution expenses | (23,355) | (21,861) | (28,424) | (4,307) |
| Administrative expenses | (89,249) | (62,253) | (50,154) | (7,599) |
| Provision for impairment of other receivables | – | – | – | – |
| Taxes other than income taxes | (538,126) | (73,308) | (289,296) | (43,833) |
| Other income/(loss) | 133,758 | (131,124) | (37,644) | (5,704) |
| Total operating expenses | (1,190,063) | (925,608) | (1,170,963) | (177,419) |
| Profit from operations | 781,625 | 241,219 | 634,013 | 96,063 |
| Finance income | 45,673 | 1,552 | 35,344 | 5,355 |
| Finance costs | (53,460) | (58,832) | (86,788) | (13,150) |
| Financial costs – net | (7,787) | (57,280) | (51,444) | (7,795) |
| Profit before income tax | 773,838 | 183,939 | 582,569 | 88,268 |
| Income tax (expense) | (162,748) | (73,462) | (161,705) | (24,501) |
| Net profit for the year | 611,090 | 110,477 | 420,864 | 63,767 |
| Other comprehensive income | – | – | (10,941) | (1,658) |
| Total comprehensive income for the year | 611,090 | 110,477 | 409,923 | 62,110 |
| Earnings per share for profit attributable to the equity holders of the company (expressed in RMB or US$ per Share, as applicable) | | | | |
| – basic | 6.1 | 1.0 | 0.19 | 0.03 |
| – diluted | 6.1 | 1.0 | 0.19 | 0.03 |

| | As at December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US$'000 |
| **Consolidated statements of financial position:** | | | | |
| Non-current assets | 2,659,703 | 2,738,102 | 3,070,656 | 465,251 |
| Current assets | 1,165,636 | 988,030 | 1,156,075 | 175,163 |
| Total assets | 3,825,339 | 3,726,132 | 4,226,731 | 640,414 |
| Total equity | 1,143,765 | 1,253,446 | 1,959,931 | 296,959 |
| Non-current liabilities | 1,106,557 | 1,506,576 | 1,347,424 | 204,155 |
| Current liabilities | 1,575,017 | 966,110 | 919,376 | 139,299 |
| Total liabilities | 2,681,574 | 2,472,686 | 2,266,800 | 343,455 |
| Total equity and liabilities | 3,825,339 | 3,726,132 | 4,226,731 | 640,414 |

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| **Operating data:** | | | |
| Crude oil production, net (bbl per day) | 8,150 | 7,637 | 9,349 |
| Average realized price for crude oil sales (US$ per barrel)[1] | 104.78 | 58.58 | 77.99 |

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US$'000 |
| **Other financial information:** | | | | |
| Total Debt (at period end)[2] | 820,152 | 1,345,386 | 1,291,203 | 195,637 |
| Net Debt (at period end)[3] | 438,033 | 1,055,115 | 611,170 | 92,602 |
| EBITDA[4] | 1,256,797 | 687,043 | 1,162,595 | 176,151 |
| Adjusted EBITDA[4] | 1,127,890 | 821,301 | 1,236,716 | 187,381 |
| **Credit statistics:** | | | | |
| Total Debt/Adjusted EBITDA | 0.73 | 1.64 | 1.04 | 1.04 |
| Net Debt/Adjusted EBITDA | 0.39 | 1.28 | 0.49 | 0.49 |
| Adjusted EBITDA/Net Finance Cost | 144.8 | 14.3 | 24.0 | 24.0 |

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.05 per barrel.

(2) Total debt represents current and non-current borrowings.

(3) Net debt represents total debt less cash and cash equivalents.

(4) EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude certain non-cash and one time items, including share-based compensation expense, impairment of property, plant and equipment, impairment of inventory, net loss/(gain) on forward foreign exchange contract, realized and unrealized loss/(gain) on the oil put option and accrual/write-back of safety fees.

EBITDA and Adjusted EBITDA are not standard measures under IFRS. We have included EBITDA and Adjusted EBITDA as we believe EBITDA is a financial measure commonly used in the oil and gas industry. We believe that EBITDA and Adjusted EBITDA are used as supplemental financial measures by our management and by investors, research analysts and others, to assess our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure. However, EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to profit from operations or any other measure of performance or as an indicator of our operating performance or profitability. EBITDA and Adjusted EBITDA fail to account for tax, finance income, finance costs and other non-operating cash expenses. EBITDA and Adjusted EBITDA do not consider any functional or legal requirements of the business that may require us to conserve and allocate funds for any purposes. EBITDA and Adjusted EBITDA should not be considered alternatives to net profit for the year, profit from operations or any other measure of financial performance or liquidity presented in accordance with IFRS. Our EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate EBITDA or Adjusted EBITDA

in the same manner. Investors should also note that EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net profit for the period for each of the periods indicated:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US$'000 |
| **Reconciliation of net profit for the period to EBITDA and Adjusted EBITDA:** | | | | |
| **Net profit for the year** | 611,090 | 110,477 | 420,864 | 63,767 |
| Income tax expense | 162,748 | 73,462 | 161,705 | 24,501 |
| Finance income | (45,673) | (1,552) | (35,344) | (5,355) |
| Finance costs | 53,460 | 58,832 | 86,788 | 13,150 |
| Depreciation, depletion and amortization | 475,172 | 445,824 | 528,582 | 80,088 |
| **EBITDA** | 1,256,797 | 687,043 | 1,162,595 | 176,151 |
| Share-based compensation expense | – | 3,484 | 29,429 | 4,459 |
| Impairment of property, plant and equipment | 32,000 | – | – | – |
| Impairment of inventory | 3,898 | – | – | – |
| Net loss/(gain) on forward foreign exchange contract | 24,704 | (5,478) | – | – |
| Realized loss/(gain) on oil put option | (25,688) | (70,991) | 20,285 | 3,073 |
| Unrealized loss/(gain) on oil put option | (129,817) | 207,243 | 24,407 | 3,698 |
| Accrual/write-back of safety fees | (34,003) | – | – | – |
| **Adjusted EBITDA** | 1,127,890 | 821,301 | 1,236,716 | 187,381 |

***Summary Financial Information of Emir-Oil***

You should read the summary financial information presented below in conjunction with the financial statements and the notes to these financial statements for Emir-Oil included elsewhere in this offering memorandum. You should also read the section of this offering memorandum entitled "Emir-Oil." The following summary historical financial information has been derived from Emir-Oil's audited statements of comprehensive income for the years ended March 31, 2008, 2009, 2010 and for the nine-month periods ended December 31, 2009 and 2010, and audited statement of financial position as at March 31, 2008, 2009, 2010, and December 31, 2010, including the notes thereto, included elsewhere in this offering memorandum. The financial information has been prepared in accordance with IFRS. Emir-Oil's historical financial information is not necessarily indicative of the results to be expected for any other period.

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2009** | **2010** |
| | **US$'000** | **US$'000** | **US$'000** | **US$'000 (Unaudited)** | **US$'000** |
| **Statement of comprehensive income:** | | | | | |
| Revenue | 60,197 | 69,617 | 57,275 | 41,736 | 41,638 |
| Operating expenses: | | | | | |
| Purchases, services and other | 1,958 | 2,723 | 3,936 | 3,174 | 2,894 |
| Geological and geophysical expense | 6,587 | 4,665 | 641 | 355 | 7,445 |
| Employee compensation costs | 2,893 | 3,608 | 2,928 | 2,401 | 3,153 |
| Depreciation, depletion and amortization | 21,669 | 10,642 | 15,639 | 8,448 | 12,028 |
| Operating lease expense | 2,168 | 2,809 | 1,244 | 881 | 991 |
| Administrative expenses | 2,901 | 2,789 | 1,841 | 1,314 | 1,817 |
| Taxes other than income taxes | 1,557 | 9,510 | 13,543 | 9,503 | 11,500 |
| Write-off of inventory | 80 | 140 | 215 | 162 | 62 |
| Other expense | 319 | 102 | 368 | 250 | 59 |
| Total operating expenses | 40,132 | 36,988 | 40,355 | 26,487 | 39,949 |
| Profit from operations | 20,065 | 32,629 | 16,920 | 15,249 | 1,689 |
| Finance income | 79 | 3,234 | 273 | 151 | 282 |
| Finance costs | (5,403) | (6,496) | (6,869) | (5,247) | (4,900) |
| Finance (costs) – net | (5,324) | (3,262) | (6,596) | (5,096) | (4,618) |
| Profit/(loss) before income tax | 14,741 | 29,367 | 10,324 | 10,153 | (2,929) |
| Income tax (expense)/credit | (7,060) | (2,213) | 2,563 | 865 | 1,601 |
| Net (loss)/profit for the year/period | 7,681 | 27,154 | 12,887 | 11,018 | (1,328) |

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Statement of financial position:** | | | | |
| Current assets | 10,287 | 8,459 | 13,757 | 14,683 |
| Property, plant and equipment | 128,586 | 178,765 | 174,395 | 179,725 |
| Total assets | 170,544 | 204,376 | 205,903 | 214,326 |
| Total current liabilities | 22,239 | 19,009 | 8,005 | 21,579 |
| Total long term liabilities[1] | 130,715 | 143,098 | 145,410 | 143,657 |
| Total shareholder's equity | 17,589 | 42,269 | 52,488 | 49,090 |

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| **Operating data:** | | | | | |
| Net Production Data: | | | | | |
| Oil (barrels) | 907,823 | 1,080,895 | 1,016,221 | 751,648 | 638,335 |
| Natural gas (Mcf) | – | – | – | – | 967,688 |
| Barrels of Oil equivalent (BOE) | 907,823 | 1,080,895 | 1,016,221 | 751,648 | 799,615 |
| Average Sales Price: | | | | | |
| Oil (US$ per barrel) | 67.16 | 64.84 | 55.28 | 53.16 | 64.92 |
| Natural gas (US$ per Mcf) | – | – | – | – | 1,438 |
| Equivalent price (US$ per BOE) | 67.16 | 64.84 | 55.28 | 53.16 | 54.49 |

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Other financial information:** | | | | | |
| Total borrowings (at period end)[2] | 123,732 | 133,366 | 137,423 | | 137,043 |
| Net debt (at period end)[3] | 121,609 | 130,973 | 133,975 | | 134,042 |
| EBITDA[4] | 41,734 | 43,270 | 32,559 | 23,698 | 13,718 |
| Adjusted EBITDA[4] | 48,848 | 48,529 | 33,922 | 24,603 | 21,599 |

(1) Includes loans payable to BMB (which as of December 31, 2010 were in the amount of $109,350,109 denominated in U.S. dollars and $1,297,266 denominated in Kazakhstani Tenge) of which the right to receive payments under the loans will be transferred to us under the Purchase Agreement.

(2) Total borrowings represents the amount due to parent company and interest payable due to parent company.

(3) Net debt represents total borrowings less cash and cash equivalents.

(4) EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude certain non-cash and one time items including non-cash items such as loss on impairment of receivables, write-off of inventory, loss on disposal of property, plant and equipment and intangible assets, accretion expenses and geological and geophysical expenses because of their exploration nature.

We have included EBITDA and Adjusted EBITDA for Emir-Oil as we believe EBITDA is a financial measure commonly used in the oil and gas industry. EBITDA and Adjusted EBITDA are used as supplemental financial measures to assess Emir-Oil's operating performance, cashflow and return on capital as compared to those of other companies in Emir-Oil's industry, and Emir-Oil's ability to take on financing. However, EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to profit from operations or any other measure of performance or as an indicator of Emir-Oil's operating performance or profitability. EBITDA and Adjusted EBITDA fail to account for tax, finance income, finance costs and other non-operating cash expenses. EBITDA and adjusted EBITDA do not consider any functional or legal requirements of the business that may require Emir-Oil to conserve and allocate funds for any purposes. Emir-Oil's EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate EBITDA or adjusted EBITDA in the same manner.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net profit for each period indicated:

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Net (loss)/profit for the year** | 7,681 | 27,154 | 12,887 | 11,018 | (1,328) |
| Income tax benefit | 7,060 | 2,213 | (2,562) | (865) | (1,601) |
| Finance costs | 5,324 | 3,262 | 6,596 | 5,096 | 4,618 |
| Depreciation, depletion and amortization | 21,669 | 10,642 | 15,639 | 8,448 | 12,028 |
| **EBITDA** | 41,734 | 43,270 | 32,559 | 23,698 | 13,718 |
| Geological and geophysical expense | 6,587 | 4,665 | 641 | 355 | 7,445 |
| Loss on impairment of accounts receivable | 136 | – | – | – | – |
| Write-off of inventory | 80 | 140 | 215 | 162 | 62 |
| Loss on disposal of property, plant and equipment | 55 | 4 | 59 | 57 | 7 |
| Loss on disposal of intangible asset | 1 | – | – | – | – |
| Accretion expenses on ARO | 255 | 449 | 448 | 332 | 367 |
| **Adjusted EBITDA** | 48,848 | 48,529 | 33,922 | 24,603 | 21,599 |

## Summary Combined Pro Forma Financial Data

The following unaudited pro forma combined condensed statement of assets and liabilities gives effect to the Acquisition of Emir-Oil as if such event had occurred on December 31, 2010 and the following unaudited pro forma combined condensed statement of comprehensive income gives effect to the Acquisition as if such event occurred on January 1, 2010. See "Pro Forma Financial Statements" for a description of pro forma effects of the transaction and adjustments. The adjustments made in order to present the unaudited pro forma combined financial data have been made based on available information and assumptions that our management believes are reasonable. See "Risk Factors – Our pro forma financial information presented herein may not be representative of our actual results, and our future financial condition, results of operations and cash flows may differ materially from such information." The unaudited pro forma combined financial data are for informational purposes only and do not purport to present what our results would actually have been had the Acquisition occurred on the dates presented, nor should they be used as the basis of projections of our results of operations or financial position for any future period. These unaudited pro forma combined condensed financial data should be read in conjunction with "Pro Forma Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Emir-Oil," our historical financial statements and related notes thereto, and the historical financial statements of Emir-Oil and related notes thereto included in this offering memorandum.

**Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group**

| | As at December 31, 2010 | |
|---|---|---|
| | **RMB'000** | **US$'000** |
| Non-current assets | 4,874,284 | 738,528 |
| Current assets | 1,279,809 | 193,910 |
| Total assets | 6,154,093 | 932,438 |
| Non-current liabilities | 2,812,059 | 426,070 |
| Current liabilities | 1,136,710 | 172,229 |
| Total liabilities | 3,948,769 | 598,298 |
| Net Assets | 2,205,324 | 334,140 |

**Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group**

| | For the Year Ended December 31, 2010 | |
|---|---|---|
| | **RMB'000** | **US$'000** |
| Revenue | 2,191,980 | 332,118 |
| Operating expenses: | | |
| Purchases, services and other | (151,244) | (22,916) |
| Geological and geophysical expense | (52,189) | (7,907) |
| Employee compensation costs | (135,218) | (20,487) |
| Depreciation, depletion and amortization | (722,890) | (109,529) |
| Distribution expenses | (28,424) | (4,307) |
| Administrative expenses | (129,332) | (19,596) |
| Taxes other than income taxes | (394,462) | (59,767) |
| Other income | 436,928 | 66,201 |
| Total operating expenses | (1,176,831) | (178,308) |
| Profit from operations | 1,015,149 | 153,810 |
| Finance income | 37,247 | 5,644 |
| Finance costs | (259,637) | (39,339) |
| Financial costs – net | (222,390) | (33,695) |
| Profit before income tax | 792,759 | 120,115 |
| Income tax expense | (126,503) | (19,167) |
| Net profit for the year | 666,256 | 100,948 |
| Other comprehensive income for the year, net of tax | (10,941) | (1,658) |
| Total comprehensive income for the year | 655,315 | 99,290 |

*You should carefully consider the following factors, in addition to other information included in this offering memorandum before making an investment decision. The risks described below are not the only ones facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business operations in the future. Any of the following risks could materially and adversely affect our business, results of operations or financial condition. In such case, you may lose all or part of your original investment. Unless otherwise stated, the financial results discussed below relate to our historical consolidated financial data. Certain capitalized terms under "– Risks Relating to the Notes and the Subsidiary Guarantees" are defined in "The Description of Notes."*

## Risks Relating to our Business

***Our business operations depend on the production sharing contracts with PetroChina. If we fail to maintain a continued good working relationship with PetroChina, our business, financial condition and results of operations may be materially and adversely affected.***

Our business operations are based on the production sharing contracts among our company, GOC, CNPC and PetroChina. GOC and CNPC entered into the original production sharing contracts for the oilfields at Daan and Miao 3 on December 16, 1997, and for the oilfield at Moliqing on September 25, 1998. In 1999, CNPC assigned to PetroChina most of its commercial and operational rights and obligations under the production sharing contracts, although CNPC remains a party to these contracts. On October 25, 2000, each of the three production sharing contracts was amended to effect the transfer and assignment of certain interests and obligations under the contracts from GOC to Microbes, Inc. On August 11, 2003, FEEL acquired an equity interest in MIE, then a subsidiary of Microbes, Inc., and held the interests in the three production sharing contracts. MIE is the sole operator and one of the two foreign contractors of the oilfields at Daan, Moliqing and Miao 3. The other foreign contractor, GOC, continues to hold a 10% interest of the foreign contractors' entitlement and obligations under each of our production sharing contracts but does not directly participate in operational decisions.

The success of our business and our growth depend to a significant extent on our working relationship with PetroChina. However, we cannot assure you that we will be able to maintain a good working relationship with PetroChina. For instance, if we experience any material disagreement with PetroChina in the interpretations of any of the terms of the production sharing contracts, or if we fail to comply with the terms of the production sharing contracts in a timely manner or at all, our working relationship with PetroChina may be adversely affected or PetroChina may unilaterally terminate our production sharing contracts. Furthermore, we may have disagreements over payment with PetroChina from time to time. If PetroChina terminates the production sharing contracts, or decides not to enter into any new production sharing contract with us, we cannot assure you that we will be able to secure a new production sharing arrangement in a timely manner or at all. In addition, any failure or undue delay by PetroChina to comply with the terms of any of the production sharing contracts, or its unwillingness to cooperate with us for any reason, may also have a material adverse impact on the success of our operations. If any of the above occurs, our business, financial condition, results of operations and prospects would be materially and adversely affected.

***PetroChina controls, to a significant extent, the volume of our net production through its status as our sole customer and the influence it has over the management of the three oilfields through the joint management committee. If our net production of crude oil decreases, our business, financial condition and results of operations may be materially and adversely affected.***

Microbes, Inc. and CNPC entered into a crude oil sale contract on December 28, 2000, which was subsequently amended on March 5, 2004, to include MIE as the seller in place of Microbes, Inc. and PetroChina as the purchaser in place of CNPC. The sales contract requires us to sell to PetroChina, and PetroChina to purchase from us, the crude oil produced from the projects at Daan, Moliqing and Miao 3, subject to the approval of the production budget from the joint management committee. The joint management committee, which

consists of eight members, four each appointed by PetroChina and us, performs supervisory functions for each oilfield, including the approval of our annual production budget for each oilfield. See "Business – Production Sharing Contracts – Management and Operations" for more information regarding the joint management committee. The sales contract stipulates that we can export our oil production to offshore customers. However, we need PetroChina's assistance in obtaining relevant governmental approvals for oil exportation. We cannot assure you that such approvals can be obtained in a timely manner or at all, if we decide to export our oil production. To date, PetroChina has been our sole customer, accounting for all of our sales in 2008, 2009 and 2010.

We cannot assure you that PetroChina will continue to purchase our crude oil in the future in the same quantity. In the first quarter of 2009, due to the decrease in demand for oil in China as a result of the global economic downturn and excess crude oil supply in the market, we and PetroChina agreed to curtail the amount of oil produced at the Daan oilfield. As a result, our net production of crude oil decreased to an average of 6,449 barrels per day in the first half of 2009. In contrast, our net production averaged 8,150 barrels of crude oil per day in 2008. The production curtailment ended in March 2009 and our net production improved in subsequent months, rebounding to an average of 8,806 barrels per day in the second half of 2009. Our oil production has not been curtailed since the first half of 2009. We cannot assure you that future curtailments will not occur in response to future changes in demand for oil or otherwise. Future curtailments may slow our net production and materially and adversely affect our business, financial condition and results of operations.

***PetroChina may take over from us the operational rights for the three oilfields under the production sharing contracts. If PetroChina takes over the operational rights for one or more of the three oilfields, our business, financial condition and results of operations may be adversely affected.***

Under the production sharing contracts, PetroChina may take over the operational rights from us at the earlier of (i) the expiration of the production sharing contracts, (ii) when all the development costs have been recovered by the foreign contractors in full and no additional overall development plan under which additional development costs will be incurred by the foreign contractors has been approved, or (iii) if agreed to by the joint management committee, before the full recovery of the development costs by the foreign contractors. Although we believe that scenarios (i) and (iii) above do not pose any risk to our continued operations of the oilfields because, concerning scenario (i) above, the production sharing contracts for the Daan, Moliqing and Miao 3 oilfields do not expire until 2024, 2028 and 2028, respectively, which we expect to be sufficient for our company to recover all development costs in the Moliqing and Miao 3 oilfields (we have already recovered all development costs in the Daan oilfield, although we will incur further development costs in the future pursuant to approved development plans, and, concerning scenario (iii) above, under the production sharing contracts the foreign contractors appoint four out of the eight members of the joint management committee and any action taken by the joint management committee must be made unanimously. Concerning scenario (ii) above, we have recovered all of our past development costs in the Daan oilfield, including all development costs under the original overall development plan and all initial development costs under the supplemental overall development plan. However, we have not reached the limit for the number of wells to be drilled and the amount of investment approved under the supplemental overall development plan for the Daan oilfield, and we continue to make additional investments and development costs in the Daan oilfield in accordance with the supplemental overall development plan approved by the joint management committee. In the event that PetroChina takes over the operations of the oilfields after (i) the maximum limits as set out under the original overall development plan and supplemental overall development plan have been reached, and (ii) we have recovered all of the pilot tests and development costs, we would not be able to invest in additional capital expenditures to generate more production and revenue and, accordingly, our business, financial condition and results of operations would be materially and adversely impacted. In addition, our results of operations would be dependent on PetroChina's ability to operate the oilfields and produce profit-sharing oil after such takeover.

***Our results of operations are affected by the volatility of prices for crude oil.***

Our results of operations are significantly affected by crude oil prices. We sell our portion of crude oil produced in accordance with prices of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, which closely tracks the international prices for crude oil. See "Business – Sales and Marketing" for details. International prices for crude oil have fluctuated widely in recent years in response to changes in the supply of and demand for oil, market uncertainty and a variety of additional factors that are beyond our control, including political developments in petroleum-producing regions such as the recent political uncertainty in certain countries in the Middle East, the ability of the Organization of Petroleum Exporting Countries and other petroleum-producing nations to set and maintain production levels and prices, the price and availability of other energy sources, such as coal, domestic and foreign government regulation, and overall economic conditions. We do not and will not have control over the factors affecting international prices for crude oil. For example, crude oil prices reached a historical high in July 2008 but declined precipitously in the fourth quarter of 2008 and the first half of 2009 as a result of the global economic and financial crisis. As a result, our revenue has fluctuated significantly. Furthermore, our rate of recovery under our production sharing contracts, depreciation, depletion and amortization, and the amount of special levy paid or payable to the PRC government are affected by movements in crude oil prices. For more details, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – General Factors Affecting Our Results of Operations – Crude Oil Price." Crude oil prices recovered in the second half of 2009, but there is no guarantee that international prices for crude oil will remain stable and any future declines in international prices for crude oil will reduce our revenue. If crude oil prices increase in the future, the costs of materials and well drilling services may also increase beyond our anticipation as a result of higher demand, which will materially and adversely affect our business, financial condition and results of operations.

***We may be unable to continue to perform our obligations under the production sharing contracts sufficiently or at all, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.***

Our success to date is driven by our performance at the Daan oilfield, the Moliqing oilfield and the Miao 3 oilfield. The Daan oilfield, the Moliqing oilfield and the Miao 3 oilfield respectively accounted for approximately 76.9%, 17.9% and 5.2% of our revenue in 2010, 80.0%, 17.8% and 2.2% of our revenue in 2009, 79.2%, and 18.9% and 1.9% of our revenue in 2008. Each of our production sharing contracts for the oilfields contains requirements on the performance of the foreign contractors and operator, such as quality of services, timeframe of development plan as well as minimum capital expenditure. In the event that we are unable to obtain sufficient funding to continue with the development in accordance with the timeframe prescribed in the relevant production sharing contracts, or any failure or undue delay by our subcontractors or service providers to deliver the products or services that meet the quality requirements under the production sharing contracts we may not sufficiently perform our obligations under the production sharing contracts, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

***We may be subject to sanctions if our operations exceed the scope outlined in the current overall development plan approved by the NDRC or the NEB.***

We carry out the development and production activities at the three oilfields we operate in accordance with overall development plans, all of which were approved by the NDRC or the NEB, an agency established in 2008 under the NDRC to regulate China's energy sector. The overall development plans for the oilfields at Daan, Moliqing and Miao 3 contemplate an annual total designed production capacity of 723,000 tons, 571,200 tons, and 237,000 tons of oil, respectively. Although the overall development plan and the supplement thereto we entered into with CNPC do not limit the amount of reserves we may develop, our current projections indicate that we may exceed the scope of the development plan in the second half of 2012 for Daan Oilfield. Under the Verification and Approval of Foreign-invested Projects Tentative Administrative Procedures issued by the NDRC on October 9, 2004, should the total investment amount in a foreign-invested project approved by the NDRC exceed the original approved investment amount by 20%, an amendment application is required to be submitted to the NDRC for approval. Although we are currently operating within the limits set forth in the respective

overall development plan and supplemental overall development plan for each of the oilfields we operate, based on our current projections, we, along with PetroChina, may need to submit a new proposal to the NDRC or NEB and obtain approval once our plan to develop and produce oil exceeds the scope of our current overall development plans. We cannot assure you that we can obtain such approval in a timely manner or at all. If we fail to obtain approval from the NDRC or NEB for a new supplemental overall development plan, we may be subject to penalties and fines, as well as stop-work orders, and our business, financial condition and results of operations may be materially and adversely affected as a result. The law does not currently specify as to the type or amount of penalties or fines that may be imposed on operators that have not obtained approval for a supplemental overall development plan. Any failure or delay on the part of the NDRC or NEB in approving such plan may also affect our performance and operations under the production sharing contracts.

***Our operations may be adversely affected by the global as well as PRC and Kazakhstan domestic economic conditions.***

Substantially all of our revenue is derived from sales of crude oil produced in the PRC. After the Acquisition, we will also derive revenue from sales of crude oil produced in Kazakhstan. Our results of operations are materially affected by economic conditions in China, and after the Acquisition our results of operations will be materially affected by economic conditions in Kazakhstan, and elsewhere around the world. The oil and gas industry is sensitive to macroeconomic trends as oil and gas prices tend to decline in recessionary periods. Recent global economic conditions have been characterized by tight credit and recessionary trends in most major economies in 2009 and 2010. The negative economic outlook has affected business and consumer confidence. Moreover, turbulence in the international energy markets, as well as any slowdown of economic growth in China, may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs. A global recession or an economic downturn in the PRC or Kazakhstan, as well as uncertainties regarding the future economic prospects of the PRC, Kazakhstan and the major economies in the world, could depress oil and gas prices, and any decline in oil and gas prices as a result of such an economic downturn would likely have a material and adverse effect on our results of operations and financial condition.

***The crude oil reserve data in this offering memorandum are only estimates and the actual production, revenue and expenditures with respect to our net reserves under each of the production sharing contracts may differ materially from these estimates.***

The oil reserve estimates are important data to us for making future development and production plans and estimating our expected recovery of operating costs incurred and profit-sharing oil. The crude oil reserve data in this offering memorandum are only estimates and all reserve estimates involve some degree of uncertainty. The reliability of reserve estimates depends on the following factors, some of which are beyond our control and may fluctuate or prove to be incorrect over time:

- the quality and quantity of technical and economic data;
- the prevailing oil prices applicable to our net production;
- the production performance of the reservoirs;
- estimation of future costs;
- extensive engineering judgments; and
- consistency in the oil policies of the PRC government and, after the Acquisition, the government of Kazakhstan.

There are numerous uncertainties inherent in estimating quantities of proved oil reserves, and in the timing of development expenditures and the projection of future rates of production. Estimating the amount and

quality of crude oil and gas reserves is a subjective process and estimates made by different experts often vary significantly. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, taxes and fees payable and development and operating expenditures with respect to our net reserves may likely vary from these estimates. Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in our reserve data. Our actual production, revenues and expenditures with respect to our net reserves may differ materially from these estimates because of these revisions. If the assumptions on which the estimates of the Group's reserves of crude oil have been based are wrong, the Group may be unable to produce the estimated levels or quality of crude oil or gas set out in this offering memorandum, which would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***Any reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production), which will have a material and adverse effect on our results of operations.***

Under IFRS, our accounting of unit of production for depreciation, depletion and amortization is based on the reserve definition as set out in the PRMS. We apply the unit of production rates based on net proved developed producing oil reserves estimated to be recoverable from existing facilities in accordance with the terms of the respective production sharing contracts.

Estimated proved reserves are important elements in determining the depreciation of capitalized development costs. Any reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production) and therefore will reduce net income.

***We depend upon the services of key personnel and our business may be severely disrupted in the event that we lose their services and are unable to find replacements with comparable experience and expertise.***

Our future success depends heavily upon the continued services of our senior executives, including Mr. Zhang, our chairman and chief executive officer, and other key employees. We rely on their expertise in developing business strategies, managing business operations and strengthening our relationships with PetroChina and service providers. We carry key person insurance for six persons, including four of our executive directors. However, if one or more of our senior management or key employees were unable or unwilling to continue in their present positions, we may not be able to replace them in a timely manner or at all. If any dispute arises between our key employees and us, we cannot assure you of the extent to which any of the employment agreements that we have entered into with our key employees could be enforced, particularly in the PRC, where most of these key employees reside, in light of the uncertainties within the PRC legal system. See "– Uncertainties with respect to the PRC legal system could limit the protections available to you and us" below. If one or more of our senior management or key employees were unable or unwilling to continue in their present positions, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may have to incur additional expenses to recruit, train and retain personnel. We may not be able to attract or retain replacement personnel that we will need to achieve our strategic objectives at costs similar to our current costs.

***We may be unable to raise funding to maintain our operations and accomplish our growth strategy on terms favorable to us or at all, which could increase our financing costs, affect our business operations or force us to delay, reduce or abandon our growth strategy.***

Oilfield operations are a capital-intensive business. Our ability to maintain and increase our revenue, net profits and cash flows depends upon continued capital spending. Our current business strategy for our Daan, Moliqing and Miao 3 oilfields contemplates gross capital expenditures of approximately RMB1,288 million for 2011. Our expected net capital expenditure is 90% of the gross amount and may vary significantly from these planned amounts due to various factors, including but not limited to our ability to generate sufficient cash flows from our operations and investments to finance our capital expenditures, our ability to obtain external financing, oil prices and approval by the joint management committee. See "Business – Production Sharing Contracts" for a description of the functions of the joint management committee. In addition, one of our growth strategies is to develop our net proved undeveloped reserves, as well as probable and possible reserves. To implement this growth strategy successfully, we will need to raise substantial additional funds.

Our ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- the availability of credit from banks or other lenders;
- investor confidence in us; and
- the continued performance of our projects.

Our operations may not generate sufficient cash flows to fund our capital investment requirements, and we may be required to finance our cash needs through public or private equity offerings, bank loans or other debt financing, or otherwise. We cannot assure you that international or domestic financing for our future expansion will be available on terms favorable to us or at all, which could force us to delay, reduce or abandon our growth strategy, increase our financing costs, or both.

Additional funding from debt financings may make it more difficult for us to operate our business because we would need to make principal and interest payments on the indebtedness and may be obligated to abide by restrictive covenants contained in the debt financing agreements, which may, among other things, limit our ability to make business and operational decisions and pay dividends.

In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or as to the success of these projects if completed. In the event that we fail to obtain sufficient funding for our operations or development plans, our business, results of operations and financial condition could be materially and adversely affected.

Further, we cannot assure you that our business will generate sufficient cash flow from operations in the future to make necessary capital expenditures and to service our debt, in which case we may seek additional financing, dispose of certain assets or seek to refinance some or all of our debts. We cannot assure you that any of these alternatives can be implemented on satisfactory terms, if at all. We may also have difficulty converting our long-term assets into current assets to repay our creditors and may suffer losses upon the sale of our long-term assets, which would adversely affect our operations and prevent us from successfully implementing our business strategy.

***If we fail to obtain or maintain all required licenses, permits and approvals, or if we are required to take actions to obtain such licenses, permits and approvals which are time-consuming or costly, our business operations and development plans may be materially and adversely affected.***

Oil operations such as ours are subject to a significant number of licenses, permits and approvals in the PRC, such as those relating to environmental protection and work safety. See "Regulations" section in this offering memorandum. In particular, our projects and any expansion plans are subject to extensive governmental review and approval. Our ability to continue to conduct our existing operations and to successfully implement our expansion strategies is dependent upon our obtaining, maintaining and renewing, where necessary, the relevant regulatory approvals under PRC law and after the Acquisition, under Kazakhstan law. See "– Risks Relating to Emir-Oil's Business." We are also dependent on PetroChina's ability to obtain governmental approvals and licenses. These approvals include, but are not limited to, environmental approvals, workplace safety approvals, land use rights allocation and approvals from SAFE. If we or PetroChina fail to obtain or renew such approvals on a timely basis or at all, we may be subject to fines, ordered to take corrective measures, ordered to shut down our operations, lose our rights under the production sharing contracts or subject to other administrative penalties. We may even be prohibited from continuing or expanding our operations due to a failure to obtain or renew such approvals, or we may have to expend considerable time and costs in order to sustain our business, any and all of which may materially and adversely effect our business, financial conditions, results of operations and prospects.

***We may experience difficulties in expanding our business in the PRC and globally, which may adversely affect our growth and future profitability.***

We plan to secure future production sharing contracts with PetroChina and selectively acquire existing production sharing contracts from other independent oil producers in China that may be capital constrained or lack sufficient technical ability and expertise to successfully develop their areas under contract. From time to time, we may enter into discussions to acquire potential targets, but cannot assure you that any of these acquisitions will be successfully negotiated and completed. If we do not acquire new productions sharing contracts, given that the reserves and production under our current production sharing contracts will decline over time, we will not be able to continue our operations, which could materially and adversely effect our business, financial conditions, results of operations and prospects. Such acquisitions may pose risks of diverting management's attention and resources from our existing business. Furthermore, in the case of acquiring interests in new oilfields, we may not be able to integrate successfully the acquired company or business into our existing business, which failure could adversely affect our growth and future profitability.

In addition to the agreement to purchase all of the participation interests of Emir-Oil we entered into on February 14, 2011, we also plan to explore other investment opportunities overseas, with a particular focus on emerging markets in Southeast and Central Asia. We have limited experience conducting oil operations outside Jilin Province in the PRC and there can be no assurance that we will be successful in venturing into such new business opportunities or geographic areas. Furthermore, these new projects would likely have significant capital requirements and would expose us to additional risks, including but not limited to approvals from regulatory authorities that we may not have dealt with in the past as well as economic and legal risks associated with operating projects in other countries. We therefore cannot assure you that taking on such business expansion would not have an adverse impact on our future profitability, business, financial conditions, results of operations and prospects.

***Our continued business success depends on our ability to exploit our current reserves and develop newly discovered reserves within our contract areas.***

Our ability to achieve our growth objectives is dependent in part on our level of success in identifying additional crude oil reserves in our contract areas and further exploiting our current reserve base. Our development and production activities expose us to inherent risks associated with drilling, including the risk that no additional economically productive oil reservoirs will be discovered in our contract areas. Developing additional reserves is a highly risky and capital-intensive activity. As of December 31, 2010, the reserves life index of our net proved reserves was 9.7 years. Without locating additional reserves in our current contract areas or acquiring new reserve bases through acquisitions or new production sharing contracts, our net reserves and net production will decline over time, which would materially and adversely affect our results of operations and financial condition.

***Our right and ability to continue to occupy and use the land under each of the production sharing contracts for our long-term use may be adversely affected if permanent use approval or formal land use rights certificates are not obtained by PetroChina or us.***

We are entitled to use various parcels of land in the PRC pursuant to the provisions of the production sharing contracts and approvals from the relevant PRC land administration authorities. Under the production sharing contracts, PetroChina has the obligation to procure or assist in procuring land use rights. Parcels of land totaling approximately 644,292 square meters have been allocated to PetroChina and us for permanent use, including a parcel of land of 37,060 square meters allocated directly to us by the Ministry of Land and Resources for the central collection station at Daan, for which we obtained the Letter of State-owned Construction Land Allocation Decision from the Daan Municipal Land and Resource Bureau on August 17, 2010. These parcels of land are used for our development facilities, central collection stations, offices, ancillary facilities and dormitories for our workers. However, formal land use rights certificates have not been obtained by PetroChina or us from the relevant PRC governmental authorities for these lands. See "Business – Properties." PRC law provides that the user of the development project shall apply with the relevant land administration authority for

issuance of the land use rights certificates for these allocated land parcels within 30 days after the completion of the construction thereon or after being notified by the relevant land administration authority. Failure to apply for the land use rights certificates may subject us to regulatory actions, of which no details or interpretations have been released. Land use rights certificates and building ownership certificates are evidence of real property registration under PRC law. They permit the holder of land use rights certificates to transfer, mortgage and lease the land use rights and permit the holder of building ownership certificates to transfer and mortgage buildings as well as protect the holder from third party claims. Without land use rights certificates and building ownership certificates, we may not be able to transfer, mortgage or lease the land use rights to these allocated land parcels and may not be able to transfer or mortgage buildings, and they may be susceptible to claims from third parties, which could materially and adversely affect our ability to use the allocated land parcels and buildings as security or protect them from third party claims.

In addition, we use certain land parcels that have been approved by relevant PRC governmental authorities for temporary use. To convert any of these parcels from temporary use to production use, we or PetroChina will need to obtain permanent use approvals and land use right certificates after the expiry of the temporary use approvals or any extension of these approvals. In order to continue using lands for temporary use purposes after the expiry of the temporary use approvals, we will need to obtain extended temporary use approvals for our continued use. There is no assurance that we or PetroChina will be able to obtain permanent use approvals and the land use right certificates or extended temporary use approvals for these lands. Failure to obtain permanent use approvals, land use right certificates or extended temporary use approvals will affect our ability to use the land parcels after the expiry of temporary use approvals and their extension and we may be subject to fines and/or ordered to take corrective measures, such as restoring the land and returning it to its original users, should we refuse to return the land. We may also be prohibited from using these parcels of land for production or unable to protect them from third party claims, which would have an adverse impact on our expansion plans and our future profitability.

***Under the terms of the production sharing contacts, all assets purchased, installed and constructed under the production sharing contracts will eventually become the property of PetroChina, which could have a material adverse effect on our ability to satisfy our obligations.***

Under the terms of the production sharing contracts and in compliance with PRC law, PetroChina will have ownership of all of the assets, including plants, rigs, machinery and other equipment purchased, installed and constructed under the production sharing contracts after the earlier of (i) full recovery by the foreign contractors of their development costs and (ii) expiration of the production sharing contracts. Before either of these occurrences, we and PetroChina jointly control the assets under the production sharing contracts and neither we nor PetroChina can dispose of assets at our or its sole discretion. After either of these occurrences, PetroChina will own all of the assets purchased, installed or constructed under the production sharing contracts and can dispose of assets at its sole discretion. Our assets under the production sharing contracts therefore are not under our sole control and may not be available for sale, transfer, encumbrance or other disposition by us without PetroChina's approval or at all, which could have a material adverse effect on our ability to satisfy our obligations to our creditors and our shareholders.

***Prepayments we provide to service providers and equipment suppliers expose us to the credit risks of such third parties and may increase our costs and expenses, which could have a material and adverse effect on our financial condition and results of operations.***

Under existing contracts with the majority of our drilling service providers and equipment suppliers, we are required to make prepayments to our service providers and suppliers consistent with industry practice. In many such cases, we make prepayments without receiving collateral for such payments. As a result, our claims for such payments would rank as unsecured claims and expose us to the credit risks of our suppliers and service providers in the event of their insolvency or bankruptcy. We would rank below secured creditors, which would undermine our chances of obtaining the return of our prepayments. If there is a breach of contract, we may need to make a provision for the impairment loss. We made such a provision for impairment of receivables of RMB11.2 million in 2007 because certain advances paid to drilling service providers and equipment suppliers

were not collectible. Purchases from our largest supplier accounted for approximately 27.3%, 12.7% and 15.6%, respectively, of our total purchases during 2008, 2009 and 2010. We may not prevail in our claims against the defaulting service providers or suppliers, and even if we prevail, we may not be able to recover damages from our loss. Any of the above scenarios may have a material adverse effect on our financial condition and results of operations.

***The geographic concentration of our operations increases our exposure to acts of God and other disasters which are beyond our control and which may cause damage, loss or disruption to our business.***

As of December 31, 2010, all of our gross proved crude oil reserves were located in Jilin Province, China. The geographic concentration of our crude oil reserves exposes our business to natural disasters, including floods and earthquakes, and other acts of God, in a single area which could adversely affect the development or production of our crude oil, such as catastrophic damage to pipelines or reservoir structures or events that could result in a material loss or delay of our operations. Acts of terrorism may also cause damage or disruption to us, our employees or our facilities, any of which could materially impact our sales, cost of sales, overall operating results and financial condition. Upon consummation of the Acquisition, we will also operate in Kazakhstan, see "– Risks Relating to the Acquisition."

***Our operations may be affected by significant operating hazards and natural disasters and we have limited insurance coverage for any resulting losses.***

Developing, producing and transporting crude oil involve many hazards. These hazards may result in fires, explosions, spillages, blow-outs and other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations. Significant operating hazards and natural disasters may cause interruption to our operations, property and/or environmental damage as well as personal injuries, and each of these incidents could have a material adverse impact on our financial condition and results of operations. Although we are constantly improving our safety and occupational health measures to protect our employees and reduce the risk of accidents, our preventive measures may not always be effective, particularly due the hazardous nature of our industry.

As protection against operating hazards, we maintain insurance coverage on our properties, including pipelines, terminals, machinery, equipment, materials and supplies. We also maintain insurance against the risk of breakdown on all machinery and equipment. We carry business interruption insurance and workplace injury insurance for our operations. We also implement safety standards in compliance with ISO9000 and ISO9001 and our agreements with PetroChina, as well as PRC laws and regulations. Although we have not been materially affected by any of the operating hazards mentioned herein or any failure to comply with safety standards or PRC law, our preventative measures may not be effective and our insurance coverage may not be sufficient to cover all the financial losses caused by the operation risks and natural disasters. Losses incurred or payments required to be made by us due to operating hazards or natural disasters that are not fully insured may have a material adverse effect on our financial condition and results of operations.

***PRC regulations may limit our activities and adversely affect our business operations.***

Our operations, like those of other oil and gas companies in the PRC, are subject to extensive regulations and control by the PRC government. Although the PRC government has been gradually liberalizing its regulations of the oil and gas industry in recent years, it continues to exercise a certain degree of control over this industry by, among other measures, licensing the right to explore and produce crude oil, assessing and imposing taxes and fees payable in respect of crude oil produced and setting safety, environmental and quality standards. For instance, since March 26, 2006, we have been subject to a crude oil special gain levy imposed by the PRC government. As a result, we recorded special levy payments in aggregate of RMB538.1 million, RMB73.3 million and RMB288.1 million in relation to our sales of crude oil in 2008, 2009 and 2010, respectively. These regulations and controls, including any future changes in tax rules or policies, may affect material aspects of our operations and profitability, which may in turn constrain our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability.

***We may be exposed to risks in connection with our hedging transactions, including counterparty risks and significant fluctuation on our income statement from changes to the fair value of put option agreements.***

We enter into hedging transactions in order to protect against downward movements in the price of oil. Our maximum potential exposure under any purchased option agreement is the amount of the paid premium. Although we have entered into oil hedging transactions with reputable and well-capitalized banks and financial institutions that are active in the oil hedging market, we cannot be certain that those banks and financial institutions will not default or otherwise fail to perform their obligations under these oil hedging transactions.

***Our business may be adversely affected if we cannot recruit and retain suitable staff for our operations.***

Our continued growth depends in part on our ability to recruit and retain suitable staff. As we expand our oil operations, we will need to hire experienced staff who are knowledgeable about the oil industry to manage and operate our oil facilities and properties. We face increasing competition for management and skilled personnel with significant knowledge and experience in the oil industry in the PRC. In addition, we have seen an upward trend in labor costs in the PRC recently, which has had a direct impact on our staff costs. We may need to offer better compensation and other benefits in order to attract and retain key personnel in the future, which may materially affect our expenses and profitability. We cannot assure you that we will have the resources to satisfy fully our staffing needs as we continue to grow our business in the future or that our operating expenses will not significantly increase.

***Our business operations may be adversely affected by present or future environmental regulations.***

We are subject to extensive environmental protection laws and regulations in the PRC. These laws and regulations permit:

- the imposition of fees for the discharge of waste substances;
- the levy of fines and payments for damages for serious environmental offenses; and
- the government, at its discretion, to close any facility that fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our operations produce substantial amounts of waste water, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution. As of March 31, 2011, we were not involved in any incident or violation of any environmental protection laws or regulations which we had failed to remedy within the timeframe stipulated by the relevant PRC authorities.

The PRC government has moved, and may move further, towards more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards. As we seek to expand our operations and explore overseas opportunities, we may also be subject to domestic and international environmental protection laws of other jurisdictions that may be more stringent than those in the PRC. In such event, we may be required to incur additional expenditures for environmental compliance matters.

***Our contractual dispute with Sinopec may negatively affect our ability to do business with Sinopec in the future.***

On August 28, 2000, we entered into a 25-year production sharing contract with Sinopec for exploration and development of contract area at the Shengli oilfield in Shandong Province. The Shengli oilfield is one of the largest oil production bases in China. In 2000, we began the trial-development phase of our operations at the Shengli oilfield and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, we requested an extension from Sinopec to restart the project at the Shengli oilfield. On September 27, 2006, we

received a letter from Sinopec denying our request to restart the project and seeking to terminate the production sharing contract on the grounds that the one-year extension period of the trial-development phase had expired on December 31, 2003, and we had not met our investment commitment of at least US$2 million under the production sharing contract prior to such expiration. We believe our initial investment of RMB23.1 million in the Shengli oilfield, which investment was made prior to December 31, 2003, had met the required commitment amount under the production sharing contract. We had drilled two wells at Luojiayi Block 64 at the Shengli oilfield, one of which was a dry well, the other was never completed after Sinopec requested operations be suspended in September 2006. Due to geologic factors, the chance of drilling a dry well is greater in Luojiayi Block 64 than in our other oilfields and the development and operating costs are higher. We continue to consider the economic and contractual feasibility of making further investments to develop Luojiayi Block 64, which consideration also takes into account the price of crude oil. We intended to negotiate in good faith with Sinopec to resolve this issue. Therefore, we have chosen not to pursue the termination of this PSC with Sinopec.

As of the date of this offering memorandum, the production sharing contract with Sinopec has not been formally terminated and the dispute has not entered into judicial proceedings. Our investment in the Shengli oilfield project was completely written off in 2004. We had accounted for losses and liabilities in connection with the production sharing contract for the project at the Shengli oilfield and we believe there are no additional liabilities and claims in relation to the Shengli oilfield project. Although there has not been any further development relating to this project since the end of 2004, we cannot assure you that we will be able to resolve this dispute with Sinopec in a timely manner or at all. Our failure to resolve the dispute may impair our ability to do business with Sinopec in the future.

***We face intense competition in the industry in which we operate, and if we fail to compete effectively, we may be unable to enter into new production sharing contracts and sustain our growth.***

We are the sole operator of the three oilfields at Daan, Moliqing and Miao 3 through contractual arrangements with PetroChina. We do not compete with other operators in our contract areas. However, we encounter competition when we seek to acquire properties, secure additional production sharing contracts with state-owned oil and gas companies or hire trained personnel. As an independent oil contractor and operator, we are required to conduct our operations in accordance with the Regulation on the Exploitation of Onshore Petroleum Resources in Cooperation with Foreign Enterprises. We may face competition from both existing players and new emerging players for the contractual right to cooperate with CNPC and Sinopec, which are the only entities permitted to cooperate with foreign companies in onshore crude oil and natural gas exploration and production in the PRC, and for the development and production of oil resources in the PRC. Some of our competitors include ROC Oil, Central Asia Oil, Bright Oceans and Ivanhoe Energy. Factors that could affect our competitiveness may include, among others, technical capability, financial resources, experience and track record, and our relationship with CNPC and Sinopec.

Our competitors include market players that may be more experienced and/or may have greater financial and personnel resources available to them. In addition, many large oil companies with dominant positions in the PRC, such as PetroChina, Sinopec, and CNOOC, are themselves able to conduct oil development and production operations. Our ability to successfully enter into new production sharing contracts and sustain our growth therefore will, to a significant extent, depend upon our ability to out-perform other market players in an increasingly competitive market. In addition, the oil and gas industry is characterized by rapid and significant technological advancements. As new technologies develop, we may be placed at a competitive disadvantage, and competitive pressures may force us to implement those new technologies at a substantial cost. We may not be able to respond to these competitive pressures and implement new technologies on a timely basis or at all. If we are unable to utilize the most advanced commercially available technologies, our ability to compete in securing additional production sharing contracts could be adversely affected. Furthermore, if demand for oil in China decreases, we may need to compete with other competitors for reduced amount of oil purchased by PetroChina.

We also intend to acquire oil properties outside of the PRC and may face competitors that are able to pay more for productive oil properties and exploratory prospects. Our ability to acquire additional prospects in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a competitive environment.

***Failure to register the amendment with the local SAFE branch pursuant to the SAFE Notice No. 75 may adversely affect our ability to remit and exchange our PRC income into other foreign currencies.***

According to the Notice of the State Administration of Foreign Exchange on Exchange Control Issues Relating to Financing and Reverse Investment by Person Resident in the People's Republic of China Through Offshore Special Vehicles ("SAFE Notice No. 75"), which was issued by SAFE on October 21, 2005 and effective on November 1, 2005, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required upon the injection of equity interests or assets of an onshore enterprise into the offshore company, if funds are raised overseas by such offshore company, or any other material change involving a change in the capital of the offshore company.

In respect of the establishment of FEEL and MIE, Mr. Zhao, Mr. Zhang and Mr. Shang have completed the relevant registration procedures with the SAFE Jilin Provincial Branch pursuant to SAFE Notice No. 75. However, the SAFE Jilin Provincial Branch has refused their application for amendment of the registration in respect of TPG's investment in MIE and the establishment of the company, as it considered the offshore reorganization of MIE to be outside the scope of SAFE No. 75.

Notwithstanding the foregoing, there can be no assurance that SAFE will share this view or the principals of the SAFE Jilin Provincial Branch will continue to hold this view. If SAFE challenges the decision of the SAFE Jilin Provincial Branch or if the principals of the SAFE Jilin Provincial Branch change their prior decision, the ability to remit and exchange PRC income into other foreign currencies may be adversely and materially affected, including our ability to make interest payments on the Notes.

**Risks Relating to the Acquisition**

***We may not be able to successfully acquire Emir-Oil.***

The closing of the Acquisition is subject to the satisfaction or waiver of a number of conditions, including regulatory approvals, other customary closing conditions and the following:

- approval by the stockholders of BMB;
- consent of the MOG for transfer of the participation interest in Emir-Oil in accordance with the Subsoil Use Law;
- waiver of the Republic of Kazakhstan's priority right to purchase participation interests in Emir-Oil in accordance with the Subsoil Use Law;
- satisfaction of Kazakhstan legal requirements with respect to Emir-Oil's Exploration Contract in Kazakhstan;
- registration of the assignment of the Intercompany Notes with the National Bank of the Republic of Kazakhstan; and
- Emir-Oil's entry into a duly registered production contract for production of petroleum at each of the Kariman, Dolinnoe and Aksaz oilfields.

We cannot assure that all of these conditions to closing will be met. In addition, the purchase agreement may also be terminated by us or BMB in certain events, including when any governmental authority issues an order or takes any other action restraining, enjoining or otherwise prohibiting the consummation of the transactions, or if stockholders approval of our company or of BMB is not obtained, or in the event of a Superior

Proposal. We cannot assure you that the transaction will be completed, or that in a termination event, we will receive sufficient reimbursement from BMB to cover our expenses, or at all. If we do not complete the Acquisition under the circumstances as set out under the section headed "The Acquisition – Obligation to Lend" in this offering memorandum, BMB has the right to require us to purchase up to US$5 million of its Senior Notes.

***We will assume liabilities in connection with the Acquisition of Emir-Oil and we may face significant exposure from unknown liabilities as a result of the indemnification from BMB being limited to US$39 million and twelve months.***

We will assume certain liabilities and obligations in connection with our purchase of Emir-Oil. These assumed liabilities include, subject to certain exceptions, all obligations and liabilities under health, safety and environmental laws caused by, arising from, incurred in connection with or relating in any way to the ownership of Emir-Oil. The representations, warranties and covenants of the parties survive only for a period of twelve months following the closing date, except in cases of fraud or criminal misconduct on the part of BMB in which case survival is without limitation. BMB will indemnify us for losses arising from BMB's breaches of representations and warranties, failure to perform covenants, ongoing litigation matters, compliance with (and validity of) the Exploration Contract, transfer of certain payables, defects in ownership of certain facilities and pipelines, or violations of applicable environmental law. We are also subject to a cap and threshold on our indemnification from BMB. The maximum indemnification obligation of BMB is limited to US$39 million (US$36 million of which will be funded into escrow at the closing), except with respect to losses arising out of fraud or criminal misconduct. Other than with respect to certain specified representations, BMB is not required to indemnify us until our claims exceed US$750,000 in the aggregate, at which point, BMB will be obligated to pay the entire amount of such claims regardless of the threshold up until the cap amount. We cannot assure you that any unknown liabilities will be discovered with the 12-month indemnity period or that the amount of indemnification we receive from BMB will be sufficient to cover the liabilities we assume or other losses incurred in connection with our purchase of Emir-Oil. We may also face significant exposure from unknown liabilities for which we have not obtained indemnification from BMB. If liabilities are discovered after 12-month indemnity period has expired or if losses exceed the limitations, such liabilities or losses may materially and adversely affect our business, financial condition and results of operation.

***Following the Acquisition, we will have operations with which we have limited operational experience.***

We currently do not have any operations in Kazakhstan. We have no prior experience with local Kazakhstan regulatory issues or with selling crude oil outside of the PRC. We will therefore be heavily dependent on the key management personnel of Emir-Oil with respect to their experience in and knowledge of these issues. Our future success will depend heavily upon the continued services of Emir-Oil's management, including its assistance of Emir-Oil with obtaining commercial production rights prior to the expiration of its exploration contract with the relevant authorities. For more details see "– Risks Relating to Emir-Oil's Business – If Emir-Oil is not able to meet minimum work program requirements and continue to engage in exploratory drilling, it may not be able to obtain a commercial production contract by 2013 or extend its current exploration contract, giving rise to substantial doubt that it would be able to continue as a going concern. As a result, we may lose our investment in the Acquisition subject to any amounts we will recover through indemnification provided under the Purchase Agreement." If one or more of Emir-Oil's management or key employees were unable or unwilling to continue in their present positions after the Acquisition, this may impact Emir-Oil's ability to obtain commercial production rights prior to the expiration of the Exploration Contract. Moreover, we may have to incur additional expenses to recruit, train and retain personnel. We may not be able to attract or retain the replacement personnel that we need to achieve our strategic objectives at costs similar to current costs, and our business may be severely disrupted, its financial condition and results of operations may be materially and adversely affected.

***We may not realize the expected benefits of our acquisition of Emir-Oil.***

The successful integration of Emir-Oil's business will require, among other things, the following:

- integration of the two companies' exploration and production, sales and marketing, information and software systems and other operations;

- retention and integration of Emir-Oil's management and other employees;
- development and maintenance of uniform standards, controls, procedures and policies with the group;
- coordination of ongoing and future research and development efforts and marketing activities;
- retention of existing customers of both companies and attraction of additional customers;
- retention of strategic partners of each company and attraction of new strategic partners;
- minimization of disruption of the group's ongoing business and distraction of its management; and
- limitation of expenses related to integration.

The successful integration of Emir-Oil will involve considerable risks and may not be successful. Such risks include:

- the impairment of relationships with employees, customers and business partners;
- our ability to attract and retain key management, sales, marketing and technical personnel;
- a delay in, or cancellation of, purchasing decisions by current and prospective customers and business partners;
- the potential disruption of the combined company's ongoing business and distraction of its management; and
- unanticipated expenses and potential delays related to the integration of Emir-Oil.

Furthermore, the diversion of the attention of management and any difficulties encountered in the process of integrating Emir-Oil could cause the disruption of, or a loss of momentum in, the activities of the combined company's business. The process of integrating Emir-Oil's business could also negatively affect employee morale and our ability to retain some key employees. If the anticipated benefits of the Acquisition are not realized or the combined company is unsuccessful in addressing the risks related to the integration, the combined company's business, financial condition and results of operations may be seriously harmed.

***The unaudited pro forma financial statements included in this offering memorandum are preliminary, make several assumptions that may prove inaccurate and our actual financial position and results of operations may differ materially from the unaudited pro forma financial data included in this offering memorandum.***

The unaudited pro forma financial data in this offering memorandum are presented for illustrative purposes only and are not necessarily indicative of what our actual consolidated financial position or results of operations and cash flows as they would have been had the Acquisition and related financings discussed herein been actually completed on the dates indicated nor are they indicative of our future consolidated financial condition, results of operation and cash flows. The unaudited pro forma financial data in this offering memorandum do not give effect to our or Emir-Oil's results of operations or other transactions or developments since December 31, 2010 or the cost savings and related one-time charges expected to result from the Acquisition. The foregoing matters, any assumptions that were made in order to combine the financial statements of two unrelated companies (such as assuming there would be no cost savings or one-time charges resulting from the Acquisition), and other factors could cause both our pro forma financial position and results of operations, and our actual future financial position and results of operations, to differ materially from those presented in the unaudited pro forma financial data in this offering memorandum. See "Pro Forma Financial Statements" for more information.

**Risks Relating to Emir-Oil's Business**

***If Emir-Oil is not able to meet minimum work program requirements and continue to engage in exploratory drilling, it may not be able to obtain a commercial production contract by 2013 or extend its current exploration contract, giving rise to substantial doubt that it would be able to continue as a going concern. As a result, we may lose our investment in the Acquisition subject to any amounts we will recover through indemnification provided under the Purchase Agreement.***

Under the Exploration Contract, Emir-Oil has a right to produce oil and gas only within the limits of the Exploration Contract and only until it expires in January 2013. The hydrocarbons approved as the commercial discoveries and put on balance with the State Reserves Committee, which account for approximately 76% of Emir-Oil's proved reserves, will be produced after January 2013 only if a production contract is successfully executed with the Republic of Kazakhstan. Under the Exploration Contract and the Subsoil Use Law, Emir-Oil has the exclusive right to negotiate the production contract. Though the procedure for direct negotiations with the Competent Authority for entering into a production contract on the basis of commercial discoveries under the Subsoil Use Law is new and untested, Emir-Oil has learned from preliminary discussions with the MOG that the primary factors it uses in determining whether to grant commercial production rights are whether the contract holder has fulfilled its minimum work program commitments, proof of commercial discovery and submission of an approved development plan by a third-party petroleum institute in Kazakhstan. Under previously established practice, failure to obtain production rights under the production contract may result from a contractor not making a commercial discovery within the contract territory, abandoning the contractual territory or lacking sufficient funds to complete its minimum work program requirement and therefore being unable to meet its obligations to substantiate to the MOG the presence of commercially producible reserves.

In order to enter into the production contract, and therefore transition from the exploration stage to the production stage, Emir-Oil must prove the existence of commercially producible reserves in each field that it intends to transition to production use under the future production contract. To do so, Emir-Oil must drill and test a sufficient number of wells in each field to establish the existence of commercially producible reserves. As of December 31, 2010, Emir-Oil had spent in excess of US$337 million dollars in exploratory drilling and testing to establish the existence of commercially producible reserves in four of the ten identified fields within its contract territory. If it is not acquired by the Purchaser, given Emir-Oil's current financial condition and outlook, it does not anticipate having the funds to engage in exploratory drilling in any of the remaining six fields prior to January 2013. Emir-Oil continues to incur financial losses and suffers from cash shortages that inhibit its effective operation. Emir-Oil requires a significant amount of capital in order to fulfill its minimum work program obligations under the exploration contract and transition from exploration to commercial production, but may be unable to raise additional capital.

It is a condition precedent for closing the Acquisition that Emir-Oil shall obtain commercial production rights for each of the Kariman, Dolinnoe and Aksaz oilfields. If Emir-Oil is not granted commercial production rights under the production contract in the manner provided by the Subsoil Use Law and other applicable Kazakhstan laws, it may lose its right to conduct any subsoil use operations and to produce the reserves upon expiration of the Exploration Contract. If Emir-Oil loses its subsoil use rights and is unable to produce the reserves in the future, it will be unable to realize revenues and earnings and to fund operations and it would most likely be unable to continue as a going concern. As a result, we may lose part or all of our investment in the Acquisition, subject to any amounts we will recover through the indemnification provided under the Purchase Agreement, which is limited to US$39 million, and the indemnity period of 12 months.

***If Emir-Oil is unable to comply with the terms and conditions of the Exploration Contract (and the production contract in the future, if any) and applicable laws, the Exploration Contract (and the production contract in the future, if any) would be subject to amendment, suspension and/or termination by the Kazakhstan government.***

The authorities in Kazakhstan regularly inspect Emir-Oil's compliance with terms and conditions of the Exploration Contract and applicable laws. Fines may be imposed on Emir-Oil and the Kazakhstan government

can suspend or even terminate the Exploration Contract (and the production contract in the future, if any) if Emir-Oil fails to comply with its obligations under the Exploration Contract (and the production contract in the future, as the case may be) or breaches requirements of the applicable laws. In the past, the Competent Authority has claimed that certain contractors breached their obligations under their subsoil use contracts and certain applicable laws and consequently suspended and, in certain instances, terminated their subsoil use contracts. Moreover, according to the Subsoil Use Law, the MOG, on behalf of the Republic of Kazakhstan, has the right to initiate reviews of subsoil use contract terms and to unilaterally terminate subsoil use contracts in respect of deposits of "strategic importance." Although we believe that Emir-Oil is in compliance with its obligations under the Exploration Contract and applicable Kazakhstan law and that the areas under the Exploration Contract are not currently considered strategic deposits, Emir-Oil could potentially face such governmental actions in the future, which actions could result in the termination of its Exploration Contract and loss of its exploration and development licenses, which would have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations.

***Prospective properties that Emir-Oil expects to drill may not yield oil or natural gas in commercially viable quantities or quantities sufficient to meet its targeted rate of return.***

The structures Emir-Oil has located on its territory are typically at a depth of 3,100 to 3,800 meters and some structures may be deeper. The rock is generally carbonates of limestone and dolomite, which can inhibit oil flow and well drainage and thereby results in higher risk drilling, reduced well drainage areas, lower production rates and higher than expected well decline rates. These factors in turn adversely affect the valuation of Emir-Oil's reserve base. If prospective properties that Emir-Oil decides to drill do not yield oil or natural gas in commercially viable quantities or quantities sufficient to meet its targeted rate of return, Emir-Oil's business, prospects, financial condition and results of operations may be materially and adversely affected.

***Because of Emir-Oil's lack of asset and geographic diversification, adverse developments in its operating area would adversely affect its results of operations.***

Substantially all of Emir-Oil's assets are currently located in southwestern Kazakhstan. As a result, its business is disproportionately exposed to adverse developments affecting this region. These potential adverse developments could result from, among other things, changes in governmental regulation, capacity constraints with respect to storage facilities, transportation systems and pipelines, curtailment of production, natural disasters or adverse weather conditions in or affecting these regions. Due to Emir-Oil's lack of diversification in asset type and location, an adverse development in its business or the area in which it operates would have a significantly greater impact on its financial condition and results of operations than if it maintained more diverse assets and operating areas.

***The unavailability or high price of transportation could adversely affect Emir-Oil's ability to deliver its oil on terms that would allow it to operate profitably, or at all.***

Because of the remote location of the oilfields under the Exploration Contract, the crude oil produced by Emir-Oil must be transported by truck or by rail. In the future it will likely also be transported by pipelines. These railways and pipelines are operated by state-owned entities or third-parties, which can charge transportation tariffs and whose availability are, in certain instances, subject to governmental regulation, and there can be no assurance that these transportation systems will always be functioning and available in the capacity required for Emir-Oil, or that the transportation costs will be attractive and advantageous for Emir-Oil. In addition, any increase in the cost of transportation or reduction in its availability to Emir-Oil could have a material adverse effect on its results of operations. There is no assurance that Emir-Oil will be able to procure sufficient transportation capacity on economical terms, if at all, in Kazakhstan.

***Emir-Oil depends on one customer for sales of crude oil. A reduction by this customer in the volumes of oil it purchases could result in a substantial decline in Emir-Oil's revenues and net income.***

During the fiscal year ended March 31, 2010 and the nine months ended December 31, 2010, Emir-Oil sold approximately 95% and 98%, respectively, of its crude oil production to Titan Oil (formerly Euro-Asian Oil

AG). Revenue from oil sold to Titan Oil made up 98% and 97% of its revenue during the same periods. The loss of Titan Oil as a customer would have a material adverse effect on Emir-Oil's operations in the short-term.

***Ongoing litigation in which BMB is the defendant could adversely affect BMB's ownership rights in Emir-Oil and our ability to acquire all of the interests in Emir-Oil from BMB.***

In 2005, a group of plaintiffs brought claims against BMB, among others, in the United States District Court for the Southern District of New York, in relation to BMB's acquisition of a controlling interest in Emir-Oil. A summary judgment was granted by the district court on September 27, 2010 in favor of BMB on each claim save a claim of unfair competition. The unfair competition claim was subsequently abandoned by the plaintiffs, given an earlier September 23, 2010 ruling by the District Court excluding much of the significant evidence of the plaintiffs' damages on the unfair competition claim. On February 9, 2011, the district court entered final judgment in favor of BMB, thereby terminating proceedings before the district court. On February 22, 2011, the plaintiffs filed their appeal of the district court's judgment to the United States Court of Appeals for the Second Circuit. Although we understand from BMB that it will defend vigorously any legal proceedings arising from such appeal by the plaintiffs, we cannot assure you that the Court of Appeals or any other court that hears the case will not rule in favor of the plaintiffs and that such ruling will not have an adverse effect on our ability to acquire all of the interest in Emir-Oil from BMB.

***Emir-Oil is subject to the risks inherent in international operations, including, but not limited to, adverse governmental actions, political risks, and expropriation of assets, loss of revenues and the risk of civil unrest or war.***

Though Emir-Oil has significant experience working in Kazakhstan and believes it has good relationships with government agencies at many levels, it remains subject to all the risks inherent in international operations, including adverse governmental actions, uncertain legal and political systems, and expropriation of assets, loss of revenues and the risk of civil unrest or war. Emir-Oil's primary oil and gas properties are located in Kazakhstan, which until 1990 was part of the Soviet Union. Kazakhstan retains certain legislative acts and customs of the former Soviet Union, but has and is continuing to develop its own legal, regulatory and financial systems. As the political and regulatory environment changes, Emir-Oil may face uncertainty about the interpretation of its agreements and in the event of dispute, Emir-Oil may have limited recourse within the legal and political system.

***Emir-Oil may incur substantial losses and be subject to substantial liability claims as a result of its operations for which it may not have adequate insurance coverage.***

Emir-Oil is not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect its business, financial condition or results of operations. Emir-Oil's oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oilfield drilling and service tools and casing collapse;
- fires and explosions;

- personal injuries and death; and
- natural disasters.

***Emir-Oil may incur substantial liabilities to comply with environmental laws and regulations.***

Emir-Oil's oil and natural gas operations are subject to governmental laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of permits before drilling commences, restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities and impose substantial liabilities for pollution resulting from Emir-Oil's operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of investigatory or remedial obligations or even injunctive relief. For example, Kazakhstan environmental regulations prohibit the flaring of gas from oil operations without first obtaining a permit from the MOG. Failure to comply with this regulation could result in financial penalties and the suspension of exploration and production operations. If the MOG were to inspect Emir-Oil for compliance with this regulation and were to determine that it had instances of flaring of gas in excess of the permitted amount of gas associated with Emir-Oil's oil deposit, including during prior periods within the last three years, it could hold it liable for those violations, which would require it to pay compensatory damages that could result in a material adverse effect on Emir-Oil's business, financial condition and results of operations.

Changes in environmental laws and regulations occur frequently. Any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require Emir-Oil to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on its results of operations, competitive position or financial condition as well as on the industry in general. Under these environmental laws and regulations, Emir-Oil could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether it was responsible for the release or whether its operations were standard in the industry at the time they were performed.

***Failure to comply with requirements of Kazakhstan labor laws could subject Emir-Oil to fines or penalties that could adversely affect its business and operations.***

Kazakhstan regulation requires Emir-Oil to adhere to certain requirements in its agreements with employees and the failure to do so could result in penalties or other negative consequences. Certain of the employment agreements between Emir-Oil and its employees may not be in compliance with Kazakhstan's labor laws, including minimum wage requirements and the requirement to specify salary amounts, work conditions and termination procedures. Emir-Oil has also not documented in writing employment agreements with some of its key managers, which too if not remedied would not be in compliance with Kazakhstan's labor laws. Each infraction may subject Emir-Oil to legally prescribed fines and penalties, which if levied could have a material adverse effect on its business, financial condition and results of operations.

**Risks Related to our Operations In China**

***Political and economic policies of the PRC government affect our business and results of operations.***

At present, the PRC is a developing economy. It differs from developed economies in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;

- the growth rate;
- the level and control of capital investment;
- the control of foreign exchange; and
- the allocation of resources.

While the Chinese economy has grown significantly in the past two decades, the growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Chinese economy will continue to grow or will do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. Due in part to the impact of the global economic and financial crisis and other factors, the growth rate of China's gross domestic product as measured against the same period of the previous year decreased to 7.1% in the first half of 2009, down from 10.4% in the first half of 2008, before rebounding to 11.1% in the first half of 2010 and 9.7% in the first quarter of 2010. It is uncertain whether the various macroeconomic measures, monetary policies and economic stimulus packages adopted by the PRC government will be effective in restoring or sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long term, may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments.

Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth through allocating resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of investments and expenditures in China, which in turn could lead to a reduction in demand for oil and consequently have a material adverse effect on our businesses.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions and credit availability from lending institutions. The PRC government has from time to time articulated the need to control economic growth again and to tighten lending. Stricter lending policies in the PRC may affect our ability to obtain financing, thus reducing our ability to fund our business and implement our expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten lending, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability. Furthermore, we cannot assure you that our historical economic and market conditions will continue, or that we will be able to sustain our growth.

***We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income.***

The New EIT Law, which became effective on January 1, 2008, provides that enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the Implementation Rules of the New EIT Law, issued by the State Council, "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. At present, the PRC tax authorities have not issued any guidance on the application of the New EIT Law and its Implementation Rules on offshore entities which are not controlled by Chinese enterprises or Chinese group enterprises. As a result, it is unclear what factors will be used by the PRC tax authorities to determine whether we have a "de facto management body" in the PRC.

A substantial number of our management personnel are located in the PRC, and all of our revenues arise from our operations in the PRC. However, we do recognize some interest income and other gains from our financing activities outside the PRC. We are currently subject to enterprise income tax on our PRC activities. If the PRC tax authorities determine that we are a PRC resident enterprise, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which may have an adverse impact on our financial condition and results of operations.

***Interest payable by us to our foreign investors and gain on the sale of the Notes may become subject to taxes under PRC tax laws.***

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to interest payable by resident enterprises to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest has its source within the PRC. Similarly, any gain realized on the transfer of the notes issued by resident enterprises to such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Therefore, if we are considered a PRC "resident enterprise," and interest we pay with respect to the Notes and gain realized from the transfer of the Notes are considered income derived from sources within the PRC, such income may be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on interest payable to our non-PRC investors that are "non-resident enterprises," we will be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if such non-PRC investors are required to pay PRC income tax on any gain realized on the transfer of the Notes, the value of an investment in the Notes may be materially and adversely affected.

***Uncertainties with respect to the PRC legal system could limit the protections available to you and us.***

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract.

Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of PRC administrative and court proceedings and the level of legal protection we enjoy in China as compared to more developed legal systems. These uncertainties may impede our ability to enforce our contracts with PetroChina, future partners, our service providers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business and operations. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the oil and gas industry in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and the holders of the Notes. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

***Future fluctuations in foreign exchange rates and government control in currency conversion may adversely affect our financial condition and results of operations, and our ability to remit dividends.***

A substantial portion of our revenue and most of our expenditures are denominated in Renminbi, which is currently not a freely convertible currency. We will require foreign currencies for dividend payment, if any, to our shareholders. We will therefore be exposed to foreign currency fluctuations.

The value of the RMB depends, to a large extent, on China's domestic and international economic, financial and political developments and government policies, as well as the currency's supply and demand in the local and international markets. For over 10 years from 1994, the conversion of RMB into foreign currencies, including the U.S. dollar, was based on exchange rates set and published daily by People's Bank of China in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the U.S. dollar was largely stable until July 2005 when the People's Bank of China allowed the official RMB exchange rate to float against a basket of foreign currencies, including the U.S. dollar. In July 2008, the China central bank established a narrow band within which the RMB could fluctuate against these currencies, the practical effect of which has been to re-peg the RMB to the U.S. dollar. This change in policy caused the Renminbi to appreciate more than 20% against the U.S. dollar over the following five years. As a consequence, the Renminbi has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. In June 20, 2010, the People's Bank of China announced that the PRC government would further reform the RMB exchange rate regime and increase the flexibility of the exchange rate. Since then, the average exchange rate between the RMB and the U.S. dollar has further increased, but it is difficult to predict how this new policy may impact the RMB exchange rate in the future. Fluctuation of the value of RMB will affect the amount of our non-RMB debt service in RMB terms since we have to convert RMB into non-RMB currencies to service our foreign debt. Any appreciation of the RMB will also increase the value of, and any dividends payable on, our shares in foreign currency terms. Conversely, any depreciation of the RMB will decrease the value of, and any dividends payable on, our shares in foreign currency terms.

***Certain facts and statistics in this offering memorandum relating to the PRC economy and the oil industry in the PRC are derived from various governmental official publications and may not be fully reliable.***

Certain facts and statistics in this offering memorandum relating to the PRC, the PRC economy, the oil industry and other related sectors of the PRC are derived from various governmental official publications. However, we cannot guarantee the quality or reliability of such governmental official publications. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced and extracted from such governmental official publications, they have not been independently verified by us, the Initial Purchasers, or any of their or our affiliates or advisors. Neither we nor the Initial Purchasers therefore make any representation as to the accuracy of such facts and statistics from governmental official publications, which may not be consistent with other information compiled within or outside the PRC.

Possibly due to inadequate or ineffective collection methods or discrepancies between governmental official publications and market practice and other problems, the official statistics in this offering memorandum relating to the PRC economy and the oil industry and other related sectors in the PRC may be inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official facts or official statistics.

***Labor laws in the PRC may adversely affect our results of operations.***

On June 29, 2007, the PRC government promulgated the Labor Contract Law of the PRC, which became effective on January 1, 2008. The Labor Contract Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. Even though we hire our PRC employees through Jilin Foreign Enterprise Services Co., Ltd. in accordance with PRC laws and regulations, we are still affected by the changes in labor law. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

***Any future outbreak of H1N1 influenza, avian influenza or severe acute respiratory syndrome in China, or similar adverse public health developments, may severely disrupt our business and operations.***

In 2009, occurrences of H1N1 influenza were reported throughout China. Since 2005, there have been reports on the occurrences of avian influenza in various parts of China, including a number of confirmed human cases that resulted in fatalities. In addition, from December 2002 to June 2003, China and other countries experienced an outbreak of a highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. During May and June of 2003, many businesses in China were temporarily closed by the PRC government to prevent transmission of SARS. Any prolonged recurrence of H1N1, avian influenza, SARS or other adverse public health developments in China could require the temporary closure of our development and production facilities. Such closures could severely disrupt our business operations and materially and adversely affect our results of operations.

**Risks Relating to Emir-Oil's Operations in Kazakhstan**

***The Kazakhstan economy is highly dependent on oil exports. Accordingly, the Kazakhstan economy and Emir-Oil may be affected by oil price volatility.***

Countries in the Central Asian region, including Kazakhstan, whose economies and state budgets rely on the export of oil and oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. Kazakhstan's dependence on oil and oil products also has an indirect impact on its currency, the Tenge, which is indirectly correlated to the price of oil. In addition, any fluctuations in the value of the U.S. dollar relative to other currencies may cause volatility on earnings from U.S. dollar denominated oil exports. An oversupply of oil or other commodities in overseas or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which would, in turn, have an adverse effect on the business, financial condition and results of operations of Emir-Oil.

The oil and gas sector in Kazakhstan has recently experienced significant volatility. As oil and gas production and exports, to a large degree, form the foundation of the country's economy, the Kazakhstan economy is particularly sensitive to fluctuations in the price of oil and gas on the overseas. A decline in the price of oil and/or gas could therefore have a significant negative effect on the Kazakhstan economy. In turn, this could have a direct negative effect on Emir-Oil, whose primary source of revenue is crude oil sales.

In addition, terrorist activity and unrest in the Middle East and around the world have also had a significant effect on international finance and commodity markets. Any future national or international acts of terrorism or armed conflicts could have an adverse effect on the financial and commodities markets in Kazakhstan and the global economy. As Kazakhstan produces and exports large volumes of crude oil and gas, any acts of terrorism or unrest causing disruptions of Kazakhstan oil and gas exports could negatively affect the Kazakhstan economy and thereby materially adversely affect Emir-Oil's business, financial condition, results of operations or prospects.

***All Emir-Oil's assets are located in Kazakhstan and Emir-Oil is therefore susceptible to country-specific risk factors, such as political, social and economic instability.***

Emir-Oil is subject to Kazakhstan-specific risks, including, but not limited to, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes with respect to taxes, withholding taxes on distributions to foreign investors, changes in anti-monopoly legislation, nationalization or expropriation of property, and interruption or blockage of hydrocarbons or other strategic materials exports. The occurrence of any of these factors could have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations. Kazakhstan's president, Nursultan Nazarbayev, has been in office since Kazakhstan became an independent sovereign state in

1991, and President Nazarbayev was re-elected on April 3, 2011 for another five-year term. Since 1991, Kazakhstan has pursued a program of political and economic structural reform designed to establish a free market economy through the privatization of state enterprises and deregulation of the economy. In addition, under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including privatization of state assets, liberalization of capital controls, tax reforms and pension system development. As with any economy in transition, such reforms may not continue and may not achieve their intended aims. Since the dissolution of the Soviet Union, a number of former Soviet Republics have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence. Commentators on Kazakhstan suggest that there is political in-fighting among the potential successors to President Nazarbayev, and there are concerns about possible dynastic succession. As there is currently no clear successor, the issue is a potential cause for instability in Kazakhstan. Further, if a president is elected with a different political outlook, the business regime in Kazakhstan could change. Changes to Kazakhstan's property, tax or regulatory regimes or other changes could have a material adverse effect on Emir-Oil's business and results of operations. Furthermore, future political instability, civil unrest or violence in the region could affect the political or economic stability of Kazakhstan or the countries to which or through which Emir-Oil exports its products, and could have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations.

Since the advent of the global economic crisis in 2007, Kazakhstan's economy has been, and may continue to be, adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside Kazakhstan or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, during such times, emerging market companies can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, even if Kazakhstan's economy remains relatively stable, financial turmoil in any emerging market country, in particular countries in the Caspian Sea or Central Asian regions, which recently have experienced significant political instability (including terrorism), could seriously disrupt Emir-Oil's business, which would have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations.

Kazakhstan depends on neighboring states to access foreign markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminum, coal, lead, zinc and wheat. For example, the rail cars used to export Emir-Oil's crude oil must use the Russian railway system. Kazakhstan therefore depends on good relations with its neighbors to ensure its access to export markets. Should access to these export routes be materially impaired, this could adversely impact Kazakhstan's economy. Adverse economic factors in the regional markets may also adversely impact Kazakhstan's economy.

***Emir-Oil is exposed to the risk of adverse sovereign action by the Kazakhstan government.***

The oil and gas industry is central to Kazakhstan's economy and its future prospects for development, and thus can be expected to be the focus of continuing attention and debate. Under similar circumstances in other developing countries, petroleum companies have faced the risks of expropriation or renationalization, breach or abrogation of project agreements, application to such companies of laws and regulations from which they were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls, and other risks. Although we believe that Emir-Oil is in compliance with its obligations under the Exploration Contract and applicable Kazakhstan law, there are political and sovereign risks related to Emir-Oil's operations. Under the terms of the Subsoil Use Law, the failure by Emir-Oil to remedy more than two breaches of its obligations under a subsoil use contract or project documents within a period of time established in the notice of such breach from relevant Kazakhstan government authorities may result in a termination of the subsoil use contract.

The Tax Code, which disregards the stability of the tax regime under subsoil use contracts, except for production sharing agreements, came into force on January 1, 2009. Through amendments to the Tax Code, Kazakhstan may influence operations of subsoil users.

Moreover, the Subsoil Use Law remains new and untested. Any complaints by the Kazakhstan government or the invocation or application by the Kazakhstan government of the Subsoil Law in relation to the oilfields operated by Emir-Oil may have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations.

***The laws and regulations of Kazakhstan are still developing and uncertain. Any changes in laws, regulations and permit requirements to which Emir-Oil is subject could effect the cost, manner or feasibility of doing business and require it to make substantial expenditures or subject Emir-Oil to material liabilities or other sanctions.***

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use, licensing, companies, customs, currency, capital markets, pensions, insurance, banking, taxation and competition are still developing and are uncertain. Many such laws provide regulators and officials with substantial discretion in their application, interpretation and enforcement. Furthermore, the judicial system may not be fully independent of social, economic and political forces. Court decisions can be difficult to predict and enforce, and Emir-Oil's best efforts to comply with applicable law may not always result in compliance as determined by regulators and/or the courts. Furthermore, because the recently introduced Subsoil Use Law does not define the course of action available to the Kazakhstan government by reference to the gravity of a breach, a minor breach could conceivably lead to severe consequences, such as suspensions or termination of the subsoil user rights. Because the Subsoil Use Law is new, there are no precedents that would make the consequences of a breach more predictable. Emir-Oil is required to obtain, on an ongoing basis, all permits as are required by the laws of Kazakhstan. Failure to obtain all such permits could have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations.

Exploration, development, production and sale of oil and natural gas are subject to extensive governmental regulation in Kazakhstan. Emir-Oil may be required to make large expenditures to comply with these regulations. Matters subject to regulation include:

- discharge permits for drilling operations;
- reports concerning operations;
- compliance with local content requirements concerning staffing and the purchase of goods and services;
- the spacing of wells;
- unitization and pooling of properties; and
- taxation.

Under these laws, Emir-Oil could be liable for personal injuries, property damage and other damages. Failure to comply with these laws may also result in the suspension or termination of Emir-Oil's licenses or operations and could subject it to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase Emir-Oil's costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially and adversely affect Emir-Oil's financial condition and results of operations. We believe there are political and legal risks involved in doing business in Kazakhstan, as it has existed for less than two decades as a country and is still in the process of developing the stable and predictable laws required to underpin a free market economy and foster private enterprise.

Given Kazakhstan's legislative, judicial and administrative history, it is not possible to predict the effect of current and future legislation on Emir-Oil's business. Moreover, the Subsoil Law came into force and effect on July 7, 2010 and the application of this law is untested. The ongoing rights of Emir-Oil under the Exploration Contract, the license to operate and other licenses, approvals and permits (if applicable) and other agreements may be susceptible to revision or cancellation, and legal redress in relation to such revocation or cancellation may be uncertain. Any changes to the rights of Emir-Oil under the Exploration Contract, the license to operate and other licenses (and any other relevant legislative changes) could have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations.

***There are Kazakhstan tax risks associated with the Notes.***

In general, Kazakhstan tax legislation with respect to the taxation of securities and financial instruments is not well developed, and in many cases the exact scope of Kazakhstan tax, compliance rules and enforcement mechanism is unclear or open to different interpretations. As of January 1, 2009, the new Tax Code came into force in Kazakhstan and investors in the Notes should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of the Notes, including their eligibility for the benefits of double tax treaties, under the laws of their country of citizenship, residence, domicile or incorporation, and seek specialist Kazakhstan tax advice as necessary.

***We cannot ensure the accuracy of official statistics and other data in this offering memorandum relating to Kazakhstan.***

Certain facts and statistics in this offering memorandum relating to the Kazakhstan economy and the oil industry in Kazakhstan are derived from various governmental offical publications. Official statistics and other data published by Kazakhstan state authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. We have not independently verified such official statistics and other data and any discussion of matters relating to Kazakhstan in this offering memorandum is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, potential investors should be aware that certain statistical information and other data contained in this offering memorandum has been extracted from official governmental sources in Kazakhstan and was not prepared in connection with the preparation of this offering memorandum.

In addition, certain information contained in this offering memorandum is based on the knowledge and research of management using information obtained from non-official sources. This information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this offering memorandum.

**Risks Relating to the Notes and the Subsidiary Guarantees**

***We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.***

We are primarily a holding company that operates through our subsidiaries. On the date of the issuance of the Notes, all of our subsidiaries will be Subsidiary Guarantors. However, in the future, we may have subsidiaries that are Non-Guarantor Subsidiaries. None of our Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. Moreover, no future subsidiaries that may be organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. As a result, (i) our obligations under the Notes and the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be effectively subordinated to all existing and future obligations of future PRC subsidiaries and the Other Non-Guarantor Subsidiaries, and (ii) all claims of creditors of future PRC subsidiaries and the Other Non-Guarantor Subsidiaries, such as trade creditors and lenders, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over our claims or the claims

of the Subsidiary Guarantors and those of our creditors or the creditors of the Subsidiary Guarantors, including the Noteholders. We and our subsidiaries may incur significant additional secured or unsecured indebtedness in the future subject to the terms of the Notes.

We cannot assure you that the Subsidiary Guarantors and any subsidiaries that may become Subsidiary Guarantors in the future would have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

***Your right to receive payment on the Senior Subordinated Subsidiary Guarantees is subordinated to any future Designated Senior Indebtedness.***

The Subsidiary Guarantors have the ability to incur additional indebtedness of up to the greater of (i) US$250.0 million and (ii) 30% of Consolidated Tangible Assets as Permitted Indebtedness under future Credit Facilities. If MIE or certain other Subsidiary Guarantors incur indebtedness under a Credit Facility, the guarantee provided by the Subsidiary Guarantor will become a senior subordinated guarantee. See "Description of Notes." Thus, payment of all obligations by such Subsidiary Guarantor on or relating to the Notes, including its Subsidiary Guarantee, will be subordinated in right of payment to the prior payment in full in cash or cash equivalents of all obligations due in respect of such Credit Facilities and the holders of such Credit Facilities will be entitled to receive payment in full in cash or cash equivalents of all obligations due in respect of such indebtedness before the holders of the Notes will be entitled to receive any payment or distribution of any kind or character with respect to the Notes, including the subsidiary guarantee, in the event of any distribution to creditors of the Subsidiary Guarantor. In addition, as a result of the subordination provisions described above in the event of a bankruptcy, liquidation or reorganization of such Subsidiary Guarantor, holders of the Notes may recover less ratably than creditors who are holders of Credit Facilities Indebtedness.

***We may not be able to generate sufficient cash flows to meet our debt service obligations.***

Our ability to make scheduled payments on, or to refinance our obligations with respect to, our indebtedness, will depend on our financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond our control. We may not generate sufficient cash flow from operations and future sources of capital may not be available to us in an amount sufficient to enable us to service our indebtedness, including the Notes, or to fund our other liquidity needs. If we are unable to generate sufficient cash flow and capital resources to satisfy our debt obligations or other liquidity needs, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." There is no assurance that any refinancing would be possible, that any assets could be sold or, if sold, of the timing of the sales and the amount of proceeds that may be realized from those sales, or that additional financing could be obtained on acceptable terms, or at all.

In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Future credit facilities could and the Indenture that will govern the Notes will restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms and in a timely manner, would materially and adversely affect our financial condition, results of operations and our ability to satisfy our obligations under the Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Indebtedness" and "Description of the Notes."

***The terms of the Notes and the Subsidiary Guarantees will contain covenants limiting our financial and operating flexibility.***

Covenants contained in the documentation relating to the Notes and the Subsidiary Guarantees will restrict our ability and any Restricted Subsidiary to, among other things:

- incur or guarantee additional indebtedness and issue certain redeemable or preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, on its capital stock;
- prepay or redeem subordinated debt or equity;
- make certain investments or other specified restricted payments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to any of the Restricted Subsidiaries;
- issue or sell capital stock of Restricted Subsidiaries;
- sell, lease or transfer certain assets;
- enter into sale and leaseback transactions;
- engage in certain transactions with affiliates;
- enter into unrelated businesses or engage in prohibited activities; and
- consolidate or merge with other entities.

All of these covenants are subject to the limitations, exceptions and qualifications described in "Description of the Notes – Certain Covenants." These covenants could limit our ability to pursue our growth plan, restrict our flexibility in planning for, or reacting to, changes in our business and industry, and increase our vulnerability to general adverse economic and industry conditions. We may also enter into additional financing arrangements in the future, which could further restrict our flexibility. Any breach of covenants contained in the Notes may lead to an event of default under the Notes and the Indenture and may lead to cross-defaults under our other indebtedness. We cannot assure you that we will be able to pay any amounts due to Noteholders in the event of such default, and any default may significantly impair our ability to pay, when due, the interest of, and principal on, the Notes and the Subsidiary Guarantors' ability to satisfy their obligations under the Subsidiary Guarantees.

***Subsidiary Guarantees may be released in event of an IPO of the Subsidiary Guarantor.***

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances. For example, upon an initial public offering of MIE New Ventures, the Subsidiary Guarantee provided by MIE New Ventures will be released provided such initial public offering and such sale of shares complies with the limitations set forth in the Indenture. Where a Subsidiary Guarantee is released in such instance, in the event of a bankruptcy, liquidation or reorganization of any such Subsidiary, holders of its indebtedness and its trade creditors will generally be entitled to payment of their claims from the assets of that Subsidiary before any assets are available for distribution to us or any of our other Subsidiary Guarantors. The Notes, therefore, will be structurally subordinated to other liabilities of such subsidiary, including liabilities owed to trade creditors.

***Enforcing your rights under the Notes or the Subsidiary Guarantees across multiple jurisdictions may prove difficult.***

The Notes will be issued by us and guaranteed by the Subsidiary Guarantors. We and our Subsidiary Guarantors are incorporated in the Cayman Islands and the Netherlands, and upon the consummation of the Acquisition, Kazakhstan. The Notes, the Subsidiary Guarantees and the Indenture will be governed by the laws of the State of New York. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in the Cayman Islands or the Netherlands, or after the consummation of the Acquisition, Kazakhstan. Such multi-jurisdictional proceedings are complex, may be costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the Subsidiary Guarantees will be subject to the insolvency and administrative laws of such jurisdiction and there can be no assurance that you will be able to effectively enforce your rights in such complex multiple bankruptcy, insolvency or similar proceedings. In addition, the bankruptcy, insolvency, administrative and other laws of the Cayman Islands, the Netherlands and Kazakhstan may be materially different from, or be in conflict with, each other and those with which you may be familiar, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding.

***If we or the Restricted Subsidiaries are unable to comply with the restrictions and covenants in future debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause payment of our debt to be accelerated.***

A portion of the proceeds of the Notes will be used to repay the CITIC Bank Facility in full on the Original Issue Date. However, the Indenture permits us to enter into future Credit Facilities. If we or the Restricted Subsidiaries are unable to comply with the restrictions and covenants in the Indenture, or future debt and other agreements entered into by us or the Restricted Subsidiaries, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us or the Restricted Subsidiaries, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some debt agreements entered into by us or the Restricted Subsidiaries, including the Indenture, could contain cross-acceleration or cross-default provisions. As a result, default by us or a Restricted Subsidiary under one debt agreement may cause the acceleration of debt, including the Notes, or result in a default under other debt agreements entered into by us or the Restricted Subsidiaries, including the Indenture. If any of these events occurs, we cannot assure you that our cash flow would be sufficient to repay in full all such indebtedness, or that we or Restricted Subsidiaries 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.

***We may not be able to repurchase the Notes upon a Change of Control.***

We must offer to purchase the Notes upon the occurrence of a Change of Control, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have sufficient available funds at the time of the occurrence of any Change of Control to make purchases of outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an Event of Default under the Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of Change of Control for purposes of the Indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control for purposes of the Indenture also includes a phrase relating to the sale of "all or substantially

all" of our assets. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly leveraged transaction or a sale of less than all of our assets may be uncertain.

***We cannot assure you that an active trading market will develop for the Notes in which case your ability to sell the Notes will be limited.***

The Notes will be new securities for which there is no existing market. We cannot assure you as to:

- the liquidity of any market that may develop for the Notes;
- your ability to sell the Notes; or
- the prices at which you would be able to sell the Notes.

Future trading prices of the Notes will depend on many factors, including, among other factors, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. The Initial Purchasers of the Notes have advised us that they currently intends to make a market in the Notes. However, the Initial Purchasers are not obliged to do so, and they may discontinue any market making activities at any time without notice. As a result, there is no assurance that an active trading market will develop for the Notes and if no active trading market develops, you may not be able to resell the Notes at a fair value, or at all.

Although approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST, there can be no assurance that such listing will be obtained for the Notes, or if obtained, that the Notes will remain listed, or that if listed, a liquid market will develop. If we can no longer maintain the listing on the SGX-ST or if it becomes unduly burdensome to make or maintain such listing, we may cease to make or maintain such listing on the SGX-ST, and although we will use reasonable best efforts to obtain and maintain the listing of the Notes on another stock exchange in accordance with the Indenture, we cannot assure you that we will be able to do so. Although no assurance can be made as to the liquidity of the Notes as a result of listing on the SGX-ST or another recognized listing in accordance with the Indenture, failure to be approved for listing or the delisting of the Notes from the SGX-ST or another listing exchange in accordance with the Indenture may have a material adverse effect on an investor's ability to resell the Notes in the secondary market.

***The liquidity and price of the Notes following the offering of the Notes may be volatile.***

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. We cannot assure you that these developments will not occur in the future.

***The ratings assigned to the Notes may be lowered or withdrawn in the future.***

The Notes have been assigned a rating of "B+" by Standard & Poor's and "B" by Fitch. The ratings reflect the opinions of the rating agencies regarding our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A

rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment, circumstances in the future so warrant. We have no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

***We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST which may be different from the standards applicable to companies in certain other countries.***

If the Notes are accepted for listing on the SGX-ST, we will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed.

***You may experience difficulties in effecting service of legal process, recovering in civil proceedings for United States securities laws violations, enforcing foreign judgments or bringing original actions in the Cayman Islands, the PRC, the Netherlands, Kazakhstan or any of the jurisdictions in which our subsidiaries are incorporated or operate based on United States or other foreign laws against us or our management.***

We are an exempted company with limited liability incorporated under Cayman Islands law and substantially all of our assets are located outside the United States. In addition, a majority of our directors and executive officers reside outside the United States, and a substantial portion of their assets are located outside of the United States. We conduct a substantial majority all of our operations in the PRC and significantly all of our or our subsidiaries' assets are located in the PRC or outside of the United States. In addition, all of our directors and executive officers reside within the PRC or Hong Kong. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC or Hong Kong upon us or any of our subsidiaries or any of our directors and senior executive officers, including with respect to matters arising under United States federal securities laws or applicable state securities laws.

We have been advised by our special Cayman Islands legal counsel that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in any U.S. federal or New York state court located in the borough of Manhattan, City of New York against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

There is uncertainty as to whether the courts of the Cayman Islands would (i) enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States; or (ii) entertain original actions brought in the courts of the Cayman Islands against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States.

The PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. In addition, there is doubt as to (i) whether a judgment of a United States court based solely upon the civil liability provisions of the United States federal or

state securities laws would be enforceable in the Cayman Islands, Hong Kong or the PRC against us or any of our subsidiaries or any of our directors and officers; and (ii) whether an original action could be brought in the Cayman Islands, Hong Kong or the PRC against us or any of our subsidiaries or any of our directors and officers to enforce liabilities based solely upon the United States federal or state securities laws.

A judgment rendered by United States courts will not be recognized by a Dutch court and cannot be directly enforced in the Netherlands. However, if a person has obtained a final and conclusive judgment for the payment of money rendered by a United States court which is enforceable in the United States and files a claim with the competent Dutch court, the Dutch court will generally give binding effect to the foreign judgment, provided that it has been rendered on grounds which are internationally acceptable and that proper legal procedures have been observed, unless such foreign judgment contravenes Dutch public policy. Enforcement and recognition of judgments of United States courts in the Netherlands are solely governed by the Dutch rules of civil procedure.

In Kazakhstan, foreign court judgments may be recognised and enforced only if provided for by law or an international treaty. Kazakhstan is not a party to any multilateral or bilateral treaties with the United States for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in the United States, it is unlikely to be enforceable in Kazakhstan courts. There is uncertainty as to whether the courts of Kazakhstan would (i) enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States; or (ii) entertain original actions brought in the courts of Kazakhstan against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States. Also, pursuant to Article 417 of the Civil Procedure Code of the Republic of Kazakhstan dated July 13, 1999, the submission of a dispute to arbitration or to the jurisdiction of courts outside Kazakhstan may not include any subject matter identified by Kazakhstan laws as falling within the exclusive competence of the courts of Kazakhstan. To our knowledge, there is no comprehensive list of such subject matters, and we are not aware (without having made any specific inquiry) of any Kazakhstan Laws that identify any subject matter relevant to the Purchase Agreement.

As a result, it may not be possible for you to effect service of process within the United States upon us or our subsidiaries or our respective directors and executive officers, or to enforce any judgments obtained in United States courts predicated upon civil liability provisions of the U.S. securities laws. In addition, we cannot assure you that civil liabilities predicated upon the federal or state securities laws of the United States will be enforceable in such jurisdictions. See "Enforceability of Civil Liabilities."

***The Subsidiary Guarantees may be challenged under applicable financial assistance, insolvency, corporate benefit or fraudulent transfer or unfair preference laws, which could impair the enforceability of the Subsidiary Guarantees.***

Under bankruptcy laws, insolvency laws, fraudulent transfer laws, corporate benefit, financial assistance, insolvency or unfair preference or similar laws in the Cayman Islands, the Netherlands and Kazakhstan or other jurisdictions where future Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that Subsidiary Guarantor if, among other things, the Subsidiary Guarantor, at the time it incurred the indebtedness evidenced by, or when it gives its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the Subsidiary Guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the Subsidiary Guarantee not been given;

- received less than the reasonably equivalent value or fair consideration for the incurrence of such Subsidiary Guarantee or there was otherwise an absence of or insufficient corporate benefit under applicable laws;

- was insolvent or rendered insolvent by reason of such incurrence;

- was engaged in a business or transaction for which the Subsidiary Guarantor's remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction which is being applied. Generally, however, the Subsidiary Guarantor would be considered insolvent at a particular time if it is unable to pay its debts as they fall due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debt as they became absolute and matured. Under the laws of the Cayman Islands, it would also be necessary for the directors of the Subsidiary Guarantors to ensure that the Subsidiary Guarantor is solvent immediately after entry into, and performance of any obligation under, the transaction, and that:

- it will be able to satisfy its liabilities as they become due in the ordinary course of its business; and

- the realizable value of the assets of the Subsidiary Guarantor will not be less than the sum of its total liabilities other than deferred taxes, as shown in the books of account, and its capital.

The directors of the Subsidiary Guarantors should also ensure that the issued capital of the Subsidiary Guarantor is maintained and that, after this transaction, the Subsidiary Guarantor would have sufficient net assets to cover the nominal value of its issued share capital.

In addition, a Subsidiary Guarantee may be subject to review under applicable financial assistance, insolvency, corporate benefit or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the Subsidiary Guarantors. In such case, the analysis set forth above would generally apply, except that the Subsidiary Guarantee could also be subject to the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency, corporate benefit or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of a Subsidiary Guarantor, or held the Subsidiary Guarantee unenforceable for any other reason, Noteholders would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) and any preferred stock of such Subsidiary Guarantor and would solely be creditors of us and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. We cannot assure you that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the Noteholders.

***The realizable value of the collateral securing the Notes may not be sufficient to satisfy our obligations under the Notes and such collateral may be reduced or diluted under certain circumstances.***

As a matter of applicable law, the security over the collateral granted to the holders of the Notes will be first ranking. In the event of foreclosure on the collateral securing indebtedness under the Notes, the proceeds from the sale of the shares of the Subsidiary Guarantors or the other collateral may not be sufficient to satisfy our obligations under the Notes. The value of the collateral and the amount to be received upon a sale of such shares will depend upon many factors, including, among others, the ability to sell the shares of the Subsidiary Guarantors in an ordinary sale and the availability of buyers. In addition, the shares of the Subsidiary Guarantors may be illiquid and may have no readily ascertainable market value. The value of the other collateral will depend on the solvency of the debtors, the value of such accounts and the applicable laws governing the enforcement of collateral in the relevant jurisdictions. For the avoidance of doubt, the Collateral Agent shall not be responsible for the value of the collateral.

The Indenture will permit the granting of certain liens other than those in favor of the holders of the Notes on the collateral securing the Notes. To the extent that holders of other secured indebtedness or third parties enjoy liens, including statutory liens, whether or not permitted by the Indenture or the collateral, such holders or third parties may have rights and remedies with respect to the collateral that, if exercised, could reduce the proceeds available to satisfy our obligations under the Notes. Moreover, if we issue additional Notes under the Indenture or other indebtedness which is permitted under the Indenture to share the collateral, holders of such additional Notes or indebtedness would benefit from the same collateral as the holders of the Notes being offered hereby, thereby diluting your ability to benefit from the liens on the shares of the Subsidiary Guarantors or the other collateral. The intercreditor agreement that we, the Subsidiary Guarantors and certain future creditors will enter into will provide that certain of our future creditors can effectively receive the benefit, on a *pari passu* basis to the holders of the Notes, of the security granted to the holders of the Notes.

***United States securities laws restrict the circumstances under which you can transfer the Notes.***

We are offering the Notes in reliance upon exemptions from registration under the Securities Act and applicable state securities laws. Therefore, the Notes may be transferred or resold only in transactions registered under, exempt from, or not subject to the registration requirements of the Securities Act and all applicable state securities laws. You should read the discussions under "Plan of Distribution" and "Notice to Investors" for further information about these and other transfer restrictions. It is your obligation to ensure that your offers and sales of Notes comply with applicable law.

***The Notes will initially be held in book entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.***

The Notes will initially only be issued in global certificated form and held through DTC and its participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("Clearstream"). Interests in the global notes will trade in book entry form only, and Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or registered holders of Notes. The custodian for DTC will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the paying agent which will make payments to DTC. Thereafter, these payments will be credited to accounts of participants (including Euroclear and Clearstream) that hold book entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the custodian for DTC, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book entry interest, you must rely on the procedures of DTC, Euroclear and Clearstream, and if you are not a participant in DTC, Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the registered holders of the Notes themselves, owners of book entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from registered holders of the Notes. Instead, if you own a book entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC, Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book entry interests, if you own a book entry interest, you will be restricted to acting through DTC, Euroclear and Clearstream. The procedures to be implemented through DTC, Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

## THE ACQUISITION

### Purchase Agreement

On February 14, 2011, we entered into a Participation Interest Purchase Agreement (the "Purchase Agreement") with BMB, pursuant to which we agreed to purchase all of BMB's interest in its wholly-owned operating subsidiary, Emir-Oil. The initial purchase price is US$170 million and is subject to various closing adjustments and the deposit of US$36 million in escrow to be held for a period of twelve months following the closing for indemnification purposes. In connection with the purchase, all intercompany loans of Emir-Oil in favor of BMB will be assigned to us.

*Consideration.* The purchase price under the Purchase Agreement is US$170 million, of that amount, US$36 million will be subject to a twelve-month escrow agreement for indemnification purposes. At, and 90 days after, the closing date, the purchase price will be adjusted to reconcile specified changes to Emir-Oil's balance sheet occurring between December 31, 2010 and the closing date. Such adjustments will decrease the purchase price by the sum of (without duplication) the following amounts to the extent that they have increased from December 31, 2010 balance sheet through the closing date: (a) any cash payments made by Emir-Oil to BMB or its affiliates; (b) any liabilities incurred by Emir-Oil outside of the ordinary course of business; (c) any indebtedness of Emir-Oil; (d) any off-balance liabilities incurred by Emir-Oil; and (e) any expenses of Emir-Oil incurred in connection with the Purchase Agreement.

*Representations, Warranties and Covenants.* We and BMB have made representations and warranties in the Purchase Agreement customary for a transaction of this nature. BMB has also agreed to various covenants in the Purchase Agreement, including, among other things, to conduct its business between signing and closing in the ordinary course.

*Conditions to Closing.* The transaction closing is subject to the satisfaction or waiver of a number of conditions, including regulatory approvals, other customary closing conditions and the following:

- approval by the stockholders of BMB;
- approval of the holders of Senior Notes of BMB;
- consent of the MOG;
- consent of the Kazakhstan anti-monopoly authority;
- waiver of Kazakhstan's priority right to purchase interests in the assets in accordance with the Subsoil Use Law;
- satisfaction of Kazakhstan legal requirements with respect to Emir-Oil's Exploration Contract in Kazakhstan;
- registration of the assignment of the Intercompany Notes with the National Bank of the Republic of Kazakhstan;
- Emir-Oil's entry into a duly registered production contract for production of petroleum at each of the Kariman, Dolinnoe and Aksaz oilfields; and
- our receipt of a valid work permit from the Kazakhstan Ministry of Labor and Social Protection for the appointment of a new general manager of Emir-Oil.

*Acquisition Proposals.* BMB has agreed to not solicit or facilitate prior to closing any bona fide offer or proposal of a transaction that if effected, would result in the transfer or disposal of (a) 15% or more of the voting power of BMB or Emir-Oil or (b) the assets of or interests in BMB or Emir-Oil representing 15% or more of the net revenues, net income or assets of BMB or Emir-Oil, as applicable (an "Acquisition Proposal"). BMB may, however, terminate the Purchase Agreement (subject to the termination conditions discussed below) and proceed with an alternative, unsolicited Acquisition Proposal if BMB's board determines in good faith, after consultation with its advisers, that the Acquisition Proposal would reasonably likely lead to a Superior Proposal and that the failure to take action with respect to such proposal would reasonably be expected to constitute a breach of the board's fiduciary duties.

*Termination.* The Purchase Agreement may be terminated:

- by mutual written consent of the parties;
- by either us or BMB, if the closing has not occurred on or before August 15, 2011, or in the event that only certain regulatory requirements remain outstanding and extended by either party, on or before the End Date;
- by us if BMB relinquishes any portion of the areas or blocks subject to an exploration contract it has entered into, breaches its representations or warranties or fails to perform covenants or agreements that would result in the failure to satisfy the closing conditions (each a "Closing Condition Failure");
- by BMB if we breach our representations or warranties or fails to perform covenants or agreements that would result in the failure to satisfy the closing conditions;
- by either us or BMB, in the event of Governmental Order;
- by either us or BMB if BMB's stockholders' approval is not obtained;
- by us in the event of a Proxy Solicitation Failure;
- by BMB in the event of a Superior Proposal;
- by either us or BMB if our stockholders' approval is not obtained;
- by us if BMB fails to solicit and obtain approval of the holders of Senior Notes of BMB ("Noteholder Approval").

BMB will be required to pay a termination fee of US$17 million and our expenses (not to exceed US$3.5 million) if the Purchase Agreement is terminated by BMB due to a Superior Proposal. BMB will be required to pay the termination fee (but not our expenses) if we terminate due to a Proxy Solicitation Failure, or due to a Closing Condition Failure while an Acquisition Proposal has been announced and not withdrawn, and within 12 months of such termination, BMB enters into a letter of intent, an agreement or an agreement in principle that would reasonably be expected to lead to an Acquisition Proposal (an "Alternative Acquisition Agreement"). BMB will be required to pay our expenses (but not the termination fee) if (a) either party terminates due to the failure to satisfy certain regulatory conditions that results in the closing not occurring by the End Date or a Governmental Order being issued; (b) we terminates because BMB fails to receive Noteholder Approval, or (c) either party terminates because the closing has not occurred by the applicable End Date, or BMB's stockholders have not approved of the Purchase Agreement, and an Acquisition Proposal has been announced and not withdrawn; provided, however, that if within 12 months of such termination, BMB enters into an Alternative Acquisition Agreement, BMB will also have to pay the termination fee.

*Indemnification.* The representations, warranties and covenants of the parties survive only for a period of twelve months following the closing date, except in cases of fraud or criminal misconduct on the part of BMB in which case survival is without limitation. BMB will indemnify us for losses arising from BMB's breaches of representations and warranties, failure to perform covenants, ongoing litigation matters, compliance with (and validity of) BMB's Exploration Contract, transfer of certain payables, defects in ownership of certain facilities and pipelines, or violations of applicable environmental law. The maximum indemnification obligation of BMB is limited to US$39 million (US$36 million of which will be funded into escrow at the closing), except with respect to losses arising out of fraud or criminal misconduct. Other than with respect to certain specified representations, BMB is not required to indemnify us until our claims exceed US$750,000 in the aggregate, at which point, BMB will be obligated to pay the entire amount of such claims regardless of the threshold. BMB's indemnification obligations are limited generally for a period of one year following the closing date. The parties have made provision for an extended indemnification obligation period with respect to one potential outstanding contingent matter that relates only to BMB and should not in any instance impact Emir-Oil or us. However, and the extended period ends on the earliest of 90 days following the final resolution of the matter such that it is not subject to judicial process or appeal, or the expiration of applicable statutes of limitations.

We expect to complete the closing of the Purchase Agreement in the third calendar quarter of 2011.

**Voting Agreements**

In connection with the execution of the Purchase Agreement, certain principals of BMB, who collectively own approximately 24% of the outstanding shares of BMB's common stock, entered into voting agreements to vote their shares in favor of the sale of Emir-Oil to us at the stockholder meeting. These principals also granted to us a proxy to vote their shares of common stock in favor of the Sale and agreed to not transfer their shares prior to the expiration of the voting agreement.

**Obligation to Lend**

In the event that closing does not occur on or before the End Date and on the End Date Emir-Oil has not obtained production contracts for each of Kariman, Dolinnoe and Aksaz with the MOG in accordance with the Purchase Agreement, and provided that BMB is not then in material breach of its representations, warranties, covenants or agreements under the Purchase Agreement, BMB has the right to require us to provide debt financing by purchasing US$5 million of their existing Senior Notes to provide available liquidity to pay the amounts that would then be owing to the Kazakhstan government in connection with BMB's agreement to put its Exploration Contract into commercial production. In accordance with the Purchase Agreement, BMB would issue to us convertible senior notes at a purchase price equal to par value on the same terms and conditions that govern the Senior Notes and which would otherwise be *pari passu* with the outstanding Senior Notes.

**Related Party Waivers**

In connection with the Sale, Messrs. Toleush Tolmakov and Boris Cherdabayev agreed to contribute into escrow at closing (to form part of the US$36 million in escrow funds for indemnification purposes as described above) the entirety of the stockholder cash distributions they would otherwise be entitled to receive from BMB in the initial stockholder distribution in respect of their shares of BMB's common stock, amounting to approximately US$17.1 million. Mr. Tolmakov is the record or beneficial holder of 6,251,960 shares of common stock and is an executive officer of BMB. Mr. Cherdabayev is the record of beneficial holder of 6,248,727 shares of common stock and is the Chairman of the Board of BMB. The result is that these two stockholders have agreed to put at risk the entire value of their common stock for BMB's indemnification purposes, deferring their initial stockholder distribution until the anticipated subsequent stockholder distribution, if any. By doing so, BMB will be able to pay to the other stockholders of BMB at the initial distribution the amount of cash that otherwise would have been paid to Messrs. Tolmakov and Cherdabayev at such time.

**Note Restructuring**

In connection with the Purchase Agreement, BMB obtained a waiver with respect to BMB's execution of the Purchase Agreement from holders of the Senior Notes. On March 8, 2011, BMB entered into agreements to restructure the Senior Notes, pursuant to which the Senior Notes were amended to, among other things, (i) increase the coupon rate to 10.75%, (ii) require BMB to make a US$1.0 million cash payment towards the principal balance, which will result in an adjusted principal amount of US$61.4 million after giving effect to the restructure, (iii) extend the maturity date to July 13, 2013, (iv) grant the noteholders a new put option, exercisable one year prior to the new maturity date, (v) reduce the conversion price of the notes to US$2.00 per share, (vi) provide additional covenant restrictions by BMB, including a prohibition on paying dividends on shares of BMB's common stock and on the pledge or disposal of assets, (vii) provide for semi-annual principal amortization payments of 30% of BMB's excess cash flow, and (viii) in the event the Acquisition is terminated, allow the noteholders to appoint a member to the board of the directors of BMB and the board of directors or similar body of Emir-Oil. Pursuant to these agreements, the noteholders also consented to the Acquisition. If the Acquisition is consummated, BMB expects to redeem the Senior Notes out of the Sale proceeds prior to making the initial cash distribution to stockholders.

Certain aspects of the note restructuring will be subject to stockholder approval and may be subject to the regulatory approval of the Kazakhstan Ministry of Oil and Gas.

**Co-Invest Right**

Pursuant to an engagement letter with Acap Limited, a consulting company, conditional upon the closing of the Acquisition, we have granted Acap Limited a right to co-invest (the "Co-Invest Right") with us for up to 9.9% of the assets, equity interest or businesses acquired in the Acquisition and held by us as at the exercise of the Co-Invest Right, on the same terms and conditions under the Purchase Agreement. The Co-Invest Right may be exercised by Acap Limited upon closing of the Acquisition or at any time within 36 months from closing.

## USE OF PROCEEDS

We estimate that the net proceeds of this offering, after deducting Initial Purchasers' discounts, fees, commissions and other estimated expenses payable in connection with this offering, will be approximately US$390 million. We intend to use these proceeds (i) to fund the Acquisition or other potential future acquisitions, (ii) to repay the CITIC Bank Facility in full and (iii) for working capital and general corporate purposes. The proceeds of this offering must be applied towards repaying the CITIC Bank Facility in full before they can be used for any other purposes.

## EXCHANGE RATES

Our business is primarily conducted in China and substantially all of our revenues are denominated in RMB. However, periodic reports made to shareholders will be expressed in U.S. dollars using the then current exchange rates. This offering memorandum contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, at the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 15, 2011, the noon buying rate was RMB6.5317 to US$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this offering memorandum or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

| | Noon buying rate | | | |
|---|---|---|---|---|
| | **Period end** | **Average[(1)]** | **Low** | **High** |
| | **(RMB per US$1.00)** | | | |
| 2006 | 7.8041 | 7.9579 | 8.0702 | 7.8041 |
| 2007 | 7.2946 | 7.5806 | 7.8127 | 7.2946 |
| 2008 | 6.8225 | 6.9193 | 7.2946 | 6.7800 |
| 2009 | 6.8259 | 6.8295 | 6.8470 | 6.8176 |
| 2010 | 6.6000 | 6.7603 | 6.8330 | 6.6000 |
| October | 6.6707 | 6.6678 | 6.6912 | 6.6397 |
| November | 6.6670 | 6.6538 | 6.6892 | 6.6330 |
| December | 6.6000 | 6.6497 | 6.6745 | 6.6000 |
| 2011 | | | | |
| January | 6.6017 | 6.5964 | 6.6364 | 6.5809 |
| February | 6.5713 | 6.5761 | 6.5965 | 6.5520 |
| March | 6.5483 | 6.5645 | 6.5743 | 6.5483 |
| April (through April 15) | 6.5317 | 6.5382 | 6.5477 | 6.5310 |

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

## CAPITALIZATION AND INDEBTEDNESS

The following table shows our consolidated capitalization and indebtedness:

- as of December 31, 2010; and
- as adjusted to give effect to the issue of the Notes and the repayment of the CITIC Bank Facility.[1]

You should read this table in conjunction with our financial statements contained elsewhere in this offering memorandum and the sections in this offering memorandum entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Use of Proceeds."

Except as disclosed in this offering memorandum, there have been no material adverse changes in our capitalization since December 31, 2010.

| | As of December 31, 2010 | | | |
|---|---|---|---|---|
| | Actual | | As Adjusted | |
| | RMB'000 | US$'000 | RMB'000 | US$'000 |
| Bank balances and cash | 680,033 | 103,035 | 1,993,156 | 301,993 |
| Total borrowings: | | | | |
| Borrowings due within one year[2] | 99,341 | 15,052 | – | – |
| Borrowings due one year or more[2] | 1,191,862 | 180,585 | – | – |
| Notes issued hereby[3] | – | – | 2,640,000 | 400,000 |
| **Total borrowings** | 1,291,203 | 195,637 | 2,640,000 | 400,000 |
| Shareholders' equity: | | | | |
| Capital stock – par value US$0.001 per share; Authorized capital – 100,000,000,000 shares; Issued and fully paid – 2,641,334,000 shares | 17,588 | 2,665 | 17,588 | 2,665 |
| Reserves | 1,942,343 | 294,294 | 1,906,669 | 288,889 |
| **Total shareholders' equity** | 1,959,931 | 296,959 | 1,924,257 | 291,554 |
| **Total capitalization**[4] | 3,251,134 | 492,596 | 4,564,257 | 691,554 |

(1) The Group is required to pay a prepayment fee and certain other expenses for the repayment the CITIC Bank Facility. Such prepayment fee and expenses have been accounted for in the table. For the purpose of this capitalization table, the interest accrued from January 1, 2011 to the date of this Offering Memorandum has not been taken into account.

(2) All of the Group's borrowing were incurred by MIE and denominated in U.S. dollars.

(3) For illustrative purposes only, the aggregate principal amount of the Notes to be issued has been presented in the table.

(4) Total capitalization means total borrowings and total shareholders' equity.

## PRO FORMA FINANCIAL STATEMENTS

The following unaudited pro forma consolidated statement of assets and liabilities gives effect to the Acquisition as if such event had occurred on December 31, 2010 and the following unaudited pro forma consolidated statement of comprehensive income gives effect to the Acquisition as if such event occurred on January 1, 2010. The unaudited pro forma consolidated financial statements do not take into account the financing for the repayment of the CITIC Bank Facility or give effect to the application of the proceeds of any financing to repay in full the CITIC Bank Facility. The unaudited pro forma consolidated financial statements are based on assumptions that we believe are reasonable under the circumstances and are intended for informational purposes only. They are not necessarily indicative of the future financial position or future results of the combined operations or of the financial position or the results of operations that would have actually occurred had the Acquisition taken place as of the date or for the period presented. These unaudited pro forma consolidated financial statements should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Emir-Oil," our historical financial statements and related notes thereto, and the historical financial statements of Emir-Oil and related notes thereto included in this offering memorandum.

### Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

| | | | Pro forma adjustments | | | |
|---|---|---|---|---|---|---|
| | Audited consolidated statement of assets and liabilities of the Group as at December 31, 2010 | Audited statement of assets and liabilities of Emir-Oil as at December 31, 2010 | Consideration paid for the Acquisition and borrowings | Fair value adjustments and related amortisation | Consolidation entries | Unaudited pro forma consolidated assets and liabilities of the Enlarged Group |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | Note 1 | Note 2 | Note 5 | Note 6 | Note 7 | |
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 3,024,482 | 1,282,282 | – | – | – | 4,306,764 |
| Intangible asset | 1,677 | 23 | – | 481,457 | – | 483,157 |
| Derivative financial instruments | 20,285 | – | – | – | – | 20,285 |
| Trade and other receivables | 24,212 | 39,866 | – | – | – | 64,078 |
| Investment in a subsidiary | – | – | 1,125,859 | – | (1,125,859) | – |
| | 3,070,656 | 1,322,171 | 1,125,859 | 481,457 | (1,125,859) | 4,874,284 |
| **Current assets** | | | | | | |
| Inventories | 36,664 | 17 | – | – | – | 36,681 |
| Derivative financial instruments | 11,168 | – | – | – | – | 11,168 |
| Trade and other receivables | 398,294 | 77,354 | – | – | – | 475,648 |
| Pledged deposits | 29,916 | – | – | – | – | 29,916 |
| Cash and cash equivalents | 680,033 | 19,872 | 26,491 | – | – | 726,396 |
| | 1,156,075 | 97,243 | 26,491 | – | – | 1,279,809 |
| **Total Assets** | 4,226,731 | 1,419,414 | 1,152,350 | 481,457 | (1,125,859) | 6,154,093 |

| | | Pro forma adjustments | | | | |
|---|---|---|---|---|---|---|
| | Audited consolidated statement of assets and liabilities of the Group as at December 31, 2010 | Audited statement of assets and liabilities of Emir-Oil as at December 31, 2010 | Consideration paid for the Acquisition and borrowings | Fair value adjustments and related amortisation | Consolidation entries | Unaudited pro forma consolidated assets and liabilities of the Enlarged Group |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | Note 1 | Note 2 | Note 5 | Note 6 | Note 7 | |
| **LIABILITIES** | | | | | | |
| **Non-current liabilities** | | | | | | |
| Asset retirement obligations | 9,270 | 33,641 | – | – | – | 42,911 |
| Deferred income tax liabilities – net | 8,694 | 8,638 | – | 96,291 | – | 113,623 |
| Trade and other payables | 137,598 | 1,525 | – | – | – | 139,123 |
| Amount due to parent company | – | 907,594 | – | – | (907,594) | – |
| Borrowings | 1,191,862 | – | 1,324,540 | – | – | 2,516,402 |
| | 1,347,424 | 951,398 | 1,324,540 | 96,291 | (907,594) | 2,812,059 |
| **Current liabilities** | | | | | | |
| Trade and other payables | 775,137 | 142,908 | 74,426 | – | – | 992,471 |
| Current income tax liabilities | 44,898 | – | – | – | – | 44,898 |
| Borrowings | 99,341 | – | – | – | – | 99,341 |
| | 919,376 | 142,908 | 74,426 | – | – | 1,136,710 |
| **Total Liabilities** | 2,266,800 | 1,094,306 | 1,398,966 | 96,291 | (907,594) | 3,948,769 |
| **NET ASSETS** | 1,959,931 | 325,108 | (246,616) | 385,166 | (218,265) | 2,205,324 |

## Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

| | | Pro forma adjustments | | | | | |
|---|---|---|---|---|---|---|---|
| | Audited consolidated statement of comprehensive income of the Group for the year December 31, 2010 | Audited statement of comprehensive income of Emir-Oil for the nine months ended at December 31, 2010 | Unaudited statement of comprehensive income of Emir-Oil for the three months ended at March 31, 2010 | Consideration paid for the acquisition, borrowings and related interest | Fair value adjustments and related amortisation | Consolidation entries | Unaudited pro forma consolidated statement of comprehensive income the Enlarged Group |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | Note 1 | Note 3 | Note 4 | Note 5 | Note 6 | Note 7 | |
| Revenue | 1,804,976 | 280,924 | 106,080 | – | – | – | 2,191,980 |
| Operating expenses | | | | | | | |
| Purchases, services and other | (126,517) | (19,526) | (5,201) | – | – | – | (151,244) |
| Geological and geophysical expense | – | (50,232) | (1,957) | – | – | – | (52,189) |
| Employee compensation costs | (110,346) | (21,271) | (3,601) | – | – | – | (135,218) |
| Depreciation, depletion and amortization | (528,582) | (81,151) | (49,085) | – | (64,072) | – | (722,890) |
| Distribution expenses | (28,424) | – | – | – | – | – | (28,424) |
| Administrative expenses | (50,154) | (19,757) | (6,439) | (52,982) | – | – | (129,332) |
| Taxes other than income taxes | (289,296) | (77,588) | (27,578) | – | – | – | (394,462) |
| Other (losses)/gains | (37,644) | – | (810) | (74,426) | – | 549,808 | 436,928 |
| Total operating expenses | (1,170,963) | (269,525) | (94,671) | (127,408) | (64,072) | 549,808 | (1,176,831) |
| Profit from operations | 634,013 | 11,399 | 11,409 | (127,408) | (64,072) | 549,808 | 1,015,149 |
| Finance income | 35,344 | 1,903 | – | – | – | – | 37,247 |
| Finance costs | (86,788) | (33,062) | (10,242) | (119,208) | – | (10,337) | (259,637) |
| Finance costs – net | (51,444) | (31,159) | (10,242) | (119,208) | – | (10,337) | (222,390) |
| Profit before income tax | 582,569 | (19,760) | 1,167 | (246,616) | (64,072) | 539,471 | 792,759 |
| Income tax expense | (161,705) | 10,801 | 11,587 | – | 12,814 | – | (126,503) |
| Net profit for the year | 420,864 | (8,959) | 12,754 | (246,616) | (51,258) | 539,471 | 666,256 |
| Other comprehensive income: | | | | | | | |
| Currency translation difference | (10,941) | – | – | – | – | – | (10,941) |
| Other comprehensive income for the year, net of tax | (10,941) | – | – | – | – | – | (10,941) |
| Total comprehensive income for the year | 409,923 | (8,959) | 12,754 | (246,616) | (51,258) | 539,471 | 655,315 |

## Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at December 31, 2010 and the consolidated statement of comprehensive income of the Group for the year ended December 31, 2010 included in the audited consolidated financial statements of the Group for the year ended December 31, 2010 included elsewhere in this offering memorandum.

2. The adjustment represents the inclusion of the balances of assets and liabilities of Emir-Oil as of December 31, 2010 as extracted from the accountant's report of Emir-Oil included elsewhere in this offering memorandum. For the purpose of the unaudited pro forma statement of assets and liabilities, the balances denominated in US$ have been translated into RMB at US$1 = RMB6.6227, the exchange rate prevailing as at December 31, 2010, released by People's Bank of China (the "PBOC").

3. The adjustment represents the inclusion of the comprehensive income of Emir-Oil for the nine months ended December 31, 2010 as extracted from the accountant's report of Emir-Oil included elsewhere in this offering memorandum. For the purpose of the unaudited pro forma statement of comprehensive income, the amounts denominated in USD have been translated into RMB at US$1 = RMB6.8268, the average exchange rate prevailing for the nine months ended December 31, 2010, based on exchange rates released by the PBOC.

4. The adjustment represents the inclusion of the unaudited statement of comprehensive income of Emir-Oil for the three months ended March 31, 2010 as prepared by management of Emir-Oil. For the purpose of the unaudited pro forma statement of comprehensive income, the amounts denominated in USD have been translated into RMB at US$1 = RMB6.7468, the average exchange rate prevailing for the three months ended March 31, 2010, based on exchange rates released by the PBOC.

5. The adjustment represents the consideration paid for the Acquisition, which is funded by new financing and the related interest expense, excluding any financing for the repayment of the CITIC Bank Facility.

   The total estimated cost of the Transaction amounts to approximately US$178 million, comprising the purchase consideration for Emir-Oil of US$170 million (equivalent to approximately RMB1,126 million) and costs directly attributable to the Transaction, including professional services fees and other expenses, of US$8 million (equivalent to approximately RMB53 million).

   As part of the Acquisition, we have granted Acap Limited a right to co invest (the "Right"). The pro forma financial information includes the Right's fair value of RMB74 million which was estimated by an independent professional valuer, Jones Long LaSalle Sallmanns.

   The cost directly attributable to the Acquisition of US$8 million and the fair value of the Right are charged to the consolidated statement of comprehensive income upon the completion of the Acquisition. The fair value of the Right is assumed to remain unchanged for the year ended December 31, 2010.

   The Acquisition is assumed to be wholly financed by new financing of US$200 million (equivalent to approximately RMB1,325 million). For purpose of the pro forma consolidated statement of comprehensive income, the financing is assumed had been raised on January 1, 2010 and interest paid on the financing is assumed to be US$18 million (equivalent to approximately RMB119 million) representing an interest rate of 9% per annum.

6. Upon completion of the Acquisition , the identifiable assets and liabilities of Emir-Oil will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values as required by the acquisition method of accounting as set out in International Financial Reporting Standard 3 (revised) "Business Combinations" ("IFRS 3").

   The pro forma adjustment represents fair value adjustments of approximately RMB481 million, the corresponding estimated deferred income tax liabilities of approximately RMB96 million. For the purpose of the pro forma consolidated statement of comprehensive income, additional amortization expenses of approximately RMB64 million and corresponding income tax credit impact of approximately RMB13 million resulting from the Acquisition has been taken into account.

   The fair value adjustments include the recognition of intangible assets (Production Contracts for the Aksaz, Dolinnoe and Kariman oilfields according to a condition precedent under the Purchase Agreement) of RMB481 million which are determined based on the fair values of the assets and liabilities of Emir-Oil as of December 31, 2010 as estimated by an independent professional valuer, Jones Long LaSalle Sallmanns.

   We have assessed the Group's intangible assets as at December 31, 2010 and concluded that there is no impairment. With reference to the valuation report from independent professional valuer, Jones Long LaSalle Sallmanns. We are not aware of any indication of impairment on the intangible assets of Emir-Oil.

Upon the completion of the Acquisition and at the end of each reporting period, we will perform a review for impairment on the Enlarged Group's intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the Group's accounting policies and principal assumptions as described in the audited financial statements for the year ended December 31, 2010.

The additional amortization arising from the recognition of intangible assets for the year ended December 31, 2010 is computed based on unit of production method using proved developed producing reserves.

The fair value of the identifiable assets and liabilities of Emir-Oil at the date of completion may be substantially different from the estimated fair value used in the preparation of this unaudited pro forma financial information. Accordingly, the actual amount of negative goodwill may be different from the amount as adopted in this unaudited pro forma financial information.

7. The pro forma adjustment represents the elimination of investment in Emir-Oil held by us with the share capital and pre-acquisition reserves of Emir-Oil, elimination of intercompany receivables from Emir-Oil and the recognition of negative goodwill amounting to RMB550 million, representing the excess of the over the fair value of net assets of Emir-Oil acquired of RMB1,676 million cost of the Transaction of RMB1,126 million upon the completion of the Acquisition.

8. Apart from the Transaction, no other adjustment has been made to reflect any trading result of the Group subsequent to December 31, 2010 and Emir-Oil subsequent to December 31, 2010 for the purpose of this unaudited pro forma financial information.

9. Other than costs directly attributable to the Transaction (note 5 above) and the negative goodwill recognised (note 7 above), the pro forma adjustments set out in note 3, note 4, note 5 and note 6 above are expected to have continuing effect on the consolidated statement of comprehensive income of the Enlarged Group.

## SELECTED FINANCIAL INFORMATION AND OTHER DATA

### Our Selected Consolidated Financial Information

You should read this selected financial information and other data in conjunction with our audited consolidated financial information, including the notes thereto, included elsewhere in this offering memorandum and information set forth in "The Acquisition," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Other Indebtedness" and "Description of the Notes." The selected historical financial information set forth below has been derived from our audited consolidated statements of comprehensive income for the years ended December 31, 2008 and 2009 and audited consolidated statements of financial position as at December 31, 2008 and 2009, and our consolidated statements of comprehensive income for the year ended December 31, 2010 and audited consolidated statements of financial position as at December 31, 2010, including the notes thereto, included elsewhere in this offering memorandum. The consolidated financial information has been prepared in accordance with IFRS. Our historical financial information is not necessarily indicative of the results to be expected for any other period.

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US$'000 |
| **Consolidated statements of comprehensive income:** | | | | |
| Revenue | 1,971,688 | 1,166,827 | 1,804,976 | 273,481 |
| Operating expenses: | | | | |
| Purchases, services and other | (96,905) | (123,587) | (126,517) | (19,169) |
| Employee compensation costs | (69,014) | (67,651) | (110,346) | (16,719) |
| Depreciation, depletion and amortization | (475,172) | (445,824) | (528,582) | (80,088) |
| Impairment of property, plant and equipment | (32,000) | – | – | – |
| Distribution expenses | (23,355) | (21,861) | (28,424) | (4,307) |
| Administrative expenses | (89,249) | (62,253) | (50,154) | (7,599) |
| Provision for impairment of other receivables | – | – | – | – |
| Taxes other than income taxes | (538,126) | (73,308) | (289,296) | (43,833) |
| Other income/(loss) | 133,758 | (131,124) | (37,644) | (5,704) |
| Total operating expenses | (1,190,063) | (925,608) | (1,170,963) | (177,419) |
| Profit from operations | 781,625 | 241,219 | 634,013 | 96,063 |
| Finance income | 45,673 | 1,552 | 35,344 | 5,355 |
| Finance costs | (53,460) | (58,832) | (86,788) | (13,150) |
| Financial costs – net | (7,787) | (57,280) | (51,444) | (7,795) |
| Profit before income tax | 773,838 | 183,939 | 582,569 | 88,268 |
| Income tax (expense) | (162,748) | (73,462) | (161,705) | (24,501) |
| Net profit for the year | 611,090 | 110,477 | 420,864 | 63,767 |
| Other comprehensive income | – | – | (10,941) | (1,658) |
| Total comprehensive income for the year | 611,090 | 110,477 | 409,923 | 62,110 |
| Earnings per share for profit attributable to the equity holders of the company (expressed in RMB or US$ per Share, as applicable) | | | | |
| – basic | 6.1 | 1.0 | 0.19 | 0.03 |
| – diluted | 6.1 | 1.0 | 0.19 | 0.03 |

| | As at December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US$'000 |
| **Consolidated statements of financial position:** | | | | |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 2,486,943 | 2,665,143 | 3,024,482 | 458,255 |
| Intangible asset | 6,043 | 2,599 | 1,677 | 254 |
| Derivative financial instruments | 94,912 | – | 20,285 | 3,074 |
| Trade and other receivables | 71,805 | 70,360 | 24,212 | 3,668 |
| | 2,659,703 | 2,738,102 | 3,070,656 | 465,251 |
| **Current assets** | | | | |
| Inventories | 73,858 | 76,078 | 36,664 | 5,555 |
| Derivative financial instruments | 132,761 | 20,307 | 11,168 | 1,692 |
| Trade and other receivables | 103,796 | 489,571 | 398,294 | 60,348 |
| Amount due from shareholder | 422,880 | 81,074 | – | |
| Pledged deposits | 50,222 | 30,729 | 29,916 | 4,533 |
| Cash and cash equivalents | 382,119 | 290,271 | 680,033 | 103,035 |
| | 1,165,636 | 988,030 | 1,156,075 | 175,163 |
| **Total assets** | 3,825,339 | 3,726,132 | 4,226,731 | 640,414 |
| **EQUITY** | | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | | |
| Ordinary shares | 684 | 659 | 17,588 | 2,665 |
| Preferred shares | – | 171 | – | |
| Share premium | – | 339,449 | 826,477 | 125,224 |
| Other reserves | 49,023 | 64,460 | 91,919 | 13,927 |
| Retained earnings | 1,094,058 | 848,707 | 1,023,947 | 155,143 |
| **Total equity** | 1,143,765 | 1,253,446 | 1,959,931 | 296,959 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Asset retirement obligations | 4,624 | 6,978 | 9,270 | 1,405 |
| Deferred income tax liabilities – net | 102,770 | 86,400 | 8,694 | 1,317 |
| Trade and other payables | 233,688 | 170,235 | 137,598 | 20,848 |
| Borrowings | 765,475 | 1,242,963 | 1,191,862 | 180,585 |
| | 1,106,557 | 1,506,576 | 1,347,424 | 204,155 |
| **Current liabilities** | | | | |
| Derivative financial instruments | 25,257 | – | 775,137 | 117,445 |
| Trade and other payables | 1,495,083 | 863,687 | 44,898 | 6,803 |
| Borrowings | 54,677 | 102,423 | 99,341 | 15,052 |
| | 1,575,017 | 966,110 | 919,376 | 139,300 |
| **Total liabilities** | 2,681,574 | 2,472,686 | 2,266,800 | 343,455 |
| **TOTAL EQUITY AND LIABILITIES** | 3,825,339 | 3,726,132 | 4,226,731 | 640,414 |

**Selected Financial Information of Emir-Oil**

You should read the selected financial information presented below in conjunction with the financial statements and the notes to these financial statements for Emir-Oil included elsewhere in this offering memorandum. You should also read the section of this offering memorandum entitled "Emir-Oil." The following selected historical financial information has been derived from Emir-Oil's statements of comprehensive income for the years ended March 31, 2008, 2009, 2010 and for the nine-month periods ended December 31, 2009 and 2010, and statement of financial position as at March 31, 2008, 2009, 2010, and December 31, 2010, including the notes thereto, included elsewhere in this offering memorandum. The consolidated financial information has been prepared in accordance with IFRS. Emir-Oil's historical financial informational are not necessarily indicative of the results to be expected for any other period.

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | US$'000 | US$'000 | US$'000 | US$'000 (Unaudited) | US$'000 |
| **Statement of comprehensive income:** | | | | | |
| Revenue | 60,197 | 69,617 | 57,275 | 41,736 | 41,638 |
| Operating expenses: | | | | | |
| Purchases, services and other | 1,958 | 2,723 | 3,936 | 3,174 | 2,894 |
| Geological and geophysical expense | 6,587 | 4,665 | 641 | 355 | 7,445 |
| Employee compensation costs | 2,893 | 3,608 | 2,928 | 2,401 | 3,153 |
| Depreciation, depletion and amortization | 21,669 | 10,642 | 15,639 | 8,448 | 12,028 |
| Operating lease expense | 2,168 | 2,809 | 1,244 | 881 | 991 |
| Administrative expenses | 2,901 | 2,789 | 1,841 | 1,314 | 1,817 |
| Taxes other than income taxes | 1,557 | 9,510 | 13,543 | 9,503 | 11,500 |
| Write-off of inventory | 80 | 140 | 215 | 161 | 62 |
| Other expense | 319 | 102 | 368 | 250 | 59 |
| Total operating expenses | 40,132 | 36,988 | 40,355 | 26,487 | 39,949 |
| Profit from operations | 20,065 | 32,629 | 16,920 | 15,249 | 1,689 |
| Finance income | 79 | 3,234 | 273 | 151 | 282 |
| Finance costs | (5,403) | (6,496) | (6,869) | (5,247) | (4,900) |
| Finance costs – net | (5,324) | (3,262) | (6,596) | (5,096) | (4,618) |
| Profit/(loss) before income tax | 14,741 | 29,367 | 10,324 | 10,153 | (2,929) |
| Income tax (expense)/credit | (7,060) | (2,213) | 2,563 | 865 | 1,601 |
| Net (loss)/profit for the year/period | 7,681 | 27,154 | 12,887 | 11,018 | (1,328) |

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Statement of financial position:** | | | | |
| Property, plant and equipment..... | 128,586 | 178,765 | 174,395 | 179,725 |
| Inventories..... | 11,003 | 13,990 | 13,715 | 13,894 |
| Non-current assets..... | 160,257 | 195,917 | 192,146 | 199,642 |
| Current assets ..... | 10,287 | 8,459 | 13,757 | 14,684 |
| Total assets..... | 170,544 | 204,376 | 205,903 | 214,326 |
| Total owner's equity..... | 17,589 | 42,269 | 52,488 | 49,090 |
| Amount due to parent company... | 115,473 | 118,520 | 115,901 | 110,647 |
| Non-current liabilities..... | 130,715 | 143,098 | 145,410 | 143,657 |
| Current liabilities ..... | 22,240 | 19,009 | 8,005 | 21,579 |
| Total liabilities..... | 152,955 | 162,107 | 153,415 | 165,236 |
| Total Equity and Liabilities ..... | 170,544 | 204,376 | 205,903 | 214,326 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with "Selected Financial Information and Other Data" and our consolidated financial statements and related notes included elsewhere in this offering memorandum. Our financial statements have been prepared in accordance with IFRS. The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please see the section entitled "Risk Factors" in this offering memorandum.*

### Overview

We are one of the leading Independent Upstream Oil Companies operating onshore in China as measured by gross production under production sharing contracts. We operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, the largest oil company in China. We hold a 90% participating interest in the foreign contractors' entitlement and obligations under the production sharing contracts, and GOC, a passive foreign contractor that is not directly involved in the operations of the oilfields, holds the remaining 10% participating interest. Under each of the production sharing contracts, we provide funding, technology and managerial experience for the development and production of oil resources in these oilfields. In exchange, we share in the production of crude oil with PetroChina after the successful development of oil reserves according to the formula set forth in the production sharing contracts. In a given period during the commercial production phase under the production sharing contracts, the revenue and operating costs may be allocated to the foreign contractors in the range of 48% to 80% based on whether the foreign contractors have fully recovered development costs. See "– General Factors Affecting Our Results of Operations – Production Sharing Contracts" for more information on the revenue and cost allocations under the production sharing contracts.

As of December 31, 2010, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 32.9 million barrels, 19.6 million barrels and 13.9 million barrels, respectively, of crude oil. Our daily crude oil production has grown significantly since 2001, when we took over the operations of the three oilfields. Our net production averaged 8,150 barrels, 7,637 barrels and 9,349 barrels of crude oil per day in 2008, 2009 and 2010, respectively. Since FEEL acquired MIE in August 2003, our net production of crude oil grew from an average of 1,855 barrels per day in 2004 to 9,349 barrels per day in 2010. As of December 31, 2010, we operated an aggregate of 1,641 gross productive wells in our three oilfields.

In 2008, 2009 and 2010, our revenue amounted to RMB1,971.7 million, RMB1,166.8 million and RMB1,805.0 million (US$273.5 million), respectively. In 2008, 2009 and 2010, our EBITDA amounted to RMB1,256.8 million, RMB687.0 million and RMB1,162.6 million (US$176.2 million), respectively, and our adjusted EBITDA amounted to RMB1,127.9 million, RMB821.3 million and RMB1,236.7 million (US$187.4 million), respectively. EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude certain non-cash and one time items including share-based compensation expense, impairment of property, plant and equipment, impairment of inventory, net loss/(gain) on forward foreign exchange contracts, realized and unrealized loss/(gain) on the oil put option and accrual/write-back of safety fees. See "Summary – Summary Financial Information and Other Data" for a reconciliation of EBITDA and Adjusted EBITDA to net profit. Our net profit amounted to RMB611.1 million, RMB110.5 million and RMB420.9 million (US$63.8 million) for the years ended December 31, 2008, 2009 and 2010, respectively.

## General Factors Affecting Our Results of Operations

Our results of operations and financial condition over successive periods have been, and will continue to be, affected by a number of factors, including changes in crude oil prices, arrangements under the production sharing contracts, uncertainty of reserve estimates, special levy to the PRC government and our use of an oil put option to manage commodity price risk.

### *Crude Oil Prices*

Our results of operations are significantly affected by crude oil prices. Our revenue, rate of recovery under our production sharing contracts, depreciation, depletion and amortization, and the amount of special levy paid or payable to the PRC government are affected by movements in crude oil prices. We use an oil put option to manage a part of our exposure to the crude oil price movements.

Crude oil prices are affected by, among other things, global oil supply and demand, changes in economic conditions, supply estimates from oil producing countries and other geopolitical factors, which are difficult to predict and beyond our control. The price we receive for crude oil delivered by us to PetroChina is determined each month in accordance with the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, for the previous calendar month. Such price is then reduced by a total fee for oil transportation and sales of RMB52 per ton or US$1.05 per barrel in the sales contract. The price of Daqing crude oil at Dalian Harbor closely follows the price of West Texas Intermediate crude oil, which is an international crude oil price benchmark. The table below sets forth the average price of West Texas Intermediate crude oil, average prices of Daqing crude oil at Dalian Harbor, as published in Platts Oilgram, and our average realized crude oil prices for the periods indicated.

**Average Prices for Crude Oil**

| | For the Year Ended December 31, | | | As of December 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | | US$ per barrel | | |
| West Texas Intermediate | 99.92 | 61.99 | 79.07 | 88.60 |
| Daqing | 98.50 | 59.75 | 78.41 | 91.23 |
| Realized[(1)] | 104.78 | 58.58 | 77.99 | 83.94 |

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.05 per barrel.

Any volatility in the outlook in crude oil prices impacts our planning decisions for future investments and our production budget, which govern our expected volume of production for future periods. The joint management committee meets at least twice each year and reviews and approves our annual production budget for each of our oilfields, which provides for the estimated annual production volume and makes adjustments if necessary. The production budget is impacted by crude oil price, supply and demand outlook of crude oil and the amount of oil we can recover. We experienced significant growth in our annual net crude oil production in 2008, but our net production declined in 2009 due to a temporary curtailment agreed with PetroChina as described below. In 2010, our annual net crude oil production again had significant growth as there was no curtailment during the year. In 2008, 2009 and 2010, our net production of crude oil amounted to 3.0 million barrels, 2.8 million barrels and 3.4 million barrels, respectively. In the same periods, our net production averaged 8,150 barrels, 7,637 barrels and 9,349 barrels of crude oil per day. In 2009, our sales volume exceeded our net production of crude oil as we sold part of the inventory oil in our storage tanks. The table below sets forth our sales volume, average realized crude oil prices and revenue for the periods indicated:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| Sales volume (millions of barrels) | 2.72 | 2.92 | 3.42 |
| Average realized crude oil price[(1)] (US$ per barrel) | 104.78 | 58.58 | 77.99 |
| Revenue (in RMB million) | 1,971.7 | 1,166.8 | 1,805.0 |

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.05 per barrel.

In the first quarter of 2009, due to the decrease in demand for oil in China as a result of the global economic and financial crisis and excess crude oil in the market, we agreed with PetroChina to curtail the amount of oil produced at the Daan oilfield. As a result, our net production of crude oil decreased to an average of 5,348 barrels per day in the first quarter of 2009. In contrast, our net production averaged 8,150 barrels of crude oil per day in 2008. The production curtailment ended in March 2009 and our net production improved in subsequent months, rebounding to an average of 8,806 barrels per day in the second half of 2009 and 9,349 barrels per day in 2010. Had the curtailment in the first quarter of 2009 not occurred, and based on the average net production rate of 8,386 barrels of crude oil per day for the second through fourth quarters of 2009, our total net production for 2009 would have been 3.06 million barrels, or US$179.3 million as calculated using the 2009 average price per barrel. Our actual production for 2009 was 2.79 million barrels, or US$163.3 million based on the average realized oil price of US$58.58 per barrel in 2009. This is the only curtailment we have experienced since we began our cooperation with PetroChina in 2001. Although we do not anticipate another similar curtailment to occur, we cannot assure you that it will not occur in the future. Any future curtailment may similarly slow our production and materially and adversely affect our results of operations. See "Risk Factors – Risks Relating to our Business – PetroChina controls, to a significant extent, the volume of our net production through its status as our sole customer and the influence it has over the management of the three oilfields through the joint management committee. If our net production of crude oil decreases, our business, financial condition and results of operations may be materially and adversely affected."

Crude oil prices also have an impact on our depreciation, depletion and amortization. Lower crude oil prices may result in a reduction in our net reserves, and higher crude oil prices may result in an increase in our net reserves. Therefore, changes in net proved developed producing reserves will affect our depreciation, depletion and amortization for property, plant and equipment related to oil production activities.

Furthermore, fluctuations in oil prices also affect the amount of crude oil available to us to be apportioned as cost recovery oil and profit-sharing oil and, therefore, have a significant impact on our revenue and profitability. See "Business – Production Sharing Contracts – Cost Recovery Oil and Profit-Sharing Oil" for a description of cost recovery oil and profit-sharing oil. An increase in crude oil prices tends to increase the rate of recovery of our operating costs and pilot-test and development costs and the amount of profit-sharing oil. A prolonged downturn in oil prices generally slows down our cost recovery amounts and forces us to decrease the level of our development and production activities and reduces the amount of profit-sharing oil. See

"– Production Sharing Contracts" for more details. Crude oil prices will also impact the amount of special levy payable to the PRC government. A special levy is payable starting at US$40 per barrel and the rate increases according to the price of crude oil. See "– Special Levy" for more details. As a result of the factors discussed above, our results of operations will continue to be affected by changes in crude oil prices in the future.

***Production Sharing Contracts***

We perform substantially all of our business activities through our production sharing contracts with PetroChina, the largest oil and gas company in China. We derive all of our revenue from the three oilfields at Daan, Moliqing and Miao 3. The foreign contractors are entitled to share in the production of crude oil with PetroChina in accordance with the ratio agreed between PetroChina and the foreign contractors under the production sharing contracts. We hold a 90% participating interest in the foreign contractors' entitlement and obligations under the production sharing contracts and GOC holds the remaining 10% participating interest. GOC is a passive foreign contractor and is not directly involved in the operations of the oilfields. Accordingly, our revenue consists only of our participating interest in the oil produced under the production sharing contracts. Fluctuations in oil prices could affect the amount of crude oil available to us to be apportioned as cost recovery oil and profit-sharing oil, and therefore, could have a significant impact on our revenue and profitability.

Before the crude oil is allocated among PetroChina and the foreign contractors, specified amounts of the annual gross production of oil are allocated to the government in the form of value-added tax and royalties. Because the government's portions are already excluded from our gross production, such amounts are not recorded in our financial accounts. Royalties represent royalties PetroChina pays to the PRC government on production with respect to each of the oilfields. The amount of the royalties varies from 0% to 12.5% based on the annual production of the relevant oilfield. PetroChina pays value-added tax to the PRC government that is equal to 5% of oil produced under production sharing contracts.

The structure of our production sharing contracts allows us to effectively recover our costs in operating and developing our oilfields. Under the production sharing contracts, crude oil is distributed according to a production allocation provision that prioritizes recovery of our operating, pilot-test and development costs, after deducting value-added tax and royalties. After the foreign contractors have recovered all operating, pilot-test and development costs (including any unrecovered operating, pilot-test and development costs from prior periods) from the oil revenue generated each period, the remainder of the gross production of crude oil for that period is allocated 52% to PetroChina and 48% to the foreign contractors. During the commercial production phase, PetroChina and the foreign contractors each bear a part of the operating costs and share the oil revenue generated to recover such operating costs in the same ratio. In any period in which the foreign contractors have not fully recovered their pilot-test and development costs for such period and any prior periods from the revenue generated in such period, the oil revenue and operating costs are allocated 20% to PetroChina and 80% to the foreign contractors. Conversely, in any period in which the foreign contractors have fully recovered their pilot-test and development costs from the revenue generated in such period and any prior periods and no additional development costs are incurred in the same period, the oil revenue and operating costs are allocated 52% to PetroChina and 48% to the foreign contractors. Therefore, in a given period during the commercial production phase, operating costs and oil revenue allocated to the foreign contractors will range between 48% and 80%. As of December 31, 2010, total costs incurred for pilot-test and development, including related operating costs, for each of Daan oilfield, Moliqing oilfield and Miao 3 oilfield amounted to RMB3,737 million, RMB1,294 million and RMB292 million, respectively, of which 100%, 82% and 50%, respectively, had been recovered.

Since the proportion of the extracted oil allocated to foreign contractors, i.e., 80% or 48%, is based on the amount of the development costs incurred by the foreign contractors, if we incur a greater amount of development costs due to our capital expenditure plans, more extracted oil will be allocated to foreign contractors on an 80% basis until all of the foreign contractors' development costs are recovered, rather than on a 48% basis. For example, since the Daan oilfield generates both cost recovery oil and profit-sharing oil, new investment on the oilfield will shift the allocation of the extracted oil from profit-sharing oil to cost-recovery oil to accelerate the recovery of our investment. The amount of development costs to be incurred for a given period is a part of our capital expenditure plans, which are reviewed and adopted by the joint management committee. Operating

costs relating to the oilfields, such as purchases, services and other expenses, employee compensation costs and substantially all of the distribution and administrative expenses, are allocated to the foreign contractors and PetroChina based on the allocation of extracted oil.

Although during 2008, 2009 and 2010 we sold all of our share of crude oil to PetroChina under the production sharing contracts, the production sharing contracts permit us to sell our share of the crude oil to other third party purchasers. We may also export our share of crude oil to purchasers overseas, in which instance we will obtain, with the assistance of PetroChina, any necessary licenses or permits.

***Uncertainty of Reserve Estimates***

Our proved reserves are those quantities of oil which, by analysis of geoscience and engineering data, we estimate with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions. Our reserve estimates include only crude oil, and we prepare a reserve estimation for each oilfield within oil regions and using prices and costs prevailing at the time of the estimate. We calculate our reserve estimates based on the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, as the price we receive for crude oil delivered by us to PetroChina is determined in accordance with such price. The price of Daqing crude oil at Dalian Harbor closely follows the price of West Texas Intermediate. For accounting purposes, under IFRS, we accounted for the unit of production for depreciation, depletion and amortization for the years ended December 31, 2008, 2009 and 2010 based on the reserve definition under PRMS, one of the most recognized systems for reporting reserves internationally.

Estimates of net reserves includes numerous assumptions and estimates relating to factors such as initial production rates, initial oil in place estimates, production decline rates, ultimate recovery of reserves, water flooding effectiveness, future oil-water ratios, injector performance, volume conversion factor, timing and amount of capital expenditures, future oil prices and operating costs that may be imposed during the production life of the reserves. Many of these assumptions and estimates are subject to change and are beyond our control. Actual oil recovery and capital and operating expenditures may vary from the evaluation and such variations could be material.

Estimates of net proved reserves have been made by Ryder Scott, an independent petroleum engineering consulting firm based in the United States specializing in oil reservoir evaluation and economic analysis. Ryder Scott has issued reports for us dated as of September 1, 2006, July 1, 2007, January 1, 2007, 2008, 2009 and 2010, July 1, 2010 and December 31, 2010.

Along with other factors, movements of crude oil prices affect the estimate of our net reserves. Lower crude oil prices may result in a reduction in our net reserves, and higher crude oil prices may result in an increase in our net reserves. At low crude oil prices, certain future locations may become uneconomical to develop and exploit, which results in lower net reserves. As a result of both economic and geopolitical factors, future oil prices will continue to be uncertain. Reserve volume and the income attributable to the reserves are directly dependent on the crude oil prices. Therefore, the volume of reserves actually recovered and amounts of income actually received may differ significantly from the estimates. However, the reserve estimates are important data to us for making future development and production plans and estimating our expected recovery of operating costs incurred and future oil revenue. The estimates are also an important element in testing for impairment. Changes in net proved developed producing reserves will affect unit-of-production depreciation, depletion and amortization recorded in our financial statements for property, plant and equipment related to oil production activities. A reduction in net proved developed producing reserves will increase depreciation, depletion and amortization charges, assuming constant production levels, and will reduce our profit accordingly.

*Special Levy*

We pay a special levy to the PRC government with respect to the sale of domestic crude oil. The special levy is paid or payable on the portion of income realized by any petroleum exploration companies from the sale of domestic crude oil at prices higher than US$40 per barrel. The levy is calculated and charged at progressive ad valorem rates for five grades, ranging from 20% to 40% according to the price of crude oil. The special levy will be calculated on the basis of the monthly weighted average price of the crude oil sold by us and paid on a quarterly basis. The amount of special levy we are required to pay is therefore affected by both the crude oil prices and sales volume, but such amount is not recoverable under the production sharing contracts but is deductible for the calculation of income tax. The special levy became effective from March 26, 2006. See "Regulations – Taxes and Levies in the Petroleum Industry." The details of the currently effective special levy are as follows:

| **Oil Price Range** | **Tax Rate on the Portion Higher than US$40 per barrel** |
|---|---|
| **US$ per barrel** | **%** |
| 0-40 | 0% |
| 40-45 | 20% |
| 45-50 | 25% |
| 50-55 | 30% |
| 55-60 | 35% |
| >60 | 40% |

In 2008, 2009 and 2010, we recorded a special levy of RMB538.1 million, RMB73.3 million and RMB288.1 million, respectively.

*Oil Put Options*

We use oil put options to manage our exposure to downward movements of the crude oil prices. In November 2007, we purchased oil put options to notionally sell to Standard Bank Plc 5,236,710 barrels of crude oil at a strike price of US$62.50 per barrel, in monthly installments ranging from 130,061 barrels to 154,378 barrels from January 1, 2008 to December 31, 2010. The price under the oil put options are based on the price of West Texas Intermediate crude oil. Under the same agreement, we also sold oil put options to Standard Bank Plc to notionally sell to us 5,236,710 barrels at a strike price of US$42.50 per barrel in monthly installments ranging from 130,061 barrels to 154,378 barrels from January 1, 2008 to December 31, 2010 under the same terms and conditions as the options we purchased. In effect, the purchase and sale of the oil put options combine to lock-in the minimum price of oil at US$62.50 per barrel for each month during the period from January 1, 2008 to December 31, 2010 for an amount ranging from 130,061 barrels to 154,378 barrels per month, with a maximum downside protection of US$20.00 per barrel. If the price of West Texas Intermediate crude oil is higher than US$62.50 per barrel, the options will not be exercised. Each month during the period from January 1, 2008 to December 31, 2010, if the average monthly spot price of oil falls below US$62.50 per barrel, we receive from Standard Bank Plc each month the difference between the strike price of US$62.50 per barrel and the price of West Texas Intermediate crude oil, in respect of the notional volume of that month, provided that the maximum payout by Standard Bank Plc is limited to US$20.00 per barrel. We paid to Standard Bank Plc premium payments of US$2.3 million in 2008 and US$11.1 million in 2009 for a total premium payment of US$13.4 million for this oil put option arrangement, which payments were the only put option premiums we paid during 2008, 2009 and 2010. At the end of 2008 and in the beginning of 2009, the price of West Texas Intermediate crude oil fell below US$62.50 per barrel, and in 2010, the price of West Texas Intermediate crude oil rose to an average of US$79.07 per barrel. In 2008, we recorded a non-cash unrealized gain of RMB129.8 million. In 2009, we recorded a non-cash unrealized loss of RMB207.2 million due to the change in fair value of the unrealized portion of the oil put option. In 2010, we recorded a non-cash unrealized loss of RMB24.4 million due to the same reason above

and a non-cash realized loss of RMB20.3 million due to the termination of oil the put option with Standard Bank. The non-cash unrealized and realized gain or loss is included as other income or loss in our consolidated income statement. Any cash realized gain or loss under the oil put options contract will be reflected in our consolidated cash flow statement. We realized a cash inflow from oil put options contract of RMB25.7 million, RMB71.0 million and nil in 2008, 2009 and 2010, respectively.

In October 2010, we purchased oil put options to notionally sell to Merrill Lynch Commodities, Inc. 3,000,000 barrels of crude oil at a strike price of US$70.00 per barrel, in installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012. The price under the oil put options are based on the price of West Texas Intermediate crude oil. Under the same agreement, we simultaneously sold oil put options to Merrill Lynch Commodities, Inc. to notionally sell to us 3,000,000 barrels at a strike price of US$55.00 per barrel in installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 under the same terms and conditions as the options we purchased. The oil put options expire on December 31, 2012. In effect, the purchase and sale of the oil put options combine to lock-in the minimum price of oil at US$70.00 per barrel for 150,000 barrels per month in 2011 and for 100,000 barrels per months in 2011, with a maximum protection of US$15.00 per barrel. If the price of West Texas Intermediate crude oil is higher than US$70.00 per barrel, the options will not be exercised. Each month we will receive from Merrill Lynch Commodities, Inc. the difference between the strike price of US$70.00 per barrel and the price of West Texas Intermediate crude oil, in respect of the notional volume of that month, if the average monthly spot price of oil falls below US$70.00 per barrel, provided that the maximum payout by Merrill Lynch Commodities, Inc. is limited to US$15.00 per barrel. Starting in April 2011, we will pay Merrill Lynch Commodities, Inc. premium payments over a period of eight quarters for the oil put option arrangement, paying US$3.29 million in 2011, US$4.36 million in 2012 and US$1.09 million in 2013 for a total premium payment of US$8.74 million. The oil put options do not qualify for hedge accounting under IAS 39 "Financial Instruments: Recognition and Measurement." We will record gains or losses from this oil put option as other income or loss, respectively, in our consolidated income statement. Any cash realized gain under the oil put option will be reflected in our consolidated cash flow statement.

Our hedging policy prohibits speculative oil hedging. When management makes oil hedging decisions, it takes into account factors including annual production of oil production, forward curve of oil prices, expected investments into drilling each year and the production derived from such investments, tax and government policies, among others. Our oil hedging transactions are restricted to cover a reasonable period when the oil prices can be determined with greater degree of certainty, usually up to two years. Our hedging transactions also focus on protection against downside risk. All oil hedging transactions must be approved by the Board. We may be exposed to counterparty risks in our hedging transactions; however, we mitigate counterparty risk by choosing only reputable leading banks that are active in the oil hedging market and have well-capitalized financial positions and by requesting deferred premium payments, allowing us to spread our payments across the term of the hedging arrangement. After entering into a hedging transaction, we monitor oil prices closely and remain alert as to any news concerning our counterparties, their financial performance and any changes to their financial position. Our management team also holds frequent meetings to review trends in oil prices and the effectiveness of our hedging positions and strategy. Our Directors do not consider such counterparty risk to be material as we only enter into oil hedging transactions with large international banks and financial institutions that are reputable and well-capitalized and we do not purchase from small brokers or on the secondary market.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB, appearing elsewhere in this offering memorandum. The preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following accounting policies represent critical accounting policies as they involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this offering memorandum.

***Property, Plant and Equipment***

Property, plant and equipment, including oil and gas properties, are stated at historical cost less accumulated depreciation, depletion and amortization. Historical cost includes expenditures that are directly attributable to the Acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Except for oil and gas properties, depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The assets' residual values and useful lives are reviewed at each period end and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized within other income/expenses, in the income statement.

We review property, plant and equipment, including oil and gas properties, for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Determination as to whether and how much an asset is impaired involves management estimates and judgments such as future crude oil prices and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with our business plans. Favorable changes to some assumptions may allow us to avoid the need to impair any assets in these years, whereas unfavorable changes may cause the assets to become impaired.

When assessing impairment of our oil and gas properties, we make several assumptions. We forecast production as outlined in our reserves reports and consider natural decline as well as the effect of the water flooding in the areas of the fields where injection of water is proven effective in improving rate and recovery. When we anticipate a decline in production ability for a field, we apply an estimated rate of decline for the depletion of the reserves at that field. We then apply this estimated rate of decline as the basis for estimating future production rates. We assume that our prices for oil and gas at the end of the fiscal year will remain constant, except for known and determinable escalations, for purposes of our discounted cash flow calculation.

Included in property, plant and equipment are assets amounting to RMB3,024 million (historical cost of RMB5,121 million less accumulated depreciation and impairment of RMB2,097 million) directly used in and operated under the Group's three production sharing contracts with PetroChina. The Group is currently the operator of these assets. After the earlier of full recovery of development costs or expiry of these production sharing contracts, PetroChina may become the operator of these assets.

***Oil Properties***

The successful efforts method of accounting is used for our oil exploitation and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in our oil properties are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as construction in progress pending determination of whether the wells find proved oil reserves. Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil properties and subject to impairment reviews. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. We do not have any costs of unproved properties capitalized in oil properties.

The cost of oil properties is amortized at the field level based on the unit of production method. Unit of production rates are based on proved developed producing reserves estimated to be recoverable from existing facilities based on current terms of the respective production agreements. Our reserves estimates represent crude oil that management believes can be reasonably produced within the current terms of these production agreements.

***Estimate of Proved Reserves***

We use reserve definitions under PRMS to calculate depreciation, depletion and amortization. Therefore, the description of proved reserves below is based on PRMS reserve definitions.

Proved reserves are those quantities of crude oil that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from a given date forward from known reservoirs and under defined economic and operating conditions, operating method, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

We classified our proved reserves into two categories: proved developed producing reserves and proved undeveloped reserves. Proved developed producing reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery.

Our reserve estimates were prepared for each oilfield and include only crude oil that we believe can be reasonably produced within current economic and operating conditions.

Proved reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgment. Consequently, reserve estimates are subject to revision as additional data becomes available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved reserves are key elements in our investment decision-making process. They are also an important element in testing for impairment. A reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges, assuming constant production, and reduce net profit. Proved developed producing reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

***Trade and Other Receivables***

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. The factors we consider when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income. As of December 31, 2008 and 2009 and 2010, there were no trade receivables past due which are impaired.

***Deferred Taxes***

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

***Estimation of Asset Retirement Obligations***

A provision is recognized for the future decommissioning and restoration of oil and gas properties. The amounts of the provision recognized are the present values of the estimated future expenditures. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of oil and gas properties. Changes in any of these estimates will impact our operating results and the financial position over the remaining economic lives of the oil and gas properties.

***Share-based Compensation Expenses***

On November 20, 2009, we granted options for 1,480,870 ordinary shares to certain officers and employees. The exercise price of each option granted was US$2.39. During 2010, 100,400 share options lapsed because of employment terminations. On November 23, 2010, we granted options for 170,000 ordinary shares to our independent non-executive directors. The exercise price of each option granted was US$4.53. After taking

into consideration the issuance of a total of 2,078,542,510 ordinary shares on December 14, 2010 to our shareholders, in proportion to their shareholdings at the close of business on November 23, 2010 (the "Capitalization Issue"), out of the 28,084,179 outstanding options, 8,334,971 were exercisable as of December 31, 2010.

The share options outstanding as at December 31, 2010 were 25,004,913 with an exercise price of US$0.13 and 3,079,266 with an exercise price of US$0.25. On November 20, 2009, the Board granted certain officers and employees stock appreciation rights pertaining to 2,560,180 notional ordinary shares to which the stock appreciation rights relate. The exercise price of each stock appreciation right was US$2.39. During 2010, 12,550 stock appreciation rights lapsed because of employment termination. On February 26, 2010, the Board granted certain employees stock appreciation rights pertaining to 25,100 notional ordinary shares with an exercise price of US$4.78 per notional ordinary shares. On December 14, 2010, the total number of outstanding stock appreciation rights was adjusted to 46,600,713 by reason of the Capitalization Issue. During 2010, a total of 212,167 stock appreciation rights with exercise price of US$0.13 have lapsed pursuant to the terms and conditions of our stock incentive plan. Out of the 46,388,546 outstanding stock appreciation rights, 15,169,856 stock appreciation rights were exercisable as of December 31, 2010. The stock appreciation rights outstanding as at December 31, 2010 were 45,933,902 with exercise price of US$0.13 and 454,644 with exercise price of US$0.26.

***Employee Stock Options***

For stock options, we recognize the fair value of the employee services received in exchange for the grant of the options as an expense. We determine the total amount to be expensed by reference to the fair value of the options on the grant date. The total amount expensed is recognized over the vesting period, which is the period over which all specified vesting conditions are to be satisfied. We credit the proceeds received net of any directly attributable transaction costs to share capital (nominal value) and other reserves when the employees exercise their options. Determining the total value of our share-based compensation expenses requires the use of highly subjective assumptions, including the expected life of the stock options, estimated forfeitures and the price volatility of the underlying shares. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if we had used different assumptions, our total share-based compensation expenses could have been different. In 2009 and 2010, we recorded share-based compensation expenses of RMB1.2 million and RMB10.4 million, respectively, relating to our stock option grants. Approximately RMB6.2 million of share-based compensation expenses are expected to be recognized in 2011.

To determine the fair value of our stock options, we used a binomial option pricing model, or binomial model. The principal terms of the stock options include providing holders of the employee stock options the rights to exercise the options from the date on which the options become vested until the expiration of the options and the rights to exercise the options within 30 days after the grantee is no longer our employee during the exercisable period. These features can be modeled as an American call option with additional parameters to account for the specific nature of the share-based awards. The binomial model has the flexibility to incorporate these features and is thus appropriate for calculating the value of the employee stock options. The fair value of options as of November 20, 2009, the grant date, determined using the binomial model was US$1.93 per option. The significant inputs into the model were the fair value per share of US$3.30 at the grant date, the exercise price shown above, volatility of 64.7%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

In determining the fair value of our ordinary shares on each grant date, we relied in part on a valuation report prepared by an independent valuer based on data we provided. The valuation report provided us with guidelines in determining the fair value, but the final determination as to the fair value of our share awards was made by our management. To determine the total equity interest in our company, we considered three generally accepted approaches, including cost, market and income approaches. While useful for certain purposes, the cost

approach is generally not considered applicable to the valuation of companies which are a going concern, as it does not capture the future earning potential of the business. We also believe the relevance of the market approach is low, since there had been no recent transaction that was directly comparable and we could not identify peer companies with financial metrics and stage of development comparable to us that could give us a reasonable indication on the fair value of our business. In view of the above, we considered the income approach to be the most appropriate method to derive the values of equity interest of our company.

For the income approach, we utilized a discounted cash flow, or DCF, analysis based on management's best estimate of projected cash flows as of the valuation date. This method eliminates the discrepancy in the time value of money by using a discount rate to reflect all business risks, including intrinsic and extrinsic uncertainties relating to us. The projected cash flows include among other things, an analysis of projected revenue growth, gross margins, effective tax rates, capital expenditures and working capital requirements. This method involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. The assumptions used in deriving the fair value of our total equity interest include:

- there will be no material change in the existing political, legal, technological, fiscal or economic conditions which may adversely affect our business;
- operational and contractual terms bound by the contracts and agreements entered into by us will be honored; and
- our competitive advantages and disadvantages do not change significantly during the period under consideration.

These assumptions are inherently uncertain and subjective. The discount rates reflect the risk management perceived as being associated with achieving the forecasts and were derived by using the capital asset pricing model, after taking into account systematic risks and company-specific risks. Using this method, we determined the appropriate equity discount rate was 15.50% as of November 20, 2009.

The interests in the equity value of our company on November 20, 2009 included both series A preferred shares and ordinary shares. The fair value of the equity interest allocated to the preferred shares was calculated using the option pricing method. The fair value of the ordinary shares was calculated as the residual, or the total equity value less the fair value of the preferred shares. Under the option pricing method, we treated the preferred shares as a call option on our equity value, with the exercise price based on the liquidation preference of the preferred shares. Because a call option is used, the option pricing method commonly used is the Black-Scholes model, which takes into account the expected life of the option, a risk-free interest rate, dividend yield and a measure of volatility. Because we were a private company, we approximated volatility using the historical volatility of comparable publicly traded companies. The significant assumptions used in the Black-Scholes model included: expected life of 47 months; risk-free interest rate of 1.7181%; no dividend yield; and volatility of 69.01%. Based on this methodology, we calculated the residual fair value of our ordinary shares to be US$3.30 per share.

***Stock Appreciation Rights***

We measure share-based compensation expense for stock appreciation rights based on the difference between the notional exercise price of the right and the fair value of the right at the end of the reporting period which is expensed over the vesting period. The change in the fair value is recorded in employee compensation costs in the consolidated statement of comprehensive income and the related liability is included in the employees' salaries and welfare payable. In 2009 and 2010, we recorded share-based compensation expenses of RMB2.3 million and RMB19.1 million relating to our stock appreciation rights, respectively.

The fair value of stock appreciation rights granted on November 20, 2009, as of December 31, 2010, the latest balance sheet date, determined using the binomial model was US$0.11 per right. The significant inputs into the model were the fair value per share of US$0.22 as of December 31, 2010, the exercise price of US$0.13,

volatility of 58.62%, dividend yield of 0%, stock appreciation rights life of 8.89 years and an annual risk-free interest rate of 3.15%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

In February 26, 2010, our board of directors granted 25,100 additional stock appreciation rights. The fair value of stock appreciation rights granted on February 26, 2010, as of December 31, 2010, the latest balance sheet date, determined using the binomial model was US$0.08 per right. The significant inputs into the model were the fair value per share of US$0.22 as of December 31, 2010, the exercise price of US$0.26, volatility of 58.62%, dividend yield of 0%, stock appreciation rights life of 9.16 years, and an annual risk-free interest rate of 3.15%. For information on the method we use to determine the fair value of our ordinary shares, see "– Employee Stock Options."

We evaluate the performance of participants under the stock appreciation rights award agreement based on criteria including achievement, efficiency, quality of work, communication and teamwork, among others. Performance evaluations are completed twice a year.

***Taxation***

Both the company and MIE are incorporated in the Cayman Islands. Maples and Calder, our Cayman Islands counsel, has advised us that under the current law of the Cayman Islands, both the company and MIE are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

For the periods ended December 31, 2008, 2009 and 2010, we were subject to enterprise income tax, or EIT, on our income that was effectively connected to the PRC at the rate of 25%, 25% and 25%, respectively, in the PRC. Prior to January 1, 2008, under applicable PRC tax laws, companies established in the PRC were generally subject to national and local EIT at statutory rates of 30.0% and 3.0%, respectively. We are not subject to the local EIT as our business is located in the economic development zone in Songyuan, Jilin Province.

In March 2007, the National People's Congress of China enacted the New EIT Law and in November 2007, the State Council promulgated the implementing rules of the New EIT Law, both of which became effective on January 1, 2008. The New EIT Law curtails tax incentives granted to foreign-invested enterprises under the previous tax law. The New EIT Law (i) reduces the top rate of enterprise income tax from 33.0% to 25.0%, (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules, and (iii) introduces new tax incentives, subject to various qualification criteria. Since no member of our Group is established in the PRC, and no actual management body of any member of our Group is established in the PRC, and furthermore, no member of our Group has been deemed a tax resident by any PRC tax authority in the past, we believe that the possibility of our company being regarded as tax residents in the PRC is relatively low. Because the concept of tax residency is new in China, it is possible that the tax authorities may in the future assert that the company and/or MIE are tax residents in China. In the event that this occurs, the company or MIE will become subject to the New EIT Law on its worldwide income. This would cause all of the income earned by the company and MIE to be subject to China's 25% EIT rate.

We recorded income tax expenses of RMB162.7 million, RMB73.5 million and RMB161.7 million for the years ended December 31, 2008, 2009 and 2010.

Petroleum exploration companies also pay a special levy on the portion of income realized from the sales of domestic crude oil at prices higher than a specific level set by the PRC government. This levy was imposed by the PRC government and became effective from March 26, 2006. See "– General Factors Affecting Our Results of Operations – Special Levy." In 2008, 2009 and 2010, we recorded a special levy of RMB538.1 million, RMB73.3 million and RMB288.1 million, respectively.

**Summary of Results of Operations**

The table below sets out selected financial information for the periods indicated:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000,000 | RMB'000,000 | RMB'000,000 | US$'000,000 |
| **Consolidated statements of comprehensive income data:** | | | | |
| Revenue | 1,971.7 | 1,166.8 | 1,805.0 | 273.5 |
| Operating expenses: | | | | |
| Purchases, services and other | 96.9 | 123.6 | 126.5 | 19.2 |
| Employee compensation costs | 69.0 | 67.7 | 110.3 | 16.7 |
| Depreciation, depletion and amortization | 475.2 | 445.8 | 528.6 | 80.1 |
| Impairment of property, plant and equipment | 32.0 | – | – | – |
| Distribution and administrative expenses | 112.7 | 84.1 | 78.6 | 11.9 |
| Taxes other than income taxes | 538.1 | 73.3 | 288.1 | 43.8 |
| Other (income)/losses | (133.8) | 131.1 | 37.6 | 5.7 |
| Total operating expenses | 1,190.1 | 925.6 | 1,171.0 | 177.4 |
| Profit from operations | 781.6 | 241.2 | 634.0 | 96.1 |
| Finance costs, net | (7.8) | (57.3) | 51.4 | 7.8 |
| Profit before income tax | 773.8 | 183.9 | 582.6 | 88.3 |
| Income tax expense | (162.7) | (73.4) | (161.7) | (24.5) |
| Net profit for the year | 611.1 | 110.5 | 420.9 | 63.8 |

**Description of Selected Line Items in the Statement of Comprehensive Income**

*Revenue*. Our revenue consists of oil sold calculated based on our entitlement in the oilfields covered under our production sharing contracts. Revenue is recognized upon delivery of crude oil that is allocated under production sharing contracts. Revenue is recognized only when we have transferred to the buyer the significant risks and rewards of the ownership of the goods, and where the amount of revenue and the costs incurred or to be incurred can be measured reliably and collectability of the related receivables is assured.

*Operating expenses*. Our operating expenses consist of purchases, services and other expenses, employee compensation costs, depreciation, depletion and amortization, impairment of property, plant and equipment, distribution and administrative expenses, taxes other than income taxes, and other income or loss. Operating costs relating to the three oilfields, such as purchases, services and other expenses, employee compensation costs and substantially all of the distribution and administrative expenses, are borne by the foreign contractors in the range of 48% to 80%, which is consistent with the allocation of crude oil among foreign contractors and PetroChina. See "– General Factors Affecting Our Results of Operations – Production Sharing Contracts."

- Purchases, services and other expenses – include direct operating and maintenance costs of wells and related facilities, including direct material costs, fuel costs and electricity costs, safety fees, third party costs, such as oil displacement injection costs, down hole operating costs, maintenance and repair fees, purification and recovery costs and oil and gas transportation costs, and other direct expenses and management fees.

- Employee compensation costs – include employee wages, salaries and allowances, housing subsidies and welfare and other expenses.

- Depreciation, depletion and amortization of our oil properties – see "– Critical Accounting Policies and Estimates – Property, Plant and Equipment" and "– Critical Accounting Policies and Estimates – Oil Properties" for more details. Under IFRS, our accounting of unit of production for depreciation, depletion and amortization was based on the reserve definition as set out in the PRMS. We apply the unit of production rates based on net proved developed producing oil reserves estimated to be recoverable from existing facilities based on terms of the respective production agreements.

- Impairment of property, plant and equipment – represents the difference between the carrying value of the assets and their recoverable amount determined using the discounted cash flow method. In the year ended December 31, 2008, we incurred an impairment charge of RMB32.0 million, which is a non-cash expense arising from assessing the net recoverable amount of the Miao 3 oilfield using the discounted cash flow method with an assumed crude oil price of US$55 per barrel and a discount rate of 12%. We did not incur any impairment charge in any other year. See "– Critical Accounting Policies and Estimates – Property, Plant and Equipment."

- Distribution and administrative expenses – include a distribution expense of RMB52 per ton of crude oil according to our sales contract with China National Petroleum Sales Corporation, and general and administrative expenses, including utilities, transportation, business related travel, office rental costs, equipment repairs, property and other insurance, land-use compensation, audit and legal fees, landscaping and environmental sanitation expenses, administrative-related taxes, training and personnel fees paid to PetroChina, provision for impairment of receivables and other miscellaneous expenses.

- Taxes other than income taxes – represent the special levy which is paid or payable to the PRC government on the portion of income realized by any petroleum exploration companies from the sales of domestic crude oil at prices higher than a specific level set by the PRC government. See "– General Factors Affecting Our Results of Operations – Special Levy."

- Other income/losses – include any gain or loss from the oil put option and any gain or loss on forward foreign exchange contracts.

*Finance income/costs*. Finance income/(costs) includes finance income, such as interest income from savings accounts and foreign exchange translation gain, and finance costs, such as interest expenses, bank charges and foreign translation exchange loss.

*Income tax expense*. Income tax expense includes current income tax and deferred income tax. Income tax is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items. The PRC EIT rate applicable to us was 25% for the years ended December 31, 2008, 2009 and 2010. See "– Taxation."

**Review of Historical Operating Results**

***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

*Revenue*. Our revenue increased by RMB638.2 million, or 54.7%, from RMB1,166.8 million for the year ended December 31, 2009 to RMB1,805.0 million for the year ended December 31, 2010. This increase was primarily due to an increase in crude oil prices and our sales volume.

The average realized oil price was US$77.99 per barrel for the year ended December 31, 2010, compared to US$58.58 per barrel for the year ended December 31, 2009. Our sales volume was 3.42 million barrels for the year ended December 31, 2010, compared to 2.92 million barrels for the year ended December 31, 2009.

*Operating expenses*. Our operating expenses increased by RMB245.4 million, or 26.5%, from RMB925.6 million for the year ended December 31, 2009 to RMB1,171.0 million for the year ended December 31, 2010, primarily due to an increase in special levy as a result of the increase in realized crude oil prices and sales volume.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB2.9 million, or 2.3%, from RMB123.6 million for the year ended December 31, 2009 to RMB126.5 million for the year ended December 31, 2010, primarily due to the increase in sales volume in 2010 which was offset by more stringent cost control.

- *Employee compensation costs*. Our employee compensation costs increased by RMB42.6 million, or 62.9%, from RMB67.7 million for the year ended December 31, 2009 to RMB110.3 million for the year ended December 31, 2010 primarily due to (i) an increase in non-cash share-based compensation expenses arising from the fair value of stock options and stock appreciation rights; (ii) higher compensation to employees because of the Company's improved financial performance in 2010 and (iii) an increase in the number of our staff hiring in connection with our increased production.

- *Depreciation, depletion and amortization*. Our depreciation, depletion and amortization increased by RMB82.8 million, or 18.6%, from RMB445.8 million for the year ended December 31, 2009 to RMB528.6 million for the year ended December 31, 2010. The increase is mainly due to the increase in sales volume in 2010. Depreciation, depletion and amortization is calculated using unit of production based on proved developed producing reserves for the years ended December 31, 2009 and 2010.

- *Distribution and administrative expenses*. Our distribution and administrative expenses decreased by RMB5.5 million, or 6.5%, from RMB84.1 million for the year ended December 31, 2009 to RMB78.6 million for the year ended December 31, 2010, primarily due to improvements in cost controls.

- *Taxes other than income taxes*. Our taxes other than income taxes increased by RMB216.0 million, or 294.7%, from RMB73.3 million for the year ended December 31, 2009 to RMB288.1 million for the year ended December 31, 2010. This increase was primarily due to (i) an increase in the special levy we paid to the PRC government in 2010 due to (a) increased realized crude oil prices of year 2010 as the special levy is calculated and charged at progressive ad valorem rates based on the price of crude oil and (b) an increase in sales volume; and (ii) PetroChina's payment of the special levy to the PRC government on our behalf during the first half of 2009 as compensation for special levy payments we had paid in 2008 on the excess entitlement. In 2008, due to the excess entitlement, we paid PetroChina's portion of the special levy. In 2009, we settled the excess entitlement with PetroChina by letting PetroChina take more oil and pay the special levy associated with such oil, which amount was RMB41.8 million. As a result, we paid less special levy in 2009 than we otherwise would have had PetroChina not made this payment making the total amount of taxes other than income taxes paid in 2009 lower than other years. Special levy is payable starting at US$40 per barrel and the rate increases according to the crude oil price.

- *Other losses*. Our other losses decreased by RMB93.5 million, or 71.3%, from approximately RMB131.1 million for the year ended December 31, 2009 to approximately RMB37.6 million for the year ended December 31, 2010. Our other losses for the year ended December 31, 2010 were due primarily to a non-cash loss of RMB20.3 million from the oil put options purchased from Standard Bank, which expired on December 31, 2010 and a non-cash unrealized loss of RMB24.4 million from the oil put options purchased from Merrill Lynch Commodities, Inc. in October 2010, due to the movement in the fair value of the oil put option. The options purchased from Standard Bank, which had a carrying value of RMB20.3 million as at December 31, 2009, expired on December 31, 2010. As for the options purchased from Merrill Lynch Commodities, Inc., accounting standards

require us to perform a valuation on the unexpired portion of any oil hedge at each reporting period. The fair value is determined by, amongst other things, the spot price and the forward curve of oil prices at the reporting period. The spot price of West Texas Intermediate crude oil as at December 31, 2010 was US$90.80 per barrel and the forward curve for the price of West Texas Intermediate crude oil for that date was higher than the spot price and was upward sloping, requiring us to book a non-cash unrealized loss of RMB24.4 million.

*Profit/loss from operations.* Our profit from operations increased by RMB392.8 million, or 162.9%, from RMB241.2 million for the year ended December 31, 2009 to RMB634.0 million for the year ended December 31, 2010. This increase was primarily due to an increase in revenue, partially offset by an increase in the amount of special levy paid.

*Finance income/costs*, net. Our finance net cost decreased by RMB5.9 million, or 10.3%, from RMB57.3 million for the year ended December 31, 2009 to RMB51.4 million for the year ended December 31, 2010. This decrease was primarily due to our foreign exchange translation gain of RMB35.2 million in 2010 compared to a foreign exchange translation loss of RMB2.2 million in 2009, caused by the appreciation of the Renminbi against the U.S. dollar in 2010 as our borrowings were denominated and settled in U.S. dollars. The exchange gain was partially offset by the increase in interest expenses due to an increase in our outstanding borrowings after replacing the Standard Bank loan with the CITIC Facility in July 2009 and fully drawing down the CITIC Facility shortly thereafter.

*Profit/loss before income tax*. Our profit before income tax increased by RMB398.7 million, or 216.8%, from RMB183.9 million for the year ended December 31, 2009 to RMB582.6 million for the year ended December 31, 2010. This increase was primarily due to the cumulative effects of the above factors.

*Income tax expense/credit*. We had income tax expense of RMB73.5 million for the year ended December 31, 2009, compared to income tax expense of RMB161.7 million for the year ended December 31, 2010. This increase was primarily due to an increase in profit before income tax in 2010.

*Net profit/loss*. As a result of the foregoing, our net profit for the year increased by RMB310.4 million, or 280.9%, from RMB110.5 million for the year ended December 31, 2009 to RMB420.9 million for the year ended December 31, 2010.

*Total comprehensive income*. As a result of the foregoing, our total comprehensive income was RMB409.9 million for the year ended December 31, 2010, compared to a total comprehensive profit of RMB110.5 million for the year ended December 31, 2009.

***Year Ended December 31, 2009 Compared to Year Ended December 31, 2008***

*Revenue*. Our revenue decreased by RMB804.9 million, or 40.8%, from RMB1,971.7 million for the year ended December 31, 2008 to RMB1,166.8 million for the year ended December 31, 2009. This decrease was primarily due to a decrease in the crude oil prices, slightly offset by an increase in sales volume.

Average realized oil price was US$58.58 per barrel for the year ended December 31, 2009, compared to US$104.78 per barrel for the year ended December 31, 2008. Sales volume was 2.92 million barrels for the year ended December 31, 2009, compared to 2.72 million barrels for the year ended December 31, 2008. Our sales volume in 2009 exceeded our net production of crude oil as we sold part of the inventory of crude oil in our storage tanks as at December 31, 2008. Sales volume in 2009 included 127,907 barrels of crude oil which were produced in 2008. As of December 31, 2008 and 2009, we had an inventory of 196,927 barrels and 69,020 barrels of crude oil, respectively.

In 2009 compared to 2008, more crude oil was allocated to the foreign contractors at 48% compared to 80%. For the year ended December 31, 2009, we had limited investments in the oilfields. Accordingly, most of the revenue generated is profit-sharing oil which is subject to the 48% allocation to the foreign contractors. See "– General Factors Affecting Our Results of Operations – Production Sharing Contracts."

*Operating expenses*. Our operating expenses decreased by RMB264.5 million, or 22.2%, from RMB1,190.1 million for the year ended December 31, 2008 to RMB925.6 million for the year ended December 31, 2009, primarily due to a decrease in special levy as a result of the decrease in realized crude oil prices, offset by an increase in other losses due to the movement in the fair value of the oil put option.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB26.7 million, or 27.6%, from RMB96.9 million for the year ended December 31, 2008 to RMB123.6 million for the year ended December 31, 2009, primarily due to a write-back of accrued safety fees before 2008 of RMB34.0 million in the year ended December 31, 2008 and the increase in sales volume in 2009, offset by changes in production sharing allocation. PRC regulations require us to incur expenditures on defined safety activities and to set aside an amount anticipated to be incurred based on a percentage of revenue as described below. In 2008 and 2009, more information and interpretation on the PRC regulations clarified the accounting treatment of safety fees, which specifically provides that safety fees shall not be recorded as liability but in other reserves. As a result, we wrote back the unused safety fees from 2006 and 2007 in the year ended December 31, 2008. In 2009, more crude oil was allocated to the foreign contractors at 48% compared to 80%. Since foreign contractors' share of the revenue decreased, operating costs also correspondingly decreased.

- In accordance with relevant PRC regulations, the amount of the safety fees is set at 2% of revenue for the relevant year and the amount is transferred from retained earnings to the safety fund reserve. Safety expenditure incurred by us in respect of safety-related activities is either expensed to the statement of comprehensive income or capitalized as an asset in the statement of financial position depending on the nature of the expenditures. Actual expenditure is then transferred from the safety fund reserve to retained earnings, subject to the limit of the safety fund reserve balance.

- *Employee compensation costs*. Our employee compensation costs decreased by RMB1.3 million, or 1.9%, from RMB69.0 million for the year ended December 31, 2008 to RMB67.7 million for the year ended December 31, 2009 primarily due to the changes in production sharing allocation and staff rationalization in the first half of 2009 to reduce operating costs.

- *Depreciation, depletion and amortization*. Our depreciation, depletion and amortization decreased by RMB29.4 million, or 6.2%, from RMB475.2 million for the year ended December 31, 2008 to RMB445.8 million for the year ended December 31, 2009. Lower depreciation, depletion and amortization costs in 2009 were primarily due to higher reserves in 2009 resulting in a decrease in depreciation per unit of production.

- *Impairment of property, plant and equipment*. As of December 31, 2008, due to declining oil prices, we revised our reserve projections for all of our oilfields. This reserve review and the financial results of Miao 3 suggested a possible impairment of Miao 3's carrying value. Accordingly, we undertook a detailed impairment assessment as required by IFRS. As a result, for the year ended December 31, 2008, we incurred an impairment charge of RMB32.0 million, which is a non-cash expense arising from assessing the net recoverable amount of Miao 3 using the discounted cash flow method with an assumed crude oil price of US$55 per barrel and a discount rate of 12%. We did not incur any impairment charges in any other year. As oil prices rebounded in the second half of 2009, our net proved reserves increased. As a point of reference, as of December 31, 2009 and March 31, 2010, the price of West Texas Intermediate crude oil was US$79.36 and US$83.76 per barrel, respectively.

- *Distribution and administrative expenses*. Our distribution and administrative expenses decreased by RMB28.6 million, or 25.4%, from RMB112.7 million for the year ended December 31, 2008 to

RMB84.1 million for the year ended December 31, 2009 primarily due to the changes in production sharing allocation and higher general and administrative expenses in 2008 partly due to legal and accounting fees incurred in connection with our preparation for a private placement and a public offering in Hong Kong in 2008.

- *Taxes other than income taxes*. Our taxes other than income taxes decreased by RMB464.8 million, or 86.4%, from RMB538.1 million for the year ended December 31, 2008 to RMB73.3 million for the year ended December 31, 2009. This decrease was primarily due to (i) a decrease in the special levy we paid to the PRC government due to decreased realized crude oil prices between the periods as the special levy is calculated and charged at progressive ad valorem rates based on the price of crude oil and (ii) PetroChina's payment of the special levy to the PRC government on our behalf during the first half of 2009 as compensation for special levy payments we had paid in 2008 on the excess entitlement. In 2008, RMB429.6 million of the special levy paid by us was not related to the excess entitlement, compared to RMB115.1 million in 2009. In 2008, due to the excess entitlement, we paid PetroChina's portion of the special levy in the amount of RMB108.6 million. In 2009, PetroChina paid RMB41.8 million of the special levy due on settlement of the excess entitlement, and therefore, our taxes other than income taxes in 2009 were RMB73.3 million.

- *Other income/losses*. We had other income of RMB133.8 million for the year ended December 31, 2008, primarily due to the non-cash unrealized gain of RMB129.8 million in 2008, due to the movement in the fair value of the oil put option, which was impacted by the fluctuation of the crude oil prices. We had other losses of RMB131.1 million for the year ended December 31, 2009, primarily due to a non-cash unrealized loss of RMB207.2 million from the movement in the fair value of the oil put option, which was partially offset by a realized gain of RMB71.0 million on the oil put option. Since the price of West Texas Intermediate crude oil was US$44.60 per barrel on December 31, 2008 and our oil put option with a strike price of US$62.50 per barrel does not expire until December 31, 2010, we had a non-cash unrealized gain of RMB129.8 million in 2008. However, since the price of West Texas Intermediate crude oil was US$79.36 per barrel on December 31, 2009, and our oil put option had a strike price of US$62.50 per barrel, we incurred a non-cash unrealized loss of RMB207.2 million in 2009.

*Profit/loss from operations*. Our profit from operations decreased by RMB540.4 million, or 69.1%, from RMB781.6 million for the year ended December 31, 2008 to RMB241.2 million for the year ended December 31, 2009. This decrease was primarily due to a decrease in revenue, partially offset by a decrease in operating expenses.

*Finance income/costs*, net. Our finance cost, net, increased by RMB49.5 million, or 634.6%, from RMB7.8 million for the year ended December 31, 2008 to RMB57.3 million for the year ended December 31, 2009. This increase was primarily due to our foreign exchange translation loss of RMB2.2 million in 2009 compared to a foreign exchange translation gain of RMB42.8 million in 2008, due to the stabilization of the exchange rate of the Renminbi against the U.S. dollar in 2009 as our loans were denominated and settled in U.S. dollars.

*Profit/loss before income tax*. Our profit before income tax decreased by RMB589.9 million, or 76.2%, from RMB773.8 million for the year ended December 31, 2008 to RMB183.9 million for the year ended December 31, 2009. This decrease was primarily due to the cumulative effects of the above factors.

*Income tax expense/credit*. We had income tax expense of RMB162.7 million for the year ended December 31, 2008, compared to income tax expense of RMB73.4 million for the year ended December 31, 2009. This decrease was primarily due to a decrease in profit before income tax between the two years.

*Net profit/loss*. As a result of the foregoing, our net profit decreased by RMB500.6 million, or 81.9%, from RMB611.1 million for the year ended December 31, 2008 to RMB110.5 million for the year ended December 31, 2009.

**Liquidity and Capital Resources**

Our primary sources of funding include cash generated by operating activities, short-term and long-term borrowings and equity investments by our shareholders, including a private equity investment from TPG in July 2009 and our initial public offering in Hong Kong in December 2010. Our primary uses of funds were for operating activities, capital expenditures, and repayment of short-term and long-term borrowings. We fund our capital expenditures and acquire interests in other oilfields principally through the proceeds from our initial public offering, cash generated by operating activities, short-term and long-term borrowings and cash and cash equivalents. As of December 31, 2008, 2009 and 2010, we had cash and cash equivalents of RMB382.1 million, RMB290.3 million and RMB680.0 million, respectively. As of December 31, 2008, 2009 and 2010, we had total borrowings of RMB820.2 million, RMB1,345.4 million and RMB1,291.2 million, respectively. As of December 31, 2008, 2009 and 2010, we had unutilized loan facilities amounting to US$30 million, nil and nil, respectively. If the crude oil price declines significantly in the future, it is likely that we would delay or reduce the planned scale of the capital expenditures for our development and production activities.

In 2010, we had net cash generated from operating activities of RMB1,014.9 million, net cash used in investing activities of RMB1,001.8 million and net cash generated from financing activities of RMB376.7 million, resulting in a net increase in cash and cash equivalent of RMB389.8 million compared to the cash balance as of December 31, 2009. As of December 31, 2010, we had RMB236.7 million in working capital.

In 2009 and 2010, we realized a cash inflow due to our oil put option of US$10.4 million and nil, respectively. In the first half of 2009, we had decreased cash flows due to lower revenue as a result of reductions in crude oil prices and the production curtailment we agreed with PetroChina during the first two months of 2009. Our cash flows improved in the remaining period of 2009 and the first half of 2010 as a result of improved cash flow from operations as sales volume and oil prices increased.

***Cash Flows***

The table below sets forth our cash flows for each of the years ended December 31, 2008, 2009 and 2010.

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000,000 | RMB'000,000 | RMB'000,000 | US'000,000 |
| Net cash generated from/(used in) operating activities | 1,449.5 | (70.2) | 1,014.9 | 153.8 |
| Net cash (used in) investing activities | (1,278.5) | (881.8) | (1,001.8) | (151.8) |
| Net cash generated from financing activities | 136.7 | 860.2 | 376.7 | 57.1 |
| Net increase/(decrease) in cash and cash equivalents | 307.7 | (91.8) | 389.8 | 59.1 |
| Exchange losses on cash and cash equivalents | (2.8) | – | – | – |
| Cash and cash equivalents at beginning of the year | 77.2 | 382.1 | 290.3 | 44.0 |
| Cash and cash equivalents at end of the year | 382.1 | 290.3 | 680.0 | 103.0 |

***Operating Activities***

Net cash generated from operating activities was RMB1,014.9 million in the year ended December 31, 2010. In the year ended December 31, 2010, our net cash generated in operating activities included profit before income tax of RMB582.6 million adjusted for, among other things, depreciation, depletion and amortization of RMB528.6 million, higher net interest expenses of RMB51.4 million and an unrealized fair value loss on oil put option of RMB44.7 million. The cash movements in the year ended December 31, 2010 included an increase in trade and other payables of RMB9.5 million, a decrease in trade and other receivable of RMB86.4 million primarily due to decreases in December 2010 compared to December 2009 in the amount of oil sold, and a decrease in inventories of RMB41.0 million primarily because we purchased a larger amount of materials and supplies in late 2009 than in late 2010.

Net cash used in operating activities was RMB70.2 million in the year ended December 31, 2009. In the year ended December 31, 2009, our net cash used in operating activities included profit before income tax of RMB183.9 million adjusted for, among other things, higher depreciation, depletion and amortization of RMB445.8 million, higher interest expenses of RMB54.9 million, an unrealized fair value loss on oil put option of RMB207.2 million, an unrealized fair value gain on currency forward of RMB25.2 million and an unrealized foreign exchange gain of RMB2.2 million. Our profit before income tax was also lower in 2009 due to lower realized oil prices. The cash movements in the year ended December 31, 2009 included a decrease in trade and other payables of RMB581.6 million primarily due to repayment to PetroChina for the excess entitlement (see the paragraph immediately below for more details) and payments to third party suppliers, an increase in trade and other receivables of RMB226.5 million due to more oil being sold in December 2009, the proceeds from which were not received until early 2010, and a slight increase in inventory of RMB22.2 million.

As of December 31, 2008, our trade and other payables included a net advance from PetroChina of RMB458.5 million, which included a liability of RMB487.8 million. This liability arose from our being credited with oil from the production sharing contracts in excess of our entitlement under the production sharing contracts in 2007 and 2008. The excess entitlement occurred because during these years we were allocated oil at the higher cost recovery percentage of 80% though it was later determined that our allocation should have been at the profit-sharing percentage of 48% when, following year-end balancing procedures, we determined the actual annual entitlements based on the oil produced during the year allocated using the appropriate cost recovery and profit share percentages under the production sharing contracts. The amount of excess entitlement was recorded as a liability. The excess entitlement occurred due to the unanticipated high oil prices experienced during the second half of 2007 and 2008. Furthermore, since the occurrence of the excess entitlement, we and PetroChina have revised our crude oil allocation calculation form to strictly follow the production sharing contracts and PetroChina and we have since allocated oil production according to such calculation form. As a result, we expect this excess entitlement to be a one-time occurrence. We were able to resolve this disagreement with PetroChina in November 2009 without damaging the relationship between us and PetroChina and without materially affecting our operations.

Net cash generated from operating activities was RMB1,449.5 million in 2008. In 2008, we had profit before income tax of RMB773.8 million adjusted for, among other things, depreciation, depletion and amortization of RMB475.2 million and an unrealized fair value gain on oil put option of RMB129.8 million. The cash movements in 2008 included an increase in trade and other payables of RMB268.9 million and a decrease in trade and other receivables of RMB258.0 million primarily due to the excess entitlement that occurred in 2008 as described above, offset by a small increase in inventories of RMB16.4 million primarily due to higher amount of oil in our storage tanks as a result of the production curtailment we agreed to with PetroChina beginning in December 2008.

***Investing Activities***

Net cash used in investing activities in the year ended December 31, 2010 amounted to RMB1,001.8 million, mainly as a result of project development costs of RMB910.2 million, and loans granted to GOC of RMB91.6 million for general corporate uses, which will be repaid by GOC through our withholding entitlement payments owed to it for purchase payments from PetroChina.

Net cash used in investing activities in the year ended December 31, 2009 amounted to RMB881.8 million, mainly as a result of project development costs of RMB881.4 million, and loans granted to GOC of RMB21.7 million, partially offset by a reduction in pledged deposits of RMB19.5 million due to a bank guarantee we provided to Jilin Guotai Petroleum Development Company in July 2008, which was released in 2009.

Net cash used in investing activities amounted to RMB1,278.5 million in 2008, mainly due to project development costs of RMB1,238.5 million, offset by loan repayments from Mr. Zhang, our chairman and chief executive officer, of RMB79.0 million. For information on our purchases of property plant and equipment, see "– Capital Expenditures."

Net cash used in investing activities amounted to RMB715.3 million in 2007, mainly as a result of project development costs of RMB831.5 million and interest-free, unsecured loans made to Mr. Zhang in the amount of RMB207.3 million, offset by a decrease in pledged deposits of RMB231.5 million for bank issued notes to suppliers which required cash deposits as guarantee and loan repayments from Mr. Zhang of RMB92.2 million.

***Financing Activities***

Net cash generated from financing activities in the year ended December 31, 2010 amounted to RMB376.7 million, primarily due to funds generated from our initial public offering. Net cash generated from financing activities in the year ended December 31, 2009 amounted to RMB860.2 million due to (i) a drawdown of RMB1,243.2 million from our CITIC Bank International Limited and CITIC Bank Guangzhou long-term credit facility, (ii) a drawdown of RMB204.8 million from our CITIC Bank International Limited and CITIC Bank Guangzhou short-term revolving credit facility, and (iii) net proceeds from the issuance of series A preferred shares of RMB339.6 million, offset by (i) a repayment of RMB825.0 million under our Standard Bank loan facility and (ii) a repayment of RMB102.4 million under our CITIC Bank International Limited and CITIC Bank Guangzhou short-term revolving credit facility. The Standard Bank loan facility was terminated on July 31, 2009. Net cash generated from financing activities in 2008 amounted to RMB136.7 million solely due to a drawdown of RMB136.7 million from our Standard Bank loan facility.

***Cash and Cash Equivalents***

We had cash and cash equivalents of RMB382.1 million, RMB290.3 million and RMB680.0 million as of December 31, 2008 and 2009 and 2010, respectively. Our cash and cash equivalents consist of cash on hand and in banks and investments with maturities (when acquired) of three months or less that can be used freely to finance operating activities.

***Working Capital***

In order to maintain sufficient funds for our existing and future cash requirements, we aim to effectively manage our cash flow and capital commitments, seek bank borrowings, and explore alternative means to raise capital. Currently, having considered our relationships with our commercial lenders, we believe that based on our past repayment and credit history, our existing short-term banks loans will be accepted for renewal upon maturity and existing credit facilities will be maintained in accordance with the terms and conditions of the relevant bank loan agreements.

As of December 31, 2010, our total net current assets totaled approximately RMB236.7 million, comprising the following:

| | As of December 31, 2010 | |
|---|---|---|
| | **RMB'000,000** | **US$'000,000** |
| **Current assets** | | |
| Inventories | 36.7 | 5.6 |
| Derivative financial instruments | 11.2 | 1.7 |
| Trade and other receivables | 398.3 | 60.4 |
| Pledged deposits | 29.9 | 4.5 |
| Cash and cash equivalents | 680.0 | 103.0 |
| **Total current assets** | 1,156.1 | 175.2 |
| **Current liabilities** | | |
| Trade and other payables | 775.1 | 117.4 |
| Current income tax liabilities | 44.9 | 6.8 |
| Borrowings | 99.4 | 15.1 |
| Total current liabilities | 919.4 | 139.3 |
| **Total net current assets** | 236.7 | 35.9 |

We generate our revenue from the sale of oil. Under our production sharing contracts, we and GOC, as the foreign contractors, are required to fund all development costs. Oil, and therefore the ability to generate revenue, is allocated to each participant of the production sharing contracts after the payment of VAT and royalties, based on their participating interest first to recover operating costs, then outstanding developments costs and finally the remaining balance is allocated as profit oil. The foreign contractors are entitled to 80% of the oil, after the allocation for VAT, royalties and operating costs, when the development costs have not yet been fully recovered. We are thus able to recover the development costs over a very short period of time that ranges typically from twelve to eighteen months. As such, we use cash flows from operations to fund our development program.

**Certain Statement of Financial Position Items**

***Trade and Other Receivables***

Our total trade and other receivables as of December 31, 2008, 2009 and 2010 amounted to RMB175.6 million, RMB559.9 million and RMB422.5 million, respectively, and consisted primarily of receivables from PetroChina and amounts due from related parties. Our receivables from PetroChina as of December 31, 2008, 2009 and 2010 amounted to nil, RMB50.7 million and RMB26.0 million, respectively. Our receivables from amounts due from related parties as of December 31, 2008, 2009 and 2010 amounted to RMB139.6 million, RMB145.8 million and RMB195.0 million, respectively, primarily due to prepayment to Jilin Guotai relating to their services and receivables from GOC, the 10% foreign contractor under the production sharing contracts. Accounts receivable turnover days averaged 13, 33 and 36 days in 2008, 2009 and 2010, respectively. We had lower accounts receivable turnover days in 2008 because we had advances and no receivable balance from PetroChina at the end of 2008. We believe the usual account receivable period is approximately one month for this industry.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **RMB'000,000** | **RMB'000,000** | **RMB'000,000** |
| 0-30 days | – | 50.7 | 26.0 |
| Total | – | 50.7 | 26.0 |

***Trade and Other Payables***

Our total trade and other payables as of December 31, 2008 and 2009 and 2010 equaled RMB1,728.8 million, RMB978.9 million and RMB912.7 million, respectively, and consisted primarily of trade payables to our suppliers and contractors and amounts due to FEEL. Accounts payable turnover days averaged 239, 454 and 262 days in 2008, 2009 and 2010. The reason for the increase in accounts payable turnover days in 2009 was due to the low oil prices in the fourth quarter of 2008 and the first half of 2009 as a result of the global economic and financial crisis, which affected the overall market for oil drilling activities.

The following table sets forth an aging analysis of our trade and other payables as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | RMB'000,000 | RMB'000,000 | RMB'000,000 |
| Less than 1 year | 1,495.1 | 757.8 | 820.7 |
| 1 year or more | 233.7 | 221.1 | 92.0 |
| Total | 1,728.8 | 978.9 | 912.7 |

***Inventory***

Our inventory consists of crude oil in our oil tanks and materials and supplies for drilling and extraction of crude oil, which we store in our own warehouses. The following table sets forth our inventories as of the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | RMB'000,000 | RMB'000,000 | RMB'000,000 |
| Oil in tank | 36.3 | 13.0 | 15.6 |
| Materials and supplies | 37.6 | 63.1 | 21.0 |
| Total | 73.9 | 76.1 | 36.6 |

Due to the nature of our oil production business, we do not stock up crude oil or materials and supplies for long periods. Therefore, the inventory turnover days are generally low. Our inventory turnover days averaged 35, 48 and 31 days in 2008, 2009 and 2010. Our management monitors our oil inventory daily. For materials and supplies, we only stock up materials and supplies for our own production purposes.

Depreciation charges of RMB31.4 million, RMB9.5 million and RMB11.8 million have been included in the balance above for the years ended December 31, 2008, 2009 and 2010, respectively. Impairment charges of RMB3.9 million were provided for the year ended December 31, 2008 for oil in tank produced by the Miao 3 Project due to low oil prices as of December 31, 2008.

**Capital Expenditures**

Our net cash used for investing activities includes capital expenditures used for development of oilfields. During the years ended December 31, 2008, 2009 and 2010, we had total capital expenditures of RMB1,238.5 million, RMB881.4 million and RMB910.2 million, respectively.

Our capital expenditures increased by 3.3% from RMB881.4 million in 2009 to RMB910.2 million in 2010, primarily due to an increase in the number of wells drilled in 2010 compared to 2009.

Our capital expenditures decreased by 28.8% from RMB1,238.5 million in 2008 to RMB881.4 million in 2009, primarily due to a decrease in project development costs as we drilled 389 gross development wells and related facilities in 2008 compared to 189 gross development wells and constructed related facilities in 2009. We drilled fewer gross development wells in the first half of 2009 due to the decrease in demand for oil, but normal drilling activities resumed in the second half of 2009.

Our expected capital expenditures for 2011 is RMB1,288 million. These expected capital expenditures are discretionary and were not contracted for as at December 31, 2010. Our net capital expenditures are expected to be 90% of the gross amount because we hold a 90% participating interest in the production sharing contract and GOC holds the remaining 10% interest in the foreign contractors' entitlement and obligations.

**Indebtedness**

As of December 31, 2010, we had total bank loans and other borrowings of RMB1,291.2 million. The table below sets forth a summary of our total borrowings as of the dates of the consolidated statements of financial position.

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | |
| | RMB'000,000 | RMB'000,000 | RMB'000,000 | US$'000,000 |
| Bank borrowings | | | | |
| Within 1 year | 54.7 | 102.4 | 99.3 | 15.0 |
| 1-2 years | 218.7 | – | 529.8 | 80.0 |
| 2-5 years | 546.8 | 1,243.0 | 662.1 | 100.0 |
| Over 5 years | – | – | – | – |
| Total borrowings | 820.2 | 1,345.4 | 1,291.2 | 196.0 |
| Effective interest rates on the borrowings | 6.51% | 6.56% | 5.85% | 5.85% |

The exposure of our borrowings to contractual interest rate changes based on LIBOR + 2.75% at the dates of the statements of financial position at 2008 and LIBOR + 4.5% at December 31, 2009 and December 31, 2010. See "– Contractual Obligations and Capital Commitments" for a summary of our borrowing commitments, including interest payment obligations, as of December 31, 2008, 2009 and 2010.

As of December 31, 2008, 2009 and 2010, we had total bank loans and other borrowings of RMB820.2 million, RMB1,345.4 million and RMB1,291.2 million (US$196.0 million), respectively. Our bank loans and other borrowings during this time comprised interest-bearing bank borrowings and loans from related parties. Interest bearing borrowings equaled RMB820.2 million, RMB1,345.4 million and RMB1,291.2 million as of December 31, 2008, 2009 and 2010, respectively. Our bank loans bore interest at floating rates ranging from 5.13% to 7.58%, 3.21% to 6.27% and 4.73% to 5.04% per year for the years ended December 31, 2008, 2009 and 2010, respectively.

In October 2007, we obtained a US$150 million revolving U.S. dollar loan facility from Standard Bank with a term of five years. In 2007, our borrowings under the facility bore an interest rate of LIBOR plus 2.75% per annum. In January 2009, we entered into a supplementary agreement with Standard Bank to amend certain financial terms, including increasing the interest rate of our borrowings to LIBOR plus 5.75% per annum. All outstanding bank borrowings under this loan facility were repaid on July 31, 2009, and the facility was terminated on the same date.

On July 28, 2009, MIE entered into a five-year US$200 million term loan and revolving credit facility with CITIC Bank International Limited and CITIC Bank Guangzhou, primarily to repay a then-outstanding loan with Standard Bank, develop oilfields and for working capital purposes. The facility was amended by letter on October 29, 2009. On November 27, 2010, we entered into a supplemental deed to this facility prior to listing our stock on the Hong Kong Stock Exchange. The term loans do not require principal repayments for the first three years, and, the principal repayments are made starting from the 37th month. The facility includes two long-term term loans and one short-term revolving facility, which can be converted into a term facility towards the end of the third year. The term loans under the facility bear an interest rate of LIBOR plus 4.50% per annum. The term loan and revolving credit facility contains certain restrictive covenants that limit our ability to, among other things, incur additional indebtedness of more than US$10 million from an institution in the PRC, declare cash dividends of more than 30% of our annual consolidated net profit, create or incur liens, acquire, merge or consolidate with others and dispose of assets. The facility, as amended by the supplemental deed, contains the following financial covenants: (a) our consolidated tangible net worth, subject to certain adjustments, will be not less than (i) RMB1.0 billion from 2009 to 2011 and (ii) RMB1.5 billion for 2012; (b) our ratio of consolidated total borrowing to consolidated tangible net worth, subject to certain adjustments, will not exceed 100% for 2011;

(c) our ratio of consolidated total borrowings to consolidated EBITDA (as defined in the credit facility agreement) will not exceed (i) 270%, from 2009 to 2010, (ii) 220% from 2011 to 2012 and (iii) 180% for 2013; and (d) our total capital expenditures in any financial year will not exceed RMB1.0 billion, except for 2011 when total capital expenditures will not exceed RMB1,288 million. Under the supplemental deed, we agreed to procure that FEEL will be our largest shareholder, holding not less than 35% of our issued share capital and maintain management control over us. The facility is secured primarily by 100% of the ordinary shares in MIE, an assignment of our bank accounts for the collection of oil revenue, our entitlement under the production sharing contracts, a charge over our debt service reserve account, and an assignment of our interest in our insurance policies. We are required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility. We drew down US$122.0 million from CITIC Bank International Limited on July 31, 2009 to repay the loan from Standard Bank. As of December 31, 2010, we had outstanding bank borrowings of RMB1,291.2 million under this credit facility. We intend to use a portion of the proceeds of this offering to repay the CITIC Bank Facility in full.

Save as disclosed in this section, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts and loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as of December 31, 2010.

**Contractual Obligations and Capital Commitments**

All of our contractual obligations and capital commitments as of December 31, 2008, 2009 and 2010 consisted of variable interest rate instruments including long-term and short-term bank borrowings. See "– Indebtedness." We intend to repay these commitments through cash flows from operations and if necessary, from additional borrowings from third parties.

**Market Risks**

Our business activities are exposed to a variety of market risks, including foreign exchange risk, interest rate risk and commodity price risk.

***Foreign Exchange Risk***

Our foreign exchange exposure gives rise to market risk associated with exchange rate movements. All of our oil sales are denominated and settled in U.S. dollars, while our production costs and expenses are denominated and settled in Renminbi. Our functional currency is the Renminbi. As of December 31, 2008, 2009 and 2010, if the US dollar were to have weakened or strengthened by 1% against the RMB with all other variables held constant, our profit before income tax for the year or period would have increased/decreased RMB0.2 million, RMB9.2 million and RMB9.7 million, respectively, mainly as a result of foreign exchange gains or losses on translation of US-denominated trade and other receivables, bank deposits and borrowings.

***Interest Rate Risk***

We have no significant interest-bearing assets. Our exposure to interest rate risk primarily relates to the interest rates for our outstanding borrowings and the interest income generated by excess cash invested in liquid investments with original maturities of three months or less. As of December 31, 2010, we had long-term borrowings in the amount of RMB1,191.9 million. Our long-term borrowings are subject to floating interest rates with interest rates varying from 4.73% to 5.04% in the year ended December 31, 2010. The impact on profit before income tax for the year ended December 31, 2008, 2009 and 2010 of a 50 basis-point change in interest rate would result in an increase of RMB4,100,000, RMB6,727,000 and RMB6,622,700 (US$1,003,439), respectively, or a decrease of RMB4,100,000, RMB6,727,000 and RMB6,622,700 (US$1,003,439), respectively. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk.

*Commodity Price Risk*

We engage in a wide range of petroleum-related activities. Crude oil prices are affected by a wide range of global and domestic factors that are beyond our control. The fluctuations in such prices may have favorable or unfavorable impact to us. The crude oil prices in the international market are affected by various factors such as changes in global and regional politics and economic conditions, demand and supply of crude oil, appreciation or depreciation of the U.S. dollar, as well as unexpected political events and disputes, as well as regional conflicts or wars that may have international repercussions. The domestic crude oil price is determined with reference to the international crude oil price. A decline in crude oil prices could adversely affect our financial performance. We are exposed to the general price fluctuations of broadly traded oil commodities.

*Oil Put Options*

We use oil put options to partly manage our exposure to movements in the crude oil prices. In 2008, 2009 and 2010, we recorded a non-cash unrealized gain of RMB129.8 million and non-cash unrealized losses of RMB207.2 million and RMB24.4 million, respectively, due to the change in fair value of the unrealized portion of the oil put option. This non-cash unrealized gain or loss is included as other income or loss in our consolidated income statement. Any cash realized gain or loss under the oil put option will be reflected in our consolidated cash flow statement. We realized a cash inflow from oil put option of US$3.8 million, US$10.4 million and nil in 2008, 2009 and 2010, respectively. If the crude oil price were to increase by US$1, the impact on our profit before income tax for the years ended December 31, 2008, 2009 and 2010 as a result of revaluing the put option would be a decrease of RMB9,105,000, RMB2,461,559 and RMB1,566,000 (US$237,273), respectively.

**Effects Of Inflation**

We do not believe that inflation has had a material effect on our operating results for the periods presented.

**Dividends and Dividend Policy**

The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of shareholders. In addition, our Controlling Shareholder will be able to influence the approval by our shareholders in a general meeting for any payment of dividends.

Subject to the factors above, we plan to pay annual dividends up to 20% of our annual distributable profit attributable to equity holders of our company, commencing with respect to the year ending December 31, 2011.

A dividend in respect of the year ended December 31, 2010 of HK$0.035 per share, amounting to a total dividend of HK$92,447,000 (RMB77,933,000) is expected to be proposed at the annual general meeting to be held on May 6, 2011. On March 9, 2010, we distributed a cash dividend of US$20.0 million to our shareholders. FEEL, our Controlling Shareholder, and each Series A preferred shareholder participated in the dividend distribution on an as-converted basis received approximately US$0.16 per share. In December 2008, July 2009 and March 2010, we declared deemed dividends in the amount of US$20.0 million, US$50.0 million and US$11.9 million, respectively, to FEEL. The deemed dividends were non-cash because it was deemed that FEEL used the proceeds from the distributions to reduce the outstanding balance owed to us. As a result of the deemed dividends, our retained earnings decreased and our shareholder loan receivable from FEEL also decreased by the same amount.

If we are deemed to be a PRC "resident enterprise" under the New EIT Law and Implementation Rules, dividends on our shares may become subject to a 10% withholding tax. See "Taxation – PRC Taxation."

**Off-Balance Sheet Commitments and Arrangements**

We have not utilized any off-balance sheet arrangements as of the date of this offering memorandum.

**Recently Issued Accounting Pronouncements**

New standards, amendments to and interpretations on existing standards adopted by us are as follows:

- IAS 7 (Amendment) 'Statement of cash flows', effective for periods beginning on or after January 1, 2010. The amendment requires only expenditures that result in a recognized asset in the statement of financial position to be classified as investing activities.

- IFRS 2 (Amendments), 'share-based payments' is effective for annual beginning on or after July 1, 2009. IFRS 2 (Amendments), 'Group cash-settled share-based payment transactions' effective from January 1, 2010. In addition to incorporating IFRIC Int 8 'Scope of IFRS 2' and IFRC-Int 11, 'IFRS 2 -group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the clarification of group arrangements that were not covered by the interpretation.

The adoption of these new standards and amendments do not have a material impact on our financial statements.

New standards, amendments and interpretations to existing standards not yet effective and not adopted early by us are as follows:

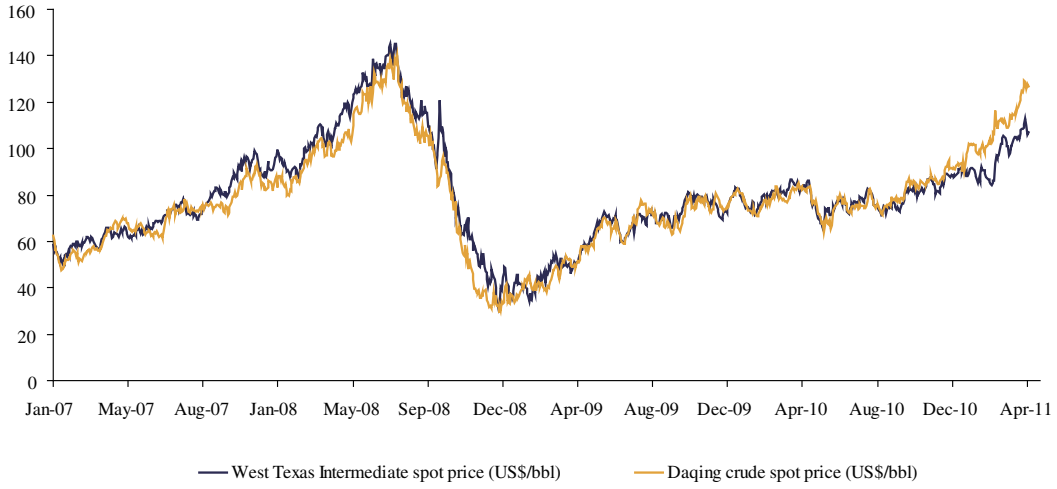
- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption.

- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from January 1, 2011. Earlier application, in whole or in part, is permitted.

*Neither our company nor the Initial Purchasers make any representation as to the accuracy of this information. This information has not been independently verified by us or any of our advisors, the Initial Purchasers or any of their respective advisors and should not be unduly relied on.*

## Overview

Growing energy demand and robust oil prices are driving growth in the global oil and gas industry. Crude oil remains a core source of global energy demand, with oil consumption representing 34.8% of total global fuel consumption in 2009, according to the BP Statistical Review (June 2010). Global oil consumption has historically grown at a steady pace, representing a CAGR, of 1.1% from 1999 to 2009. Oil prices have fluctuated in recent years in response to global economic conditions, and on the back of improved macroeconomic conditions, West Texas Intermediate spot oil prices have recovered from the lows of US$31.41 per barrel in December 2008 to US$91.38 per barrel on December 31, 2010. This compares with a peak of US$145.29 per barrel reached on July 3, 2008. The chart below illustrates the West Texas Intermediate spot prices and Daqing crude spot prices from January 1, 2007 to April 15, 2011. Going forward, the oil and gas industry is expected to experience continued growth in order to meet growing demand for oil.




*Source: Bloomberg*

In particular, the global oil demand growth outlook is increasingly dependent on the economic growth in China. Rapid economic growth over the past three decades has generated significant growth in demand for oil in China. From 1999 to 2009, China's gross domestic product, or GDP, grew at a CAGR of 9.9%, and its industrial production grew at a CAGR of 13.8%, according to the Economist Intelligence Unit (the "EIU"). Over the same period, oil consumption grew at a CAGR of 6.8%. Robust economic growth in China is expected to continue to drive oil consumption, with the International Energy Agency, estimating that oil consumption in China will grow at a CAGR of 3.2% during the period from 2009 to 2015, compared to a CAGR of only 0.8% globally.

In 2009, China consumed approximately 8.6 million barrels of oil per day, ranking after the United States as the second largest consumer of oil globally. However, oil consumption in China on a per capita basis still lags far behind that in OECD nations, indicating significant further growth potential for oil consumption in China. The table below sets forth an overview of energy consumption data for China and selected OECD nations in 2009.

| | Primary Energy Consumption | Crude Oil Consumption | Per Capita Crude Oil Consumption |
|---|---|---|---|
| | (Million tons of equivalent) | (Thousands of barrels per day) | (Barrels per day per 1,000 people) |
| Canada | 319 | 2,195 | 65.9 |
| United States | 2,182 | 18,686 | 61.5 |
| Australia | 119 | 941 | 43.9 |
| Japan | 464 | 4,396 | 34.4 |
| United Kingdom | 199 | 1,611 | 26.2 |
| China | 2,177 | 8,625 | 6.5 |

*Source: BP Statistical Review (June 2010)*

As consumption growth outpaces production growth, China's domestic oil production is increasingly insufficient to meet the demand for oil. Domestic oil production in China grew at a CAGR of 1.7% from 1999 to 2009, compared to a CAGR of 6.8% for oil consumption in the same period. China has been a net importer of oil since 1993 as domestic supply is insufficient to meet strong demand for oil, and oil imports grew rapidly at a CAGR of 14.4% from 1999 to 2009, according to the Energy Information Administration (the "EIA"). In 2009, the net importation of oil in China amounted to 4.0 million barrels per day, or 46.3% of the total oil consumption of 8.6 million barrels per day. In December 2009, China overtook the United States, for the first time, as the largest importer of Saudi Arabia's oil, exceeding 1 million barrels per day, according to the Financial Times. Imports will be increasingly critical to meeting China's domestic oil demand in the future. According to the Oil and Gas Journal, by 2030 imported oil may account for nearly 70% of the forecasted oil demand in China.

As a result, there is a strong impetus by the Chinese government to encourage both onshore and offshore oil production activities in China. In 2009, China's domestic crude oil production totaled 3.8 million barrels per day, ranking as the world's fifth largest producer. Governmental initiatives to stimulate domestic oil production are expected to drive growth of large National Oil Companies (the "NOCs"), as well as for independent oil companies operating in China, including foreign contractors. An indication of the level of investment and growth experienced in the oil and gas sector in China is the strong capital expenditure growth by China's three largest NOCs, namely PetroChina, Sinopec and CNOOC. The following table sets forth the capital expenditure on oil and gas exploration and production by these three NOCs for the periods indicated.

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | CAGR (2004 to 2009) |
|---|---|---|---|---|---|---|---|---|
| | RMB'000,000, except percentages | | | | | | | |
| PetroChina | 70,217 | 92,233 | 115,024 | 146,855 | 168,569 | 138,396 | 173,142 | 16.23% |
| Sinopec | 21,234 | 23,095 | 35,198 | 54,498 | 57,646 | 54,272 | 52,680 | 16.35% |
| CNOOC | 13,958 | 17,898 | 24,998 | 31,003 | 35,858 | 42,714 | 79,194 | 33.55% |

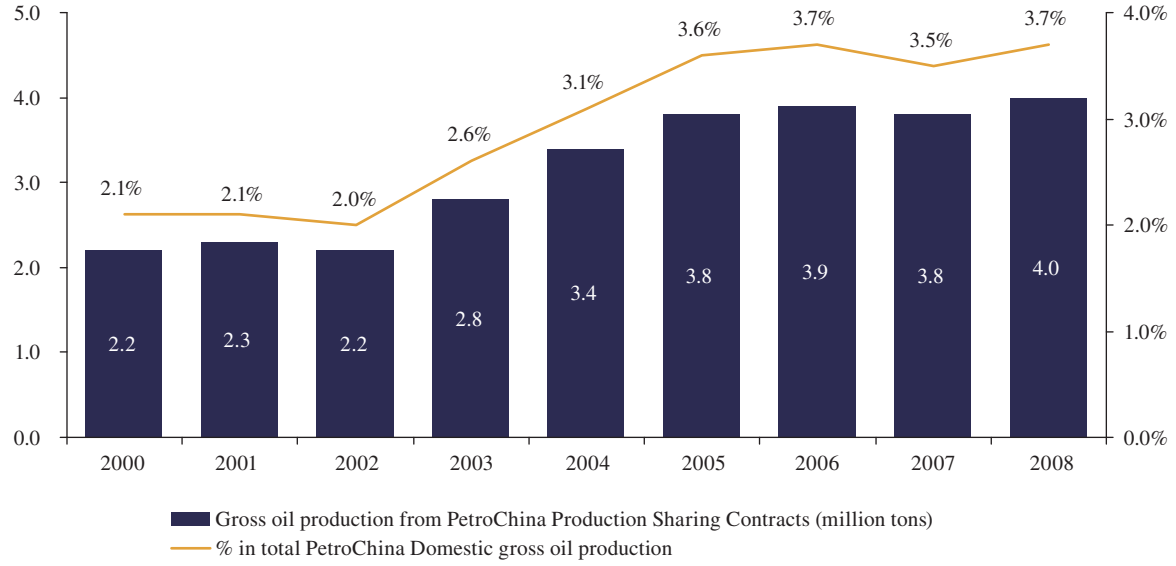
*Source: Annual reports (Form 20-F) for PetroChina, Sinopec and CNOOC (2004-2010)*

## Overview of the PRC Oil and Gas Industry

### *Industry Structure*

China's oil and gas industry is dominated by the three NOCs. PetroChina is the largest among the three by proved reserves and net production. As of December 31, 2010, PetroChina has proved crude oil reserves of 11,278 million barrels, compared to 2,888 million barrels for Sinopec and 1,915 million barrels for CNOOC, based on their respective annual reports. In addition to these three NOCs, there are also other state-owned oil and gas companies, such as Shaanxi Yanchang Petroleum (Group) Co., Ltd.

There is increasing participation from independent oil companies in China's oil and gas industry, where major NOCs (namely PetroChina, Sinopec and CNOOC) and foreign independent oil and gas companies jointly develop certain oilfields in the upstream sector through the form of production sharing contracts. Only PetroChina and Sinopec can enter into production sharing contracts with foreign independent oil and gas companies for onshore oilfields in China. Historically, upstream cooperation with foreign oil and gas companies has been more prevalent in the offshore sector, which is characterized by the involvement of large foreign oil and gas companies, such as Husky and Anadarko, in partnership with CNOOC. Upstream cooperation in onshore China is also becoming increasingly active. However, this has been characterized generally by the involvement of smaller foreign oil and gas companies, and involves specific operating regions where these foreign participants are able to introduce advanced technologies and expertise, such as operating and developing low-permeability oilfields, which are categorized as more difficult marginal oilfields with low recovery rates and low reservoir pressure. In order to optimize production and extract commercial returns from low-permeability oilfields, it requires strong and international expertise in drilling and operating wells under low permeability conditions through the effective use of advanced technologies, such as water injection and multi-layer fracturing. Foreign participants who are able to best apply advanced technologies and streamline operating costs, and who have strong relationships with PetroChina and Sinopec, are best positioned to leverage on the trend of growing foreign participation in onshore China. The following chart demonstrates the growth in oil production from production sharing contracts with PetroChina, representing an increasing share of PetroChina's overall domestic gross production.




*Source: China National Petroleum Corporation (CNPC) Yearbooks (2001-2009)*

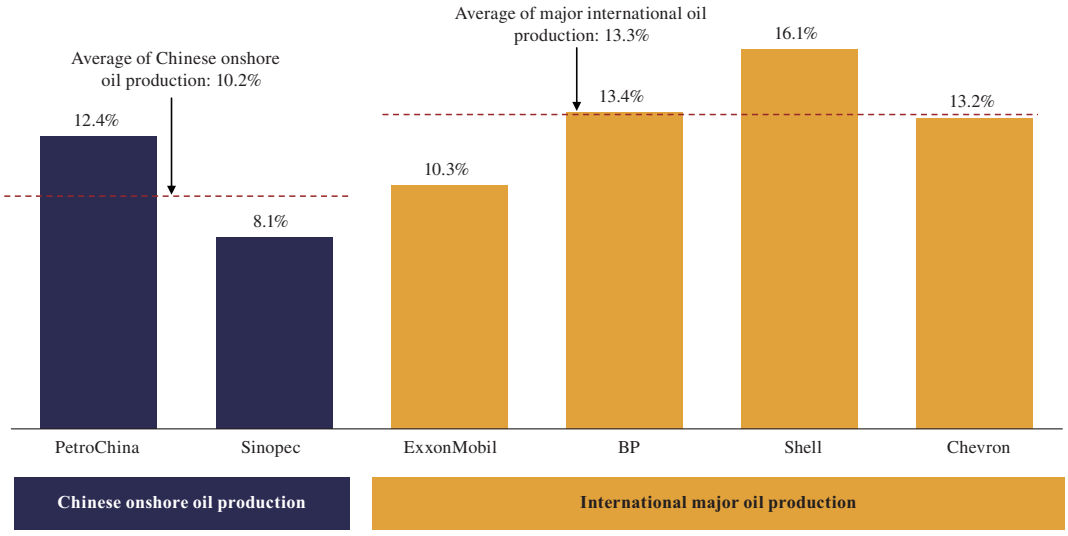
The NOCs remain primarily focused on production optimization of large and mature oilfields such as the Daqing oilfield complex for PetroChina and the Shengli oilfield complex for Sinopec, as well as major onshore and offshore discoveries. We believe there remains many smaller but significant oilfields that independent oil companies are well-positioned to develop in cooperation with the NOCs. Independent oil companies such as MIE, often characterized by their streamlined management structure and operating expertise in specific field conditions, are often best able to operate and extract commercial returns from these smaller oilfields. As a result, there are a number of independent oil companies operating onshore in China, including MIE, ROC Oil and Central Asia Oil, representing approximately 51% of the total gross oil production under production sharing contracts with PetroChina in 2008. The other 12 smaller players, including Bright Oceans and Ivanhoe Energy, accounted for the remaining gross oil production. As disclosed in Sinopec Yearbook 2009, Sinopec had two production sharing contracts as at the end of 2008. The following table sets forth an overview of the largest independent oil companies by gross production, operating onshore oilfields in China under production sharing contracts with PetroChina, as listed in the China National Petroleum Corporation (CNPC) Yearbook 2009:

| Company | Production Sharing Contract Area | Oilfield Complex | Gross Oil Production in 2008 |
|---|---|---|---|
| | | | Tons '000 |
| ROC Oil | Zhaodong | Dagang | 1,040 |
| MIE | Daan | Jilin | 595 |
| | Moliqing | Jilin | 114 |
| | Miao 3 | Jilin | 12 |
| | Total MIE | Jilin | 721 |
| Central Asia Oil | Zhou13 | Daqing | 307 |
| | Zhao413 | Daqing | 4 |
| | TotalCentralAsiaOil | Daqing | 311 |

*Source: China National Petroleum Corporation (CNPC) Yearbook 2009*

An important feature of the onshore oil and gas sector in China is the general availability of oilfield service providers and the related ability to control costs, making onshore operations in China a commercially attractive option for independent oil companies. From this perspective, operating onshore in China compares favorably to operating offshore in China as well as internationally. The average 7-year CAGR of lifting costs for PetroChina and Sinopec, the two largest onshore upstream producers in China, was 10.2% from 2003 to 2010. In contrast, four of the largest international oil companies, including ExxonMobil, BP, Shell and Chevron, experienced an average lifting cost increase of 13.3% over the same period. The following chart shows lifting cost growth at PetroChina, Sinopec, and four of the largest international oil companies globally.

**7-year CAGR of Lifting Cost (2003-2010)**



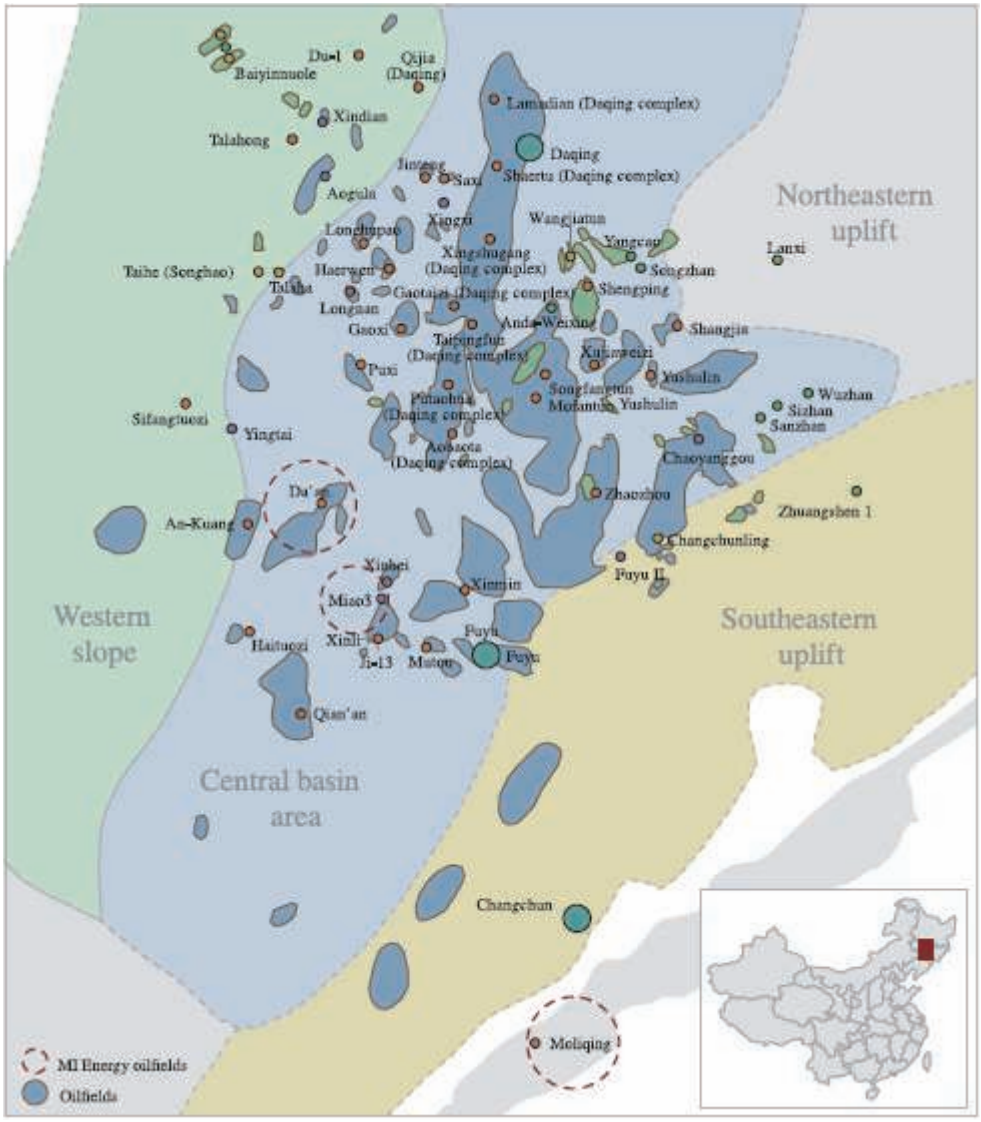

*Source: Annual reports for PetroChina, Sinopec, ExxonMobil, BP, Shell and Chevron (2003-2010)*

We believe certain oilfield operators in China with experience and expertise in developing low permeability and low pressure oilfields are well-positioned to grow given that oil reserves at low permeability oilfields represent 31% of China's overall oil reserves, as compared to 8% in the U.S. and world average level of 20%. According to the Ordos Basin Extra-low Permeability Oilfield Development publication, it is estimated that the reserve additions in low permeability oilfields as a percentage of total reserve additions in China increased from approximately 27% before 2000 to approximately 70% between 2001 and 2005. There are major low permeability oilfields across different regions in China, such as Daqing, Jilin, Changqing and Xinjiang oilfields.

***Expansion of International Cooperation***

The NOCs and other independent upstream oil producers in China are increasingly exploring overseas investment and acquisition opportunities. The PRC government encourages outbound investment by oil companies to secure strategic resources, particularly in the context of China's increasing reliance on imported oil. The targeted geographic areas of China's outbound oil and gas investments are broad, spanning from Central and Southeast Asia to North America, Latin America and Africa. Oil companies operating in China are increasingly participating in overseas investment opportunities in various forms, including acquiring control of assets, forming joint ventures, participating as operators, or even acquiring minority non-operated interests.

**Overview of the Songliao Basin**




*Source: U.S. Geological Survey*

The Songliao Basin spans the Heilongjiang, Liaoning and Jilin Provinces in northeastern China covering an area of 64.2 million acres (260,000 square kilometers). It is one of the most important oil-producing regions in China, representing a significant share of crude oil reserves and production in onshore China. In 2007, onshore crude oil production at the Songliao Basin totaled 47.6 million tons, second only to the Bohai Bay Basin.

The main oilfields located in the Songliao Basin are the Daqing and Jilin oilfield complexes. Since its discovery in the 1950's, the Daqing oilfield complex has consistently experienced significant production levels and reserve additions to become China's most prolific onshore oil-producing region, where over 50 million tons of oil had been produced annually for 27 consecutive years since 1976. The table below contains the historical oil production and reserve additions by PetroChina at the Daqing and Jilin oilfield complexes located in the Songliao Basin, demonstrating the prolific and long life nature of these oilfields.

| | Production from Daqing Complex | Reserve Additions from Daqing Complex | Production from Jilin Complex | Reserve Additions from Jilin Complex |
|---|---|---|---|---|
| | | Tons '000,000 | | |
| 2000 | 53.0 | 65.6 | 3.8 | 33.5 |
| 2001 | 51.5 | 66.1 | 4.0 | 61.7 |
| 2002 | 50.1 | 52.8 | 4.4 | 50.2 |
| 2003 | 48.4 | 67.3 | 4.8 | 43.0 |
| 2004 | 46.4 | 104.1 | 5.1 | 51.2 |
| 2005 | 45.0 | over 100.0 | 5.5 | 51.3 |
| 2006 | 43.4 | over 100.0 | 5.9 | 54.9 |
| 2007 | 41.7 | over 100.0 | 6.2 | 55.5 |
| 2008 | 40.2 | over 100.0 | 6.6 | 54.0 |

*Source: China National Petroleum Corporation (CNPC) Yearbook (2001-2009)*

As a result of the long history of production and development at the Songliao Basin, oil industry-related services and infrastructure are readily available in this region. Many of the oilfield services companies are subsidiaries of PetroChina, which offer services such as oil and gas exploration and development, engineering services, facility manufacturing, chemical engineering, operation sustenance, field services and others.

There are also extensive established pipelines, refineries and other storage infrastructure in place in the Songliao Basin, facilitating the development of oilfields in the region. PetroChina plans to expand its domestic network of oil and gas pipelines with a total investment of RMB100 billion over the next five years, and plans to expand the crude oil storage capacity to 9.4 million barrels by 2010 at the Daqing oilfield complex. The extensive pipeline network, storage facilities, and large-scale refineries in the region provide important points of sale and price benchmarks for crude oil produced in the Songliao Basin. The following map shows the oil and gas infrastructure network that connects major refineries across China, including the Songliao Basin.




*Source: PetroChina 2009 Interim Results Presentation; CNPC and Sinopec corporate websites*

Many oilfields in the Songliao Basin can be characterized by low reservoir pressure and permeability, as well as relatively low production levels and recovery rates. For example, approximately 73% of oil reserves in the Jilin complex are categorized as low permeability oilfields. As a result, there is an emphasis on the specific application of best-available technologies and local knowledge in order to optimize production and commercial returns, providing a strong base in terms of technology application and international expertise in oilfield development in this region. According to the Songliao Basin presentation by PetroChina, some of the advanced technologies already in use at the Songliao Basin include seismic imaging, wireline logging, advanced drilling and stimulation. These technologies help improve depth imaging, volcanic reservoir prediction and economic drilling.

The level of oil production activities at the Songliao Basin is expected to remain strong. In November 2008, PetroChina announced substantial work plans at the Daqing oilfield complex, where the production level is expected to remain over 40 million tons per year until 2020. PetroChina believes it can extract a further 7 billion barrels of oil from the Daqing oilfield complex through the use of advanced technologies to extend the life of the oilfield. Conventional technologies provide access to only 20% of oil-bearing layers in this area. There are various enhanced oil recovery methods that are being tested and implemented at the Daqing oilfield complex, including waterflooding, alkaline-surfactant-polymer flooding and polymer flooding. In November 2008, PetroChina outlined the use of polymer flooding and other technologies in reservoir engineering, recovery process and surface engineering at the Daqing oilfield complex to improve recovery rates. This again is an indication of the strong technology expertise available locally, and industry best practices being applied to optimize the development of onshore fields in the Songliao Basin.

## Overview of the Kazakhstan Oil and Gas Industry

### *Investment in Kazakhstan's Oil and Gas Industry*

Since 2000, Kazakhstan has experienced significant economic growth. Two of the main catalysts for this growth have been economic reform and foreign investment, much of which has been concentrated in the energy sector. Exports of crude oil have grown significantly since 2000 and most of the oil from Kazakhstan is currently delivered to international markets by pipelines through Russia to shipping points on the Black Sea. The opening of the CPC pipeline in 2001 substantially increased the crude oil export capacity of Kazakhstan.

International investment in the oil and gas sector in Kazakhstan has taken the form of joint ventures, including with the national oil company of Kazakhstan, NC KazMunaiGas ("NC KMG"), the state oil and gas company, as well as production-sharing agreements and exploration/field concessions. Major projects in Kazakhstan include the Tengiz, Karachaganak and Kashagan fields. Tengizchevroil LLP ("TCO"), a joint venture between ChevronTexaco, ExxonMobil, Lukarco and NC KMG, is developing the Tengiz and Korolevskoye oil fields pursuant to a production license granted in 1993. This production license was initially granted for 10 years, but can be extended by TCO for up to a total of 40 years; it was extended by TCO in 2003 until 2013. Karachaganak Petroleum Operations ("KPO"), which is developing the Karachaganak field, operates under a 40 year final production sharing agreement entered into with the Government in 1997. The Kashagan consortium, which is developing the Kashagan field, was also established in 1997 under a 40 year production-sharing agreement with the Government, covering oil structures in Kashagan, Kalamkas, Aktoty and Kairan. More detail on these and other significant oil and gas developments in Kazakhstan is provided below.

In May 2003, President Nazarbayev approved a new Caspian Sea development program for the period to 2015, which called for new offshore blocks (or potential oil fields) to be auctioned by the State (represented by the Competent Authority) between 2003 and 2010. Under Kazakhstan law, the Government is authorized to approve the specific list of blocks to be auctioned and the Competent Authority is responsible for conducting the auctions. NC KMG has a mandatory share of at least 50% in all projects related to the new offshore blocks.

In December 2004, certain amendments to the Old Subsoil Law were adopted. The amendments provide that the state has a priority right, in the case of a proposed transfer of an interest under both existing and new contracts for subsoil use, to purchase such interest on terms no worse than those agreed by the parties to the proposed transfer. Such an interest can be direct or indirect, for example, through the sale of shares in an entity holding such contract for subsoil use.

In August 2007, the Government announced its disapproval of the delayed production of the Kashagan consortium. The Government claimed the consortium had breached certain provisions of its license and environmental regulations, and consequently suspended the operator's license in the Kashagan field. A settlement reached in January 2008 resulted in the terms of the production sharing agreement being revised in favor of NC KMG such that the share interest of NC KMG doubled and the share interests of the other members of the consortium decreased. The settlement also required the other members of the consortium to pay US$5 billion to NC KMG until the end of the concession in 2041.

***Oil Supply and Demand***

As at 31 December 2009, Kazakhstan ranked ninth in the world by oil reserves and eleventh in the world by oil and gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet Republics and has the Caspian region's largest recoverable crude oil reserves. Kazakhstan's proved oil and gas reserves were 39.8 billion barrels (representing 3.0% of the world's proved oil reserves) and 64.4 trillion cubic feet (representing 1.0% of the world's proved gas reserves), respectively, as at 31 December 2009.

Between 1999 and 2008, Kazakhstan's oil production grew at a compounded annual growth rate of approximately 10.5%. Kazakhstan produced approximately, 66.1 million tonnes of oil and gas condensate in 2006, 68.4 million tonnes in 2007, 72.0 million tonnes in 2008 and 78.0 million tonnes for 2009, an increase of 8.5% from 2008. During the first quarter of 2009 the industrial output of crude oil and natural gas increased by 2.4% compared to a 7.7% increase during the same period in 2008. The Kazakhstan Government has stated that it expects oil and gas production to increase to 80 million tonnes per year and 47 billion cubic meters per year in 2010 and 130 million tonnes per year and 50 billion cubic meters per year by 2015 respectively. Most of this growth is expected to come from the Tengiz, Karachaganak and Kashagan fields.

The Asia Pacific region was the world's largest geographical region for oil consumption in 2009 accounting for approximately 31.1% of world consumption. The United States was the largest consumer of oil by country accounting for 21.7% of world consumption of oil. Europe together with the former Soviet Republics represented the world's largest geographical region for the consumption of natural gas in 2009 accounting for 35.9% of world consumption. The United States was the largest consumer of natural gas by country accounting for 22.2% of world consumption in 2009.

Kazakhstan has three major oil refineries supplying the northern region (at Pavlodar), the western region (at Atyrau) and the southern region (at Shymkent), with an estimated total refining capacity of 21.0 million tonnes per year (approximately 427,000 bpd). Crude oil is also processed at mini-refineries (private small refineries).

In 2008, all refineries together processed a combined average of approximately 13.5 million tonnes of crude oil (approximately 4.1 million tonnes (82,000 bpd) at Pavlodar, 3.9 million tonnes (78,000 bpd) at Atyrau, 4.3 million tonnes (86,000 bpd) at Shymkent and 1.2 million tonnes (24,000 bpd) at mini-refineries).

The refinery at Pavlodar is supplied mainly by crude oil from western Siberia; the Atyrau refinery runs solely on domestic crude from the western region of Kazakhstan; and the Shymkent refinery generally uses oil from the southern region of Kazakhstan. The Atyrau refinery is undergoing modernization to provide some additional capacity and to allow the refinery to meet current European fuel standards.

***Gas Supply and Demand***

Kazakhstan is a net exporter of gas. Increases in its own gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields. Most of Kazakhstan's gas reserves are located in the west of the country near the Caspian Sea, with roughly 25% of proved reserves located in the Karachaganak field. Another important gas field, Amangeldy, is situated in the south of the country and is being developed by KazTransGas, a subsidiary of NC KMG.

Gas production in Kazakhstan has increased significantly since 1999 when the Government passed a law requiring subsoil users (primarily oil companies) to include gas utilization projects in their development plans. As a result, gas production in 2000 doubled compared to 1999, reaching 367 billion cubic feet, the highest level since independence in 1991. Gas production increased from 1.05 trillion cubic feet in 2008 to 1.14 trillion cubic feet in 2009, an increase of 8.6%.

According to the projections of the Competent Authority, Kazakhstan expects to increase its gas production to 1.5 trillion cubic feet per year by 2010, and to 2.0 trillion cubic feet per year by 2015.

The following table sets forth gas consumption levels in Kazakhstan for the years indicated:

| Gas Consumption | | | | | | |
|---|---|---|---|---|---|---|
| **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| **billion cubic feet per year** | | | | | | |
| 455.6 | 526.2 | 663.9 | 716.9 | 688.6 | 709.8 | 692.2 |

Kazakhstan has two separate domestic natural gas distribution networks, one in the west, which services the country's producing natural gas fields, and one in the south, which mainly delivers imported natural gas to the southern consuming regions. The lack of internal pipelines connecting Kazakhstan's natural gas-producing areas to the country's industrial belt (between Almaty and Shymkent) has hampered the development of domestic natural gas resources. Southern Kazakhstan receives much of its natural gas supplies from Uzbekistan via the Tashkent-Bishkek-Almaty pipeline.

***Transportation***

An important aspect of increasing hydrocarbon production in Kazakhstan has been the development of transportation infrastructure, as this in turn has raised Kazakhstan's export capacity.

***Crude Oil***

Historically, the lack of pipeline capacity providing access to international markets has impeded Kazakhstan's ability to exploit its oil reserves. In 2007 Kazakhstan had 16,264 kilometers of pipeline of which 10,138 was used for the transportation of gas (which is mostly transit gas from neighboring countries such as Turkmenistan) and 6,126 was used for the transportation of oil. Kazakhstan transported by pipelines approximately 192.5 million tonnes of products in 2007 and 196.4 million tonnes of products in 2008. Since Kazakhstan is essentially landlocked, the pipelines have to transit through neighboring countries to reach international markets. The exploitation of Kazakhstan's hydrocarbon resources has been assisted by the development of the hydrocarbon transportation infrastructure in the region:

- In 2006, approximately 31.1 million tonnes of crude oil was shipped through the CPC pipeline.
- In 2007, approximately 32.6 million tonnes of crude oil was shipped through the CPC pipeline.
- In 2008, approximately 31.5 million tonnes of crude oil was shipped through the CPC pipeline.
- In 2009, approximately 34.6 million tonnes of crude oil was shipped through the CPC pipeline, an increase of 9.8% compared to 2008.

The CPC pipeline, which has been operational since 2001, represents a major export route. It extends 1,570 kilometers, originating in the Tengiz field, running through Russia and terminating at the CPC marine terminal on the Black Sea near the Russian port of Novorossiysk. The CPC pipeline is the first major pipeline in Russian territory not owned by the Russian pipeline operator Transneft.

The UAS pipeline transports oil from fields in the Atyrau and Mangistau regions to Russia. The pipeline system runs for approximately 1,500 kilometers, from Uzen in southwest Kazakhstan to Atyrau, before crossing into Russia and linking with Russia's Transneft system at Samara. In June 2002, Kazakhstan signed a 15-year oil transit agreement with Russia. Under this agreement, Kazakhstan will export at least 17.5 million tonnes per year of crude oil using the Russian pipeline system. The line was recently upgraded by the addition of pumping and heating stations and has a capacity of approximately 600,000 bpd. Before completion of the CPC pipeline, Kazakhstan exported almost all of its oil through this system.

The 1,767-kilometer Baku-Tbilisi-Ceyhan pipeline delivers crude oil from Baku in Azerbaijan to a new marine terminal in the Turkish port of Ceyhan on the Mediterranean Sea and is the first direct pipeline link between the Caspian Sea and the Mediterranean Sea. Construction of the pipeline was completed in May 2005 and it began operating in July 2006, costing approximately US$4 billion. It has a capacity of 1 million bpd. The pipeline is largely dedicated to production from the Azeri-Chirag-Gunashli fields in the Azerbaijan sector of the Caspian Sea, however since October 2008, the Baku-Tbilisi-Ceyhan pipeline has been used to transport Kazakhstan crude oil shipped across the Caspian Sea to Baku by tanker. The volume of Kazakh oil transported via the Baku-Tbilisi-Ceyhan pipeline has been steadily increasing since October 2008 when Kazakhstan began to use the Baku-Tbilisi-Ceyhan route. According to the Azeri State Statistics Committee, the volume increased from 17,400 tonnes in October 2008 to 240,200 tonnes in February 2009. In 2009, the Baku-Tbilisi-Ceyhan pipeline transported 1.9 million tonnes of Kazakh crude oil, according to the State Statistical Committee of Azerbaijan.

On 28 May 2008, Kazakhstan ratified the Treaty between Kazakhstan and the Azerbaijan Republic dated 16 June 2006 on the support and facilitation of petroleum transportation from Kazakhstan through the Caspian Sea and the territory of the Azerbaijan Republic to international markets via the Baku-Tbilisi-Ceyhan system. In order to facilitate exports of oil from the Kashagan oil field during the next decade, Kazakhstan is currently developing the Kazakhstan Caspian Transportation System ("KCTS"), which includes the construction of a 454-mile, 500,000 bpd capacity onshore pipeline from Eskene in western Kazakhstan to Kuryk on the Caspian near Aktau, where a new 760,000 bpd oil terminal is to be built. The system also includes the creation of a new fleet of tankers and new port facilities in Baku, Azerbaijan. On 14 November 2008, the State Oil Company of Azerbaijan and NC KMG signed an agreement on key principles of the KCTS. While still preliminary, it is the first practical move to create a system with defined conditions of supplies, tariffs and other matters, guiding the trans-Caspian oil transportation.

In December 2005, China and Kazakhstan put into operation the 614-mile Atasu-Alashankou pipeline, forming part of the Atasu-Dushantsty pipeline. The initial capacity of the Atasu-Alashankou pipeline is approximately 10 million tonnes (200 thousand bpd) per year, with a projected increase up to 20 million tonnes per year. In 2006, 2.2 million tonnes of oil were pumped through the pipeline. The second project stage, i.e. the construction of the Kenkiyak-Kumkol-Atasu pipeline, is expected to be completed in the year 2011.

Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan.

Rail transportation was the primary export route for Kazakhstan crude production before the development of the UAS and CPC pipelines. The rail infrastructure remains an alternative transportation option.

***State Pre-Emptive Rights***

The Subsoil Law contains pre-emptive rights for the State in connection with any transfer of subsoil use rights and/or any transfer of the shares, participation interests, securities confirming title to shares or securities convertible into shares of a legal entity directly or indirectly controlling another entity with subsoil use rights. In practice this means an integral State role on the entrance and exit of operators into or from the Kazakhstan oil and gas industry. See "Regulations – Regulations of Kazakhstan – Regulations of Subsoil Use Rights – The State's Pre-Emptive Rights."

## Overview

We are one of the leading Independent Upstream Oil Companies operating onshore in the PRC as measured by gross production under production sharing contracts. We operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, the largest oil company in China. In addition, we pursue exploration, development and production opportunities in China and internationally.

As of December 31, 2010, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 32.9 million barrels, 19.6 million barrels and 13.9 million barrels of crude oil, respectively. Our daily crude oil production has grown significantly since 2001, when we took over the operations of the three oilfields. Our net production averaged 8,150 barrels, 7,637 barrels and 9,349 barrels of crude oil per day in 2008, 2009 and 2010, respectively, representing a CAGR of 7.1%. Since FEEL acquired MIE in August 2003, our net production of crude oil grew from an average of 1,855 barrels per day in 2004 to 9,349 barrels per day in 2010, representing a CAGR of 32.0%. In 2008, 2009 and 2010, we concurrently operated 24, 25 and 28 drilling rigs, respectively. As of December 31, 2010, we operated an aggregate 1,641 gross productive wells in our three oilfields.

As the operator of the Daan, Moliqing and Miao 3 oilfields, we hold a 90% participating interest in the foreign contractors' entitlement and obligations under the production sharing contracts. GOC, a passive foreign contractor that is not directly involved in the operations of the oilfields, holds the remaining 10% participating interest. Under each of the production sharing contracts, we provide funding, technology and managerial experience for the development and production of oil resources in these oilfields. In exchange, we share in the production of crude oil with PetroChina after the successful development of oil reserves according to the formula set forth in the production sharing contracts. In a given period during the commercial production phase under the production sharing contracts, the revenue and operating costs maybe allocated to the foreign contractors in the range of 48% to 80%, based on whether the foreign contractors have fully recovered their development costs. See "– Production Sharing Contracts" for more information on the revenue and cost allocations under the production sharing contracts. All of the oil produced in our three oilfields is sold to PetroChina. The production sharing contracts for the Daan, Moliqing and Miao 3 oilfields will expire in 2024, 2028 and 2028, respectively. We have already recovered our development costs in the Daan oilfield, although we will incur further development cost in the future pursuant to approved development plans, and expect to recover our development costs in the Moliqing and Miao 3 oilfields in 2013 and 2015, respectively.

Our operating success and effective application of know-how are evidenced by our strong track record and high success rates. From January 1, 2001 to December 31, 2010, we drilled 1,573 gross development wells in our oilfields, of which only seven were dry holes. As of December 31, 2008, 2009 and 2010, we operated 1,218, 1,383 and 1,641 gross productive wells, respectively. We believe our oilfields have strong growth potential, and we are continually expanding our operations by drilling more wells in the oilfields we operate, which we believe will substantially increase our net production of crude oil over the next several years. As of December 31, 2010, we had identified 2,623 potential locations for future drilling and within our estimated net reserves we include estimated net proved, probable and possible undeveloped reserves of 12.4 million barrels, 12.0 million barrels and 8.8 million barrels, respectively, for these locations.

In 2008, 2009 and 2010, our revenue amounted to RMB1,971.7 million, RMB1,166.8 million and RMB1,805.0 million (US$273.5 million), respectively. In 2008, 2009 and 2010, our EBITDA amounted to RMB1,256.8 million, RMB687.0 million and RMB1,162.6 million (US$176.2 million), respectively, and our adjusted EBITDA amounted to RMB1,127.9 million, RMB821.3 million and RMB1,236.7 million (US$187.4 million), respectively. EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude certain non-cash and certain one time items including share-based compensation expense, impairment of property, plant and equipment, impairment of inventory, net loss/(gain) on forward foreign exchange contracts, realized and unrealized loss/(gain) on the oil put option and accrual/write-back of safety fees. See "Summary – Summary Financial Information and Other Data" for a reconciliation of EBITDA and Adjusted EBITDA to net profit. Our

net profit amounted to RMB611.1 million, RMB110.5 million and RMB420.9 million (US$63.8 million) for the years ended December 31, 2008, 2009 and 2010, respectively.

**Our Strengths**

We believe the following strengths have contributed to our growth and differentiate us from our competitors:

***One of the leading Independent Upstream Oil Companies operating onshore in China with a large reserve base to support stable cash flow generation and long term growth***

We are one of the leading Independent Upstream Oil Companies operating onshore in China, with estimated net proved, probable and possible reserves of approximately 32.9 million barrels, 19.6 million and 13.9 million barrels, respectively, as of December 31, 2010. As of December 31, 2010, our net proved undeveloped reserves equaled approximately 12.4 million barrels, representing approximately 37.8% of our total net proved reserves. Our net proved developed reserves has increased from 13.4 million barrels as of December 31, 2007, to 20.5 million barrels as of December 31, 2010, and net production from our proved developed reserves averaged 8,150 barrels, 7,637 barrels and 9,349 barrels of crude oil per day in 2008, 2009 and 2010, respectively. As of December 31, 2010, the reserves life index of our net proved reserves was 9.7 years, and the life index of our net proved reserves for the Daan, Moliqing and Miao 3 oilfields was 11.3 years, 5.3 years and 1.3 years, respectively. Our large base of net proved undeveloped reserves will enable us to quickly grow our annual production of crude oil in the near term without the need to undertake further exploration.

We have potential to continue increasing our proved reserves in several ways. As of December 31, 2010, we had identified 1,202 proved, 898 probable and 523 possible gross potential locations for future drilling and we had attributed net undeveloped reserves of 12.4 million barrels, 12.0 million barrels and 8.8 million barrels, respectively, to these locations. Further, we anticipate in the future, some of the probable and possible reserves attributed to higher waterflood recovery factors will be realized. Net probable and possible developed reserves were 7.6 million barrels and 5.1 million barrels, respectively, as of December 31, 2010. Lastly, we included in our reserves the amount attributable to infill drilling for the first time at December 31, 2010, which were 3.3 million barrels, 1.0 million barrels and 0.9 million barrels of proved, probable and possible reserves, respectively.

***Proven track record of developing and operating low permeability oilfields***

Low permeability oilfields represent approximately 31% of China's overall oil reserves. For example, approximately 73% of oil reserves in the Jilin complex are categorized as low permeability oilfields. In addition, new reserve addition in such low permeability oilfields have increased to approximately 70% of the total reserve addition between 2001 and 2005. We have developed strong expertise in drilling and operating wells under low permeability conditions through the effective use of water injection and other techniques and the application of our know-how. Our strong operating capabilities are particularly evidenced by our low development and lifting costs, high oil recovery rate and high success rate of developing oil wells. Such capabilities have enabled us to recover costs quickly under the production sharing contracts and reduce the risk associated with future investments in our oilfields. As of December 31, 2010, the total costs incurred for pilot testing and development, including related operating costs, were RMB5,323.0 million, of which we have recovered approximately RMB4,943.8 million.

We had a large team of 1,553 production and technical service employees as of December 31, 2010. Our experienced team allows us to implement our development plans quickly, including drilling a large number of wells in a short period of time. The oilfields we operate are significant in scale. From January 1, 2001 to December 31, 2010, we drilled 1,573 gross productive wells on the oilfields we operate, of which only seven were dry holes. In 2008, 2009 and 2010, we drilled 389, 189 and 200 gross development wells, respectively.

We are the sole oilfield operator under each of our production sharing contracts. This status enables us to exercise a significant level of control over the amount and timing of expenses and capital allocations, and other logistical aspects of the development and operation of our three oilfields. We currently work with over 300 vendors in China and, over the years, we have gained in-depth knowledge of China's petroleum industry. In addition, the large number of wells we have drilled to date in our oilfields has provided us with a large amount of drilling and well performance data, which we believe maximizes the predictability of future well performance and will further reduce the dry hole risks related to developing our oilfields. We have a history of optimizing field performance and enhancing oil production by instituting an effective waterflood program. As of December 31, 2008, 2009 and 2010, we had installed a total of 218, 259 and 320 injectors, respectively, at our three oilfields. We believe we have effectively enhanced production with our current injector pattern, and we plan to continue to install injectors and expand the areas under waterflood where economic circumstances allow. We are able to optimize production by minimizing the decline rate.

***Competitive cost structure and operational efficiency***

Our China-based operations and active cost management allow us to leverage the low equipment and labor costs in China. We also apply advanced drilling and production technologies that allow us to produce more oil at lower cost. We achieved a success rate of approximately 99.6% for gross development wells drilled from January 1, 2001 to December 31, 2010. We believe we are able to control our costs effectively due to several factors. Starting from the planning stages, our experienced management team and technical personnel are able to prepare exploitation and development plans that maximize crude oil production relative to our development and operating costs. In addition, as a non-state-owned enterprise, we believe that we have greater flexibility to plan and execute projects, manage the size of our operations, implement cost containment initiatives, and source cost-effective subcontractors at each stage in the development and operation of our oilfields. As a result of these factors, we have historically operated at a consistently lower overall lifting costs than PetroChina and Sinopec. We believe we adapt more quickly to oil price fluctuations than large state-owned enterprises and can compete effectively with our competitors even in a low crude oil price environment.

***Effective recovery of development and operating costs and strong cash flow generation through the production sharing contract structure***

We believe we can further develop our existing oilfields, effectively recover our development and operating costs and generate strong cash flow for the following reasons:

- Development of our existing oilfields involves no significant exploration risk because our existing reserve base has already been discovered and fully delineated. This low exploration risk is evidenced by the 777 successful development wells drilled in our existing oilfields between January 1, 2008 and December 31, 2010, representing a success rate of 99.9%. As of December 31, 2010, each of the Daan, Moliqing, and Miao 3 oilfields had a depletion rate of 28.0%, 40.7% and 61.8%, respectively, calculated based on accumulated net production divided by the sum of accumulated net production and net proved reserves.

- The structure of our production sharing contracts allows us to effectively recover our costs. Under the production sharing contracts, crude oil is distributed according to a production allocation provision that, after deducting value-added tax and royalties, the remaining allocable oil is allocated 80% to the foreign contractors for the recovery of the operating, pilot-test and development costs. Our net entitlement of the remaining allocable oil is 72% (being 90% of the foreign contractors' interest) until all of the development cost are recovered. If oil produced in a certain period is insufficient to recover all costs incurred by us in that period, the costs are carried forward to the next period until we recover such costs from future oil production. After the foreign contractors have recovered all operating, pilot-test and development costs (including any unrecovered operating, pilot-test and development costs from prior periods) from the oil revenue generated each period, the remainder of the allocable oil for that period is allocated 52% to PetroChina and 48% to the foreign contractors and our net entitlement is 43.2% (being 90% of the foreign contractors' interest). Accordingly, the foreign contractors' interest ranges between 48% to 80%, and our net interest ranges between 43.2% to 72%.

- We have recovered all of our past development costs in the Daan oilfield, but we have not reached the limit for the number of wells to be drilled and the amount of investment approved under the original overall development plan and the supplemental overall development plan for the Daan oilfield. Since the maximum limits set out in the original overall development plan and supplemental overall development plan have not yet been reached, we continue to make additional investments in the Daan oilfield in accordance with these development plans. For Moliqing and Miao 3, as of December 31, 2010, we had recovered 82% and 50% of the development costs, respectively. Based on Ryder Scott's projections, we will recover all of our development costs at Moliqing by 2013 and at Miao 3 by 2015.

***Long-standing and strong relationship with PetroChina***

We have a long-standing relationship and a history of close cooperation with PetroChina, with which we currently have three production sharing contracts. PetroChina is the largest oil company in China and has the highest number of production sharing contracts covering onshore oilfields among the state-owned oil companies. We have worked closely with PetroChina since 2001 and our cooperation has deepened as the Daan, Moliqing and Miao 3 oilfields entered commercial production phases. During this time, PetroChina has proven to be a reliable partner and customer, as it has had sufficient demand to purchase all of the oil allocated to us as well as a consistent track record of timely payments. We work with many different entities and departments within PetroChina, which has allowed us to form close relationships with key personnel at multiple levels within PetroChina.

The production sharing contracts provide for an eight-member joint management committee to perform supervisory functions for each oilfield. PetroChina appoints four representatives to the joint management committee and we appoint the other four representatives. This arrangement allows us to leverage PetroChina's local knowledge, technical abilities and other strengths. Many of our senior managers and staff members worked for PetroChina before joining our company. We believe our strong relationship with PetroChina is one of the key factors that will contribute to the future growth of our company, and we are well-positioned to further develop our working relationship with PetroChina in current and future projects.

***Strong management team with international experience***

We believe the extensive experience of our management team in developing and operating oilfields in China distinguishes us from other independent oil producers. Our management team has built an extensive network of relationships within the industry both inside and outside of China. Our management team consists of domestically and internationally trained oil and gas professionals, some of whom have worked with established oil and gas companies such as PetroChina, Texaco and ARCO. The international experience and local knowledge of our management team has enhanced our ability to obtain financing, to communicate effectively with PetroChina and our subcontractors and to stay at the forefront of technological advances in our industry. Our chairman, Mr. Zhang, has more than 20 years of experience in the oil industry in China. We have also engaged international specialists and consulting firms to advise our management team on key operational and management areas, such as Mercer on employment compensation, Ryder Scott on reserve estimation, ENSR International on environmental evaluation and Aon-COFCO on insurance policy, to help us adopt international best practices. We are able to leverage the local knowledge and international experience of our management team to facilitate our growth and expansion effectively.

**Our Strategies**

We believe we can maintain our competitiveness and growth by implementing the following strategies:

***Increase production through the development of proved undeveloped reserves***

We plan to increase production to meet the growing demand for oil in China. As of December 31, 2010, the total net proved undeveloped reserves within the contract areas of Daan and Moliqing totaled an estimated

12,033 thousand barrels and 374 thousand barrels of crude oil, respectively. We are continually expanding our operations by drilling more wells in the oilfields we operate, which we believe will substantially increase our net production of crude oil over the next few years. As of December 31, 2010, 37.7% of our net proved reserves were classified as undeveloped, which means we have the opportunity to achieve substantial production growth even without the discovery of new reserves. We plan to improve our production yield through continued use of water injection at existing wells and monitoring and balancing the injectors to improve water sweeping efficiencies. As of December 31, 2010, we had installed a total of 320 injectors at our three oilfields. In order to implement our expansion strategy, we currently plan to spend net amounts of approximately RMB1.3 billion in 2011 to develop our net proved undeveloped reserves as well as our probable and possible reserves.

***Increase our net reserves and net production by securing new production sharing contracts and acquiring existing production sharing contracts in China***

We believe we are in an advantageous position to secure new production sharing contracts due to our strong technical expertise, operating track record, established relationship with PetroChina and access to capital. We intend to leverage our relationship with PetroChina to secure future production sharing contracts with it. We also believe we have the opportunity to enter into new production sharing contracts with oil companies other than PetroChina and selectively acquire existing production sharing contracts from other independent oil producers in China that may be capital-constrained or lack sufficient technical ability and expertise to successfully develop their areas under contracts. We examine factors such as the following when evaluating production sharing contracts: (i) the stage of development; (ii) the amount of additional reserves that could be obtained by investing more capital and using new technology; (iii) risk profile; and (iv) the expected return for our shareholders. We believe our proven track record in developing and operating low-permeability oilfields, which represent approximately 31% of China's overall oil reserves, will help us secure new production sharing contracts or acquire existing production sharing contracts in China. After acquiring a new oilfield, we seek to add value by lowering the operating costs and improving the operating efficiency of the oilfield. We signed a memorandum of understanding with the Drilling Division of Zhongyuan Petroleum Exploration Bureau of the Sinopec group on November 9, 2010. Under this memorandum of understanding, we agreed to cooperate on the exploration of oilfield development opportunities and the application of both our technologies' in relation to the exploration and development of oilfields, including advanced technologies to drill and operate wells under low permeability conditions, to develop such oilfields. We are currently negotiating to enter into another memorandum of understanding with a state-owned oil and gas enterprise, to cooperate in the exploration and development of low permeability oilfields in Shaanxi Province.

The production sharing contracts do not contain any non-competition clause which may restrict us from cooperating with other parties to explore or extract crude oil from other domestic or overseas oilfields, and we do not have to obtain approval from PetroChina for the cooperation.

***Continue to improve operational efficiency through the application of advanced technologies***

We will continue to apply advanced drilling and production technologies to specific reservoirs in an efficient manner. Our technical capabilities enable us to employ advanced drilling and production technologies, and adapt and improve those technologies for our specific requirements in the following major areas:

- continue to efficiently and effectively develop reserves within contract areas, compile development databases and build accurate reserve models;

- continue to increase production and reserves through conducting geological studies and analysis of drilling pattern and well density; and

- optimize production from marginal oilfields through techniques such as multi-layer fracturing and water injection, even in areas of low permeability.

Application of the technologies to our operations in China has enabled us to expand the scope of our exploitation activities, increase development and production efficiencies, and reduce costs. We plan to continue to invest in advanced technology, and we believe the combination of our engineers' skills and experience and our focus on advanced technology applications distinguishes us from many of our competitors.

***Realization of benefits of the Emir-Oil Acquisition***

We expect the Acquisition of Emir-Oil to significantly increase our reserves and diversify our geographical presence. As of December 31, 2010, Emir-Oil had 1,080 gross proved developed producing acres, 240 gross acres of proved undeveloped reserves and approximately 111,926 gross unproved, undeveloped acres. As of December 31, 2010, Emir-Oil drilled a total of 24 wells in the Contract Area under the Exploration Contract with an average production rate of approximately 2,321 barrels per day for year ended December 31, 2010, compared to 2,961 barrels per day and 2,784 barrels per day for year ended March 31, 2009 and 2010, respectively. Emir-Oil produced approximately 1 million barrels of oil or oil equivalent in each of 2009 and 2010 (over 90% was crude oil). According to a reserve report as of December 31, 2010 prepared by Chapman, the Contract Area has estimated proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 23.6 million, 61.5 million and 29.7 million barrels of crude oil, respectively, and 26,842, 36,821 and 34,155 MMcf of natural gas, respectively. Based on that report, as of December 31, 2010, resource potential of 139.1 million barrels of oil and 156 bcf of natural gas were estimated for the two identified Triassic formations (Borly and Esen). Resource potential of 25.3 million barrels of oil has been estimated for three structures in the original ADE Block (Aksaz, Dolinnoe, Emir) and two structures in the extended license territory (Borly, Kariman) for Jurassic formations. The probability of success has been determined to be 15%, resulting in ultimate total risk-adjusted hydrocarbon resources of 28.6 million BOE for the Contract Area.

We believe we can realize the following benefits from the Acquisition:

- Emil-Oil already has existing cash flows and such cash flows will become accessible by us and will be able to assist in funding Emil-Oil's operations;
- Emil-Oil has high proved and probable reserves and, therefore, our primary obligation will be to provide funding for drilling and extraction;
- we believe we can operate Emil-Oil more profitably than it was operated historically by relying on our strong operating capabilities to recover oil, particularly evidenced by our history of low development and lifting costs, high oil recovery rate and high success rate of developing oil wells; and
- we expect Emil-Oil to become a platform for our overseas expansion into Central Asia and to nearby countries.

**Reserve Disclosures**

The following table sets forth our net reserve data as of December 31, 2008, 2009 and 2010.

| | As of December 31, | | |
|---|---|---|---|
| **Net Reserves:** | **2008** | **2009** | **2010** |
| | | **Barrels '000** | |
| Total proved developed | 17,525 | 19,195 | 20,501 |
| Daan oilfield | 15,245 | 15,164 | 17,303 |
| Moliqing oilfield | 2,162 | 3,773 | 2,985 |
| Miao 3 oilfield | 118 | 258 | 213 |
| Total proved undeveloped | 11,303 | 11,699 | 12,435 |

| Net Reserves: | As of December 31, 2008 | 2009 | 2010 |
|---|---|---|---|
| | | Barrels '000 | |
| Daan oilfield | 8,694 | 9,824 | 12,033 |
| Moliqing oilfield | 2,609 | 1,875 | 374 |
| Miao 3 oilfield | – | – | 28 |
| **Total proved** | 28,828 | 30,894 | 32,936 |
| Total probable developed | 6,921 | 7,059 | 7,627 |
| Total probable undeveloped | 14,886 | 17,047 | 11,978 |
| **Total probable** | 21,807 | 24,107 | 19,605 |
| Total possible developed | 4,693 | 4,784 | 5,058 |
| Total possible undeveloped | 6,965 | 6,376 | 8,801 |
| **Total possible** | 11,658 | 11,161 | 13,859 |

All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are those less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recovery.

Proved reserves are those quantities of oil which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Possible reserves are those additional reserves which are less certain to be recovered than probable reserves and thus the probability of achieving or exceeding the proved plus probable plus possible reserves is low. Proved, probable and possible reserves are estimated using a deterministic method and presented as incremental quantities. The deterministic method is a common method of estimating reserves that uses a single value for each parameter (from the geoscience, engineering or economic data) in the reserves calculation for the reserves estimation procedure. Discrete quantities of reserves are assigned separately as proved, probable or possible based on their individual level of uncertainty. Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserve categories. Furthermore, the reserves quantities attributable to the different reserve categories have not been adjusted to reflect these varying degrees of risks associated with them and thus are not comparable.

Reserve estimates will generally be revised as additional geological or engineering data become available or as economic conditions change. Moreover, estimates of reserves may increase or decrease as a result of future operations, effects of regulation by governmental agencies or geopolitical or economic risks. The reserve information are therefore estimates only and should not be construed as being exact quantities. They may or may not be actually recovered and, if recovered, the revenue from the reserves and the actual costs related to the reserves could be more or less than the estimated amounts.

The reserves and income data included herein were estimated based on the definitions and disclosure guidelines of the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists, and Society of Petroleum Evaluation Engineers Petroleum Resources Management System.

**Internal Controls Over Reserves Estimates**

Responsibility for compliance in reserves bookings is delegated to our reserve and long-term planning department and requires qualified geologists and engineers in our Beijing office to review all data used for internal reserves estimates for our different oilfields. We currently engage Ryder Scott, an independent petroleum engineering consulting firm, to prepare our reserve estimates for recording. These reserves estimates are reviewed and approved by regional management and senior engineering staff with final approval by members of

our senior management. For reserve data security, in addition to the data stored on Ryder Scott's servers, we have internal servers located in both our Beijing and Songyuan offices to store our accounting and reserve data content, to provide back-up data support and to avoid system error or failure due to a sudden and significant increase in traffic or a bottleneck in inter-provincial network connections.

**Technologies Used in Reserves Estimation**

We used a combination of production and pressure performance, wireline wellbore measurements, simulation studies, offset analogies, seismic data and interpretation, wireline formation tests, geophysical logs and core data to calculate our reserves estimates.

**Independent Technical Report**

We commissioned Ryder Scott, an independent petroleum engineering consulting firm based in the United States, to carry out an independent assessment of our oil reserves as of December 31, 2008, 2009 and 2010. Ryder Scott is an oil industry consulting firm whose primary role is to evaluate oil and gas properties in the United States and internationally and independently certifies petroleum reserve quantities. The reserves and income data included therein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (SPE-PRMS). The firm issues reserve certifications used by banks and investors that help to ensure compliance with regulatory guidelines. Ryder Scott has issued reports as of December 31, 2008, 2009 and 2010. These reserve reports included a detailed review of all of our oilfields, which are the Daan, Moliqing and Miao 3 oilfields. No material changes have occurred since December 31, 2010, the effective date of the most recent Independent Technical Report issued by Ryder Scott.

**Delivery Commitments**

We and PetroChina jointly determine the amount of crude oil to be produced in an oil production plan adopted by the joint management committee during the annual meetings, and the oilfields are required to deliver the amount of crude oil produced to PetroChina as stipulated in plan. Under the production sharing contracts, the parties may agree to separately dispose of their respective shares of the crude oil produced. As of the date hereof, we have delivered all of the oil we produced to PetroChina. See "– Sales and Marketing" for more information regarding our sales and delivery procedures under the contracts.

**Oilfields**

The following table sets forth a brief summary of the status of our oilfields as of December 31, 2010.

| Status | Daan | Moliqing | Miao 3 |
|---|---|---|---|
| Date of production sharing contract | December 16, 1997 (modified on October 25, 2000 and December 20, 2001) | September 25, 1998 (modified on October 25, 2000 and December 20, 2001) | December 16, 1997 (modified on October 25, 2000 and December 20, 2001) |
| Term | 30 years | 30 years | 30 years |
| Date of commencement of implementation | March 1, 1998 | February 1, 1999 | March 1, 1998 |
| Status | Entered commercial production phase on January 1, 2005 | Entered commercial production phase on December 1, 2008 | Entered commercial production phase on October 1, 2008 |

| Status | Daan | Moliqing | Miao 3 |
|---|---|---|---|
| Year of expiration | 2024 | 2028 | 2028 |
| Total area | 253.0 $km^2$ | 71.5 $km^2$ | 81.0 $km^2$ |
| Gross developed area | 80.6 $km^2$ | 11.0 $km^2$ | 8.9 $km^2$ |
| Total costs incurred for pilot-test and development, including related operating costs | RMB3,737.1 million | RMB1,294.2 million | RMB291.7 million |
| Total amount of cost recovered for the pilot-test and development costs, including related operating costs | RMB3,737.1 million (100% of cost recovered | RMB1,060.1 million (81.9% of cost recovered) | RMB146.6 million (50.3% of cost recovered) |
| Gross productive well count | 1,366 | 144 | 131 |
| Depletion rate[(1)] | 28.0% | 40.7% | 61.8% |

(1) Calculated based on accumulated net production divided by the sum of accumulated net production and net proved reserves.

***Daan***

The Daan oilfield holds our largest net proved reserves and is currently our largest crude oil production area. Situated in Daan, Jilin Province and near the center of the Songliao Basin, the Daan oilfield entered into the commercial production phase of the production sharing contract on January 1, 2005 and has historically been our most productive oilfield, contributing approximately 79.7%, 78.6% and 76.1% of our total crude oil production in 2008, 2009 and 2010, respectively.

The Daan oilfield extends over an area of approximately 253.0 square kilometers. As of December 31, 2010, we operated 1,366 gross productive wells at the Daan oilfield. For 2011, we budgeted a work program of drilling 288 gross wells.

At the Daan oilfield, oil is produced mainly from Lower Cretaceous Fuyang reservoirs, a series of interbedded sands and shales of both lacustrine and fluvial origins. The sequence ranges in thickness from approximately 100 meters to 300 meters, gross interval, with individual sand units ranging from one meters to over 15 meters. The reservoir is contained within an anticlinal feature with a plunge to the north and crestal elevation of approximately 1,600 meters below sea level in the south and 1,900 meters below sea level in the north. The effective reservoir has a porosity range of 11% to 22% with an average of 16%. Virtually all wells require stimulation by hydraulic fracturing and the oil production rate was about 7,110 barrels per day with a water cut of 26% as of December 31, 2010.

As of December 31, 2010, our net proved, probable and possible reserves in the Daan oilfield totaled an estimated 29.3 million barrels, 14.6 million barrels and 9.9 million barrels, respectively, or 89.1%,74.5% and 71.4%, respectively, of our total net proved, probable and possible reserves. For 2008, 2009 and 2010, our net production in the Daan oilfield averaged 6,492 barrels, 6,000 barrels and 7,110 barrels, respectively, of crude oil per day, representing approximately 79.7%, 78.6% and 76.1%, respectively, of our total daily crude oil production. As of December 31, 2010, the crude oil proved reserve-to-production ratio at the Daan oilfield was 11.3 years. The crude oil produced in the Daan oilfield is of high quality with gravity ranging from 34° to 38° API and has low sulfur content. In 2010, our average lifting costs in the Daan oilfield amounted to US$5.65 per barrel, compared to US$6.21 per barrel in 2009.

We have adopted waterflooding at the Daan oilfield since the end of 2004. We plan to expand the waterflood areas at the Daan oilfield to include every productive well location in the field where physical and economic circumstances permit. As of December 31, 2010, the developed area contains 281 injectors and 1,085 producers. The current practice is to implement the injectors either concurrent with or prior to installing producers. As such, we can achieve favorable ratios of injection to withdrawal volumes and maintain reservoir pressures without disrupting production. Injectors are carefully managed, using surface controls, to inject

appropriate amounts to optimize waterflood performance. According to the Ryder Scott reserve report, as of December 31, 2010, estimated technical, full-life average recovery factors for proved reserves ranged from 4.0% for primary recoveries to 15.4% for secondary recovery in waterflood areas, averaging 10.5%. Estimated technical, full-life recovery factors for proved+probable and proved+probable+possible reserves in waterflood areas averaged 11.2% and 12.0%, respectively, as of December 31, 2010.

As of December 31, 2010, our total gross developed area was 80.6 square kilometers, which represented 42.0% of the total 191.7 square kilometers currently planned for development and 31.9% of the total 253.0 square kilometers within the contract area at Daan oilfield.

During the pilot-test period, we prepared an overall development plan, which included, among other things, details regarding the recoverable reserves, development well patterns, a master design, a production profile, an economic analysis and time schedule of development of the discovered oil reserves, a calculation of the maximum efficient rate determined in accordance with international oil industry practice, and an estimate of the duration of the production period. The overall development plan for the Daan oilfield was approved by PetroChina and the NDRC on December 20, 2002 and May 7, 2004, respectively, and a supplemental overall development plan for the Daan oilfield was approved by PetroChina and the NDRC on November 29, 2006 and December 6, 2007, respectively. Under a supplementary agreement we entered into with CNPC on September 25, 2008, a supplementary development plan shall be adopted upon consideration by the joint management committee and implemented after submission to PetroChina for review or record. At the joint management committee meeting held in November 2009, the committee approved a work program for the drilling of 288 gross wells in the Daan oilfield and a gross production target of 5.7 million barrels for 2011.

During 2010, we commenced testing of infill drilling in the Daan oilfield. We drilled several wells on a spacing of approximately seven acres to evaluate the potential for infill drilling on a larger scale in the future. Based on the results of the study, it has been estimated that infill wells will on average recover approximately 35% of the recovery of surrounding wells drilled on the original 15 acre well spacing. Therefore, we included in our reserves the amount attributable to infill drilling for the first time at December 31, 2010, which were 3.3 million barrels, 1.0 million barrels and 0.9 million barrels of proved, probable and possible reserves, respectively. To develop these reserves, we currently have plans to drill an additional 455 infill wells, including 36 infill wells in 2011.

***Moliqing***

The Moliqing oilfield is situated in Yitong, Jilin Province and near the center of the Songliao Basin. The Moliqing oilfield entered into the commercial production phase of the production sharing contract on December 1, 2008. It contributed approximately 18.5%, 19.0% and 18.7% of our total crude oil production in 2008, 2009 and 2010, respectively.

The Moliqing oilfield extends over an area of approximately 71.5 square kilometers. As of December 31, 2010, we operated 144 gross productive wells at the Moliqing oilfield. For 2011, we budgeted a work program of drilling 35 gross wells.

The Moliqing oilfield is situated on reservoirs that are a series of interbedded dark mudstones, grey muddy siltstones grading to siltstones and fine grained sandstones from the Eocene-age Shuangyang formation. Individual oil reservoir units, composed of siltstones and sandstones, vary in thickness and are often discontinuous. The overall unit average porosity ranges from 13% to 18%. All of the perforated intervals in Moliqing are stimulated or fractured to improve recovery, and the oil production rate was 1,744 barrels of oil per day with a water cut of 16% during December 2010.

As of December 31, 2010, our net proved, probable and possible reserves in the Moliqing oilfield totaled an estimated 3.4 million barrels, 4.6 million barrels and 3.7 million barrels, respectively, or 10.2%, 23.5% and 26.4%, respectively, of our total net proved, probable and possible reserves. For 2008, 2009 and 2010, our net production in the Moliqing oilfield averaged 1,505 barrels, 1,453 barrels and 1,744 barrels of crude oil per day, respectively, representing approximately 18.5%, 19.0% and 18.7%, respectively, of our total daily crude oil production. As of December 31, 2010, the crude oil proved reserve-to-production ratio at the Moliqing oilfield was 5.5 years. The crude oil produced in the Moliqing oilfield is of generally high quality with gravity ranging from 33° to 38° API and has a low sulfur content. In 2010, our average lifting costs in the Moliqing oilfield amounted to US$10.78 per barrel, compared to US$11.82 per barrel in 2009.

Initial waterflooding began at Moliqing oilfield in August of 2006 with significant expansion in 2009. We plan to expand the waterflood areas at the Moliqing oilfield to include every productive well location in the field where physical and economic circumstances permit. As of December 31, 2010, the developed area contained 18 injectors and 126 producers. According to the Ryder Scott reserve report, as of December 31, 2010, estimated technical, full-life recovery factors for proved reserves ranged from 2.0% for primary recoveries to 17.4% for secondary recoveries, averaging 7.3%. Estimated technical, full-life recovery factors for proved+probable and proved+probable+possible reserves in waterflood areas averaged 7.8% and 8.4%, respectively, as of December 31, 2010.

As of December 31, 2010, our total gross developed area was 11.0 square kilometers, which represented 31.8% of the total 34.6 square kilometers in Moliqing oilfield currently planned for development and 15.4% of the total 71.5 square kilometers within the contract area at Moliqing oilfield.

We operate under the overall development plan for the Moliqing oilfield, which was approved by PetroChina and the NEB on April 20, 2007 and November 3, 2008, respectively. At the joint management committee meeting held in November 2009, the committee approved a work program for the drilling of 35 gross wells in the Moliqing oilfield and a gross production target of 1.0 million barrels for 2011.

***Miao 3***

The Miao 3 oilfield is situated in Qianguo, Jilin Province, and near the center of the Songliao Basin. The Miao 3 oilfield entered into the commercial production phase on October 1, 2008. It contributed approximately 1.9%, 2.4% and 5.2% of our annual total crude oil production for 2008, 2009 and 2010, respectively.

The Miao 3 oilfield extends over an area of approximately 81.0 square kilometers. As of December 31, 2010, we operated 131 gross productive wells at the Miao 3 oilfield. For 2011, we budgeted a work program of drilling 44 gross wells.

At the Miao 3 oilfield, the target oil reservoir is also from the Lower Cretaceous Fuyang formation, a series of interbedded sands and shales of primary lacustrine sands, bay mouth bars and delta front sheet sands. The thickness of the sand units range from laminated overbank deposits to thicker channel sand. The reservoir has a porosity range from 10% to 19% with an average of 14%. Virtually all wells require stimulation by hydraulic fracturing and the oil production rate is about 495 barrels per day with a water cut of 41% during December 2010.

As of December 31, 2010, our net proved, probable and possible reserves in the Miao 3 oilfield totaled an estimated 0.2 million barrels, 0.4 million barrels and 0.3 million barrels, respectively, or 0.6%, 2.0% and 2.2%, respectively, of our total net proved, probable and possible reserves. For 2008, 2009 and 2010, our net production in the Miao 3 oilfield averaged 153 barrels, 184 barrels and 495 barrels of crude oil per day, respectively, representing approximately 1.9%, 2.4% and 5.2% of our total daily crude oil production, respectively. The crude oil produced in the Miao 3 oilfield is sweet and light with gravity ranging from 34° to 38° API and a low sulfur content. In 2010, our average lifting costs in the Miao 3 oilfield amounted to US$15.36 per barrel, compared to US$25.86 per barrel in 2009.

Waterflooding has been underway at the Miao 3 oilfield since November 2007. We plan to expand the waterflood areas at the Miao 3 oilfield to include every productive well location in the field where physical and economic circumstances permit. As of December 31, 2010, the developed area contained 21 injectors and 110 producers. According to the Ryder Scott reserve report, as of December 31, 2010, estimated technical, full-life recovery factors for proved reserves averaged 4.7% and for proved+probable and proved+probable+possible reserves averaged 7.7% and 9.5%, respectively.

As of December 31, 2010, our total gross developed area was 8.9 square kilometers, which represented 11.0% of the total 81.0 square kilometers within the contract area at Miao 3 oilfield. We operate under the overall development plan for the Miao 3 oilfield, which was approved by PetroChina and the NDRC on March 31, 2006 and April 29, 2007, respectively. At the joint management committee meeting held in November 2009, the committee approved a work program to drill 44 gross wells in the Miao 3 oilfield and a gross production target of 0.3 million barrels for 2011.

***Luojiayi***

On August 28, 2000, we entered into a 25-year production sharing contract with Sinopec for exploration and development of a contract area identified as Luojiayi block 64 at the Shengli oilfield in Shandong Province. Shengli oilfield is one of the largest oil production bases in China. In 2000, we began the trial-development phase of our operations at Luojiayi and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, we requested an extension from Sinopec to restart the project at Luojiayi. On September 27, 2006, we received a letter from Sinopec denying our request to restart the project and seeking to terminate the production sharing contract on the grounds that the one-year extension period of the trial-development phase had expired on December 31, 2003 and we had not met our investment commitment of at least US$2 million under the production sharing contract prior to such expiration. We believe our initial investment of RMB23.1 million in the project at the Shengli oilfield, which investment was made prior to December 31, 2003, met the required commitment amount under the production sharing contract. Since we received Sinopec's denial letter in 2006, we delivered additional written requests to them asking for further discussions on the matter. We intend to negotiate in good faith with Sinopec to resolve this issue. Therefore, we have chosen not to pursue the termination of this production sharing contract.

As of the date of this offering memorandum, our dispute with Sinopec has not entered any judicial proceedings. However, our investment in the Shengli oilfield project was completely written off in 2004. We have accounted for losses and liabilities in connection with the production sharing contract for the project at the Shengli oilfield and we believe there are no additional liabilities and claims in relation to the Shengli oilfield project. As of the date of this offering memorandum, Sinopec has not initiated any legal proceedings against us. We believe our investment in the project at the Shengli oilfield has met the required commitment amount under the production sharing contract with Sinopec. As the statute of limitation for claims of compensation or damages has lapsed under relevant PRC laws and regulations, we believe that no provision is necessary in the financial statements. Furthermore, because there has not been any further development relating to this project since the end of 2004, we did not include any operating or reserve data relating to Luojiayi in this offering memorandum.

**Production Sharing Contracts**

***Phases of the Production Sharing Contracts***

Under the production sharing contracts with PetroChina, we conduct our oil operations in the capacity of the sole operator and one of the two foreign contractors of the oilfields. We hold a 90% participating interest in the foreign contractors' entitlements and obligations in each of our production sharing contracts, and GOC holds the remaining 10% interest. GOC is not directly involved in the operations of the oilfields and does not vote at the meetings of the joint management committee. PetroChina holds the exploitation permits for the development and production of crude oil, issued by the PRC Ministry of Land and Resources, at the Daan, Moliqing and Miao 3 oilfields.

Each production sharing contract has a maximum term of 30 years. The commercial production phase lasts for a term of 20 consecutive years, which may be extended with the approval of the PRC government. Our production sharing contracts typically comprise three phases:

*Pilot-test phase*

The pilot-test phase commences after the date of commencement of the implementation of the production sharing contract and extends for two consecutive years, and may be further extended with the consent of PetroChina. During this phase, the foreign contractors are obliged to undertake a minimum amount of work, including drilling wells and incurring a minimum amount of expenditures. During the pilot-test phase, the foreign contractors conduct appraisal work in the oilfield in order to evaluate the commercial viability of any crude oil discovery. 80% of the oil production is allocated to the foreign contractors for the recovery of the investment costs incurred during the pilot-test phase. 20% of the oil production is allocated to PetroChina for the recovery of any pre-development costs it incurred. The unrecovered costs of the foreign contractors are carried forward and recovered from the recovery oil in succeeding years until fully recovered.

*Development phase*

Upon the end of the pilot-test phase, the foreign contractors have the option either to enter into the development phase or to terminate the production sharing contracts. The development phase begins on the date that the NDRC or NEB approves the overall development plan for an oilfield. The development plan outlines, among other things, the total cost of investment, the quantity of recoverable reserves and a schedule for the development of the reserves. It ends when the oilfield enters into commercial production. 80% of the oil production is allocated to the foreign contractors for the recovery of the development costs incurred for the development of the oilfield during the development phase and any unrecovered costs incurred by the foreign contractors carried forward from the pilot-test phase. 20% of the oil production is allocated to PetroChina for the recovery of any pre-development costs it incurred. The unrecovered costs of the foreign contractors are carried forward and recovered from the recovery oil in succeeding years until fully recovered.

*Commercial production phase*

The production sharing contract enters the commercial production phase upon (i) the production of 40,000 tons, 30,000 tons and 20,000 tons of crude oil for Daan, Moliqing and Miao 3 oilfields, respectively, from the respective oilfield from the date of submission of the overall development plan to PetroChina for approval, (ii) PetroChina's approval and (iii) an announcement by the joint management committee of the relevant oilfield that the commercial production phase has begun. The oil production is allocated to PetroChina and the foreign contractors for the recovery of the operating costs, the pilot-test costs that are carried over from the previous phases, and the development costs that are carried over from the previous phases and/or newly incurred during the current phase, and for profit-sharing.

The foreign contractors are entitled to share in the production of crude oil with PetroChina in accordance with the ratio agreed between PetroChina and the foreign contractors under the production sharing contracts. The table below summarizes the crude oil distribution waterfall during different phases of the production sharing contracts.

| Description | Pilot-test Phase | Development Phase | Commercial Production Phase |
|---|---|---|---|
| Payment of value-added tax and royalties | Crude oil produced during the year is first used to pay value-added tax and royalties to the PRC government | | |
| Recovery of operating costs incurred | N/A(1) | N/A(1) | A portion of any remaining crude oil is then allocated to the foreign contractors to recover 48 to 80% of the operating costs incurred, which is borne by the foreign contractors(2) |
| Recovery of pilot-test and development costs incurred | 80% of any remaining crude oil is then used as payment in kind to recover the pilot-test costs incurred by the foreign contractors(3) | 80% of any remaining crude oil is then used as payment in kind to recover the pilot-test and development costs incurred by the foreign contractors(3) | 80% of any remaining crude oil is then allocated to the foreign contractors to recover the pilot-test and development costs incurred by the foreign contractors(3) |
| Profit-sharing | N/A | N/A | 48% of any remaining crude oil is then allocated to the foreign contractors |

(1) The operating costs incurred during the pilot-test and development phases are included as part of the pilot-test costs or development costs.

(2) Under the production sharing contracts, the foreign contractors' share of the operating costs is determined according to the following formula:

$$OC \times \frac{A \times 80\% + B \times 48\%}{A + B}$$

of which:

OC = the total operating costs

A = the oil for the recovery of the pilot-test and development costs

B = profit-sharing oil

If both A and B are zero, the foreign contractors will bear 80% of the operating costs incurred and the unrecovered amount, if any, will be carried over to the subsequent period.

(3) 20% of the oil production is allocated to PetroChina for the recovery of any pre-development costs it incurred. The unrecovered costs of the foreign contractors are carried forward and recovered from the recovery oil in succeeding years until fully recovered.

(4) Oil allocated to PetroChina and the foreign contractors for the recovery of the operating costs and pilot-test and development costs is called "cost recovery oil."

(5) Oil allocated to PetroChina and foreign contractors after full recovery of the operating costs and pilot-test and development costs is called "profit-sharing oil."

***Payment of Value-Added Tax and Royalties***

Any revenue from crude oil produced during the year is first paid to the authorities as value-added tax and royalties. The value-added tax rate payable to the PRC government is 5% of annual gross production. PetroChina and the foreign contractors are also required to pay royalties to the PRC government based on the gross production of each oilfield covered by the production sharing contracts. The royalties payable each year vary from 0.0% to 12.5% of annual crude oil production based on the level of production for a particular oilfield. The following table describes the royalty rates payable at various annual gross crude oil production levels.

| **Annual Gross Oil Production** | **Royalty Rate** |
|---|---|
| Less than 0.5 million tons | 0.0% |
| 0.5 to 1.0 million tons | 2.0% |
| 1.0 to 1.5 million tons | 4.0% |
| 1.5 to 2.0 million tons | 6.0% |
| 2.0 to 3.0 million tons | 8.0% |
| 3.0 to 4.0 million tons | 10.0% |
| More than 4.0 million tons | 12.5% |

Royalties paid to the PRC government amounted to RMB2.6 million, RMB4.3 million and RMB16.9 million in 2008, 2009 and 2010, respectively, as our annual gross oil production at the Daan oilfield exceeded 0.5 million tons. We have not made any royalty payment for our crude oil production at the Moliqing and Miao 3 oilfields as annual production at these two oilfields did not exceed 0.5 million tons. Because the value-added tax and royalties are already excluded from our gross production, such amounts are not included in our accounting records.

***Cost Recovery Oil and Profit-Sharing Oil***

Under our production sharing contracts, production of crude oil is allocated among the foreign contractors and PetroChina during the commercial production phase, after deducting value-added tax and royalties, as follows:

- *Cost recovery oil.* We define "cost recovery oil" as the oil to be allocated to PetroChina and the foreign contractors for the recovery of the operating costs and pilot-test and development costs. Cost recovery oil is payable until all costs incurred by the foreign contractors have been fully recovered.

PetroChina and the foreign contractors each bear a part of the operating costs. In any period in which the foreign contractors have not fully recovered their pilot-test and development costs (including any supplemental development costs) for such period and any prior periods, the operating costs are borne 20% by PetroChina and 80% by the foreign contractors. Conversely, in any period in which the foreign contractors have fully recovered their pilot-test and development costs for such period and any prior periods, the operating costs are borne 52% by PetroChina and 48% by the foreign contractors. Therefore, in a given period during the commercial production phase, operating costs are borne by the foreign contractors in the range of 48% to 80%.

After the recovery of the operating costs incurred, the foreign contractors are also entitled to recover all of their pilot-test and development costs incurred for development of the oilfields. As long as these costs have not yet been fully recovered by the foreign contractors, the foreign contractors are entitled to 80% of the remaining oil as payment in kind for these costs while PetroChina is entitled to the remaining 20%.

- *Profit-sharing oil.* After the full recovery of the operating costs and the pilot-test and development costs incurred by the foreign contractors, the remaining crude oil is allocated between PetroChina and the foreign contractors. PetroChina and the foreign contractors are entitled to 52% and 48% of the allocable remaining oil, respectively. We call the remaining crude oil the "profit-sharing" oil.

***Management and Operations***

The production sharing contracts provide for a joint management committee to perform supervisory functions for each oilfield. Currently, there are eight members on the joint management committee. PetroChina may appoint four representatives while the foreign contractors together may appoint the other four representatives. The four representatives for the foreign contractors are appointed by us. Each party shall designate one chief representative. The chairman of the joint management committee is the chief representative designated by PetroChina, whereas the vice chairman is the chief representative designated by the foreign contractors. GOC, as a passive foreign contractor, has no voting rights on the joint management committee. When a decision is to be made on any proposal, the chief representative from each party shall have the sole right to vote on behalf of the party.

In the absence of the chief representative, each party may designate another member to act as its chief representative at the meeting. Decision of the joint management committee shall be made unanimously, and each decision made unanimously shall be deemed as a formal decision and shall be equally binding on the parties. When an agreement cannot be reached, the parties may convene another meeting in an attempt to find a new solution based on the principle of mutual benefit.

The joint management committee meets at least twice a year and has the authority to, among other things, review and approve operational and budgetary plans, review and adopt the overall development plan and any supplemental overall development plan, review and examine matters required to be submitted to the relevant PRC authorities, and approve significant procurements, expenditures and insurance coverage.

We have been designated as the operator for each of the oilfields under the production sharing contracts. The obligations of the operator include the following:

- applying the appropriate technology and managerial experience to perform the oil operations reasonably, economically and efficiently in accordance with sound international practice;
- preparing and carrying out work programs and budgets;
- procuring equipment and supplies and subcontracting services related to the oil operations;
- preparing, budgeting and executing annual personnel training programs; and
- maintaining complete and accurate accounting records of all costs and expenditures of the oil operations and keeping the accounting books secure and in good order.

As the operator, we are solely responsible for carrying out the daily operations of the oilfields. We are also responsible for determining and executing operational and budgetary plans and all routine operational matters.

After we have fully recovered our pilot-test and development costs stipulated to be expended by the overall development plan, PetroChina has the right under the production sharing contracts to take over the operations of the oilfields at its sole discretion. In the event PetroChina takes over the operations at any of the three oilfields, we will remain entitled to our allocation of the operating portion of the cost recovery oil and the profit-sharing oil for the remaining term of the relevant production sharing contract and continue to participate on the joint management committee. However, we will not be able to invest in additional capital expenditures to generate more production and revenue.

***Ownership of Assets and Data***

PetroChina owns all data, records, samples, vouchers and other original data obtained by the foreign contractors in the course of performing the oil operations. After the earlier of (i) full recovery by the foreign contractors of their development costs or (ii) expiration of the production sharing contracts, PetroChina shall own all the assets purchased, installed and constructed under the production sharing contracts in accordance with the laws and regulations of the PRC, prior to which PetroChina and we jointly control the assets for each field and the ownership of the assets for each field is not explicitly defined in the production sharing contracts. The total net book value of the assets amounted to RMB3,024.5 million as of December 31, 2010. We amortized this amount using the unit of production method over the remaining term of the relevant production sharing contract, which method is not affected by the ownership of the assets. PetroChina has not obtained ownership of the assets purchased, installed and constructed under the production sharing contract of any of our oilfields.

The production sharing contracts specifically provide that, regardless of who has ownership of the assets, during the term of the relevant production sharing contract the assets are to be used solely for the petroleum operations of the relevant oilfield. Without the consent of both PetroChina and the foreign contractors, the assets cannot be used for any other purpose. Furthermore, according to the Petroleum Regulation and the production sharing contracts, should PetroChina take ownership of the assets before the expiration of the production sharing contracts, our entitlement to our allocation of the cost recovery oil and the profit sharing oil will not change for the remaining term of the relevant production sharing contract. Our ability to realize future economic benefits under the production sharing contracts stems from our entitlement to the oil produced over the term of the production sharing contract, and such entitlement is not dependent upon us owning the assets. For these reasons, the Directors believe that PetroChina's eventual ownership of the assets in this respect will not materially affect our financial position.

***Sale of Crude Oil to Third Party Purchasers***

The production sharing contracts and the sales contract with PetroChina permit the foreign contractors to sell their share of the crude oil to other third party purchasers. Foreign contractors may also export their share of crude oil to purchasers overseas and shall obtain, with the assistance of PetroChina, any necessary licenses or permits. See "– Sales and Marketing" for a description of the sales contract between us and PetroChina. Under applicable oil trade laws and regulations in the PRC, any exports shall be made only by licensed vendors.

***Abandonment of Production or Termination of Production Sharing Contract***

During the commercial production stage, production from a contract area may be abandoned due to the lack of economic feasibility. Pursuant to the production sharing contracts, if any party to the production sharing contracts plans to abandon production from the contract area, it must give prior written notice to the other party or parties. If the other party or parties agree to abandon production from the contract area, all parties shall pay abandonment costs in proportion to their respective percentage of participating interests in the contract area. Upon service of notice by the foreign contractors, if PetroChina decides not to abandon production, all of the foreign contractors' rights and obligations under the production sharing contract in respect of the contract area, including the obligation to pay abandonment costs, shall terminate automatically, provided that the foreign contractors' debt, liabilities and obligations in respect of the oilfields shall not be transferred to PetroChina.

In addition to abandonment, there are several circumstances where the production sharing contracts can be terminated, including: (i) the contractor can choose to terminate after pilot test period; (ii) the production sharing contract automatically terminates after 20 years of continuous commercial production; (iii) PetroChina can terminate in the case of abandonment of production by the contractor; (iv) the production sharing contract automatically terminates 30 years from the date of execution; and (v) both parties can terminate upon a material breach of the contract terms by the other party, subject to arbitration as provided in the production sharing contract. For details of the applicable laws and regulations governing production sharing contracts in the PRC, please see "Regulations – Regulatory Framework For Sino-Foreign Cooperation In The Exploitation Of Onshore Petroleum Resources" in this offering memorandum.

**Our Relationship with PetroChina**

We have a long-standing relationship and a history of close cooperation with PetroChina, with which we currently have three production sharing contracts. PetroChina, the largest of the three state-owned oil companies in the PRC, has the highest number of production sharing contracts covering onshore oilfields. We have worked closely with PetroChina since 2001, when we took over the operations of the three oilfields. In 2008, 2009 and 2010, PetroChina was our sole customer and accounted for all of our revenue. Our cooperation has deepened as the Daan, Moliqing and Miao 3 oilfields entered commercial production phases. Our strong relationship with PetroChina is one of the key factors that will contribute to our future growth, and we believe we are well positioned to further develop our working relationship with PetroChina in current and future projects.

PetroChina is independent of and not connected with us or any of our subsidiaries, Directors, senior management or substantial shareholders. PetroChina also does not have any common shareholder or management to that of our company. All production sharing contracts with PetroChina were negotiated on an arm's length basis between the parties, reflected normal commercial terms and have been approved by MOFCOM as required under PRC law. As set out in the sales contract, the price which we sell our portion of crude oil produced under the production sharing contracts is determined at market price each month in accordance with the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, which closely follows the price of West Texas Intermediate crude oil, an international crude oil price benchmark.

Our Board of Directors currently consists of four executive Directors and four non-executive Directors, each of whom is independent of PetroChina. Each Director is fully aware of his fiduciary duties as a Director which requires, among other things, that he acts for our benefit and in our best interests.

We operate independently of PetroChina and also have independent access to third party suppliers. Our management and operational decisions are made by our Directors and senior management, who are independent of PetroChina and have substantial experience in the oil and gas industry. We have the capability and personnel to perform all essential administrative functions including financial and accounting management. In addition, we maintain an independent financial management system and make financial decisions according to our business needs. In the past, we obtained financing from external sources to finance all the development of the Daan, Moliqing and Miao 3 oilfields without reliance on PetroChina. Other than trade and other receivables incurred in the normal course of business, there is no amount due to or from PetroChina. As the sole oilfield operator under each of the production sharing contracts, we are solely responsible for carrying out daily operations of the oilfields.

Under our production sharing contracts with PetroChina, PetroChina has the right to take over the operational rights of the oilfields from us when all the development costs, including all costs incurred in both the pilot test and development phases, have been recovered by us in full and no additional overall development plan under which additional development costs will be incurred by us has been approved. We have recovered all of our past development costs in the Daan oilfield, but we have not reached the limits set in the overall development plans for Daan and continue to make additional new investments in the Daan oilfield in accordance with development programs approved by the joint management committee. We have not recovered our development costs in Moliqing and Miao 3 oilfields. Therefore, we do not believe PetroChina has the right to take over any of our oilfield as of the date hereof.

In the event that PetroChina exercises its right to take over the operational rights of the oilfields from the foreign contractors, PetroChina shall give a written notice to the foreign contractors. The foreign contractors shall have 60 days to prepare a transfer plan, and the joint management committee shall have 30 days thereafter to review and approve the plan. PetroChina shall have 60 days after the joint management committee's approval to submit its list of personnel taking over the operations to the foreign contractors. The foreign contractors shall have 330 days from the original notice from PetroChina to complete its report on the completion of preparations for the transfer, and the joint management committee shall have 30 days to approve the report before formally commencing the transfer. If this were to occur, we would continue to operate the oilfields until PetroChina completely assumes control and takes over production operations, and we would continue to enjoy our right to

the allocated portion of the oil produced until 2024 for the Daan oilfield and until 2028 for the Miao 3 and Moliqing oilfields (each being when the respective production sharing contracts expire). Further, we would focus our efforts on entering into new production sharing contracts, both with PetroChina and with other third parties, and on expanding into emerging markets outside of China. See "– Our Strategies – Increase our net reserves and net production by securing new production sharing contracts and acquiring existing production sharing contracts in China."

**Production and Drilling Data**

***Average Daily Production***

The following tables show our average daily gross and net crude oil production in 2008, 2009 and 2010.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| **Gross crude oil production:** | **Barrels** | **Barrels** | **Barrels** |
| Daan oilfield | 11,646 | 11,994 | 14,290 |
| Moliqing oilfield | 2,200 | 2,127 | 2,545 |
| Miao 3 oilfield | 223 | 265 | 723 |
| Total average daily gross production | 14,069 | 14,386 | 17,558 |

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| **Net crude oil production:** | **Barrels** | **Barrels** | **Barrels** |
| Daan oilfield | 6,492 | 6,000 | 7,110 |
| Moliqing oilfield | 1,505 | 1,453 | 1,744 |
| Miao 3 oilfield | 153 | 184 | 495 |
| Total average daily net production | 8,150 | 7,637 | 9,349 |

***Average Sales Price and Net Production Costs***

The following table sets forth our average sales price per barrel of crude oil and lifting costs per barrel of crude oil in 2008, 2009 and 2010.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **US$** | **US$** | **US$** |
| Average sales price per barrel of crude oil | 104.78 | 58.58 | 77.99 |
| Daan oilfield | 105.66 | 59.05 | 78.19 |
| Moliqing oilfield | 101.51 | 56.83 | 77.33 |
| Miao 3 oilfield | 102.03 | 56.57 | 77.26 |
| Lifting costs | 6.52 | 7.69 | 7.09 |
| Daan oilfield | 4.23 | 6.21 | 5.65 |
| Moliqing oilfield | 13.26 | 11.82 | 10.78 |
| Miao 3 oilfield[(1)] | 31.06 | 25.86 | 15.36 |

(1) Miao 3 oilfield has higher lifting costs than the other two oilfields because it is in the early stage of development with higher fixed cost per unit of production.

***Productive Wells***

The following table sets forth the number of our gross and net productive wells as of December 31, 2010.

| | As of December 31, 2010 | | | |
|---|---|---|---|---|
| | **Daan Oilfield** | **Moliqing Oilfield** | **Miao 3 Oilfield** | **Total** |
| Gross productive wells | 1,366 | 144 | 131 | 1,641 |
| Net productive wells[(1)] | 984 | 104 | 94 | 1,182 |

(1) Calculated based on a 72% interest in the gross productive wells. The 72% interest is derived from our 90% participating interest in the foreign contractors' 80% entitlement under the production sharing contracts.

***Development Wells***

The following table sets forth the number of our gross and net development wells drilled in 2008, 2009 and 2010.

| | For the Year Ended December 31, 2008 | | | |
|---|---|---|---|---|
| | **Daan Oilfield** | **Moliqing Oilfield** | **Miao 3 Oilfield** | **Total** |
| **Gross development wells drilled** | | | | |
| Successful | 316 | 45 | 28 | 389 |
| Dry | 0 | 0 | 0 | 0 |
| **Net development wells drilled[(1)]** | | | | |
| Successful | 228 | 32 | 20 | 280 |
| Dry | 0 | 0 | 0 | 0 |

| | For the Year Ended December 31, 2009 | | | |
|---|---|---|---|---|
| | **Daan Oilfield** | **Moliqing Oilfield** | **Miao 3 Oilfield** | **Total** |
| **Gross development wells drilled** | | | | |
| Successful | 151 | 19 | 18 | 188 |
| Dry | 0 | 1 | 0 | 1 |
| **Net development wells drilled[(1)]** | | | | |
| Successful | 109 | 13 | 13 | 135 |
| Dry | 0 | 1 | 0 | 1 |

| | For the Year Ended December 31, 2010 | | | |
|---|---|---|---|---|
| | **Daan Oilfield** | **Moliqing Oilfield** | **Miao 3 Oilfield** | **Total** |
| **Gross development wells drilled** | | | | |
| Successful | 144 | 27 | 29 | 200 |
| Dry | 0 | 0 | 0 | 0 |
| **Net development wells drilled[(1)]** | | | | |
| Successful | 144 | 19 | 21 | 144 |
| Dry | 0 | 0 | 0 | 0 |

(1) Calculated based on a 72% interest in the gross development wells. The 72% interest is derived from our 90% participating interest in the foreign contractors' 80% entitlement under the production sharing contracts.

***Developed and Undeveloped Oil Area***

The following table sets forth our developed and undeveloped oil area as of December 31, 2010.

| | As of December 31, 2010 | | | |
|---|---|---|---|---|
| | **Daan Oilfield** | **Moliqing Oilfield** | **Miao 3 Oilfield** | **Total** |
| | **$Km^2$, except percentages** | | | |
| Gross developed area | 80.6 | 11.0 | 8.9 | 100.5 |
| Gross undeveloped area | 172.4 | 60.5 | 72.1 | 305.0 |
| Net developed area[(1)] | 50.0 | 7.9 | 6.4 | 72.4 |
| Net undeveloped area[(1)] | 124.1 | 43.6 | 51.9 | 219.6 |
| Percent of developed area | 31.9% | 15.4% | 11.0% | 24.8% |

(1) Calculated based on a 72% interest in the gross oil area. The 72% interest is derived from our 90% participating interest in the foreign contractors' 80% entitlement under the production sharing contracts.

**Suppliers**

We outsource a variety of oil operations work to third parties, including oil rig supply, well drilling services, fracturing and perforating services, well maintenance services, well logging services, oil tanker transportation services and reservoir studies. We typically procure independent third party service providers through invitations or a bidding process. We usually use an open bidding process for drilling, well logging, well repair services and other projects that exceed RMB500,000 in expected expenditures. We consider cost, work quality, track record and proposed delivery schedule in our selection process and seek to balance our cost considerations and desire for work quality. We also conduct detailed due diligence on the service providers such as reviewing their qualifications and track record. The joint management committee also has the right to approve our independent third party service providers. For well-drilling services and fracturing and perforating services, we usually enter into a one-year minimum work commitment. These contracts cover both the supply of the drilling materials and the drilling work. A service provider's fees are usually paid in installments according to the progress of the work it is engaged to perform. Consistent with market practice, we also make prepayments to certain service providers prior to the provision of services. We closely manage services provided by contractors and exercise extensive control over their performance, including their costs, schedule and quality of service. Our technicians are responsible for supervising the day-to-day drilling work to ensure compliance with relevant rules and regulations, and have regular meetings with the service providers and for conducting on-site inspection. These agreements also stipulate the liabilities of each party under various scenarios of breach of contract or non-performance, and providers are typically responsible for accidents arising from their performance of services resulting from their own fault. For losses resulting from force majeure, parties would bear their own respective losses.

We purchase equipment and drilling materials from third party suppliers. We award contracts for equipment and materials that exceed RMB1 million in expected expenditures to the winning bidder in a formal competitive bidding process. We also select vendors through invitations. Our procurement department makes assessments of equipment and materials based on price, quality, track record and delivery time to ensure the selection of the most appropriate vendor. We conduct due diligence on our vendors and manage the contract performance of our vendors with the same amount of scrutiny we use for our service providers. Consistent with market practice, we make prepayments to certain vendors prior to the delivery of equipment or materials. Under the supply agreements, we usually pay the suppliers in installments. Suppliers would further agree to a product warranty period, during which they would resolve any product quality problems free of charge, or will indemnify us for costs incurred as a result of any quality defects. The agreements also stipulate penalties for late delivery and non-delivery by suppliers and provide indemnity to us for losses incurred as a result of any third party claims against us arising from the equipment delivered.

Our suppliers of lifting cost-related materials and services are generally domestic companies located in the region. Purchase expenses from our five largest suppliers accounted for approximately 73.8%, 47.1% and 59.7%, respectively, of our total purchases for 2008, 2009 and 2010. Purchases from our largest supplier accounted for approximately 27.3%, 13.9% and 15.6%, respectively, of our total purchases for the same periods. We usually do not enter into long-term supply contracts with our suppliers or hedge against the price volatility of the materials purchased from them.

During 2008, 2009 and 2010, purchases from Jilin Guotai Petroleum Development Company, or Jilin Guotai, accounted for approximately 17.2%, 12.7% and 15.1% of total purchases, respectively. Jilin Guotai is a related party held 70% by Ms. Zhao Jiangbo, the wife of Mr. Zhang, our executive Director, chairman and chief executive officer, and 30% by Mr. Zhao, our executive Director, vice chairman and senior vice president. See "Related Party Transactions" for more information. Jilin Guotai provides to us various oilfield services, including well maintenance services, well logging services, oil tanker transportation services, oilfield construction related works and other oil operations related services. PetroChina, our sole customer, is our fourth-largest supplier, and purchases from PetroChina accounted for approximately 10.1%, 5.8% and 7.5% of our total purchases during 2008, 2009 and 2010, respectively. PetroChina supplies to us pipeline transportation and processes our sales transactions with them. Except for Jilin Guotai, none of our shareholders, Directors and their associates who hold more than 5% of our issued capital have any interest in our top five suppliers.

We have experienced cases in the past where third party suppliers to which we had already made prepayments failed to deliver equipment or provide services. We made a provision for impairment of prepayments of RMB11.2 million in 2007 because certain advances paid to drilling service providers and equipment suppliers were not collectible. We no longer use these third party suppliers. Since those occurrences, we have improved our credit risk management in an effort to reduce our exposure to our suppliers' credit risks by regularly reviewing the credit profiles of our suppliers. We manage credit risk by designating preferred suppliers based on past experience, identifying and assessing risks faced by our suppliers and continuously monitoring the performance of our suppliers during the period of their engagement. Our improved credit risk management practices provide us with a better understanding of our suppliers and the markets in which they operate, and allows us to react quickly to volatile markets and our suppliers' changing credit profiles.

**Inventory Control**

Our inventory consists of crude oil in our oil tanks and materials and supplies for drilling and extraction of crude oil, which we store in our own warehouses. Oil in tank inventory amounted to RMB36.3 million, RMB13.0 million and RMB15.6 million for 2008, 2009 and 2010, respectively. Materials and supplies amounted to RMB37.5 million, RMB63.0 million and RMB21.0 million for 2008, 2009 and 2010, respectively. Due to the nature of our oil production business, we do not stock up crude oil or materials and supplies for long periods. Our management monitors our oil inventory daily. For materials and supplies, we only stock up materials and supplies for our own production purposes. We conduct periodic stock-taking for accounting reporting and ad hoc stock-takes, and our management reviews inventory reports frequently and reviews the age of inventory at least monthly or as they may consider necessary, and uses computerized processes to track inventory movements and perform aging analysis.

**Transportation**

We use a combination of pipelines and third-party trucking services to transport oil from our wells to central collection stations located in the Daan and Moliqing oilfields and from the central collection stations to PetroChina, our sole customer. The oil extracted from the both the Daan and Miao 3 oilfields is sent directly by pipeline or truck to the central collection station located in the Daan oilfield and then transported by pipeline from the central collection station to PetroChina. Oil extracted from the Moliqing oilfield is first transported by pipeline to the Moliqing central collection station, and then transported by truck to PetroChina. We use third-parties to help with all trucking transportation.

**Sales and Marketing**

In 2008, 2009 and 2010, PetroChina was our sole customer and accounted for all of our revenue.

On December 28, 2000, Microbes entered into a sales contract with CNPC, which was supplemented by a memorandum dated March 5, 2004 to transfer the contractual rights from Microbes to MIE and from CNPC to PetroChina, respectively. Under the sales contract, we and the other foreign contractor agreed to sell, and PetroChina agreed to buy, the foreign contractors' share of the crude oil produced from the oilfields during the lifespan of the production sharing contracts. Each production sharing contract has a term of 30 years, unless otherwise terminated. See "– Production Sharing Contracts – Abandonment of Production or Termination of Production Sharing Contract" for more discussion on the termination of the production sharing contract.

The sales contract provides the following terms:

- The sales contract specifies the delivery points for the transportation of crude oil – e.g., crude oil shall be transported to certain stations at which the crude oil shall enter into the pipeline system of PetroChina. The sales contract also specifies that quality and quantity analyses of the crude oil shall be undertaken at the delivery points.

- The sales contract further stipulates that the price we receive for crude oil delivered by us to PetroChina is determined each month in accordance with the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram (which closely follows the price of West Texas Intermediate crude oil, an international crude oil benchmark), for the previous calendar month. Such price is then subtracted by a total fee for oil transportation of RMB52 per ton (US$1.05 per barrel) in the sales contract. The fee for oil transportation and sales is inclusive of all freight charges after the crude oil enters into PetroChina's pipeline system, any loss, and any other fees imposed by any organization or governmental authority (excluding value-added taxes and royalties).

- The contract provides that PetroChina shall pay within 30 days after it receives invoices in U.S. dollars by wire transfer, but such amount can be paid in Renminbi at the request of the foreign contractors. Currently all of our oil sales are denominated and settled in U.S. dollars.

- Notwithstanding the above, the sales contract provides that the foreign contractors may export their share of crude oil to overseas purchasers. The foreign contractors shall inform PetroChina of its exporting plan. PetroChina shall inform the contractors the quantity of crude oil to be exported within 30 days after receiving the export plan and shall provide necessary assistance.

Currently, we transport all the crude oil produced from the oilfields through our pipelines or by trucks to the delivery points designated by PetroChina. The crude oil enters PetroChina's pipeline system once we and PetroChina have agreed on the quantity of the oil delivered.

A crude oil allocation report, prepared according to instructions of the joint management committee, is provided to PetroChina each month. We then issue an invoice to PetroChina within five days after the end of each month. The invoice amount equals the product of the crude oil price and the metered volume of crude oil attributable to the foreign contractors for the month after deducting value-added taxes and royalties. We receive cash payment from PetroChina for the invoiced amount. Within 20 days after receipt of our invoice, PetroChina typically pays to us the invoiced amount by wire transfer, and we thereafter pay to GOC its net entitlement under the production sharing contracts, which equals 10% of the foreign contractors' entitlement under the production sharing contracts after deducting investment costs and expenses borne by GOC and any outstanding loan balance owed to us by GOC.

We have not exported any crude oil because PetroChina has purchased all of the crude oil we produced. There is currently no economic advantage for us in selling or exporting the oil to other customers. The price of crude oil purchased by PetroChina is based on the Daqing crude oil price at Dalian Harbor, which closely follows the WTI price, and there is no contractual limit to the price that PetroChina will pay when purchasing from us. Therefore, PetroChina pays international market prices when it purchases oil from us. When we sell to PetroChina, the oil is transported through PetroChina's pipelines, which are located nearby our oilfields, and we pay a transportation and selling fee of RMB52 per ton (US$1.05 per barrel) pursuant to the sales contract. If we were to sell or export the oil to other customers, PetroChina or another third party may require higher transportation costs or we may have to rely upon more costly means to transport the oil to the port (such as truck or train) given that our oilfields are located further inland. Furthermore, we have not experienced any problems in collecting receivables from PetroChina, which has been prompt in its payments. We would incur credit or collection risks if we sold or exported our oil to other customers.

**Properties**

As of December 31, 2010, 1,812,269 square meters of land parcels have been approved by relevant PRC governmental authorities for our temporary use pursuant to the production sharing contracts. This includes certain parcels of land that have been used temporarily by us for the installation of oil pipes and will be returned to the former owner after the term of temporary use expires. Additional parcels of land totaling 644,292 square meters have been converted into permanent use land and allocated to us or PetroChina by the Ministry of Land and Resources. These include parcels totaling 37,060 square meters that have been allocated directly to us for the central collection station at Daan, for which we obtained the Letter of State-owned Construction Land Allocation Decision from the Daan Municipal Land and Resource Bureau on August 12, 2010. The balance are allocated to PetroChina, which has already obtained the relevant Letters of State-owned Construction Land Allocation Decision from the local government authorities, and used by us for production and injection facilities, dormitories and collection stations. These permanent use parcels are used for development facilities, central collection stations, offices, ancillary facilities and dormitories for our workers.

Land parcels used for oil development and production facilities, ancillary facilities, offices and dormitories in China are generally granted by allocation. The term of an allocated land parcel is permanent subject to land resumption by the original approval authority. In our case, the State Council and the Ministry of Land and Resources are the competent approval authorities to allocate the land for our development and production use and an application for land use rights allocation is required to be submitted to the State Council and the Ministry of Land and Resources for approval. Since the three production sharing contracts provide that PetroChina is obligated to procure or assist in procuring land to the foreign contractors, normally we will provide all information required for an application to PetroChina and PetroChina will submit the allocation application. The application and approval process for allocation of petroleum operation related land use is a lengthy and ongoing process and generally takes between two to five years to complete.

It is the industry practice in China that oil companies commence operation with a temporary land use right approval and apply for a conversion into permanent land of such land parcels at a later stage. In addition, due to the special nature of the oil and gas industry, the Ministry of Land and Resources has issued several notices requiring oil and gas companies to apply for temporary land use right approvals for areas of proposed drilling and relevant facilities in order to facilitate the oil and gas company to commence its oil operations on a timely basis and then apply for the conversion at a later stage. During 2008, 2009 and 2010, there has been no past incident in which we failed to convert temporary land into permanent allocated land.

We and PetroChina have completed certain, but not all, of the necessary procedures required in obtaining the relevant land use rights certificates for these permanent use parcels. Though no land use right certificate in relation to the oilfields has been obtained, we are unaware of any legal impediments to obtaining the land use rights certificates from the relevant authorities. PetroChina holds legal and valid exploitation permits for the exploration, development and production of crude oil on these parcels and we and PetroChina are permitted to cooperate in respect of the exploitation of onshore oil resources at the Daan, Moliqing and Miao 3 oilfields under the relevant production sharing contracts, all of which have been approved by MOFCOM. Further, all of the

development and production activities at the three oilfields are pursuant to the relevant oilfield's overall development plan, which plans have all been duly approved by either the NDRC or the NEB. PetroChina is the applicant for the relevant land use right certificate and controls the process at its own pace. PetroChina has informed the company that it intends to obtain all land use right certificates for the permanent use parcels by the end of 2011.

The Directors believe that the lack of land use rights certificates will not adversely affect our interest and rights in the production sharing contracts which give us sufficient influence in decisions over the exploration for and/or extraction of crude oil in the three oilfields. We and PetroChina have obtained the allocation letters for such permanent use lands. Pursuant to the contents of such allocation letters issued by the government authorities, the allocation letters is the legal basis for the land user to use the land and apply for the registration of land use right. Hence, we are legally entitled to use such lands.

We own one collection station and one transferring station in the Daan oilfield, one collection station in the Moliqing oilfield, several dormitories to house our employees and numerous production and injection facilities throughout the oilfields. We have constructed 23 buildings with an aggregate area of approximately 20,815.5 square meters that are used for offices, dormitories, or other facilities. These buildings were constructed according to the overall development plans approved by the NDRC or the NEB in consultation with other relevant government authorities, including the Ministry of Land and Resources. We also lease three properties with an aggregate area of approximately 3,520 square meters as offices and dormitories in Beijing, Songyuan and Houston, Texas. These leased properties are not critical to our operations, and we believe that if we were required to vacate these leased premises we would be able to relocate to alternative premises without materially affecting our operations.

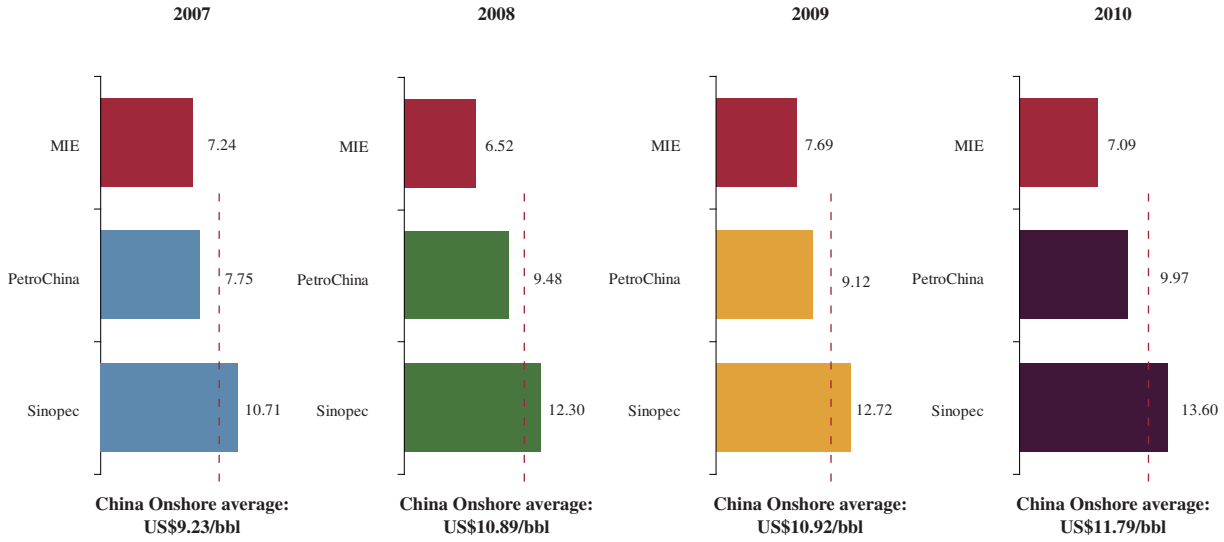
**Competition**

We are the sole operator of the three oilfields at Daan, Moliqing and Miao 3 through contractual arrangements with PetroChina. We do not compete with other operators in our contract areas. However, we encounter competition when we seek to acquire new properties, secure additional production sharing contracts with state-owned oil and gas companies or hire trained personnel. We may face competition from both existing players and new emerging players for the contractual right to cooperate with PetroChina and Sinopec, which are the only entities permitted to cooperate with foreign companies in onshore crude oil and natural gas exploration and production in the PRC, and for the development and production of oil resources in the PRC. Some of the competitors include ROC Oil, Central Asia Oil, Bright Oceans and Ivanhoe Energy. We understand that there are a number of barriers to enter into the independent upstream industry, such as technical capability, financial resources, experience and track record, and relationship with PetroChina and Sinopec.

We believe our major competitive advantages include:

- significant experience, expertise and proven track record in developing low-permeability and low-pressure oilfields;
- competitive cost structure and operational efficiency;
- long-standing and strong relationship with PetroChina; and
- strong management team with international experience and local knowledge.

We achieve our competitive advantages by applying best available technologies and international best practices. We have historically operated at consistently lower overall lifting costs than PetroChina and Sinopec. We believe competition from specialized oilfield operators in China will continue to be strong in the future.




*Source: 2007-2010 Form 20-F for PetroChina and Sinopec*

(1) Lifting costs refer to operating costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining wells and related equipment and facilities, but excluding any production taxes or special oil gain levy; based on exchange rate of 7.59, 6.93, 6.83 and 6.60 in 2007, 2008, 2009 and 2010, respectively, and oil conversion of 7.4 barrel/ton.

Furthermore, there has been increasing participation of independent oil companies in the Songliao Basin, particularly in the Jilin complex. MIE, Central Asia Oil and Bright Oceans are some of the independent oil companies involved, which have continued to increase the scale of their operations. For example, PetroChina's production from the Songliao Basin remained relatively flat from 2001 to 2008, while our gross production from the same region increased from 8,057 tons in 2001 to 693,237 tons in 2008. More specifically, for the Jilin oilfield complex, an area which has experienced significant development activities and growth given the increased focus on low permeability reservoirs, our gross production accounted for 10.3% of PetroChina's gross production from the Jilin oilfield complex in 2008 and represented 26.7% of the gross production increase of PetroChina from 2001 to 2008, demonstrating the scale and importance of independent oil companies in this region.

Finally, we intend to acquire oil properties outside the PRC and may face competitors who are able to pay more for productive oil properties and exploratory prospects. Our ability to acquire additional prospects in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a competitive environment. In addition, the upstream oil industry is capital-intensive and requires specialized industry and market knowledge.

**Development of Technology and Know-How**

We believe our strong commitment to developing our technology and know-how has been one of the factors in our success. The industry in which we operate is characterized by rapid development in oil exploration, development and production techniques. We have focused our efforts in the following major areas:

- *efficiently and effectively developing new reserves within contract areas, compiling development databases and building accurate reserve models.* We have used new techniques to increase the amount of oil that can be recovered in our contract areas, such as core sampling and two dimensional and three-dimensional seismic studies. During the planning and development of the low permeability reservoirs in these contract areas, we have reviewed, reprocessed and reinterpreted

seismic data with the assistance of Chinese and international consultants such as Ultrado Technology Development Inc. and Weinman Geophysical Services Inc.

- *increasing production and reserves through conducting geological studies and analysis of drilling pattern and well density.* We have conducted geological studies, including analysis and interpretation of core and well log data, and developed integrated core and wireline log petrophysical models to improve our understanding of reservoir properties and to help us define and quantify in-place and moveable oil volumes. These measures allow us to conduct more precise drilling and increase our chance of developing productive wells.

- *optimizing production from marginal oilfields through techniques such as multi-layer fracturing, water injection and infill drilling, even in areas of low permeability.* To enhance recovery of oil, we have installed injectors for waterflooding. As of December 31, 2008, 2009 and 2010, we had installed a total of 218, 259 and 320 injectors, respectively, at our three oilfields. Recently, we have started using infill drilling on Daan oilfield.

Our efforts to develop technology and know-how are led by our senior management team.

In addition, we have developed a customized database for collecting information from on-site operations that allows for sharing of data between software systems to ensure consistency and timeliness of data. We have licensed and use a range of software products that provide advanced tools for technical and economic analysis of development and production projects. Such tools include Halliburton DiscoveryTM Geoscience Interpretation suite, Schlumberger Oil Field Manager for production surveillance, analysis and forecasting, and TRC Consultants PHDWin for analysis and formulating economic decline curves.

**Intellectual Property**

We have not filed any patent applications. Our engineers and technicians in the course of their work have developed various know-how and techniques relating to reserve management improvement and optimizing oil recovery. Our intellectual property rights consist of trademarks used by us and the domain names we use for marketing and business development purposes. As of December 31, 2010, we had registered our trademarks in China, Hong Kong, Japan, South Korea, the European Union, the United Arab Emirates, Saudi Arabia, Kuwait, Indonesia and the United States, among others. We registered with the Chinese Internet Network Information Center the www.mienergy.com.cn domain name in February 2004.

We recognize the importance of protecting and enforcing our intellectual property rights. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. We were not aware of any material infringement of our intellectual property rights in 2008, 2009 and 2010, and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. We are currently not aware of any pending or threatened claims against us or our subsidiaries relating to the infringement of any intellectual property rights owned by third parties. Our employment contracts and procurement contracts contain confidentiality provisions to protect our confidential information and know-how.

**Environmental Matters**

Our operations in the PRC are required to comply with various PRC environmental laws and regulations administered by central and local government environmental protection bureaus. We are also subject to environmental rules introduced by provincial and local PRC governmental agencies in Jilin Province. The Ministry of Environmental Protection sets national environmental protection standards and local environmental protection bureaus may set stricter local standards.

We are required to obtain approval of our environmental impact assessment statement before the overall development plan can be submitted to the NDRC or the NEB for approval. We must file an environmental impact statement with the relevant environmental protection agency before approval can be obtained. The filing must demonstrate that the project conforms to applicable environmental standards. Once we obtain the approval from the NDRC or the NEB, the local and provincial environmental protection agencies supervise our compliance with environmental protection laws and regulations and conduct inspections of our oilfields from time to time.

We have a centralized safety and environmental protection department. Each oilfield also has its own staff and each well operation team has a dedicated worker responsible for monitoring and ensuring that environmental and safety measures are followed. Our environmental protection measures focus on top soil preservation, anti-leakage treatment and waste substance treatment. Our environmental protection measures also involve establishing our own environment protection policy, implementing environmental protection work plans in compliance with relevant policy and regulations of the national and local governments and PetroChina, establishing employee evaluation criteria based on environmental protection-related performance, studying the feasibility and environmental impact of new projects or project expansions, and actively monitoring our operations and the works of contractors. Our environmental protection policy sets standards for properly processing, monitoring and managing waste water and other pollutants emitted during the production process, such as the requirement to take anti-leakage measures during the drilling process and the collection and recycling of waste water and other pollutants. The policy also defines responsibilities of our employees and mandates the implementation of our annual environmental protection plan and environmental protection training for our employees. We have emergency measures to manage, report and investigate any potential incident related to pollution, leakage and other environmental damage. Our emergency management measures follow similar procedures established by PetroChina and the PRC government to handle emergencies such as fire, personal injuries, vehicular accidents, environmental pollution and equipment malfunction. We have implemented emergency plans and response control procedures. Our production team also analyzes the feasibility of the emergency plans before their implementation. We also conduct quarterly project-wide drills based on these emergency plans, and have designated coordinators under these emergency plans in case of an emergency. The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments may at their own discretion close or suspend any facility that fails to comply with orders requiring it to cease or cure operations causing environmental damage. In 2008, 2009 and 2010, no incidents on our oilfields or the aggregate amount of the fines imposed on us had a material adverse impact on our business or results of operations.

PRC environmental laws do not currently require us to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantling and abandonment of oil wells of approximately RMB4.6 million, RMB7.0 million and RMB9.3 million in 2008, 2009 and 2010, respectively.

We make provisions for costs associated with the dismantling and abandonment of oil wells based on our estimations of the present value of the amount of cash payment associated with dismantling and abandonment for each well and the number of wells to be dismantled and abandoned. During 2008, 2009 and 2010, we had no actual costs associated with the dismantling and abandonment of oil wells. Since the production sharing contracts are not clear on our responsibilities of cost of abandonment, our estimate in 2007 was based on our interpretation of an obligation to pay for our share of abandonment costs for all wells in existence as of December 31, 2007. When the production sharing contracts expire, we will no longer be an operator under the production sharing contracts, nor a contracting party to production sharing contracts, and therefore will have no abandonment obligations and will not be obligated to pay for any abandonment costs in respect of wells abandoned.

According to the production sharing contracts, the operator shall, after the completion of various petroleum operation level, restore or reclaim the land of the operating sites in accordance with the relevant local rules and regulations. Also according to the production sharing contracts, all fees and expenses related to ecological and environmental protection measures (such as well abandonment and land remediation) undertaken for the petroleum operations carried out within the contract area pursuant to relevant statutory regulations

formulated by the authorities concerned or programs agreed to by the parties shall be chargeable to the joint account at operator's net cost and borne by the contracting parties. Hence, we are obligated to dismantle and abandon wells and restore the land if we are the operator at the time the wells are dismantled and abandoned. In addition, all abandonment costs related to the wells abandoned during the contractual period under the production sharing contract, which are considered as ecological and environmental protection expenses, shall be chargeable to the joint account and shall be borne by the contracting parties pursuant to the production sharing contracts.

Management reviews on a regular basis our estimates of the costs associated with dismantling and abandonment of wells and the numbers of wells to be dismantled and abandoned. Our directors believe that we have sufficient funding plans for remediation, rehabilitation, closure and removal of facilities in a sustainable manner. When we incur costs associated with dismantling or abandoning a well, including costs to remediate, rehabilitate, close and remove facilities in a sustainable manner, we record such costs as operating costs, which are recovered from the oil production in that period through the production sharing contract structure.

Environmental protection and prevention costs and expenses in connection with the operation of onshore oil exploitation are covered under each production sharing contract. Our environmental protection and prevention costs and expenses were RMB4.29 million, RMB7.29 million and RMB7.21 million, and represented approximately 3.5%, 4.8% and 4.4% of our total operating expenses in 2008, 2009 and 2010, respectively. Our environmental protection and prevention costs will increase in the future as we drill new wells due to, among other things, waste materials generated by our drilling activities and land remediation costs. Based on our current plan, we expect to incur environmental protection and prevention costs of approximately RMB12.50 million for the year ended December 31, 2011. Other than the incremental increase in environmental and prevention costs associated with drilling new wells, we do not anticipate any material changes to our environmental protection and prevention costs going forward. During 2008, 2009 and 2010, we were not involved in any environmental claims and we believe that our environmental protection systems and facilities are adequate for us to comply with applicable national and local environmental protection regulations. We cannot assure you that the PRC government will not impose new or stricter regulations which would require additional environmental protection expenditures.

**Employees**

As of December 31, 2008, 2009 and 2010, we employed 1,508, 1,421 and 1,610 full-time employees, respectively.

Substantially all of our employees are based in the PRC. In accordance with PRC laws, we employ local staff through Jilin Foreign Enterprise Service Co., Ltd., or Jilin FESCO, a third-party service provider authorized to enter into employment contracts with local employees on behalf of foreign enterprises. We pay a monthly lump sum to Jilin FESCO as employee compensation, which includes salaries, social insurance and contributions to the housing fund. In addition, our full-time employees in China participate in various employee benefit plans including pension, work-related injury benefits, medical benefit plans, unemployment insurance and childbirth insurance. The employment contracts generally have a term of two years. As of December 31, 2010, we had 1,538 employees employed through Jilin FESCO. We did not experienced any labor shortage in 2008, 2009 or 2010.

An enterprise hiring employees through FESCO is subject to the same labor laws and regulations, and fulfill the legal obligations under PRC law and the dispatching agreement entered into between the enterprise and Jilin FESCO. Although it is a usual practice for a branch of a foreign enterprise to hire employees through Jilin FESCO, there is no potential implication for such arrangement.

Compensation for our full-time employees typically consists of base salary, performance-based salary and other allowances such as seniority pay and subsidies. In addition, based on our results of operations, we may award year-end bonuses to our employees solely at our discretion. Performance appraisals for administrative and technical staff are conducted twice a year to ensure that our employees receive feedback on their performance. We also participate in certain insurance plans for our employees.

We invest in continuing education and training programs for our management and other employees to upgrade periodically their skills and knowledge. We hire third-party consultants to provide training to our employees and, from time to time, we send senior employees to the United States for training with our business partners such as Ryder Scott and Sneider Exploration, Inc. We have a workers' union in accordance with PRC laws and regulations. We have not had any strikes or other labor disturbances that have interfered with our operations, and we believe that we have maintained a good working relationship with our employees.

**Insurance**

As protection against operating hazards, we maintain insurance coverage on our properties and equipment, including pipelines, rigs, other machinery and supplies. We maintain property damage insurance, insurance for operator's extra expenses such as limited redrilling, seepage and pollution expenses, third party liability insurance as well as business interruption insurance and workplace injury insurance for our operations. We also carry key person insurance for six persons, including our four executive directors and two of our managers, as well as director and officer insurance. We have assigned our interests in the business interruption insurance and key person insurance for Mr. Zhang to CITIC Ka Wah Bank (subsequently renamed as CITIC Bank International Limited). We engaged Aon-COFCO Insurance Brokers Co. Ltd., an insurance consultant, to review our insurance policies and practices. We believe that our level of insurance is adequate and comparable to that maintained by oil companies internationally. However, we may not have sufficient coverage for all foreseeable risks, either because insurance is not available or because of higher premium costs.

**Labor and Safety Matters**

We base our safety rules on government regulations and require all employees and PetroChina secondees to follow these safety rules. Our safety and environmental protection department is responsible for formulating and implementing safety guidelines and operational procedures and standards. We also assign a manager to each oilfield to ensure our field employees are in compliance with our policies. We conduct safety training periodically for our employees.

We require all our employees to follow our workplace safety rules and policies, which are based on the PRC Production Safety Law and other applicable government regulations. Our safety rules and policies also comply with ISO9000 and ISO9001. During 2008, 2009 and 2010, we complied with all applicable labor and safety laws and regulations in all material respects. As the holder of the oil and gas exploitation permit at Daan, Moliqing and Miao 3, PetroChina is jointly responsible for the workplace safety requirements imposed by the PRC government. Accordingly, PetroChina conducts inspections of our facilities and labor safety management practices from time to time to ensure proper compliance with the relevant workplace safety regulations.

We have made, and will continue to make, efforts and take necessary measures to ensure the safety of our employees. These measures include ensuring that the design, installation, use and maintenance of our equipment meet national and industrial standards, providing occupational safety education and training to employees to enhance their awareness of safety issues, and providing suitable protective devices to our employees. However, our preventive measures may not always be effective given the hazardous nature of this industry, and from time to time we may experience employee injuries. In 2009 there was a fatal accident at the Miao 3 oilfield involving an employee's improper operation of machinery. See "Risk Factors – Risks Relating to Our Business – Our operations may be affected by significant operating hazards and natural disasters and we have limited insurance coverage for any resulting losses."

**Legal Proceedings and Regulatory Matters**

We are not currently a party to any material legal or administrative proceedings, and we are not aware of any legal claims or proceedings that may have an influence on our rights to develop or exploit our oilfields. However, we may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. We are required by laws and regulations of the PRC to obtain a number of licenses, permits and approvals from the relevant authorities in the PRC to conduct our oil development and

production activities in the PRC. The Group has obtained all relevant licenses, permits and approvals. Also, PetroChina is responsible for obtaining some of the key licenses, permits and approvals relating to the oil properties, including the exploitation permit. The ability to obtain such licenses, permits and approvals are not within the Group's control and those key licenses, permits and approvals belong to PetroChina.

**Our Hedging Policy**

***Entering into Hedging Transactions***

Our hedging policy prohibits speculative oil hedging. Oil hedging is entered into to cover a reasonable portion of our monthly oil production. When management makes oil hedging decisions, it takes into account factors including annual oil production, forward curve of oil prices, expected investments into drilling each year and the production derived from such investments, tax and government policies, among others. Our oil hedging transactions are restricted to cover a reasonable period when oil prices can be determined with greater degree of certainty, usually up to two years and also focus on protection against downside risk. We mitigate counterparty risk by choosing only reputable leading banks that are active in the oil hedging market and have well-capitalized financial positions and by requesting deferred premium payments, allowing us to spread our payments across the term of the hedging arrangement. After entering into a hedging transaction, we monitor oil prices closely and remain alert as to any news concerning our counterparties, their financial performance and any changes to their financial position. Our management team also holds frequent meetings to review trends in oil prices and the effectiveness of our hedging positions and strategy.

Our oil put options are settled automatically every month on a date specified in the put option agreements, usually on the fifth to ninth days after the last day of each month. Calculations of the floating price of crude oil are based on the arithmetic average of the daily settlement prices for the benchmark oil price in each trading day during the relevant month.

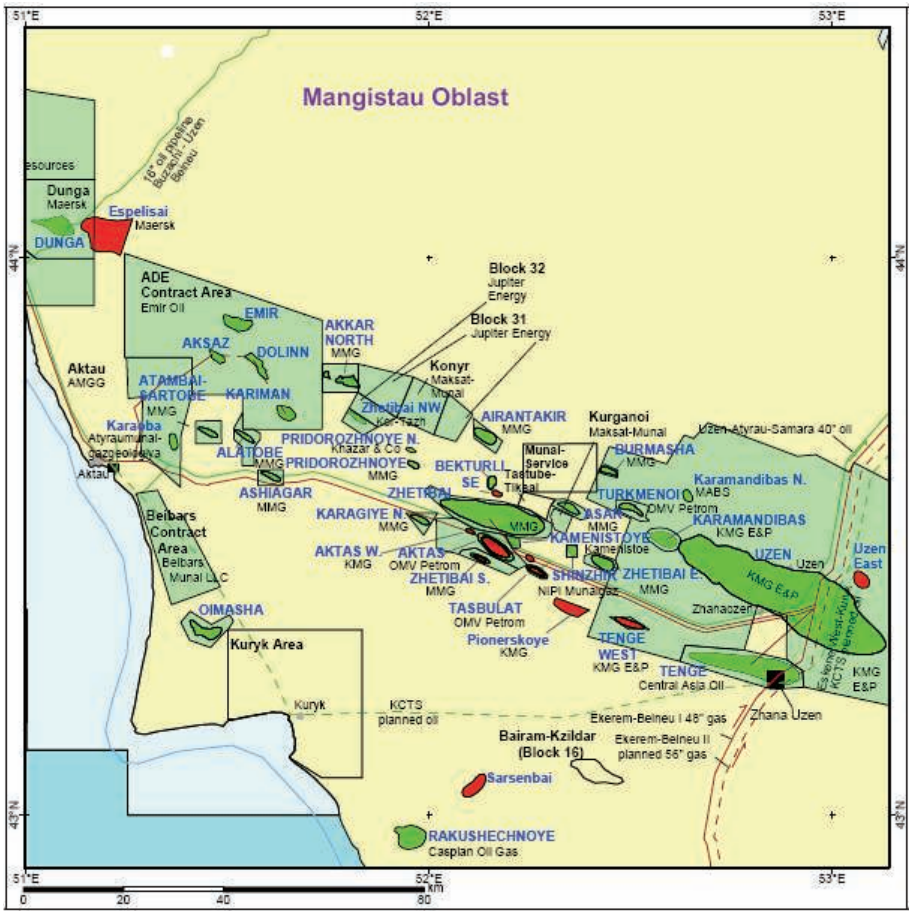
Management closely monitors the movement in oil prices and the settlement of oil put options on a monthly basis. In our hedging transactions, our maximum exposure is the premium paid to the counterparty and after payment of the upfront or deferred hedging premiums set forth in the oil put agreements, all monthly or any other settlements will either be zero or a payment to us.

## EMIR-OIL

### Overview

Emir-Oil is an entity organized under the laws of the Republic of Kazakhstan on March 20, 2002 and is the sole operating subsidiary of BMB. The principal business activity of Emir-Oil is oil and natural gas exploration and production in Kazakhstan. It holds the exploration contract (the "Exploration Contract") initially entered into between the Agency of the Republic of Kazakhstan for Investments, and "Zhanaozenskii Remontno-mechanicheskii Zavod" Limited Liability Partnership, dated June 9, 2000, which allows Emir-Oil, being the contractor since 2002, to conduct exploration drilling and oil production in the Mangistau Oblast in the southwestern region of Kazakhstan, near Aktau city and the Caspian Sea. Emir-Oil currently operates under Licence No.1552 and the Exploration Contract. When initially granted, the exploration and development stage of the Exploration Contract had a five year term, with provision for two extensions for a period of two years each. On June 24, 2008, the Competent Authority agreed to extend the exploration stage of the Exploration Contract until January 2013. The exploration territory of the Contract Area is approximately 850 square kilometers. The original contract area under the Exploration Contract comprised the ADE Block. As a result of Emir-Oil's drilling and exploration activities, this block now contains the Aksaz, Dolinnoe and Emir oil and gas fields. On December 7, 2004, Emir-Oil was granted an area extension designated the Southeast Block, which now includes the Kariman oil and gas field and the unexplored Borly and Yessen structures. On October 15, 2008, Emir-Oil successfully negotiated a second area extension, designated the Northwest Block. All of Emir-Oil's exploration territory is contiguous. Under the terms of the Exploration Contract, Emir-Oil has the right to sell all oil and natural gas produced in the Contract Area during the term of the Exploration Contract and the exclusive right to apply for and negotiate a production contract with the MOG if its commercial discoveries are approved and put on balance with the State Reserves Committee of Kazakhstan.

The following is a map showing the Contract Area under the Exploration Contract and other oilfields in the Mangistau oblast:



The following is a map of Kazakhstan and its neighboring countries:




* Contract Area under the Exploration Contract

**Exploratory and Developmental Acreage**

The following tables summarizes Emir-Oil's gross and net developed and undeveloped mineral acreage by block at March 31, 2010 and December 31, 2010.

| | As of March 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Developed | | Undeveloped | | Total | |
| | Gross | Net | Gross | Net | Gross | Net |
| | Acres | | | | | |
| ADE Block | 950 | 950 | 46,805 | 46,805 | 47,755 | 47,755 |
| Southeast Block | 670 | 670 | 65,245 | 65,245 | 65,915 | 65,915 |
| Northwest Block | – | – | 96,370 | 96,370 | 96,370 | 96,370 |

| | As of December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Developed | | Undeveloped | | Total | |
| | Gross | Net | Gross | Net | Gross | Net |
| | Acres | | | | | |
| ADE Block | 970 | 970 | 46,785 | 46,785 | 47,755 | 47,755 |
| Southeast Block | 750 | 750 | 65,165 | 65,165 | 65,915 | 65,915 |
| Northwest Block | – | – | 96,370 | 96,370 | 96,370 | 96,370 |

**Development of Oil and Gas Properties in Kazakhstan**

Under the statutory scheme in the Republic of Kazakhstan, prospective oilfields are developed in two stages. The first stage is an exploration and appraisal stage during which a private contractor is given a license to explore for oil and gas on a territory for a set term of years. During this stage the primary focus is on the search for a commercial discovery, i.e., a discovery of a sufficient quantity of oil and gas to make it commercially feasible to pursue execution of, or transition to, a commercial production contract with the government. Under the terms of an exploration contract, the contract holder has the right to sell all oil and natural gas produced during the term of the exploration contract.

Emir-Oil currently operates under License No. 1552 and the Exploration Contract. When initially granted, the exploration and development stage of the Exploration Contract had a five year term, with provision for two extensions for a period of two years each. On June 24, 2008 the Competent Authority agreed to extend the exploration stage of the Exploration Contract until January 9, 2013.

Initially, the Exploration Contract granted Emir-Oil the right to engage in exploration and development activities in an area of approximately 200 square kilometers referred to herein as the "ADE Block." The ADE Block is comprised of three fields, the Aksaz, Dolinnoe and Emir oilfields. On December 7, 2004, the Exploration Contract was expanded to include an additional 260 square kilometers of land adjacent to the ADE Block, which is referred to herein as the "Southeast Block," which includes the Kariman oil and gas field and the Borly and Yessen structures. In October 2008, the Competent Authority granted a further extension of the territory covered under the Exploration Contract to include an additional 390 square kilometer area, bringing the total contract area under the Exploration Contract to approximately 850 square kilometers (approximately 210,000 acres). The additional territory is located to the north and west of Emir-Oil's current exploration territory, extending the exploration territory toward the Caspian Sea and is referred to herein as the "Northwest Block." The Southeast Block and the Northwest Block are governed by the terms of the Exploration Contract.

In order to be assured that adequate exploration activities are undertaken during exploration stage, the MOG establishes an annual mandatory minimum work program to be accomplished in each year of an exploration contract. Under the minimum work program, the contractor is required to invest a minimum dollar amount in exploration activities within the Contract Area, which may include geophysical studies, construction of field infrastructure or drilling activities. During the exploration stage, the contractor is also required to drill sufficient wells in each field to establish the existence of commercially producible reserves in any field for which it seeks a commercial production license. Failure to complete the minimum work program requirements for any particular field during the term of the exploration contract could preclude the contractor from receiving a longer-term production contract for such field, regardless of the success of the contractor in proving commercial reserves during the partial fulfillment of the minimum work program.

The Exploration Contract follows the format detailed above. The Exploration Contract sets the minimum dollar amount Emir-Oil must expend during each year of its work program. Through July 2009, Emir-Oil's work program year ended on July 9 each year. As a result of certain changes to the Exploration Contract, its work program year end has now changed to January 9 of each year through January 9, 2013. Therefore Emir-Oil's work program year does not coincide with its fiscal year. As a result of these timing differences, the amounts reflected in the table below as "Actually Made" may differ from amounts disclosed elsewhere in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" or the consolidated financial statements included in this report, which present figures based on Emir-Oil's fiscal year rather than its work program year.

| Amount of Expenditures | Mandated by Contract | Actually Made |
|---|---|---|
| | US$ | US$ |
| Prior to July 2007 | 40,200,000 | 104,750,000 |
| July 2007 to July 2008 | 8,480,000 | 115,040,000 |
| July 2008 to July 2009 | 1,845,000 | 44,900,000 |
| July 2009 to January 2010 | 8,565,000 | 15,970,000 |
| January 2010 to January 2011 | 21,520,000 | 56,650,000* |
| January 2011 to January 2012 | 27,300,000 | – |
| January 2012 to January 2013 | 14,880,000 | – |
| Total | 122,790,000 | 337,310,000 |

* Investment as of December 31, 2010

Under the terms of the Exploration Contract and practice established prior to introduction of the Subsoil Use Law, a process was provided whereby expenditures above the minimum requirements in one period may be carried over to meet minimum obligations in future periods. As the above chart shows, Emir-Oil has significantly exceeded the minimum expenditure requirement in each period of the contract and have more than doubled the total minimum capital expenditure requirement during the exploration stage.

In addition to mandatory minimum capital expenditures in each year, exploration contracts typically require the contract holder to drill a certain number of wells in each structure for which it plans to seek commercial production rights.

In Kazakhstan, typically, one exploratory well and two appraisal wells are sufficient to support a claim of commercially producible reserves in a particular field, although in some cases, commercial reserves have been demonstrated with fewer wells. The total number of wells the MOG requires during exploration stage is generally determined by the number of fields or structures identified by the seismic studies done on a territory. Three-dimensional ("3D") seismic studies completed on the ADE Block and the Southeast Block, have identified six potential fields or structures.

Emir-Oil drilled a total of 24 wells as of both March 31 and December 31, 2010, as set forth in more detail below:

| Structures | Aksaz | Dolinnoe | Emir | Kariman | Borly | Yessen | Northwest Block |
|---|---|---|---|---|---|---|---|
| | As of March 31, 2010 | | | | | | |
| Exploratory Wells | 1 | 1 | 1 | 1 | 1 | 1 | 3(1) |
| Appraisal Wells | 2 | 2 | 2 | 2 | 2 | 2 | * |
| Existing Wells | 5 | 6 | 3 | 10 | 0 | 0 | 0 |
| Wells in Progress | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | As of December 31, 2010 | | | | | | |
| Exploratory Wells | 1 | 1 | 1 | 1 | 1 | 1 | 3(1) |
| Appraisal Wells | 2 | 2 | 2 | 2 | 2 | 2 | * |
| Existing Wells | 5 | 6 | 3 | 10 | 0 | 0 | 0 |
| Wells in Progress | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(1) Addendum No. 6 to the Exploration Contract requires the drilling of three exploratory wells.

* Unknown at this time.

Pursuant to the terms of the extensions of the Exploration Contract, Emir-Oil will be required to drill at least nine additional new wells by January 9, 2013. If Emir-Oil discovers structures in the Northwest Block, it will need to drill additional wells to determine and establish the existence of commercially producible reserves within the various structures in the Contract Area. The bottom half of the above chart shows current progress on drilling of exploratory and appraisal wells.

We believe that Emir-Oil has been conservative in its approach to exploration. It has been Emir-Oil's practice to drill its first few wells serially. Its first well was the Dolinnoe-2 well drilled in 2004. This was followed by the Dolinnoe-3 well, and then the Aksaz-4 and Kariman-1 wells. While Emir-Oil has verified the presence of oil and gas in all its wells thus far, not all its wells produce oil at commercial levels. Emir-Oil has expended substantial time and money to study its wells. Because of its limited funds available for drilling activities during the fiscal year 2011, Emir-Oil has attempted to increase production through drilling directional sidetracks at existing wells, which is less expensive than drilling new vertical wells.

The purpose of the exploration stage is to study the geology and geophysical characteristics of each field and individual well, with a view to qualifying for a longer-term production contract. Once drilling of a well is completed, Emir-Oil's emphasis focuses on an extended period of testing a well's production characteristics and capacities to determine the best method for producing oil from that well and to gain insight into the further development of the entire field. During exploration, oil production is subject to wide fluctuations caused by varying pressures commonly experienced in new wells and by significant periods of well closure to accommodate mandatory testing. Maximizing oil production only becomes the central focus during the post-exploration phase when exploiting the commercial discovery commences under a production contract.

Under the Exploration Contract, Emir-Oil has the exclusive right to apply for and negotiate a commercial production contract. According to the Subsoil Use Law, the MOG makes a decision to grant or to refuse to grant the subsoil use right through direct negotiations for the production contract on the basis of data evidencing that the applicant is able to perform its obligations under a proposed production contract. The decision of MOG cannot be controlled by the applicant, though a negative decision may be challenged in court. Based on discussions with the MOG, the primary factors used by the MOG in determining whether to grant commercial production rights are whether the contract holder has fulfilled the minimum work program commitments, proved the existence of a commercial discovery and submitted and received approval of a development plan prepared by a third-party petroleum institute in Kazakhstan for the exploitation of the established commercial reserves. All Emir-Oil's efforts during exploration stage have and will continue to focus on meeting these criteria. The terms of the commercial production rights will be negotiated at the time Emir-Oil applies to transition to commercial production.

Emir-Oil became subject to the Tax Code on January 1, 2009. Under the Tax Code, a mineral extraction tax replaces the royalties Emir-Oil previously paid. The rate of the mineral extraction tax depends on annual production output. The Tax Code currently provides for a minimum 5% mineral extraction tax rate (for production not exceeding 250,000 tons) on production of crude oil (gas condensate inclusive) sold to the export market, and a 2.5% tax rate (for production not exceeding 250,000 tons) on production of crude oil (gas condensate inclusive) sold to the domestic market. The mineral extraction tax expense is reported as part of oil and gas operating expense. In January 2009, Emir-Oil also became subject to a rent export tax, which is calculated based on the export sales price. This tax ranges from as low as 0% if the price is less than US$40 per barrel to as high as 32% if the price per barrel exceeds US$190.

In the fiscal year 2011 Emir-Oil has continued its efforts to develop its business and to increase oil and gas production. Because of its limited funds available for drilling activities during fiscal 2011, Emir-Oil has attempted to increase production through drilling directional sidetracks at existing wells, which is less expensive than drilling new vertical wells.

**Oil and Natural Gas Reserves**

As of December 31, 2010, Emir-Oil had 1,080 gross proved developed producing acres, 240 gross acres of proved undeveloped reserves and approximately 111,926 gross unproved, undeveloped acres. As of December 31, 2010, Emir-Oil drilled a total of 24 wells in the Contract Areaunder the Exploration Contract with an average production rate of approximately 2,321 barrels per day for nine months ended December 31, 2010, compared to 2,961 barrels per day and 2,784 barrels per day for year ended March 31, 2009 and 2010, respectively. Emir-Oil produced approximately 1 million barrels of oil or oil equivalent in each of 2009 and 2010 (over 90% was crude oil).

According to a reserve report as of December 31, 2010 prepared by Chapman, the Contract Area has estimated proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 23.6 million, 61.5 million and 29.7 million barrels of crude oil, respectively, and 26,842, 36,821 and 34,155 MMcf of natural gas, respectively. Based on Chapman's evaluation as of December 31, 2010, resource prospects in the Contract Area (namely, the ADE Block and the Southeast Block) have estimated prospective resources of approximately 190.5 million barrels of oil on an unrisked basis and 28.6 million barrels of oil on a risked basis.

The following table sets forth Emir-Oil's estimated net proved oil and natural gas reserves and the standardized measure of discounted future net cash flows related to such reserves as of March 31, 2010. The standardized measure of discounted future net cash flows is not intended to represent the current market value of Emir-Oil's estimated oil and natural gas reserves. The oil and natural gas reserve data included in, or incorporated by reference in this document, are only estimates and may prove to be inaccurate.

| | **Proved reserves to be recovered by January 9, 2013[1]** | | **Proved reserves to be recovered after January 9, 2013[1]** | | |
|---|---|---|---|---|---|
| | **Developed[2]** | **Undeveloped[3]** | **Developed[2]** | **Undeveloped[3]** | **Total** |
| Oil and condensate (Mbarrels)[4] | 5,195 | 307 | 14,960 | 2,264 | 22,726 |
| Natural gas (MMcf) | – | – | – | – | – |
| Total BOE (Mbarrels) | 5,195 | 307 | 14,960 | 2,264 | 22,726 |

(1) Under the Exploration Contract, Emir-Oil has the right to sell the oil and natural gas it produces while it undertakes exploration stage activities within its licensed territory. As previously discussed in more detail, Emir-Oil has the right to engage in exploration stage activities until January 9, 2013. To retain its rights to produce and sell oil and natural gas after that date, Emir-Oil must apply for and be granted commercial production rights before the expiration of the Exploration Contract or within 3 months following expiration thereof or obtain a further extension of its exploration contract. If Emir-Oil is not granted commercial production rights or another extension by that time, it would expect to lose its rights to the Contract Area and would expect to be unable to produce reserves after January 2013.

(2) Proved developed reserves are proved reserves that are expected to be recovered from existing wells with existing equipment and operating methods.

(3) Proved undeveloped reserves are proved reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

(4) Includes natural gas liquids.

**Proved Undeveloped Reserves**

Emir-Oil's reserve estimates as of March 31 and December 31, 2010 each include 2.6 million BOE as proved undeveloped reserves. There were no changes in proved undeveloped reserves during the year ended March 31, 2010. Emir-Oil did not incur capital expenditures for conversion of proved undeveloped reserves to proved developed reserves as of year ended March 31, 2010.

**Drilling Operations, Well Performance and Production**

During the fiscal year ended March 31, 2010 and the nine months ended December 31, 2010, Emir-Oil has concentrated its operational efforts on stabilizing and maintaining production through continuous work with the existing wellstock. No new wells were drilled over the past fiscal year as most of Emir-Oil's financial resources were diverted to alleviating working capital deficiencies.

Emir-Oil has also continued its preparatory work for the eventual transition of a portion of existing its existing assets to commercial production. It has retained the services of a third-party independent consulting company to prepare a geological model of the Kariman, Aksaz and Dolinnoe fields. This work is ongoing and is expected to be completed prior to the end of the 2011 calendar year. This step, in conjunction with the Kazakhstani Design Institute, should prepare Emir-Oil for eventual transition to commercial production.

During the fiscal year 2010 Emir-Oil signed a contract for the shooting and interpretation of 3D seismic over a portion of the Northwest Block with GeoSeismic LLP, a company affiliated with Mr. Toleush Tolmakov, an executive officer of BMB. The 3D seismic interpretation results were completed in the first quarter of fiscal year 2011.

Emir-Oil is continuing the process of researching various available options for using different design pumps at the Dolinnoe and Aksaz fields, both of which have higher natural gas content making it difficult to utilize the type of electronic submersible pumps currently used on the Kariman field.

It expects to continue working with the existing wellstock for the remainder of the 2011 fiscal year with the intent of increasing and sustaining production rates from existing wells.

The following table sets forth our gross and net working interests in exploratory and development wells drilled during the three years ended March 31, 2010 and the nine months ended December 31, 2010:

| | For the Year Ended March 31, | | | | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | |
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| Exploratory..... | – | – | – | – | – | – | – | – |
| Productive..... | – | – | – | – | – | – | – | – |
| Oil..... | 18 | 18 | 24 | 24 | 24 | 24 | 24 | 24 |
| Gas..... | – | – | – | – | – | – | – | – |
| Dry wells..... | – | – | – | – | – | – | – | – |
| **Total**..... | 18 | 18 | 24 | 24 | 24 | 24 | 24 | 24 |
| Development..... | – | – | – | – | – | – | – | – |
| Productive..... | – | – | – | – | – | – | – | – |
| Oil..... | – | – | – | – | – | – | – | – |
| Gas..... | – | – | – | – | – | – | – | – |
| Dry wells..... | – | – | – | – | – | – | – | – |
| **Total**..... | – | – | – | – | – | – | – | – |

As of March 31, 2010, each of the 24 wells identified above was in test production, testing or under or awaiting workover.

According to the laws of the Republic of Kazakhstan, Emir-Oil is required to test every prospective target on its properties separately; this includes the completion of well surveys on different modes with various choke sizes on each horizon. In the course of well testing, when the transfer from target to target occurs, the well must be shut in; oil production ceases for the period of the testing during which the following actions were taking: mobilization/demobilization of the workover rig, pull out of the hole, run in the hole, perforation, packer installation time, etc. This has the effect of artificially diminishing production rates averaged over a set period of time.

**Key Operating Data**

The table below sets forth key operating data for Emir-Oil:

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2009** | **2010** |
| Net Production Data: | | | | | |
| Oil (barrels) | 907,823 | 1,080,895 | 1,016,221 | 751,648 | 638,335 |
| Natural gas (Mcf) | – | – | – | – | 967,688 |
| Barrels of Oil equivalent (BOE) | 907,823 | 1,080,895 | 1,016,221 | 751,648 | 799,615 |
| Net Sales Data[3]: | | | | | |
| Oil (barrels) | 896,256 | 1,073,754 | 1,036,070 | 785,044 | 626,741 |
| Natural gas (Mcf) | – | – | – | – | 824,382 |
| Barrels of Oil equivalent | 896,256 | 1,073,754 | 1,036,070 | 785,044 | 764,137 |
| Average Sales Price: | | | | | |
| Oil (US$ per barrel) | 67.16 | 64.84 | 55.28 | 53.16 | 64.92 |
| Natural gas (US$ per Mcf) | – | – | – | – | 1,438 |
| Equivalent price (US$ per BOE) | 67.16 | 64.84 | 55.28 | 53.16 | 54.49 |
| Expenses (US$ per BOE)[1]: | | | | | |
| Oil and gas operating[2] | 6.15 | 7.01 | 8.27 | 8.59 | 8.67 |
| Depreciation, depletion and amortization[3] | 23.93 | 9.60 | 14.47 | 10.15 | 13.86 |

(1) Emir-Oil uses sales volume rather than production volume for calculation of per unit cost because not all volume produced is sold during the period. The related production costs are expensed only for the units sold, not produced, based on a matching principle of accounting. Oil and gas operating expense per BOE is calculated by dividing oil and gas operating expenses for the year by the volume of oil sold during the year.

(2) Includes transportation cost, production cost and ad valorem taxes (excluding rent export tax).

(3) Represents depletion of oil and gas properties only.

**Industry and Economic Factors**

Emir-Oil's business is subject to many factors beyond its control. One such factor is the fluctuation of oil and gas prices. Historically, oil and gas markets have been cyclical and volatile. During the fiscal year 2010, the world price for oil fluctuated widely, and Emir-Oil believes prices may continue to be difficult to predict.

While Emir-Oil's revenues are a function of both production and prices, wide swings in commodity prices will likely continue to have a significant impact on its results of operations. Emir-Oil has not elected to engage in hedging transactions because it does not have the necessary infrastructure or the required flexibility in its rights to conduct export transactions as it needs to obtain approval of its export quotas on a monthly basis from the MOG.

Emir-Oil's operations entail significant complexities due to the depth and geological makeup of the structures it is entering. Advanced technologies requiring highly trained personnel are utilized in both exploration and development. Even when the technology is properly used, Emir-Oil still may not know conclusively whether hydrocarbons will be present or the rate at which they may be produced when wells are completed. Despite Emir-Oil's best efforts to limit its risks, exploration drilling is a high-risk activity that may not yield commercial production or reserves.

**Marketing and Sales to Major Customers**

There are a variety of factors that affect the market for oil and natural gas, including the extent of domestic production and imports, the availability, proximity and capacity of pipelines and other transportation facilities, demand, the marketing of competitive fuels and the effects of state and government regulations on oil and natural gas production and sales.

Emir-Oil exports nearly all of its test production for sale. During the year ended March 31, 2010 and the nine months ended December 31, 2010, Emir-Oil sold approximately 95% and 98%, respectively, of its crude oil production to Titan Oil (formerly Euro-Asian Oil AG). During these periods, revenue from oil sold to Titan Oil made up 98% and 97%, respectively, of its total revenue. Should Emir-Oil lose Tital Oil as a customer, such loss may have a material adverse effect on its operations in the short-term. Based on current demand for crude oil and the fact that alternate purchasers are readily available, Emir-Oil believes, however, that such a loss of Titan Oil would not materially adversely affect its operations in the long-term.

**Distribution Method**

Emir-Oil's crude oil exports are transported via the Aktau sea port. Pursuant to Emir-Oil's agreement with Titan Oil, delivery is FCA (Incoterms 2000) at the railway station in Mangishlak. The oil is then shipped to the Aktau sea port via railway cars provided by Titan Oil. The volume and sales price are determined on a monthly basis, with all payments being covered by an irrevocable standby letter of credit opened through an international bank. Sales prices are based on the average quoted Brent crude oil price from Platt's Crude Oil Marketwire for the three days following the bill of lading date less a discount for transportation expenses, freight charges and other expenses. The quality of crude oil supplied must meet minimum quality specifications.

**Competition**

Emir-Oil's competition in Kazakhstan and Central Asia includes other small oil and gas exploration companies, mid-size producers and major exploration and production companies. Emir-Oil competes for additional exploration and production properties with these companies, which in many cases have greater financial resources and larger technical staffs.

Emir-Oil faces significant competition for capital from other exploration and production companies and companies in other industry sectors. At times, companies in other industry sectors may be more in favor with investors, limiting Emir-Oil's ability to obtain necessary capital.

Emir-Oil believes it has a competitive advantage in Kazakhstan in that its management team is comprised of Kazakh nationals who have developed trusted relationships with many of the relevant departments and ministries within the government of Kazakhstan. However, there is a risk that such employees may not stay on after the Acquisition. See "Risk Factors – Following the Acquisition, we will have operations with which it has limited operational experience."

**Government Regulation**

Emir-Oil's operations are subject to various levels of government controls and regulations in Kazakhstan. Emir-Oil focuses on compliance with all legal requirements in the conduct of its operations and employs business practices that it considers to be prudent under the circumstances in which it operates. It is not possible for Emir-Oil to separately calculate the costs of compliance with environmental and other governmental regulations as such costs are an integral part of its operations.

In Kazakhstan, legislation affecting the oil and gas industry is under constant review for amendment or expansion. Pursuant to such legislation, various governmental departments and agencies have issued extensive rules and regulations which affect the oil and gas industry, some of which carry substantial penalties for failure to comply. These laws and regulations can significantly impact and adversely affect Emir-Oil's profitability by increasing the cost of doing business or by imposing new taxes, tax rates and tax schemes. Inasmuch as the introduction of new legislation affecting the industry is commonplace and existing laws and regulations are frequently amended or reinterpreted, Emir-Oil is unable to predict the future cost or impact of complying with such laws and regulations. For more information on regulations effecting Emir-Oil, please see "Regulations – Regulations of Kazakhstan."

**Environmental Matters**

Oil and gas operations are subject to numerous laws and regulations controlling the generation, use, storage and discharge of materials into the environment or otherwise relating to the protection of the environment. These laws and regulations may:

- require the acquisition of a permit or other authorization before construction or drilling commences;
- restrict the types, quantities and concentrations of various substances that can be released into the environment in connection with drilling, production, and natural gas processing activities;
- suspend, limit or prohibit construction, drilling and other activities in certain lands lying within wilderness, wetlands, areas inhabited by threatened or endangered species and other protected areas;
- require remedial measures to mitigate pollution from historical and on-going operations such as the use of pits and plugging of abandoned wells;
- restrict the injection of liquids into subsoil strata that may contaminate groundwater; and
- impose substantial liabilities for pollution resulting from Emir-Oil's operations.

Environmental permits that the operators of properties are required to possess may be subject to revoked, modified ore renewed by the issuing authorities. Governmental authorities have the power to enforce compliance with their regulations and permits, and violations are subject to injunction, civil fines, and even criminal penalties. Changes in existing environmental laws and regulations or interpretations thereof could have a significant impact on Emir-Oil's operations as well as the oil and gas industry in general, and thus it is unable to predict the ultimate cost and effects of future changes in environmental laws and regulations.

Emir-Oil is not currently involved in any administrative, judicial or legal proceedings arising under environmental protection laws and regulations, which would have a material adverse effect on its respective financial positions or results of operations. Emir-Oil does not maintain insurance against the costs of clean-up operations and it is not otherwise fully protected against all such risks. A serious incident of pollution may result in the suspension or cessation of operations in the affected area.

**Factors Affecting Results of Operations**

The primary factors affecting Emir-Oil's results of operations during the periods under review were the following:

- Emir-Oil's sales of crude oil have accounted for substantially all of its revenues during the periods under review. The revenue Emir-Oil receives for its crude oil is influenced by: (i) fluctuations in the price of international crude oil (i.e. Brent crude oil); and (ii) the discount to this price for transportation expenses, freight charges and other expense which, after such discount, represents the realized price for Emir-Oil's crude oil.

- Emir-Oil operates its exploration and production of crude oil pursuant to the Exploration Contract. The Exploration Contract has, and will continue to have, an effect on Emir-Oil's results of operations as a result of the contractual term and scope, expenditure commitments, ability to apply for a commercial production rights and repayment of government for any of its historical investments.

- All crude oil produced by Emir-Oil is sold. Emir-Oil exports nearly all of its test production for sale to Titan Oil. Consequently, the volume of crude oil that Emir-Oil is able to produce directly affects its revenues.

- As crude oil prices are based on quotation pricing, Emir-Oil's ability to control costs and expenses is critical to its profitability. Emir-Oil's cost of sales comprises various costs and expenses including purchases, services and other expenses, geological and geophysical expenses, employee compensation costs, depreciation, depletion and amortization, operating lease expense, administrative expenses, and taxes other than income taxes, such as rent export tax and duties, mineral extraction tax and royalties paid to the Republic of Kazakhstan government.

The oil and natural gas industry is cyclical and the demand for goods and services of oilfield companies, suppliers and others associated with the industry puts extreme pressure on the economic stability and pricing structure within the industry. Typically, as prices for oil and natural gas increase, so do all associated costs. Material changes in prices have an impact on revenue, estimates of future reserves, borrowing base calculations of bank loans and the value of properties in purchase and sale transactions. Material changes in prices can impact the value of oil and natural gas companies and their ability to raise capital, borrow money and retain personnel. In addition, political instability in the world, the economy, changes in local legislation and taxation, reductions in the amount of oil Emir-Oil is allowed to export overseas, weather and other factors outside Emir-Oil's control may also have an impact on both supply and demand of crude oil and on Emir-Oil's results of operations.

**Critical Accounting Policies**

The policies described below are considered to be critical in understanding the estimates and judgments that are involved in preparing Emir-Oil's financial statements. The impact of these estimates and judgements and associated risks are discussed throughout Emir-Oil's management's discussion and analysis where such policies affect its reported and expected financial results. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

***Estimation of proved oil reserves***

Proved reserves are those quantities of petroleum that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed producing reserves are

expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery.

Emir-Oil's reserve estimates were prepared for each oilfield and include crude oil and gas that it believes can be reasonably produced within current economic and operating conditions.

Proved reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved reserves are one of the key elements in Emir-Oil's investment decision-making process. They are also an important element in testing for impairment. Emir-Oil classified its proved reserves into two categories: proved developed producing reserves and proved undeveloped reserves. Proved developed producing reserves is used for the calculation of unit-of-production depreciation, depletion and amortization recorded in Emir-Oil's financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production) and reduce net profit. Proved reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil reserves resulting from new information becoming available from development and production activities and change in oil price have tended to be the most significant causes of annual revisions.

***Estimated impairment of property, plant and equipment***

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with Emir-Oil's business plans. Favourable changes to some assumptions may allow Emir-Oil to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

***Estimation of asset retirement obligations***

Provisions are recognized for the future decommissioning and restoration of oil and gas properties that will cease operation prior to the expiration of exploration license. The amounts of the provision recognized are the present values of the estimated future expenditures that Emir-Oil is expected to incur. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also affected by the estimation of the economic lives of oil and gas properties. Changes in any of these estimates will affect the operating results and the financial position of Emir-Oil over the remaining economic lives of the oil and gas properties.

**Results of Operations**

This discussion summarizes the significant factors affecting Emir-Oil's consolidated operating results during the fiscal years ended March 31, 2008, 2009 and 2010 and the nine months ended December 31, 2009 and

2010. This discussion should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements included in this offering memorandum.

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | US$'000 | US$'000 | US$'000 | US$'000 (Unaudited) | US$'000 |
| **Statement of comprehensive income:** | | | | | |
| **Revenue** | 60,197 | 69,617 | 57,275 | 41,736 | 41,638 |
| **Operating expenses** | | | | | |
| Purchases, services and other | 1,958 | 2,723 | 3,936 | 3,174 | 2,894 |
| Geological and geophysical expense | 6,587 | 4,665 | 641 | 355 | 7,445 |
| Employee compensation costs | 2,893 | 3,608 | 2,928 | 2,401 | 3,153 |
| Depreciation, depletion and amortization | 21,669 | 10,642 | 15,639 | 8,448 | 12,028 |
| Operating lease expense | 2,168 | 2,809 | 1,244 | 881 | 991 |
| Administrative expenses | 2,901 | 2,789 | 1,841 | 1,314 | 1,817 |
| Taxes other than income taxes | 1,557 | 9,510 | 13,543 | 9,503 | 11,500 |
| Write-off of inventory | 80 | 140 | 215 | 161 | 62 |
| Other expense | 319 | 102 | 368 | 250 | 59 |
| Total operating expenses | 40,132 | 36,988 | 40,355 | 26,487 | 39,949 |
| **Profit from operations** | 20,065 | 32,629 | 16,920 | 15,249 | 1,689 |
| Finance income | 79 | 3,234 | 273 | 151 | 282 |
| Finance costs | (5,403) | (6,496) | (6,869) | (5,247) | (4,900) |
| **Finance (costs)/income – net** | (5,324) | (3,262) | (6,596) | (5,096) | (4,618) |
| **Profit/(loss) before income tax** | 14,741 | 29,367 | 10,324 | 10,153 | (2,929) |
| **Income tax (expense)/credit** | (7,060) | (2,213) | 2,563 | 865 | 1,601 |
| **Net (loss)/profit for the year/period** | 7,681 | 27,154 | 12,887 | 11,018 | (1,328) |

**Nine Months Ended December 31, 2010 Compared to Nine Months Ended December 31, 2009**

***Revenues***

*Oil sales*

Emir-Oil generates revenue under its Exploration Contract from the sale of oil recovered during test production. During the nine months ended December 31, 2010, Emir-Oil's oil production decreased 15% compared to the nine months ended December 31, 2009, as a result of natural decline rates of production, well downtime, and maintenance and improvement works at the oil storage facility.

During the nine months ended December 31, 2010, Emir-Oil realized revenue from oil sales of US$40,687,364 compared to US$41,735,735 during the nine months ended December 31, 2009. The significant contributing factor to this 3% decrease in revenue from oil sales was a 20% decrease in sales volume as a result of decreased production compared to the nine months ended December 31, 2009, which was only partially offset by a 22% increase in sales price realized for oil sold compared to the nine months ended December 31, 2009. During the nine months ended December 31, 2009 and 2010, Emir-Oil exported 94% and 98%, respectively, of its oil overseas and realized international price for those sales. Revenue from oil sold overseas made up 97% and 97% of Emir-Oil's total revenue during the nine months ended December 31, 2009 and 2010, respectively.

The average realized oil price was US$64.92 per barrel for the nine months ended December 31, 2010, compared to US$53.16 per barrel for the nine months ended December 31, 2009. The average realized oil price for the nine months ended December 31, 2010 was US$65.57 per barrel from export sales and US$23.86 per barrel from domestic sales, compared to US$55.05 per barrel from export sales and US$23.96 per barrel from domestic sales for the nine months ended December 31, 2009. Emir-Oil's oil sales volume was 626,741 barrels for the nine months ended December 31, 2010, compared to 785,044 barrels for the nine months ended December 31, 2009. Emir-Oil's export sales volume was 617,028 barrels and domestic sales volume was 9,713 barrels for the nine months ended December 31, 2010 compared to export sales volume of 737,490 barrels and domestic sales volume of 47,554 barrels for the nine months ended December 31, 2009.

*Gas sales*

Emir-Oil began realizing revenue from natural gas sales to the domestic market in May 2010. Production of gas and sales volume for the nine months ended December 31, 2010 amounted to 27.4 thousand cubic meters and 23.3 thousand cubic meters, respectively. For the nine months ended December 31, 2010, Emir-Oil realized revenue from natural gas sales of US$950,779. The average realized gas price was US$40.73 per thousand cubic meter for the nine months ended December 31, 2010. Prior to May 2010, Emir-Oil did not realize revenue from natural gas sales, because the amounts realized from natural gas sales were insignificant and thus were included in revenue from oil sales.

***Expenses***

Emir-Oil's operating expenses increased by US$13,462,118 or 51%, from US$26,486,425 for the nine months ended December 31, 2009 to US$39,948,543 for the nine months ended December 31, 2010, primarily due to increase in geological and geophysical expenses, depreciation, depletion and amortization and increase in taxes other than income taxes.

- *Purchases, services and other expenses.* Purchases, services and other expenses decreased by US$279,391 or 9%, from $3,173,563 for the nine months ended December 31, 2009 to US$2,894,172 for the nine months ended December 31, 2010, primarily due to the decrease in production and sales volumes.

- *Geological and geophysical expenses.* Geological and geophysical expenses increased by US$7,090,782 or 2,000%, from US$354,478 for the nine months ended December 31, 2009 to US$7,445,260 for the nine months ended December 31, 2010, primarily due to the cost of a 3D seismic survey conducted on North West territory during the nine months ended December 31, 2010.

- *Employee compensation costs.* Employee compensation costs increased by US$752,246 or 31%, from US$2,400,436 for the nine months ended December 31, 2009 to US$3,152,682 for the nine months ended December 31, 2010, primarily due to a salary appraisal and the payment of bonuses to employees made during the nine months ended December 31, 2010.

- *Depreciation, depletion and amortization.* Depreciation, depletion and amortization increased by US$3,579,660 or 42%, from US$8,448,422 for the nine months ended December 31, 2009 to US$12,028,082 for the nine months ended December, 2010, primarily due to a decrease in estimated reserves during the period ended December 31, 2010, coupled with a slight increase in oil and gas properties.

- *Operating lease expenses.* Operating expenses increased by US$109,709 or 12%, from US$880,851 for the nine months ended December 31, 2009 to US$990,560 for the nine months ended December 31, 2010, primarily due to significant renovation and refurbishment works on oil storage facility conducted between August and November 2010, which required the lease of additional special machinery trucks.

- *Administrative expenses.* Administrative expenses increased by US$502,842 or 38%, from US$1,314,409 for the nine months ended December 31, 2009 to US$1,817,251 for the nine months ended December 31, 2010, primarily due to incurred property taxes of US$632,246, offset by a decrease of US$159,364 in obligatory payments for environmental control due to a reduction in gas flaring (which is payable by all oil and gas companies in Kazakhstan according to Tax Law of Republic Kazakhstan for gas flaring).

- *Taxes other than income taxes.* Taxes other than income taxes increased by US$1,997,221 or 21%, from US$9,502,812 for the nine months ended December 31, 2009 to US$11,500,033 for the nine months ended December 31, 2010, primarily due to an increase in oil prices which affected tax base calculation of rent export tax. In addition, the Republic of Kazakhstan government issued a resolution in July 2010 which re-enacted the export duty for several products, including crude oil.

  Rent export tax is calculated based on the export sales price and ranges from as low as 0% if the export sales price is less than US$40 per barrel to as high as 32% if the price per barrel exceeds US$190. The tax rate applied during the nine month ended December 31, 2010 varied from 16% to 17%, according to changes in world oil prices. For the nine months ended December 31, 2010, rent export tax paid to the Republic of Kazakhstan government amounted to US$8,214,750 compared to US$6,945,938 for the nine months ended December 31, 2009. The increase of US$1,268,812 was due to the significant increase in world oil prices, which caused the increase in tax base by 26% between corresponding periods. In addition, tax committee provides fluctuating tax rate based on world prices. Accordingly, the 30% increase in oil price increased the tax rate from 11% for the nine months ended December 31, 2009 to 17% for the year ended March 31, 2010, which resulted in an increase of actual tax paid by 64%.

  In July 2010 the government issued a resolution which reenacted the export duty for several products, including crude oil. Emir-Oil became subject to the export duty in September 2010. The export duty is calculated based on a fixed rate of US$20 per ton, or approximately US$2.60 per barrel exported. As a result, Emir-Oil incurred export duty during the nine months ended December 31, 2010 of US$736,013. Emir-Oil was not subject to export duty during the nine months ended December 31, 2009.

The following table summarizes taxes other than income taxes for the nine months ended December 31, 2009 and 2010:

| | For the Nine Months Ended December 31, | |
|---|---|---|
| | 2009 | 2010 |
| | US$ | US$ |
| **Taxes other than income taxes:** | | |
| Mineral extraction tax | 2,556,874 | 2,549,270 |
| Rent export tax | 6,945,938 | 8,214,750 |
| Rent export duty expenditures | – | 736,013 |
| | 9,502,812 | 11,500,033 |

- *Write-off of inventory.* Write-off of inventory decreased by US$99,689 or 62%, from US$161,614 for the nine months ended December 31, 2009 to US$61,925 for the nine months ended December 31, 2010, mainly due to the fact that less expenses were incurred for repairs of automobiles for administrative personnel.

- *Other loss.* Other losses decreased by US$191,262 or 77%, from US$249,840 for the nine months ended December 31, 2009 to US$58,578 for the nine months ended December 31, 2010, primarily due to decrease in other expenses and decrease in loss on disposal of the plant, property and equipment during the nine months ended December 31, 2010.

***Profit from operations***

Emir-Oil's profit from operations decreased by US$13,559,710 or 89%, from US$15,249,310 for the nine months ended December 31, 2009 to US$1,689,600 for the nine months ended December 31, 2010. This decrease was due primarily to a significant increase in operating expenses.

***Finance costs, net***

Emir-Oil's finance net cost decreased by US$477,609 or 9%, from US$5,095,965 for the nine months ended December 31, 2009 to US$4,618,356 for the nine months ended December 31, 2010. This decrease is primarily due to the decrease in interest expenses from loans to Emir-Oil from the Seller.

***Profit/loss before income tax***

Emir-Oil's loss before income tax for the nine months ended December 31, 2010 was US$2,928,756 compared to profit before income tax in the amount of US$10,153,345 for the nine months ended December 31, 2009. The change from profit before income tax for the nine months ended December 31, 2009 to loss before income tax for the nine months ended December 31, 2010 was due to an increase in geological and geophysical expenses, increase in depreciation, depletion and amortization and increase in taxes other than income taxes.

***Income tax benefit***

Emir-Oil's income tax benefit for the nine months ended December 31, 2010 and 2009 amounted to US$1,600,975 and US$865,068, respectively. The income tax benefit stated in Emir-Oil's income represents deferred tax benefit.

***Net profit/loss***

As a result of the foregoing, Emir-Oil's net loss for the nine months ended December 31, 2010 was US$1,327,781 compared to net profit for the nine months ended December 31, 2009 of US$11,018,413. The change from net profit for the nine months ended December 31, 2009 to net loss for the nine months ended December 31, 2010 amounted to US$12,346,194 or 112%.

**Year Ended March 31, 2010 Compared to the Year Ended March 31, 2009**

***Revenues***

During the year ended March 31, 2010, Emir-Oil realized revenue from oil sales of US$57,274,526 compared to US$69,616,875 during the year ended March 31, 2009. The factors contributing to the 18% decrease in revenue for the year ended March 31, 2010 was a 15% decrease in the price per barrel Emir-Oil received for oil sales and a decrease in sales volume during the year ended March 31, 2010 compared to the year ended March 31, 2009. During the year ended March 31, 2010, Emir-Oil's oil production decreased by 64,674 barrels or 6% compared to the year ended March 31, 2009.

The average realized oil price was US$55.28 per barrel for the year ended March 31, 2010, compared to US$64.84 per barrel for the year ended March 31, 2009. The average realized oil price for the year ended March 31, 2010 was US$56.79 per barrel from export sales and US$23.96 per barrel from domestic sales, compared to US$75.89 per barrel from export sales and US$18.76 per barrel from domestic sales for the year ended March 31, 2009. Emir-Oil's total sales volume was 1,036,070 barrels for the year ended March 31, 2010, compared to 1,073,754 barrels for the year ended March 31, 2009, representing a 4% decline. Emir-Oil's export sales volume was 988,517 barrels and domestic sales volume was 47,554 barrels for the year ended March 31, 2010 compared to export sales volume of 866,055 barrels and domestic sales volume of 207,699 barrels for the year ended March 31, 2009 representing a 12% decline and a 337% increase, respectively.

During the years ended March 31, 2009 and 2010, Emir-Oil exported 81% and 95%, respectively, of its oil overseas and realized international prices for those sales. Revenue from oil sold overseas made up 94% and 98% of Emil Oil's total revenue, respectively, during the years ended March 31, 2010 and 2009.

As discussed above, Emir-Oil's revenue is sensitive to changes in prices received for Emir-Oil's oil. Political instability in the world, the economy, changes in local legislation and taxation, reductions in the amount of oil Emir-Oil is allowed to export overseas, weather and other factors outside Emir-Oil's control may also have an impact on both supply and demand and on revenue.

***Expenses***

Emir-Oil's operating expenses increased by US$3,365,672 or 9%, from US$36,988,467 for the year ended March 31, 2009 to US$40,354,139 for the year ended March 31, 2010, primarily due to increases in depreciation, depletion and amortization and increases in taxes other than income taxes. These increases were offset by decreases in geological and geophysical expenses and decrease in operating lease expenses.

- *Purchases, services and other expenses.* Purchases, services and other expenses increased by US$1,212,151 or 45%, from US$2,723,331 for the year ended March 31, 2009 to US$3,935,482 for the year ended March 31, 2010, primarily due to the purchase of light crude oil for blending purposes from a third party in the amount of US$877,603. In the quarters ended September 30 and December 31, 2010, extensive workover operations were performed on the wells with higher oil quality production, which resulted in an overall decrease in the quality of oil, so Emir-Oil purchased light crude oil to blend with the produced oil and bring the quality of crude oil in accordance with Brent standards. During the year ended March 31, 2009 the quality of oil produced complied with the Brent standards, thus there was no need to improve the quality of crude oil.

- *Geological and geophysical expenses.* Geological and geophysical expenses decreased by US$4,024,064 or 86%, from US$4,665,269 for the year ended March 31, 2009 to US$641,205 for the year ended March 31, 2010, primarily because the drilling program was amended during the year ended March 31, 2010. Emir-Oil decreased geological and geophysical expenses, which were in line with the decrease in drilling program.

- *Employee compensation costs.* Employee compensation costs decreased by US$680,300 or 19%, from US$3,608,239 for the year ended March 31, 2009 to US$2,927,939 for the year ended March 31, 2010, primarily due to a salary revision and non-management staff reduction of 41 employee made for the year ended March 31, 2009 due to the significant decrease in oil prices, curtailment of drilling operations, financial instability and other consequences of the world financial crisis.

- *Depreciation, depletion and amortization.* Depreciation, depletion and amortization increased by US$4,996,516 or 47%, from US$10,641,963 for the year ended March 31, 2009 to US$15,638,479 for the year ended March 31, 2010, primarily due to an increase in depletion expenses, which increased due to a decrease in estimated oil reserves.

- *Operating lease expenses.* Operating expenses decreased by US$1,564,536 or 56%, from US$2,808,661 for the year ended March 31, 2009 to US$1,244,125 for the year ended March 31, 2010, primarily due to decreased volume of oil produced and transported by Emir-Oil, as well as the consequences of a cost-cutting policy implemented by Emir-Oil under which Emir-Oil re-negotiated its service agreements with each of its operating lease service suppliers, resulting in an approximately 20% decrease in operating expenses.

- *Administrative expenses.* Administrative expenses decreased by US$948,214 or 34%, from US$2,789,265 for the year ended March 31, 2009 to US$1,841,051 for the year ended March 31, 2010, primarily due to decreased obligatory payments for environmental controls, which decreased because the gas utilization facility commenced operations, which enabled Emir-Oil to significantly decrease gas flaring during the year ended March 31, 2010.

- *Taxes other than income taxes.* Taxes other than income taxes increased by US$4,032,724 or 42%, from US$9,509,744 for the year ended March 31, 2009 to US$13,542,468 for the year ended March 31, 2010, primarily due to the introduction of rent export tax and mineral extraction tax by the Republic of Kazakhstan government on January 1, 2009.

  The rent export tax rate applied in fiscal year 2010 varied from 11% to 16%, according to changes in world oil prices. During the year ended March 31, 2010 rent export tax Emir-Oil paid to the Republic of Kazakhstan government amounted to US$10,032,857 compared to US$515,032 for the year ended March 31, 2009. This increase was due to the increased realized price for oil during the fiscal year 2010, and the fact that Emir-Oil were not subject to rent export tax during the first three fiscal quarters of the year ended March 31, 2009.

  The mineral extraction tax replaced royalties Emir-Oil was paying under the prior tax code. The rate of this tax depends on annual production output. The new code currently provides for a 5% mineral extraction tax rate on production sold to the export market, and a 2.5% tax rate on production sold to the domestic market. During the year ended March 31, 2010 mineral extraction tax paid to the government amounted to US$3,509,611, which amounts to an increase of 581% compared to US$467,359 paid during the year ended March 31, 2009. The increase was due to the fact that Emir-Oil was not subject to the mineral extraction tax during the first three fiscal quarters of the year ended March 31, 2009.

During the year ended March 31, 2009, prior to the introduction of rent export tax and mineral extraction tax Emir-Oil was subject to royalties and rent export duty. Emir-Oil became subject to the rent export duty in June 2008. However, in December 2008 the Republic of Kazakhstan government repealed the export duty effective January 26, 2009. As a result of the export duty being repealed, Emir-Oil paid no export duty during the year ended March 31, 2010 compared to US$6,783,278 paid during year ended March 31, 2009. During the year ended March 31, 2009, Emir-Oil paid royalties in the amount of US$1,744,075. Royalty rates are established by the taxing authorities of the Republic of Kazakhstan and are based on production rates, Emir-Oil has the right to produce and sell oil and natural gas at a royalty rate of 2%. Royalties were replaced by the mineral extraction tax starting from January 1, 2009. Therefore, Emir-Oil was not subject to royalties for the year ended March 31, 2010.

The following table summarizes taxes other than income taxes for the years ended March 31, 2009 and 2010:

| | For the Year Ended March 31, | |
|---|---|---|
| | 2009 | 2010 |
| | US$ | US$ |
| **Taxes other than income taxes:** | | |
| Royalties | 1,744,075 | – |
| Mineral extraction tax | 467,359 | 3,509,611 |
| Rent export tax | 515,032 | 10,032,857 |
| Rent export duty | 6,783,278 | – |
| | 9,509,744 | 13,542,468 |

- *Write-off of inventory.* Emir-Oil's write-off of inventory increased by US$74,954 or 54%, from US$139,992 for the year ended March 31, 2009 to US$214,946 for the year ended March 31, 2010, primarily due to repair of automobiles for administrative personnel.

- *Other loss.* Emir-Oil's other losses increased by US$266,441 or 261%, from US$102,003 for the year ended March 31, 2009 to US$368,444 for the year ended March 31, 2010, primarily due to increases in other expenses, losses realized from sales of inventories and increases in loss on disposal of plant, property and equipment during the fiscal year 2010.

***Profit from operations***

Emir-Oil's profit from operations decreased by US$15,708,021 or 48%, from US$32,628,408 for the year ended March 31, 2009 to US$16,920,387 for the year ended March 31, 2010. This decrease was due to a decrease in revenue, coupled with an increase in operating expenses.

***Finance costs, net***

Emir-Oil's net finance cost increased by US$3,334,521 or 102%, from US$3,261,662 for the year ended March 31, 2009 to US$6,596,183 for the year ended March 31, 2010. This increase is primarily due to the fact that Emir-Oil realized foreign exchange gain of US$2,989,782 resulting mainly from the revaluation of accounts payable denominated in Kazakhstani Tenge during the fiscal year 2009, and there was no such revaluation during the fiscal year 2010.

***Profit before income tax***

Emir-Oil's profit before income tax for the years ended March 31, 2009 and 2010 was US$29,366,746 and US$10,324,204, respectively. The decrease of US$19,042,542 in profit before income taxes was due primarily to a significant decrease in realized revenue, coupled with an increase in taxes other than income taxes and an increase in depreciation, depletion and amortization.

***Income tax expense/benefit***

The income tax benefit for the year ended March 31, 2010 amounted to US$2,562,322. The income tax expense for the year ended March 31, 2009 was US$2,212,820. The income tax expense/benefit stated in Emir-Oil's income was a result of deferred tax expense/benefit.

***Net profit for the year***

As a result of the foregoing, Emir-Oil's net profit for the year decreased by US$14,267,400 or 53%, from US$27,153,926 for the year ended March 31, 2009 to US$12,886,526 for the year ended March 31, 2010.

**Year Ended March 31, 2009 Compared to Year Ended March 31, 2008**

***Revenues***

During the year ended March 31, 2009, Emir-Oil realized revenue from oil sales of US$69,616,875 compared to US$60,196,625 during the year ended March 31, 2008. The 16% increase in revenue during the year ended March 31, 2009 compared to the period ended March 31, 2008 was due to a 20% increase in sales volume, which was partially offset by a 3% decrease in the price per barrel Emir-Oil received for oil sales during the year ended March 31, 2009 compared to the year ended March 31, 2008. Emir-Oil's oil production increased by 173,073 barrels or 19% during the year ended March 31, 2009 compared to the year ended March 31, 2008.

The average realized oil price was US$64.84 per barrel for the year ended March 31, 2009, compared to US$67.16 per barrel for the year ended March 31, 2008. For the year ended March 31, 2009 the average realized oil price was US$75.89 per barrel from export sales and US$18.76 per barrel from domestic sales, compared to US$70.66 per barrel from export sales and US$31.86 per barrel from domestic sales for the year ended March 31, 2008. Emir-Oil's sales volume was 1,073,754 barrels for the year ended March 31, 2009, compared to 896,256 barrels for the year ended March 31, 2008. Emir-Oil's export sales volume was 866,055 barrels and domestic sales volume was 207,699 barrels for the year ended March 31, 2009 compared to export sales volume of 815,588 barrels and domestic sales volume of 80,668 barrels for the year ended March 31, 2008.

During the years ended March 31, 2008 and 2009, Emir-Oil exported 91% and 81%, respectively, of its oil overseas and realized the international price for those sales. Revenue from oil sold overseas made up 96% and 94% of Emir-Oil's total revenue, respectively, during the years ended March 31, 2008 and 2009.

As discussed above, Emir-Oil's revenue is sensitive to changes in prices received for Emir-Oil's oil. Political instability in the world, the economy, changes in local legislation and taxation, reductions in the amount of oil Emir-Oil is allowed to export overseas, weather and other factors outside Emir-Oil's control may also have an impact on both supply and demand and on revenue.

***Expenses***

Emir-Oil's operating expenses decreased by US$3,143,150 or 8%, from US$40,131,617 for the year ended March 31, 2008 to US$36,988,467 for the year ended March 31, 2009, primarily due to a decrease in depreciation, depletion and amortization.

- *Purchases, services and other expenses.* Purchases, services and other expenses increased by US$765,686 or 39%, from US$1,957,645 for the year ended March 31, 2008 to US$2,723,331 for the year ended March 31, 2009, primarily due to the increase in production and sales volumes.

- *Geological and geophysical expenses.* Geological and geophysical expenses decreased by US$1,921,521 or 29%, from US$6,586,790 for the year ended March 31, 2008 to US$4,665,269 for the year ended March 31, 2009, primarily due to the decrease in seismic survey studies.

- *Employee compensation costs.* Employee compensation costs increased by US$714,756 or 25%, from US$2,893,483 for the year ended March 31, 2008 to US$3,608,239 for the year ended March 31, 2009, primarily due to expanded operating activities on Emir-Oil's oilfields and an increase in non-management staff by 38 employees.

- *Depreciation, depletion and amortization.* Depreciation, depletion and amortization decreased by US$11,027,040 or 51%, from US$21,669,003 for the year ended March 31, 2008 to US$10,641,963 for the year ended March 31, 2009, primarily due to a significant increase in estimated oil reserves and an increase in oil and gas properties.

- *Operating lease expenses.* Operating expenses increased by US$641,128 or 30%, from US$2,167,533 for the year ended March 31, 2008 to US$2,808,661 for the year ended March 31, 2009, primarily due to an increase in production and sales volume, which increased the lease of oil trucks used for transporting oil produced.

- *Administrative expenses.* Administrative expenses decreased by US$111,833 or 4%, from US$2,901,098 for the year ended March 31, 2008 to US$2,789,265 for the year ended March 31, 2009, primarily due to decrease in obligatory payments for environmental control and a decrease in audit and consulting expenses.

- *Taxes other than income taxes.* Taxes other than income taxes increased by US$7,952,356 or 511%, from US$1,557,388 for the year ended March 31, 2008 to US$9,509,744 for the year ended March 31, 2009, primarily due to the fact that Emir-Oil was subject to royalties and the export duty in 2009 and was not subject to rent export tax, mineral extraction tax or rent export duty but only royalties during the year ended March 31, 2008.

  Rent export tax paid to the Republic of Kazakhstan government during the year ended March 31, 2009 amounted to US$467,359. The mineral extraction tax paid to the Republic of Kazakhstan government during the year ended March 31, 2009 amounted to US$515,032. Rent export duty paid to the Republic of Kazakhstan government during the year ended March 31, 2009 amounted to US$6,783,278. Since the export duty was introduced in June 2008 and was cancelled by the Republic of Kazakhstan government in January 26, 2009.

  Royalties paid to the Republic of Kazakhstan government during the year ended March 31, 2009 amounted to US$1,744,075, compared to US$1,557,388 paid during the year ended March 31, 2008. The increase of US$186,687 or 12% was primarily due to an increase in production of 19% during the fiscal year 2009. Royalties were replaced by a mineral extraction tax starting from January 1, 2009.

The following table summarizes Emir-Oil's taxes other than income taxes for the years ended March 31, 2008 and 2009:

| | For the Year Ended March 31, | |
|---|---|---|
| | 2008 | 2009 |
| | US$ | US$ |
| **Taxes other than income taxes:** | | |
| Royalties | 1,557,388 | 1,744,075 |
| Mineral extraction tax | – | 467,359 |
| Rent export tax | – | 515,032 |
| Rent export duty | – | 6,783,278 |
| | 1,557,388 | 9,509,744 |

- *Write-off of inventory.* Write-off of inventory increased by US$60,351 or 76%, from US$79,641 for the year ended March 31, 2008 to US$139,992 for the year ended March 31, 2009, mainly due to the repair of automobiles for administrative personnel.

- *Other loss.* Other losses decreased by US$217,033 or 68%, from US$319,036 for the year ended March 31, 2008 to US$102,003 for the year ended March 31, 2009, primarily due to a decrease in gain realized from sales of inventory for the fiscal year 2009 and due to the fact that Emir-Oil did not have a loss on impairment on receivables during the fiscal year 2009, compared to a loss on impairment on receivables in the amount of $135,502 during the fiscal year 2008.

***Profit from operations***

Emir-Oil's profit from operations increased by US$12,563,400 or 63%, from US$20,065,008 for the year ended March 31, 2008 to US$32,628,408 for the year ended March 31, 2009. This increase was primarily due to an increase in revenue, coupled with a significant decrease in operating expenses.

***Finance costs, net***

Emir-Oil's net finance costs decreased by US$2,062,522 or 39%, from US$5,324,184 for the year ended March 31, 2008 to US$3,261,662 for the year ended March 31, 2009. This increase is primarily due to the fact that Emir-Oil realized foreign exchange gain of US$2,989,782 resulting mainly from the revaluation of accounts payable denominated in Kazakhstani Tenge during the fiscal year 2009.

***Profit before income tax***

Emir-Oil's profit before income tax for years ended March 31, 2009 and 2008 was US$29,366,746 and US$14,740,824, respectively. The changes in profit before income taxes were primarily due to an increase in revenue, coupled with a decrease in depreciation, depletion and amortization and decrease in finance costs.

***Income tax expense***

Emir-Oil's income tax expenses for the years ended March 31, 2008 and 2009 were US$7,060,210 and US$2,212,820, respectively. The income tax expense stated in Emir-Oil's income presents deferred tax expense.

***Net profit for the year***

As a result of the foregoing, Emir-Oil's net profit for the years ended March 31, 2009 and 2008 amounted to US$27,153,926 and US$7,680,614, respectively, which represents an increase of US$19,473,312 or 254%.

**Liquidity and Capital Resources**

Emir-Oil operates in an industry which requires significant capital expenditure at the exploration stage of a license contract. Emir-Oil funds its capital expenditure and working capital requirements principally from cash generated from operating activities and borrowings from the Seller. See "– Indebtedness."

As of March 31, 2008, 2009 and 2010 and December 31, 2010, Emir-Oil had interest bearing liabilities of US$115,473,193, US$118,519,920, US$115,901,015 and US$110,647,375, respectively, comprised solely of borrowings from the Seller. As of March 31, 2008, 2009 and 2010 and December 31, 2010, Emir-Oil had cash and cash equivalents of US$2,122,730, US$2,393,216, US$3,448,001 and US$3,000.565. Cash and cash equivalents consists of cash on hand, cash in banks and bank deposits, which are primarily to be used to finance operating activities.

The below table sets forth Emir-Oil's cash flows for each of the nine months ended December 31, 2010, 2009 and 2008:

| | For the Year Ended March 31, | | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | US$'000 | US$'000 | US$'000 | US$'000 (Unaudited) | US$'000 |
| Net cash generated from operating activities | 56,764 | 55,924 | 22,561 | 17,499 | 32,360 |
| Net cash used in investing activities | (100,336) | (56,733) | (11,476) | (8,686) | (25,731) |
| Net cash generated from/(used in) financing activities | 44,850.0 | 1,080.0 | (10,030) | (6,600.0) | (7,077) |
| Net increase/(decrease) in cash and cash equivalents | 1,278 | 270 | 1,055 | 2,213 | (447) |
| Cash and cash equivalents at beginning of the year/period | 845 | 2,123 | 2,393 | 2,393 | 3,448 |
| Cash and cash equivalents at end of the year/period | 2,123 | 2,393 | 3,448 | 4,606 | 3,001 |

***Operating activities***

Net cash generated from operating activities was US$32.4 million during the nine months ended December 31, 2010. During this time period, Emir-Oil had loss before income tax of US$2.9 million adjusted for, among other things, depreciation, depletion and amortization of US$12.2 million, interest expenses from loans from the Seller of US$4.6 million and geological and geophysical costs of US$7.4 million. The cash movements during the nine months ended December 31, 2010 included an increase in trade and other payables of US$13.4 million and an increase in trade and other receivables of US$2.6 million.

Net cash generated from operating activities was US$17.5 million during the nine months ended December 31, 2009. During this time period, Emir-Oil had profits before income tax of US$10.2 million adjusted for, among other things, depreciation, depletion and amortization of US$8.6 million and interest expenses from loans from the Seller of US$4.8 million. The cash movements for the year ended March 31, 2009 included a decrease in trade and other payables of US$4.1 million and a decrease in trade and other receivables of US$3.1 million.

Net cash generated from operating activities was US$22.6 million for the year ended March 31, 2010. In 2010, Emir-Oil had profits before income tax of US$10.3 million adjusted for, among other things, depreciation, depletion and amortization of US$15.8 million and interest expenses from loans from the Seller of US$6.4 million. The cash movements for the year ended March 31, 2010 included a decrease in trade and other payables of US$6.4 million and an increase in trade and other receivables of US$5.1 million.

Net cash generated from operating activities was US$55.9 million for the year ended March 31, 2009. In 2009, Emir-Oil had profits before income tax of US$29.4 million adjusted for, among other things, depreciation, depletion and amortization of US$10.9 million, interest expenses from loans from the Seller of US$6.4 million and geological and geophysical costs of US$4.7 million. The cash movements for the year ended March 31, 2009 included a decrease in trade and other payables of US$3.4 million and a decrease in trade and other receivables of US$3.9 million.

Net cash generated from operating activities was US$56.8 million for the year ended March 31, 2008. In 2008, Emir-Oil had profit before income tax of US$14.7 million adjusted for, among other things, depreciation, depletion and amortization of US$21.7 million, interest expense from loans from the Seller of US$5.2 million and geological and geophysical costs of US$6.6 million. The cash movements for the year ended March 31, 2008 included an increase in trade and other payables of US$13.4 million and an increase in trade and other receivables of US$5.5 million.

***Investing activities***

Net cash used in investing activities amounted to US$26 million during the nine months ended December 31, 2010, mainly as a result of capital expenditures on Emir-Oil's oilfields in the amount of US$16.5 million, purchases of and advances made for inventories to be used in capital projects in the amount of US$2 million and an increase in exploration costs of US$7.4 million.

Net cash used in investing activities amounted to US$8.7 million during the nine months ended December 31, 2009, mainly as a result of capital expenditures on Emir-Oil's oilfields in the amount of US$7.7 million.

Net cash used in investing activities amounted to US$11.5 million for the year ended March 31, 2010, mainly as a result of capital expenditures on Emir-Oil's oilfields in the amount of US$10.4 million.

Net cash used in investing activities amounted to US$57 million for the year ended March 31, 2009, mainly as a result of capital expenditures on Emir-Oil's oilfields in the amount of US$34.8 million and purchases of and advances made for inventories to be used in capital projects in the amount of US$17.5 million and exploration costs of US$4.7 million.

Net cash used in investing activities amounted to US$100.3 million for the year ended March 31, 2008, mainly as a result of capital expenditures on Emir-Oil's oilfields in the amount of US$64.6 million, purchases of and advances made for inventories to be used in capital projects in the amount of US$28.9 million and exploration costs of US$6.6 million.

***Financing activities***

Net cash used in financing activities during the nine months ended December 31, 2009 and 2010 amounted to US$6.6 million and US$7.1 million, respectively, mainly due to repayment of the principal on loans borrowed from the Seller.

Net cash used in financing activities in the years ended March 31, 2008, 2009 and 2010 amounted to US$44.9 million, US$1.1 million and US$10 million, respectively, mainly due to a repayment of the principal on loans borrowed from the Seller.

**Indebtedness**

Between 2003 and 2007, Emir-Oil entered into several borrowing agreements with the Seller for a total amount of US$135.7 million. All of the loans bear interest at the rate of 5% per annum and are to be repaid at their respective maturity dates, which occur in 2013 and 2014. The loans owed to the Seller will be assigned to the Purchaser at Closing.

As of December 31, 2010, Emir-Oil had loans payable due to BMB Munai in the amount of $109,350,109 denominated in U.S. dollars and $1,297,266 denominated in Kazakhstani Tenge. Interest payable due to parent Emir-Oil for the related period amounted to $25,979,069 denominated in U.S. dollars and $416,504 denominated in Kazakhstani Tenge.

As of March 31, 2010, Emir-Oil had loans payable due to BMB Munai in the amount of $114,559,136 denominated in U.S. dollars and $1,341,879 denominated in Kazakhstani Tenge. Interest payable due to BMB Munai for the related period amounted to $21,163,624 denominated in U.S. dollars and $358,242 denominated in Kazakhstani Tenge.

As of March 31, 2009, Emir-Oil had loans payable due to BMB Munai in the amount of $117,236,160 denominated in U.S. dollars and $1,283,760 denominated in Kazakhstani Tenge. Interest payable due to BMB Munai for the related period amounted to $14,576,228 denominated in U.S. dollars and $270,311 denominated in Kazakhstani Tenge.

As of March 31, 2008, Emir-Oil had loans payable due to BMB Munai in the amount of $113,909,162 denominated in U.S. dollars and $1,564,031 denominated in Kazakhstani Tenge. Interest payable due to BMB Munai for the related period amounted to $8,023,963 denominated in U.S. dollars and $234,520 denominated in Kazakhstani Tenge.

**Cash and Cash Equivalents**

Cash and cash equivalents, consisting of cash on hand, cash in banks and bank deposits, are denominated in the following currencies as of the dates below:

| | As of December 31 | | | As of March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | US$ | US$ | US$ | US$ |
| United Stated Dollars | 443,041 | 1,705,276 | 541,461 | 1,636,441 |
| Kazakhstani Tenge | 1,678,006 | 687,940 | 2,371,976 | 830,869 |
| European Union Euro | – | – | 534,564 | 533,255 |
| Russian Rubles | 1,683 | – | – | – |
| | 2,122,730 | 2,393,216 | 3,448,001 | 3,000,565 |

As almost 99% of Emir-Oil's borrowings are denominated in U.S. dollars and the functional currency of Emir-Oil is also U.S. dollars, the fluctuations in the U.S. dollar to Kazakhstani Tenge exchange rate will have an insignificant impact on Emir-Oil. Therefore, Emir-Oil has not engaged in hedging transactions to protect it from such risk as the effect of foreign exchange risk is insignificant.

**Charges on Emir-Oil's Assets**

As of March 31, 2008 and 2009 and December 31, 2010, Emir-Oil did not have any charges on its assets. As of March 31 and December 31, 2010, the fixed assets, which represent leased oil trucks, were collateralized by capital lease liability for the fair value of $738,363 and $689,138, respectively.

**Details of Future Plans for Material Investments and Sources of Funding**

Emir-Oil plans to invest at least $35.1 million in its oilfields, including approximately US$14.6 million for the Kariman oilfield, US$5.5 million for the Aksaz oilfield, US$7.3 million for the Dolinnoe oilfield, US$7.7 million for the North West Block and nil for the Emir oilfield, for the year ended December 31, 2011. This represents the minimum investment necessary under the work programs under the Existing Exploration Contract

in order for Emir-Oil to maintain all of its rights, including the right to apply for production contracts. After the Acquisition, the Group will further evaluate its allocation of investments among the various oilfields based upon the economic and production status of each field.

Emir-Oil does not hold any significant investments. Emir-Oil plans to continue to operate in the ordinary course of business. The drilling and workover operations on existing wells will be funded by Emir-Oil's revenues generated from oil and gas sales.

**Material Acquisitions and Disposal of Subsidiaries and Associated Companies**

There were no material acquisitions or disposals of subsidiaries or associated companies in the periods under discussion.

**Segmentation**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors. Emir-Oil operates as a single operating segment which is the production and sale of oil and gas. No geographical information has been presented as all of Emir-Oil's sales are generated from sales in Kazakhstan.

**Capital Commitment and Contingent Liabilities**

The following table lists Emir-Oil's significant commitments as of December 31, 2010:

| | Payments Due by Period as of December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 2-3 years | 4-5 years | After 5 years |
| | US$ | US$ | US$ | US$ | US$ |
| **Contractual obligations** | | | | | |
| Capital Expenditure Commitment[(1)] | 42,080,000 | 27,240,000 | 14,840,000 | – | – |
| Due to the Republic of Kazakhstan government[(2)] | 16,716,956 | – | 1,671,696 | 3,343,391 | 11,701,869 |
| Capital Lease Payments[(3)] | 559,150 | 292,825 | 266,325 | – | – |
| Liquidation Fund[(4)] | 5,079,715 | – | 5,079,715 | – | – |
| Potential Payments Upon Termination of Employee Agreements[(5)] | 658,600 | 658,600 | – | – | – |
| Repayment of Principal and Interest on Loans from BMB Munai[(6)] | 137,042,948 | – | – | 137,042,948 | – |
| **Total** | 202,137,369 | 28,191,425 | 21,857,736 | 140,386,339 | 11,701,869 |

(1) Under the terms of Emir-Oil's Exploration Contract, Emir-Oil was required to spend a total US$42 million for the year ended December 31, 2010, for Emir-Oil's exploration and development activities on Emir-Oil's properties. As of December 31, 2010 Emir-Oil spent a total of US$337 million in exploration and development activities. Emir-Oil expects to incur capital expenditures of at least US$27.2 during the fiscal year 2011, which amount is the minimum amount required under the annual work program. Emir-Oil funds its capital expenditure and working capital requirements principally from cash generated from operating activities and borrowings from BMB Munai.

(2) In connection with Emir-Oil's acquisition of the oil and gas, the Exploration Contract covering the ADE Block and the Extended Territory, Emir-Oil was required to repay the Republic of Kazakhstan for historical costs incurred by it in undertaking geological and geophysical studies and infrastructure improvements. As of December 31, 2010, Emir-Oil's repayment obligation for the ADE Block was US$5,994,200 and Emir-Oil's repayment obligation for the Extended Territory was US$5,350,680. The terms of repayment of these obligations, however, will not be finalized until such time as Emir-Oil applies for and is granted commercial production rights by the Republic of Kazakhstan. Should Emir-Oil decide not to pursue a commercial production right, it can relinquish the ADE Block and/or the Southeast Block and/or Northwest Block to the Republic of Kazakhstan in satisfaction of its associated obligations.
In addition to the above stated commitments, as of March 31, 2009 Emir-Oil was subject to additional payments for social projects of the Mangistau Oblast and payments to a state-run fund required by the Exploration Contracts (the "Astana Fund"). The recent addendum to Emir-Oil's Exploration Contract which granted us rights to the Northwest Block additionally required us to:
- make additional payments to the liquidation fund;
- make a one-time payment in the amount of US$200,000 to the Astana Fund by the end of 2010; and
- make annual payments to social projects of the Mangistau Oblast in the amount of US$50,000 per year from 2009 to 2012.

In connection with Emir-Oil's acquisition of the Exploration Contract for territory extension covering the North West Block, during the fiscal year 2010, Emir-Oil was required to pay to the Republic of Kazakhstan government the additional one time sum for its historical costs in the amount of US$5,372,076.
According to the Tax Code, the repayment of historical obligations should be made during the ten years after the grant of a commercial production contract. The repayment should be made in equal parts in quarterly payments. Emir-Oil forecasted that the repayment of historical obligations will start from the expiration of the Exploration Contract, which it assumed will occur in January 2013.

(3) In December 2009 Emir-Oil entered into a capital lease agreement with a vehicle leasing company for the lease of six oil trucks. Under the terms of the lease Emir-Oil is required to make payments in the amount of US$185,019 for the financial year 2011, US$240,149 for the year 2012 and US$129,652 for the financial year 2013.

(4) The liquidation fund (site restoration and abandonment liability) is related primarily to the conservation and liquidation of Emir-Oil's wells and similar activities related to its oil and gas properties, including site restoration.

(5) The employment agreements of nine of Emir-Oil's employees provide for potential payments upon termination or change in control. It is assumed that in case the termination of employment occurred on December 31, 2010, Emir-Oil will became obligated to pay off total amount of US$658,600 including all other compensations.

(6) Between 2003 and 2007, Emir-Oil entered into borrowing agreements with the Seller for the unsecured loans totalling US$135.7 million that each mature in either 2013 or 2014. All of the loans bear interest at the rate of 5% per annum and are to be repaid upon maturity. The loans have been partially repaid and as of December 31, 2010 the remaining amount of loans payable to the Seller was US$110,647,375. The amount of the interest accrued for the loans was US$26,395,573 as of December 31, 2010, which amount has not been repaid at the date of this offering memorandum.

## Gearing Ratio

BMB Munai monitors capital it supplies to Emir-Oil on the basis of the ratio between Emir-Oil's capital and its net debt. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total intra-group borrowings less cash and cash equivalents. Total capital is calculated as owner's equity as shown in the statement of financial position plus net debt. Emir-Oil's gearing ratio is as follows:

| | As of March 31, | | | As of December 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Total borrowings | 123,732 | 133,366 | 137,423 | 137,043 |
| Less: cash and cash equivalents | (2,123) | (2,393) | (3,448) | (3,001) |
| Net Debt | 121,609 | 130,973 | 133,975 | 134,042 |
| Total equity | 17,589 | 42,269 | 52,488 | 49,090 |
| Total capital | 139,198 | 173,242 | 186,463 | 183,132 |
| Gearing ratio | 87% | 76% | 72% | 73% |

## Employees

As of March 31 and December 31, 2010, Emir-Oil employed a total of 341 persons and 341 persons, respectively. Total remuneration including employee benefits expense and bonuses for the nine months ended December 31, 2010 were US$3,152,682. Total remuneration including employee benefits expense and bonuses for the years ended March 31, 2008, 2009, and 2010 were US$2,893,483, US$3,608,239 and US$2,927,939, respectively. The increased expenses in the fiscal years 2008 and 2009 were due to expanded operating activities on the Emir-Oil's oilfields. The decrease in salary expenses between fiscal years 2009 and 2010 was due to a significant decrease in oil prices, curtailment of drilling operations, financial instability and other consequences of the world financial crisis. The increased expenses during the nine months ended December 31, 2010 compared to that for the fiscal year ended March 31, 2010 were due to expanded operating activities on the Emir-Oil's oilfields and year-end bonus paid to employees.

## Regulations of the PRC

### *Fiscal Regime And Regulatory Framework*

*Overview*

The Chinese government has enacted legislation and implemented policies to support continued foreign participation in the domestic oil and gas industry. The Rules on the PRC Sino-Foreign Cooperative Exploitation of Onshore Petroleum Resources, or the Petroleum Regulations, are the primary regulations that govern the exploration and development activities of foreign oil companies operating onshore in China.

*Background of Production Sharing Contracts*

In countries with large or potentially large oil and gas deposits, the resource and its extraction tend to become vital cornerstones of the economy. However, uncertainties involved in finding commercial quantities of oil and gas and the intensive capital required for undertaking exploration and production result in significant business risks. Considerable time may elapse between investment in the mineral industry and the realization of profits. Investment is therefore long-term. The government may find it difficult to gain access to risk capital and may be unwilling to take the business risks. It may also lack the expertise needed for resource exploration and development. The petroleum fiscal systems in many developing countries are opting for production-sharing contracts as a model of agreement for the exploration and production of oil and gas resources. To avoid these uncertainties and asymmetric information, the principal (i.e. the national oil company) needs to design an incentive contract that induces the agent (i.e. the foreign oil company) to undertake actions that will maximize the principal's welfare. Under a production sharing contract, the state has to offer contract terms that are attractive enough for the foreign oil company to enter into an agreement. At the same time, the terms must allow the state to receive maximum economic returns from the venture.

Production sharing contracts are among the most common types of contractual arrangements for petroleum exploration and development. Under a production sharing contract the state as the owner of mineral resources engages a foreign oil company as a contractor to provide technical and financial services for exploration and development operations. The state is traditionally represented by the government or one of its agencies such as the national oil company. The foreign oil company acquires an entitlement to a stipulated share of the oil produced as a reward for the risk taken and services rendered. The state remains the owner of un-produced minerals, but the state and contractor share in the ownership of the minerals as they are produced.

The government or its national oil company usually has the option to participate in different aspects of the exploration and development process. In addition, production sharing contracts frequently provide for the establishment of a joint committee where both parties are represented and which monitors the operations.

Production sharing contracts also address the important issue of ownership of oil reserves which has made this contract form politically acceptable in most developing countries.

The production sharing contract is attractive to foreign firms because they own the reserves after they are produced. The rationale is that the company is entitled to produce for a long period of time, in many cases for as long as the field is alive. During this time it can book the reserves because of long term entitlement to share in the reserves as they are produced.

Production sharing contracts do not divide profits out of market proceeds but instead divide the physical production after allowing a portion of output to be retained by the foreign oil company for the recovery of pre-production and production costs. This means that costs can only be recovered once oil is produced.

*Production Sharing Contracts in China*

Many foreign companies have had successful participation in China's oil and gas industry underproduction sharing contracts. Since the 1990's, the Chinese government has encouraged foreign participation in the oil and gas industry, particularly with a focus on low-permeability oilfields in the Songliao Basin and other areas that PetroChina did not find it commercially feasible to develop. Under the Foreign Investment Industry Guidance Catalog issued in 2007 by MOFCOM that divides industries into those that are prohibited, restricted, permitted and encouraged, the development of low-permeability oilfields is classified as an encouraged industry where foreign participation is welcomed. Foreign participants have introduced new technologies and expertise in operating low-permeability oilfields to China's oil and gas industry. They have also helped improve industry standards in terms of increasing efficiency and streamlining management, as well as provided personnel training and working team development.

Between 2000 and 2008, according to the CNPC Yearbooks, CNPC entered into 15 new production sharing contracts with foreign contractors. By the end of 2008, CNPC had a total of 23 operating production sharing contracts. We believe that independent oil development production operations under the production sharing contract arrangement are becoming increasingly important to the oil and gas sector in onshore China.

As part of this industry development, there has also been increased acquisitions and merger activities by independent oil and gas companies relating to onshore production sharing contracts. For example, in January 2009, China Era Energy, which entered into a production sharing contract with CNPC to develop the North Kashi Block in the Tarim Basin, was acquired by the China Energy Development, a company listed in Hong Kong. We believe that this trend towards increasing market activity will continue to facilitate the development of independent oil companies operating onshore in China.

In China, production sharing contracts are generally entered into through bilateral negotiation instead of competitive bidding. Onshore production sharing contracts in China are structured on the basis of a royalty-based regime, which we believe provides attractive commercial terms when compared to those in many other countries. In China, royalties are calculated based on annual gross production and are payable in kind by installments to PRC tax authorities.

In addition, the enforceability of onshore production sharing contracts in China has remained strong since these contracts are governed under the Petroleum Regulations and usually receive direct approval from the MOFCOM and other central government agencies.

In 1995, the Interim Regulation on the Payment of Mining Royalty of the Sino-Foreign Cooperative Exploitation of Onshore Petroleum was amended to raise the minimum amount of annual production under which enterprises are exempt from royalties from 50,000 tons to 500,000 tons or 1,000,000 tons, as an added incentive for foreign cooperation in oil exploitation.

Since 2006, the drafting of the new energy law in China has been commissioned and is scheduled to be enacted by the end of 2010. According to the draft new energy law, the concept of "diversified investment structure in the energy sector" (能源領域實行多元化投資產權制度) will be explicitly set forth, and the energy industry will be more open to foreign capital and investment from non state-owned entities. We believe it will allow greater participation by independent oil producers in the upstream oil and gas industry in China, and MIE will benefit from such policy.

This section sets forth a summary of the most significant laws and regulations that affect our business in China and the industry in which we operate in. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

***Regulatory Framework For Sino-Foreign Cooperation In The Exploitation Of Onshore Petroleum Resources***

The PRC Constitution and the Mineral Resources Law provide that all mineral and oil resources in the territory of the People's Republic of China belong to the state. Therefore, China's oil and gas industry is subject to extensive government regulation. In 1993, the State Council promulgated the Rules on the PRC Sino-Foreign Cooperative Exploitation of Onshore Petroleum Resources (amended in 2001 and 2007), or the Petroleum Regulations, to regulate onshore crude oil and natural gas exploration and production in China by foreign entities.

Under the Petroleum Regulations, foreign companies may conduct onshore oil and gas exploration, development and production only in areas approved by the State Council. Foreign enterprises must enter Sino-foreign cooperation projects with either CNPC or Sinopec in order to conduct onshore exploitation of petroleum resources in the areas approved by the State Council. CNPC and Sinopec have the exclusive right to negotiate, sign and execute production sharing contracts with foreign enterprises. Production sharing contracts provide foreign enterprises with exclusive rights, subject to supervision by CNPC or Sinopec, to explore oil in a defined cooperative block approved by the State Council. These contracts also regulate the exploration, development, and production processes of the cooperative exploitation. All production sharing contracts are subject to the approval of the MOFCOM.

The Petroleum Regulations in conjunction with the Plan on Reform of State Council Organs, approved by the National People's Congress in 2008, provide that the NEB, established under the administration of the NDRC, is responsible for dividing and assigning cooperative blocks for Sino-foreign cooperation projects based on the areas approved by the State Council, determining the forms of cooperation, organizing the formulation of relevant plans and policies, and reviewing and approving the overall development plans for the oil or gas fields submitted by the foreign contractors.

*Investment Protection for Foreign Contractors*

The Petroleum Regulations protect the cooperative exploitation activities, investments, profits and lawful interests of foreign contractors in order to promote Sino-foreign cooperation projects for the exploitation of onshore petroleum resources. Under PRC law, the state cannot lawfully expropriate the investments and incomes of foreign contractors except when required by public policy. Under these special circumstances, the state may expropriate a part or all of the oil receivable by foreign contractors from the cooperative exploitation for adequate compensation and in accordance with legal procedures.

*Production Sharing Contracts*

Foreign enterprises must cooperate with CNPC or Sinopec in order to conduct exploitation of onshore oil and gas resources in China. Foreign enterprises generally enter into these cooperative relationships by means of a bidding process or bilateral negotiations with CNPC or Sinopec. The foreign entity and its cooperative Chinese petroleum company must set out the terms of their cooperation and the cooperative project in a production sharing contract. Under the production sharing contract, CNPC or Sinopec, on behalf of the state, grants the foreign enterprise exclusive rights, subject to supervision by CNPC or Sinopec, to explore oil in a defined cooperative block within the areas approved by the State Council. The NDRC, or a department designated by the State Council, may periodically adjust the pre-defined cooperative block, subject to the conditions of the production sharing contract. All production sharing contracts are subject to MOFCOM's approval. Foreign contractors and its cooperative Chinese petroleum company may also enter into other cooperative contracts relating to the exploitation of onshore oil resources in the approved cooperative blocks. These contracts must be filed with the MOFCOM.

Under the current PRC law, PetroChina, a subsidiary of CNPC, does not have the right to negotiate and execute production sharing contracts directly with foreign oil and gas companies. However, CNPC may assign its commercial and operational rights and obligations under a production sharing contract to PetroChina, subject to the approval of MOFCOM.

*Development Plans and Operatorship of Petroleum Fields*

Under the Petroleum Regulations, the operator is responsible for formulating the overall development plans for the oil and gas fields assigned under the production sharing contract. The overall development plans should discuss the economical, environmental, geological, geophysical, legal and technological aspects of the proposed development. All overall development plans are subject to NDRC or NEB's approval.

Unless otherwise provided in PRC law or the production sharing contract, the foreign contractor is solely responsible for implementing the overall development plans until the cooperative Chinese petroleum company takes over the operation. The foreign contractor must provide the full investment for prospecting the cooperative block and is solely responsible for the prospecting operations and all related risks. If the foreign contractor discovers an oil or gas field of commercial exploitation value, the cooperative Chinese petroleum company shall then jointly invest in the cooperative development of the field with the foreign contractor. As provided in the production sharing contract, the foreign contractor will remain solely responsible for the development and production operations of the cooperative block until the cooperative Chinese petroleum company takes over the operation of the oil or gas field, as agreed in the production sharing contract. Production sharing contracts typically provide that the cooperative Chinese petroleum company may replace the foreign contractor as the operator of the cooperative project once the foreign contractor has fully recovered its developmental costs. The investments of foreign contractors shall be in U.S. dollars or other freely convertible currencies.

*Sale of Petroleum Production and Compensation of Foreign Contractors*

In accordance with the production sharing contract, the foreign contractor may recover its expenses and investments in the cooperative block and may be entitled to returns from the cooperative petroleum production. The foreign contractor may send its recovered investment, profits, and other lawful income abroad in accordance with PRC law and the production sharing contract. The foreign contractor may also ship abroad its petroleum receivable or any purchased petroleum, in accordance with PRC law. If the foreign contractor wants to sell its petroleum receivable within the PRC, the sale will generally be made either to CNPC or Sinopec or be made in a manner mutually agreed upon by the foreign contractor and CNPC or Sinopec, as long as such sale is in accordance with state laws governing the sale of petroleum products in the PRC.

*Ownership of Data and Assets*

In accordance with the Petroleum Regulations and the terms of the production sharing contracts, foreign contractors are required to timely and accurately report the status of their cooperative petroleum operations to the cooperative Chinese petroleum company. The foreign contractor must obtain and submit data, records, samples, evidence and other similar original materials from its petroleum operations to the cooperative Chinese petroleum company. The foreign contractor must also submit technological, economic, administrative, financial and accounting reports to the cooperative Chinese petroleum company. The ownership of all data, evidence, reports, and other information belongs to the cooperative Chinese petroleum company. Any use, transfer, donation, exchange, sale, publication, or shipment of such data, records, samples, evidence, reports, or other original materials submitted by the foreign contractor must be conducted in accordance with PRC laws.

All assets purchased and created by foreign contractors pursuant to their performance of a production sharing contract, except for equipment leased from a third party, shall vest in the cooperative Chinese petroleum company once the foreign contractor has been fully compensated in accordance with the terms of the production sharing contract or upon the expiration of the production period for the cooperative oil or gas fields. During the term of the contract, use of the assets by the foreign contractor is governed by the terms of the production sharing contract.

*Foreign Exchange Issues Relating to Implementing the Production Sharing Contracts*

Capital account items, such as direct equity investments, loans, and repatriation of investments, require prior approval from SAFE, or its local counterpart for conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Currently, PRC laws and regulations do not provide clear criteria for obtaining SAFE approval. Generally speaking, SAFE and its local branches have broad discretion on the issuance of approval. On August 10, 2006, SAFE issued Reply No. 222 on the topic of the Settlement and Surrender of Foreign Exchange for the CNPC relating to the Exploitation of Onshore Oil Resources in Cooperation with Foreign Parties to provide further guidance regarding obtaining SAFE approvals. Reply No. 222 states that foreign contractors may apply to SAFE or its local branches for approval of a foreign exchange settlement plan by providing required and valid documentation; upon receiving approval from SAFE, foreign contractors may then apply for foreign exchange settlements with an Authorized Financial Institution.

***Land Remediation***

The Mineral Resources Law and its supplementary regulations govern the exploring and mining of mineral resources within the PRC. These laws also regulate the process of closing down mines to promote land recovery and environmental protection. In order to close down a mine, the mine operator must develop and submit a geological report and an application to the relevant governmental authorities one year prior to the proposed closing-down date. Upon receiving approval of the closure report, the mine operator must either take land remediation actions to promote soil conservancy, land recovery and environmental protection of the mined area or pay the full cost for land remediation. After remediation of the mined area is complete, the mine operator can apply for a revocation of its mining license to the original licensing authorities upon presentation of evidence of completed land remediation. Under the terms of the production sharing contracts, the operator of the cooperative block shall level, restore or reclaim the exploitation sites upon completion of petroleum production in accordance with the Mineral Resources Law and relevant local rules and regulations.

***Exploration Licenses and Production Licenses***

The Mineral Resources Law authorizes the Ministry of Land and Resources to exercise administrative authority over the exploration and production of mineral resources within the PRC, including the authority to issue exploration and production licenses. Applicants for exploration and production licenses must be approved by the State Council as companies which may engage in oil and gas exploration and production activities in the PRC.

In order to receive a license to explore a specified block of land, applicants for exploration licenses must register their intended exploration blocks with the Ministry of Land and Resources. Holders of exploration licenses are required to make progressively increasing annual minimum exploration investments in their registered exploration blocks. The required minimum investment in an exploration block is RMB2,000 per square kilometer for the first year of exploration, RMB5,000 per square kilometer for the second year, and RMB10,000 per square kilometer for subsequent years. Additionally, each license holder has to pay an annual exploration license fee that starts at RMB100 per square kilometer for each of the first three years of exploration and increases by an additional RMB100 per square kilometer each subsequent year up to a maximum of RMB500 per square kilometer. The maximum term of an oil and natural gas exploration license is seven years, but the license holder may renew the license twice, each time for a two-year term, upon the expiration of the previous term. At the exploration stage, an applicant may also apply for a progressive exploration and production license that allows the holder to test and develop reserves not yet fully proven.

Once the exploration license holder has detected and confirmed the quantity of reserves in its block of land, the holder must in a timely manner submit reserve reports to the relevant authorities for approval and apply for a production license. The Ministry of Land and Resources grants production licenses to applicants based on their approved reserve reports, which present economic evaluations of the reserves, market conditions, and plans for development of the land. Production license holders must pay an annual production right usage fee of RMB1,000 per square kilometer. Administrative rules issued by the State Council provide that the maximum term for a production license is 30 years. With special approval from the State Council, the Ministry of Land and Resources can issue production licenses for terms that are coextensive with the productive life of assessed proved reserves as projected in the reserve reports. Generally, the holders of a full production license must also obtain a land use rights certificate for industrial land use in order to use a block of land for development and production of mineral resources.

***Production Safety***

The PRC Production Safety Law and its implementation rules provide stringent production safety requirements for mining operations, including: (i) mining entities shall establish an administrative organ for production safety or have full-time personnel for the administration of production safety; (ii) these persons in charge of production safety must have passed production safety examinations; (iii) safety appraisals shall be made for mining construction projects according to the relevant regulations; (iv) the safety facility designs of the mining construction projects shall be subject to the examination and approval of the relevant departments according to the relevant regulations; (v) safety facilities shall be constructed according to the approved safety facility designs and the mining entities shall be responsible for the quality of these constructions; (vi) after a mining construction project is completed, but before it is put into production or use, the safety facilities constructed for the project shall be subject to review and approval according to the relevant laws and administrative regulations; and (vii) mining entities shall establish emergency rescue organizations. If a production or business operation is small in scale, it may designate part-time emergency rescue persons instead of establishing an emergency rescue organization. The mining entities shall always be equipped with regularly serviced and maintained rescue and emergency equipment.

According to the PRC Safety Production Permit Regulation and the implementation rules for non-coal mining enterprises, a mining enterprise shall obtain a safety production license for its operation. According to the Temporary Regulation for Safety Expense Financial Management of High Risk Industries, enterprises engaged in high-risk industries must set aside funds as a safety fee. For a mineral enterprise which produces petroleum, a safety fee equal to RMB17 per ton of crude oil produced must be set aside monthly. If the balance in the safety fee account for the previous year amounts to 5% for small or medium-sized enterprises, or 2% for large enterprises, of sales revenue for the previous year or more, such an enterprise may defer contributions to the safety fee or reduce the amount set aside in the current year, subject to approval by relevant government authorities. Local regulations that set more stringent requirements than the national-level regulations for safety fees may also apply. According to the local regulations applicable in Jilin Province, the safety fees set aside by non-coal mineral enterprises must be no less than 2% of annual sales revenue.

***Environmental Protection***

China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. There are national and local standards applicable to emissions control, discharges to surface and subsurface water, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials.

According to the Environmental Protection Law of the PRC, The Law of the PRC on Appraising Environmental Impacts, the Law of the PRC on Appraising Environmental Impacts, Measures for Environmental Protection Check and Acceptance of Completed Construction Projects, a company is required to register or file an environmental impact report with the relevant environmental bureau for approval before it undertakes any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau finds that the facility has installed sufficient environmental equipment to meet its environmental protection requirements. A company that wishes to discharge pollutants, whether it is in the form of emission, water or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. After reviewing the pollutant discharge declaration, the relevant environmental bureau will determine the amount of discharge permitted under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If a company discharges more than what is permitted in the pollutant discharge license, the relevant environmental bureau can fine the company up to several times the discharge fees payable by the offending company for its allowable discharge, or require the offending company to close its operation to remedy the problem.

***Supervision and Administration Over the Use of Land***

All land in the PRC is either state-owned or collectively owned by local residents, depending on the location of the land. All land in the urban areas of a city or town is state-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned by local residents.

In April 1988, the PRC Constitution, or the Constitution, was amended by the National People's Congress to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law was amended to permit the transfer of land use rights for value. In accordance with the Land Administration Law amended in 2004, a construction unit may obtain state-owned land use rights through grant or by other means with consideration. But the following land may be obtained through governmental allocation with the approval of the people's government at and above the county level according to law: (i) land for use by government organs and for military use; (ii) land for building urban infrastructure and for public welfare undertakings; (iii) land for building energy, communications and water conservancy and other infrastructure projects supported by the state; and (iv) other land as provided for by the law and administrative decrees.

Under the Interim Regulation of the People's Republic of China Concerning Granting and Transferring of State-Owned Land Use Rights in Urban Areas, or the Urban Land Regulations, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The state cannot resume possession of land use rights lawfully obtained by the land user prior to expiration of the term of grant, unless public interest requires the reclamation of land by the state, at which time the state will provide just compensation for the land. A land user may lawfully assign, mortgage or lease its granted land use rights to a third party for the remainder of the term of grant. Under the Urban Land Regulations, there are different maximum periods of grant for different uses of land: 70 years for residential purposes; 40 years for commercial, tourism and entertainment purposes; 50 years for industrial, public utilities, comprehensive or other purposes.

On March 16, 2007, the National People's Congress promulgated the Real Properties Rights Law of China effective from October 1, 2007, which stipulates that the construction land use rights may be created through grant or allocation. For land used for industrial, business, entertainment or commercial residential purposes, the construction land use rights must be granted by means of public tender, auction or listing-for-sale. According to the Reply regarding Construction Land Used for Drilling and Auxiliary Facilities for Petroleum and Natural Gas Industry, a petroleum enterprise may apply for land use rights at land administrative departments at the county level. Pursuant to the Articles 47 and 57 of Land Administration Law of the PRC, a petroleum enterprise applying for land use rights shall execute contracts for the use of the land with the proper land administrative departments or rural collective organizations or villagers committees, depending on the ownership of the land, and pay land compensation fees for the use of the land.

***Supervision and Administration Over Foreign Exchange***

The principal regulations governing foreign currency exchange in China are the Foreign Currency Administration Rules (promulgated and amended on August 5, 2008) and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange. Under the above-referenced rules, for current account items such as trade and service-related foreign exchange transactions, entities or individuals inside the PRC can either retain their foreign exchange income or sell it to financial institutions engaged in the business of foreign exchange settlements and sales; additionally, they can make foreign exchange payments with their own foreign exchange or with foreign exchange purchased from an authorized financial institution. Capital account items, such as direct equity investments, loans, and repatriation of investments, require prior approval from SAFE or its local counterpart for conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC.

The PBOC, publishes the Renminbi exchange rate against other major currencies. The PBOC rate is set by reference to the previous day Renminbi trading price on the inter-bank foreign exchange market compared to the trading prices of other major currencies. When conducting foreign exchange transactions, the authorized financial institutions may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

*Notice of the State Administration of Foreign Exchange on Exchange Control Issues Relating to Financing and Reverse Investment by Persons Resident in the PRC Through Offshore Special Purpose Vehicles*

Domestic residents who plan to establish or control an offshore special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority. Domestic residents who have contributed their assets or shares of a domestic enterprise into an offshore special purpose vehicle or who have raised funds offshore after such contribution must conduct foreign exchange registration or filing for the modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority. Domestic residents who are the shareholder of an offshore special purpose vehicle are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no reverse investment is involved.

***Taxes and Levies in the Petroleum Industry***

*Royalty*

According to the Interim Regulation on the Payment of Mining Royalty for the Sino-Foreign Cooperative Exploitation of Onshore Petroleum, Sino-foreign enterprises that are involved in the exploitation of onshore petroleum resources are required to pay a royalty that is calculated and charged based on the total crude oil or natural gas output of each petroleum field for each calendar year and the mining area usage fee rate. Chinese tax authorities administer and collect the royalty fee. The China Petroleum Development Company serves as the payment agent for the royalty fee. The withholding agent and payment agent must make the royalty payment within the time limit prescribed by the tax authorities. Otherwise, the tax authorities shall impose a late payment penalty of 1:1000 per day in the amount of the royalties in arrears, commencing on the first day the payment becomes overdue.

Operators of an oilfield must also provide tax authorities with production data and other information relating to the oilfield, as required, within 10 days of the end of each quarter. The tax authorities may, in their discretion, impose a penalty not greater than RMB5,000 on any oilfield operator who fails to timely submit such production data and other required information. Additionally, the relevant PRC tax authorities may impose a penalty on any operator who submits false data in an amount no greater than five times the actual royalty payable.

*Special Levy*

According to the State Council's Decision to Impose a Special Oil Gain Levy and Measures for the Administration of the Collection of Special Petroleum Proceeds, enterprises that independently exploit and sell crude oil from fields within areas owned by the PRC and enterprises that exploit and sell crude oil in the form of equity or contractual joint ventures from fields in areas owned by the PRC shall pay special petroleum proceeds. These special petroleum proceeds constitute non-tax revenues for the central government's treasury and shall be incorporated into the budgetary management of the central government's treasury.

The Ministry of Finance shall be responsible for the administration and collection of the special petroleum proceeds. PetroChina, Sinopec and CNOOC shall pay the special petroleum proceeds to the Ministry of Finance. Local oil companies shall pay the special petroleum proceeds to the local financial supervision commissioners' offices under the administration of the Ministry of Finance. Any Chinese petroleum company party to a Sino-foreign petroleum joint venture must withhold an amount equal to their special petroleum proceeds payable for the benefit of the joint venture.

The special petroleum proceeds are paid or payable on the portion of income realized by any petroleum exploitation companies from the sale of domestic crude oil at prices higher than US$40 per barrel. The levy is calculated and charged at progressive ad valorem rates for five grades, ranging from 20% to 40% according to the price of crude oil.

The special petroleum proceeds will be calculated on the basis of the monthly weighted average price of the crude oil sold by the oil company.

If a petroleum enterprise fails to pay the special petroleum proceeds in a timely manner, the tax authority shall impose a late payment penalty on the enterprise in the amount of 0.05% of the special petroleum proceeds in arrears per day, commencing from the first day on which the payment becomes overdue. The tax authorities shall not, at their discretion, exempt petroleum enterprises from paying the special petroleum proceeds or reduce the amount of such proceeds payable.

The Supplemental Notice Regarding the Relevant Issues of Collection of Special Petroleum Proceeds by the Ministry of Finance further provides that each party to a Sino-foreign cooperative project for the exploitation of onshore petroleum is required to pay the petroleum special proceeds. The payment for each party shall be calculated and charged based on the allocation price periodically determined by the parties.

*Value Added Tax*

Under the Provisional Regulations of the PRC Concerning Value Added Tax, a value-added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. Furthermore, pursuant to the Notice of the State Council on Relevant Problems Concerning the Application of the Provisional Regulations on Value Added Tax, Consumption Tax, Business Tax to Enterprises With Foreign Investment and Foreign Enterprises and the Notice of State Administration of Taxation on the Relevant Issues Concerning Payment of Value-Added Tax in Connection with Sino-Foreign Cooperative Exploitation of Petroleum Resources, a value added tax shall be levied in kind at rate of 5.0% on all crude oil and natural gas exploited from Sino-foreign cooperation oil and gas fields.

## Regulations of Kazakhstan

### *Regulation of Subsoil Use Rights*

In Kazakhstan, the subsoil and minerals contained therein are owned by the government of the Republic of Kazakhstan (the "State") in accordance with the Constitution of the Republic of Kazakhstan. The State shall ensure access to the subsoil on the terms, conditions and within the limits provided for by the Subsoil Use Law. Unless otherwise stipulated by Kazakhstan laws and subsoil use contracts, mineral raw materials shall be owned by the subsoil user under a right of ownership (except for a State-owned enterprise). The Competent Authority, on behalf of the State, grants exploration and production rights. Subsoil use rights are granted for a determinable period but may be extended before the expiration of the applicable contract and license (if permitted) subject to certain limitations and conditions. Subsoil use rights may be terminated by the Competent Authority if, among other things, subsoil users do not comply with their contractual obligations, inter alia, meeting minimum work program requirements, payment of royalties and taxes to the Government and compliance with other subsoil use, environmental and safety requirements.

*Subsoil Use Law*

Under the Subsoil Use Law, subsoil use rights may be permanent or temporary, alienable or inalienable, payable or free of charge. Most types of subsoil operations shall be carried out on the basis of temporary and payable subsoil use right.

Subsoil use rights shall be granted following a tender process with a number of exceptions. Subsoil use rights may be held by Kazakh and foreign individuals and legal entities. A subsoil user shall be guaranteed protection of its rights in accordance with Kazakhstan legislation. Any amendments and additions to legislation that worsen the results of a subsoil user's business activities under subsoil use contracts shall not apply to subsoil use contracts that were concluded prior to such amendments and additions. Such guarantees shall not apply to changes in Kazakhstan legislation in the areas of national security, defense capabilities, environmental protection, health, taxation and customs regulation.

*The State's Pre-Emptive Rights*

Under the Subsoil Use Law, the State has the pre-emptive right to acquire subsoil use rights and the objects related to the subsoil use rights ("Objects"). Objects are participatory interests (shares, securities confirming title to shares, securities convertible into shares) in a legal entity holding the subsoil use right, as well as a legal entity which may directly and/or indirectly determine and/or influence decisions adopted by a subsoil user (the "Controlling Legal Entity"), if the principal activity of such Controlling Legal Entity is related to subsoil use in the Republic of Kazakhstan. The State's pre-emptive rights apply retroactively to all existing contracts, as well as prospectively to future contracts.

With certain limited exemptions, described below, the State's waiver of its pre-emptive rights would need to be obtained for any transfer of subsoil use rights or Objects.

The State's pre-emptive rights are also applicable to any initial public offering of shares on an organized securities market or other securities confirming title to shares or securities convertible into shares in a subsoil user legal entity or a Controlling Legal Entity, including the initial public offering of additionally issued securities in such legal entities on an organized securities market. In addition, except for certain circumstances which are described below, such public offerings require the permission of the Competent Authority, which shall be granted in accordance with the provisions of the Subsoil Use Law.

*The Right to Grant Consents for Transfer of Subsoil Use Rights and Objects, Related to Subsoil Use Rights*

Subsoil use rights, or part thereof, and Objects can only be transferred, including in cases of foreclosure (including pledge), with the permission of the Competent Authority in accordance with the procedure established by Article 37 of the Subsoil Use Law.

A credit facility secured by the pledge of subsoil use rights shall only be used for the purpose of subsoil use or for reorganizations or relocation of a subsoil user in a contract territory, as provided by the relevant subsoil use contract, by the subsoil user itself or by its wholly-owned subsidiary. The initial public offering of shares on an organized securities market or other securities confirming title to shares or securities convertible into shares in a subsoil user legal entity or a Controlling Legal Entity, including the placement of additionally issued securities in such legal entities on an organized securities market, requires the permission of the Competent Authority. The Competent Authority's consent and the State's waiver of the State's pre-emptive rights shall not, however, be required in some cases.

Though the Subsoil Use Law somewhat clarifies the procedures for obtaining the State's waiver of the State's and the consent (and registration, where applicable) of the Competent Authority, such procedures remain unclear in many instances, and the Subsoil Use Law remains untested in this respect. According to the time schedule indicated in the Subsoil Use Law, such procedures would take minimum of 70 business days, however, it appears that the obtaining of the necessary authorizations may be a more lengthy procedure (e.g. several months).

If the State makes a decision to exercise its pre-emptive rights to acquire subsoil use rights or Objects, then such subsoil use right or Object should be acquired within no more than six months from the date of the State's decision.

*Consents for Establishment of Pledges over Subsoil Use Rights and the Objects*

The Subsoil Use Law explicitly requires that subsoil use rights and Objects may be pledged only with the permission of the Competent Authority. The pledgor of subsoil use rights or an Object is responsible for obtaining the Competent Authority's consent, which should be obtained according to the procedures provided by the Subsoil Use Law. Any transactions or other related actions effected without such Competent Authority's consent for the pledge will be deemed to be invalid as of the date of their conclusion or undertaking.

*Termination of Subsoil Use Contracts*

According to Article 72.3 of the Subsoil Use Law, the Competent Authority may prematurely terminate a subsoil use contract on a unilateral basis:

(1) if the subsoil user fails to timely eliminate more than two violations of obligations under its subsoil use contract or project documents within the time set in the Competent Authority's notice; and

(2) in the event of a transfer of a subsoil use right and/or an Object without the Competent Authority's permission, when such permission was required under the Subsoil Use Law.

*Amendments to Subsoil Use Contracts in Relation to Strategic Deposit Rights*

Under the Subsoil Use Law, the State has the right to initiate reviews of the terms of a subsoil use contract and to demand amendments and/or additions to subsoil use contracts in circumstances where the activities of the subsoil user in "strategic deposits" led to material changes in the economic interests of the State which threaten national security and, under these circumstances, the State has a right to unilaterally terminate the subsoil use contract. The list of strategic deposits is approved by decree of the State.

The Subsoil Use Law expressly provides that the amendments and/or additions to a subsoil use contract may also be effected in contracts that have been concluded. Amendments to a contract may also be made upon mutual agreement of the parties and in accordance with Kazakhstan legislation and the provisions of the contract.

The Subsoil Use Law generally requires subsoil users to comply with certain local content requirements, including the use of Kazakhstan suppliers and personnel.

These general requirements should be detailed in subsoil use contracts. Further, the Subsoil Use Law purports to extend to subsoil use contracts executed prior to the enactment of certain provisions of the Subsoil Use Law relating to certain Kazakh content reporting requirements.

See "Risks Relating to Emir-Oil's Operations in Kazakhstan – Emir-Oil is exposed to the risk of adverse sovereign action by the Kazakhstan government."

***The Competent Authority and Other Regulatory Authorities***

*The State*

The State is responsible, among other things, for organizing and managing state-owned reserves, imposing restrictions on subsoil use for the purposes of national security, environmental security and the protection of life and health of the population, defining the procedures for the conclusion of contracts, approving model contracts, appointing the Competent Authority, appointing members of Interdepartmental Commission to exercise the State's pre-emptive rights and approving a number of normative legal acts in the sphere of oil and gas industry. The State also executes, implements and monitors subsoil use contracts through the Competent Authority, which has the power to execute and implement oil and gas contracts, and through a number of other State's agencies. The State's pre-emptive rights are exercised through the national management holding company (JSC National Welfare Fund Samruk-Kazyna), the national company (JSC National Company KazMunaiGas) and authorized state agencies.

*The Ministry of Oil and Gas*

According to resolutions of the State adopted in 2010, the MOG, is the Competent Authority. Under the Subsoil Use Law and other effective legislation, the MOG is responsible for, inter alia:

- implementing the State's policy in the oil and gas, petrochemical and hydrocarbon transportation industries;
- approving working programs related to oil and gas contracts;
- monitoring compliance with the terms of oil and gas contracts;
- issuing permits for the transfer of subsoil use rights and registration of transactions involving pledges of subsoil use rights, as applicable to oil and gas projects;
- suspending and terminating subsoil use contracts in oil and gas in accordance with the procedures set forth in the Subsoil Use Law; and
- monitoring compliance of oil and gas subsoil users with requirements to purchase certain amounts of goods and services from local providers.

*Other Regulatory Authorities*

Other governmental ministries and authorities which regulate aspects of hydrocarbon extraction in Kazakhstan include:

- the Ministry of Environmental Protection (the "MEP"), which is responsible for environmental protection and preservation of mineral resources;
- the Ministry of Industry and New Technologies (the "MINT"), which is the competent state body for geological study and use of the subsoil, and whose Committee for Standardization, Metrology and Certification supervises compliance of oil and gas equipment with Kazakhstan quality and safety standards;

- the Ministry of Emergency Situations, which, among other things, supervises mining operations, and whose Committee on State Control of Emergency Situations and Industry Safety (under the Ministry of Emergency Situations), among other things, supervises health and safety matters;

- the Ministry of Labor and Social Protection of the Population, which is responsible for investigating labor disputes and complaints from individual employees and which monitors compliance with the obligations of subsoil users to give preference in hiring, including to employ a certain minimum percentage of Kazakhstan nationals.

*Anti-monopoly Consent*

The Anti-monopoly Law establishes the requirement to obtain the prior approval of the Kazakhstan anti-monopoly authority, the Agency for Protection of Competition ("Anti-monopoly Agency"), in cases of, inter alia: acquisition by a market entity (group of persons) of more than 25% of the voting shares (participatory interest) in the charter capital of the market entity, if prior to such acquisition this entity (group of persons) did not own shares of the market entity or owned 25% or less of the voting shares (participatory interest) in the charter capital of the market entity, shares in which are being acquired, or acquisition by a market entity of the rights (including through a trust management agreement, joint venture agreement or suretyship agreement) which would allow the market entity to provide mandatory instructions to another market entity while the latter is conducting its entrepreneurial activity or to carry out functions of the executive body of the same market entity.

Obtaining such anti-monopoly approval is required only if:

(a) the combined book value of the assets or the combined volume of the sale of goods, works and services of the purchaser and the market entity whose shares are being acquired exceeds 2,000,000 times a monthly calculated index for the last financial year (currently approximately US$20,570,000, where the monthly calculated index (i.e. an index used by the Government authorities of Kazakhstan for calculating various monetary obligations and setting legal thresholds) is set by the Government annually; or

(b) one of the parties to the transaction is a person with a dominant or monopolistic position in the relevant Kazakhtan market.

Thus, if any of the above thresholds are met, the transaction will require preliminary anti-monopoly approval. An application for anti-monopoly approval is submitted by the acquirer. If the transaction is a result of a tender or auction, an application for approval must be made within 30 days upon the date of the tender or auction.

In practice, the Anti-monopoly Agency does not interpret the Anti-monopoly Law in a consistent manner, and even an acquisition of a minor stake in the Company may be considered an "economic concentration," if the Anti-monopoly Agency believes the acquirer obtains rights which would allow the acquirer to control the Company and its subsidiaries in Kazakhstan.

***Environmental Protection***

*Permits for Emissions*

Emir-Oil is subject to laws, regulations and other requirements relating to the protection of the environment in Kazakhstan, including the discharge of substances into the air and water, the management of disposal of waste and the clean-up of mine sites. Issues of environmental protection in Kazakhstan are regulated primarily by the Kazakh Environmental Code.

Depending on the nature of the industrial activity of a particular user, the Kazakh Ministry of Environmental Protection, or MEP, and Akimats (local executive authorities) issue permits for environmental emissions. In addition, MEP provides for approval of various activities, including construction and operation of industrial facilities and waste disposal facilities.

Under Kazakhstan Laws, subsoil users may be required to obtain a number of other certificates, permits and licenses from various Kazakhstan government ministries, departments and agencies in relation to water usage, the use of potentially toxic chemicals and transportation of hazardous materials.

The Kazakh Environmental Code establishes a "pay to pollute" regime administered by national and local authorities. Every natural resources user, including oil and gas companies, must not exceed limits of emissions and disposals of substances, waste disposal and sewage discharge. Such limits are provided by environmental permits obtained from environmental authorities. The Environmental Code provides different conditions for granting environmental permits depending on the type and scale of the environmental impact of the facility. As a condition of obtaining a permit, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. The rates of fees for emissions are set out in the Tax Code. The local representative bodies (Maslikhats) are entitled to increase the rates set out in the Tax Code by two times and the rates for gas flaring can be increased by 20 times. Fees for pollution within the limits established for a particular source of pollution are paid at the rates established by the Tax Code. Payments for pollution in excess of the established limits are multiplied by ten. Payment of such fees does not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities, as well as to pay fines in accordance with the administrative proceedings and compensation for damages to the environment incurred as a result of pollution.

*Enforcement*

The Kazakh Environmental Code authorizes relevant state officials to:

- cooperate with users of natural resources, individuals and public associations;
- freely visit objects subject to inspection, including military and defence objects as set by the law;
- enter the territory of individuals and legal entities to make necessary measurements, collect samples (including samples of goods and materials) and analyze them;
- request and obtain documents, results of analysis and other materials as may be necessary for carrying out state ecological controls;
- initiate the revocation of a license and/or termination and withdrawal of contracts for the use of natural resources and/or the suspension or cancellation of environmental and other permits for the use of natural resources in cases of violation by the user of natural resources of the environmental norms and regulations causing material damage to the environment and/or the public health;
- file claims with courts seeking restriction or suspension of economic and other operations carried out in violation of Kazakhstan law;
- consider cases of administrative offenses related to environmental protection and submit materials to relevant authorities seeking administrative or criminal liability of those violating environmental protection regulations;

- participate in the assessment of damage caused as a result of violation of environmental regulation, issue rulings with regard to damages and file claims with court; and

- apply to authorized authorities to terminate subsoil use contract's validity where a contractor has refused to eliminate the causes for suspension of certain exploration or extraction activities or construction or operation of underground facilities or has not eliminated such causes within a sufficient timeframe; or where the subsoil user has not taken measures required under environmental law; or where it is impossible to eliminate the causes of suspension of subsoil use operations; or where there has been a material violation of contract or work progress obligations by a contractor (set by the contract or work program) within its capacity.

The directives issued by environmental protection officers are mandatory but may be challenged in courts.

***Taxation***

*Corporate Income Tax*

The general corporate income tax rate in Kazakhstan is 20%. Taxable items include (i) taxable income, (ii) income taxable at the source of payment and (iii) net income of a non-resident legal entity which carries out activity in Kazakhstan through a permanent establishment. Taxable income is calculated as the difference between adjusted aggregated annual income and any applicable deductions. The taxable period for the corporate income tax is the calendar year, from January 1 to December 31.

*Withholding Tax Implications*

Under the Tax Code, non-resident individuals and legal entities that receive income from Kazakhstan sources are either obligated to register with the Kazakhstan tax authorities and to withhold and remit income taxes or their income tax will be withheld by a Kazakhstan resident entity. The Tax Code provides for a sliding scale of withholding rates, ranging from 5 to 20 percent. The list of income which is not subject to withholding tax is stipulated by the Tax Code. According to Kazakhstan tax legislation, double tax treaty provisions are applicable as to countries that have an effective double tax treaty with the Republic of Kazakhstan.

There is also withholding tax applicable on the interest on the shareholder loans from BMB to Emir-Oil.

*Capital Gains Tax*

Under the Tax Code non-resident individuals and legal entities which buy shares of Kazakhstan subsoil use companies are obliged to register with the Kazakhstan tax authorities and to withhold and remit income tax at a rate 15% on any taxable gains received by the sellers from the sale of shares. Tax obligations do not arise only in case if capital gain is received from selling shares which are listed at a Kazakhstan or foreign stock exchange on the date of the sale. In connection with the Acquisition withholding tax is payable in Kazakhstan.

*Value Added Tax (VAT)*

The VAT is imposed (i) on the supply of goods or services if the place of supply is considered to be a part of Kazakhstan, (ii) on the import of goods for use or consumption in Kazakhstan, and (iii) on the export of goods for use or consumption outside Kazakhstan. VAT does not apply to the sale or purchase of securities.

The VAT is charged at a rate of 12% of the taxable amount for domestic and import transactions; exports enjoy no VAT. To qualify for the no VAT treatment, taxpayers must provide documentary confirmation of the export, including a customs declaration. Certain types of revenue are exempt from VAT, such as certain categories of sales turnover; turnover from land and housing; financial activities; and the interest element of finance lease payments. Certain VAT payers, such as exporters, may claim a refund on excess VAT payments, provided that qualifying criteria are met.

When non-residents provide services to residents deemed Kazakhstan taxpayers, the services may be deemed to be provided in Kazakhstan under the place-of-supply rules, and the VAT will be levied. In such instances, the service purchasers are responsible to pay the VAT to the tax authorities.

*Taxation of Subsoil Use Operations*

According to the Tax Code, tax regime stability clauses in previously signed subsoil use contracts remain effective only for: (1) production sharing agreements which were executed before January 1, 2009 and which have undergone a mandatory evaluation by the tax authorities; and (2) subsoil use contracts approved by the President of Kazakhstan. As a result, operations under subsoil use contracts executed before 2009 which are not covered by the above exceptions and any new subsoil use contracts will be subject to taxation in accordance with the tax legislation in effect at the time the respective tax obligations arise.

*Excess Profits Tax*

The Excess Profits Tax ("EPT") is calculated based on the income and expenses generated from operations under a subsoil use contract. EPT liability arises when the ratio of net annual income, calculated for EPT purposes, to allowable EPT deductions is more than 25% for the reporting period (i.e. calendar year). The Kazakh Tax Code provides for a sliding scale of EPT rates ranging from 10% to 60%. Emir-Oil has not paid EPT historically; however, it anticipates paying EPT in the future.

*Bonuses*

Two types of bonus payments by subsoil users are provided for under the Kazakh Tax Code: subscription bonus and commercial discovery bonus. A subscription bonus is a one-time bonus paid upon the execution of a subsoil contract in an amount depending on the contract type and categories of minerals reserves. A commercial discovery bonus is payable if a commercial discovery is made on the area covered by a subsoil contract, in an amount equal to 0.1% of the value of the approved recoverable reserves determined based on world prices.

*Rental Tax*

The Kazakh Rental Tax on exports is paid by individuals and legal persons who sell for export crude oil, natural gas liquids or coal, unless the amount of crude oil or natural gas liquids exported is within the quantities established by certain contracts under the Tax Code. Quantities of crude oil, natural gas liquids and coal that are exported are recognized as taxable items for the rental tax on export. The tax rates of the Kazakh Rental Tax on exports currently ranges from 0 percent to 32 percent, depending on the price of the minerals.

*Minerals Extraction Tax*

The Tax Code currently provides for a minimum 5% mineral extraction tax rate (for production not exceeding 250,000 tons) on production of crude oil (gas condensate inclusive) sold to the export market, and a 2.5% tax rate (for production not exceeding 250,000 tons) on production of crude oil (gas condensate inclusive) sold to the domestic market. It is not necessary for any production to be sold for mineral extraction tax liability to arise. The mineral extraction tax is generally levied against the value of extracted mineral resources. Kazakh mineral extraction rates currently range from 0 percent to 22 percent, depending on the type of mineral.

*The payment for compensation of historic costs*

The payment for compensation of historic costs is a subsurface user's obligation to compensate the state for the total costs it incurred for geological surveys and improvements on the relevant contract territory and for the exploration of oilfields prior to the execution of a subsurface use contract.

## Board of Directors

Our Board of Directors is responsible for and has general powers for the management and conduct of our business.

Our Board consists of eight directors, of whom four are executive directors, one is a non-executive director and the remaining three are independent non-executive directors. The executive directors are appointed for a term not exceeding three years, and our non-executive director and independent non-executive directors are appointed for an initial period of three years. One-third of our directors will be subject to re-election at each annual general meeting and every director must be subject to re-election at an annual general meeting at least once every three years.

| Name | Age | Position(s) |
|---|---|---|
| Zhang Ruilin | 40 | Executive director, chairman and chief executive officer |
| Zhao Jiangwei | 39 | Executive director, vice chairman and senior vice president |
| Forrest L. Dietrich | 59 | Executive director, senior vice president and authorized representative |
| Allen Mak | 49 | Executive director, chief financial officer, joint company secretary, senior vice president and authorized representative |
| Wang Sing | 47 | Non-executive director |
| Stephen Law | 49 | Alternate to Mr. Wang Sing |
| Mei Jianping | 51 | Independent non-executive director |
| Jeffrey W. Miller | 49 | Independent non-executive director |
| Cai Rucheng | 60 | Independent non-executive director |

## Directors

### *Executive Directors*

*Zhang Ruilin*, aged 40, has been our executive director, chairman and chief executive officer since his appointment on March 20, 2008. He, along with Mr. Zhao, is the controlling shareholder of FEEL and is the brother-in-law of Mr. Zhao. Following the takeover of MIE by FEEL from Microbes Inc. in August 2003, Mr. Zhang joined us in September 2003 and has since been a director of MIE. He is primarily responsible for overseeing our overall strategies, planning and day-to-day management and operations. Mr. Zhang has over 22 years of experience in the oil and gas business, during which he acquired his experience as an oilfield worker and technician for PetroChina in 1989 and as the chairman and general manager at a local oilfield services company, Jilin San Huan Petrochemical Co., Ltd., for over five years. In May 2003, he founded FEEL in Hong Kong, through which he acquired MIE from Microbes Inc. Mr. Zhang is a member of the Songyuan Committee of the National People's Congress of the PRC. Mr. Zhang graduated from Jilin Petroleum College in 1995.

*Zhao Jiangwei*, aged 39, has been our executive director, vice chairman and senior vice president since his appointment on December 19, 2008. He is one of our Controlling Shareholders and also the brother-in-law of Mr. Zhang. Mr. Zhao has over 18 years of experience in the oil and gas industry, during which he acquired his experience as a technician for PetroChina at the Jilin oilfields from 1993 to 1999 and as the manager of the technical department at Jilin San Huan Petrochemical Co., Ltd. From 2000 to 2003. Following the takeover of MIE by FEEL from Microbes Inc. in August 2003, Mr. Zhao joined our company in September 2003 and has since been a director of MIE. He is and will continue to be primarily responsible for assisting the chairman in overseeing the operations at the Daan, Moliqing and Miao 3 oilfields. Mr. Zhao obtained a bachelor of arts degree from Daqing Petroleum College in 1999.

*Forrest Lee Dietrich*, aged 59, has been our executive director and senior vice president since his appointment on December 19, 2008. Prior to joining us in January 2002, Mr. Dietrich joined Microbes, Inc. in 1994 and held various technical and management positions during different phases of development of the production sharing contracts. He is primarily responsible for mid-term and long-term planning and reserves management. Mr. Dietrich has over 36 years of experience in the oil and gas business, during which he acquired his experience as the vice president of operations for Greenwich Oil Corporation, an oil company based in Dallas, Texas, from 1985 to 1994 and served in various capacities as area engineering supervisor, evaluations specialist and planning coordinator and in various staff engineering positions at Texaco USA (Getty Oil) in Texas and California from 1974 to 1985. Mr. Dietrich has been a member of the Society of Petroleum Engineers since 1972 and become a professional engineer in the State of Texas since 1984. He has authored and co-authored four technical papers for the Society of Petroleum Engineers regarding microbial enhanced oil recovery and presented three of those papers at their technical meetings. Mr. Dietrich obtained a bachelor's degree in science in Petroleum and Natural Gas Engineering from Pennsylvania State University in 1974.

*Allen Mak*, aged 49, has been our executive director since his appointment on July 9, 2009. He is also our chief financial officer, joint company secretary and senior vice president. Mr. Mak joined our company in November 2008 as chief financial officer and has 28 years of experience in finance and accounting. He was previously the chief financial officer of CITIC 21CN Company Limited (Stock Code: 241), a company listed on the Hong Kong Stock Exchange, for over three years. Prior to his career as a chief financial officer, Mr. Mak was an investment banker and has over 11 years of experience in investment banking. He was an assistant director at Peregrine, executive director at Citicorp and the managing director and head of the investment banking group of a securities firm based in Hong Kong. Mr. Mak also worked in the private equity business for over three years as an investment director at CVC Asia Capital and Citicorp. Prior to Mr. Mak's career in investment banking and private equity, he worked for seven years in the accounting profession at Price Waterhouse (subsequently renamed as PricewaterhouseCoopers) in Hong Kong, and KPMG and Deloitte in Canada. Mr. Mak has a bachelor's degree in Commerce from the University of British Columbia in Canada. He is a chartered accountant certified by the Canadian Institute of Chartered Accountants.

***Non-executive Director***

*Wang Sing*, aged 47, has been our non-executive director since his appointment on June 22, 2010. Mr. Wang is a partner of TPG and also the co-chairman of TPG Greater China & Head of TPG Growth North Asia. Prior to joining TPG, he was chief executive officer and executive director of TOM Group Limited from July 2000 to January 2006. During the period from July 1993 to May 2000, he held various positions at Goldman Sachs in both New York and Hong Kong as executive director. Prior to joining Goldman Sachs, Mr. Wang was a strategic consultant with McKinsey & Co., in Chicago, U.S.A.. In addition, Mr. Wang is the chairman of Amerinvest Group of Companies. He is also a member of the Standing Committee of the 10th Yunnan Provincial Committee of the Chinese People's Political Consultative Conference. Mr. Wang has a bachelor's degree in science from Yunnan University, PRC, and a bachelor of arts degree in Philosophy, Politics and Economics and a master's degree in Land Management from University of Oxford, U.K.

*Stephen Cheuk Kin Law*, aged 49, has been appointed as the alternate of our non-executive director, Mr. Wang Sing, since June 25, 2010. Mr. Law is a managing director of TPG Growth. Prior to joining TPG in July 2006, Mr. Law was a director of Morningside Technologies Inc Limited ("Morningside"), where he was responsible for a portfolio of private equity investments. Prior to Morningside, Stephen focused in corporate finance and development for Wheelock and Co. Ltd. and i-CABLE Communications Ltd. to develop various businesses in China and Hong Kong. He is a member of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Institute of Certified Public Accountants and a registered practicing Certified Public Accountant in Hong Kong. He is a council member of Hong Kong Institute of Certified Public Accountants, and the chairman of the Corporate Governance Award Organizing Committee and the vice-chairman of the Corporate Finance Committee. Mr. Law received a Bachelor of Science degree from the University of Birmingham in 1984 and a Masters degree in Business Administration from the University of Hull in 1996.

***Independent Non-Executive Directors***

*Mei Jianping*, aged 51, has been our independent non-executive director since his appointment on November 27, 2010. Mr. Mei has been a professor of finance at Cheung Kong Graduate School of Business in Beijing, China since 2006 and a fellow at Financial Institutions Center, the Wharton School of University of Pennsylvania, since 2004. He was a tenured associate professor of finance from 1996 to 2005 and an assistant professor of finance from 1990 to 1995 at New York University. From 2003 to 2008, he also taught at Tsinghua University as a special term professor of finance. Mr. Mei has been the chairman of the board of Shanghai Zhangjiang JRtan.com. Inc. since 2000 and a director of Cratings.com Inc., USA since 1999. Since 2009, Mr. Mei has served on the boards of Powerlong Real Estate Holdings Limited, a company listed on the Hong Kong Stock Exchange, and Zhong De Securities Company Limited. Mr. Mei worked as a consultant for various financial institutions, such as Deutsche Bank, UBS, Prudential Insurance of America and Asia Development Bank. He has published a number of books and articles on topics related to finance. Mr. Mei received a bachelor's degree in Mathematics from Fudan University in 1982, a master's degree in Economics and a Ph.D. in Economics (Finance) from Princeton University in 1988 and 1990, respectively.

*Jeffrey W. Miller*, aged 49, has been our independent non-executive director since his appointment on November 27, 2010. Mr. Miller has over 26 years of experience in the oil and gas industry. Since 2008, Mr. Miller has been the director of upstream and investments for Mercuria Energy Trading Inc., one of the world's largest independent physical energy trading firms. He is responsible for Mercuria and certain of its affiliates' global portfolio of oil and natural gas assets, the majority of which are located in North and South America. Prior to Mercuria, Mr. Miller spent four years, from 2004 to 2008, as president of Moncrief Oil International, a private oil and natural gas company with assets in the former Soviet Union as well as North America. Prior to his career at Moncrief, Mr. Miller was a managing director in global energy investment banking for UBS AG, the successor of Dillon, Read & Co, which he joined in 1993. Mr. Miller was an investment banker with a focus on the energy industry and has extensive experience in the fields of corporate finance. Throughout his career as set out above, Mr. Miller has been involved in a substantial number of transactions including initial public offerings, debt offerings and mergers and acquisitions, which require expertise in financial analysis. As an investment banker, Mr. Miller also had extensive experience in valuation analysis, which involved reviewing and analyzing audited financial statements of public and private companies. Mr. Miller's professional career began in a technical capacity as a petroleum engineer with Exxon. Mr. Miller received a bachelor's degree, magna cum laude, in Petroleum Engineering from Texas A&M University and a master's degree in Business Administration from the Columbia Business School.

*Cai Rucheng*, aged 60, has been our independent non-executive director since his appointment on November 27, 2010. Mr. Cai has over 31 years of experience working in the oil and gas industry. From 1968 to 2004, Mr. Cai worked at the Shengli oilfield in the Shandong Province for Sinopec and held the positions of section head at the Oilfield Geology Division, division head at the Reservoir Engineering Division and chief geologist. From 1998 to 2003, Mr. Cai was also appointed and acted as a senior member of the Technology Committee of Sinopec and the group leader of the Expert Group for Development under the Senior Members Committee of Sinopec. Since 2004, Mr. Cai has retired from the above positions. Mr. Cai is currently the vice chairman of and secretary to the board of directors of Shandong Petroleum Society. Mr. Cai is a senior engineer and received a bachelor's degree in Oil and Gas Exploration from China University of Geosciences (formerly known as Beijing Institute of Geology) in 1967.

***Senior Management***

*Ning Deyu*, aged 42, has been our executive vice president since October 2007. Mr. Ning has over 17 years of experience in the oil and gas industry, during which he acquired his experience as technician, section chief and deputy factory manager at PetroChina in the Jilin oilfields prior to joining MIE in 2007 and as the project manager at the foreign cooperation and joint venture division of the Jilin oilfields at PetroChina from 2005 to 2007. Mr. Ning graduated from Daqing Petroleum College with a bachelor's degree in Petroleum Engineering and is a senior engineer.

*Cui Yujia*, aged 35, has been the assistant to our chairman since December 2004. Mr. Cui has over 11 years of experience in corporate finance. Prior to joining MIE in 2004, Mr. Cui worked for Changchun Heat Shrinkable Materials Company Limited, which is a subsidiary of China Kinwa High Technology Company Limited, as financial manager. From 2004 to 2008, he was the financial manager of MIE. Mr. Cui graduated from Changchun Taxation College with a bachelor's degree in International Accountancy.

*Wang Changlin*, aged 61, has been the senior advisor to our chairman since October 2003 and the director of office of the Board of Directors. Mr. Wang is responsible for corporate level operation and management. He has over 31 years of experience in the oil and gas industry. Prior to joining MIE in 2003, Mr. Wang worked for PetroChina in the Jilin oilfields and held various positions such as section chief, office director and deputy factory manager and has extensive experience in the operation and management of oilfields. Mr. Wang obtained a bachelor's degree from Jilin Provincial Communist Party School and is a senior economist.

*Shou Xuancheng*, aged 61, has been our senior vice president since November 1, 2009. Dr. Shou joined our company in November 2009 and is responsible for our development and expansion. Dr. Shou has over 39 years of experience in the oil and gas industry, during which he acquired his experience holding a number of high-level positions in the CNPC group of companies between 1985 and 2004, including China National Oil & Gas Exploration and Development Corporation, CNPC International (Kazakhstan) Co. Ltd., PetroChina Company Limited and PetroChina International Limited, and as the vice chairman and executive director of CITIC Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange, where he was responsible for the planning and development of oil investments and portfolio from 2005 to 2009. Dr. Shou holds a master's degree and a doctoral degree in Engineering from the Petroleum University of China.

*Sit Kam Hong*, aged 62, has been our executive vice president since his appointment on April 1, 2011. Mr. Sit is responsible for business development and expansion. Mr. Sit is a geologist and geoscientist with over 30 years of upstream experience. He has previously worked in various oil and gas companies, including BP, Premier Oil, ZADCO (Exxon Mobile), PTTEP, WAPET (Chevron), Hudson's Bay Oil and Gas, Western Mining Petroleum and Global Oil Corporation, and has been based in Australia, Canada, Indonesia, the United Arab Emirates, Vietnam and Thailand. Mr. Sit has authored and co-authored several technical publications on the oil and gas industry and is an active member of the American Association of Petroleum Geologists, European Association of Geoscientists and Engineers, Society of Petroleum Engineers and Society of Exploration Geophysicists. Mr. Sit obtained a bachelor's degree in science in Geological Science from the University of Bath in 1973.

*Yang Bo*, aged 34, has been our financial controller since April 10, 2007. Mr. Yang has over ten years of experience in finance and accounting. Mr. Yang is responsible for the management of financial reporting. Prior to joining us, Mr. Yang worked for Ernst & Young Hua Ming as an audit manager from 2006 to March 2007. From 2002 to 2005, Mr. Yang worked for PricewaterhouseCoopers Zhong Tian CPAs Company Limited as a senior auditor. From 2000 to 2002, Mr. Yang was an auditor at Arthur Andersen Hua Qiang CPAs. Mr. Yang graduated from Renmin University of China with a bachelor's degree in International Accounting in 1999. He is a Certified Public Accountant in China and he is a member of the Beijing Institute of Certified Public Accountants.

*Lian Yunfei*, aged 36, has been our general counsel since November 18, 2009. Ms. Lian joined our company in November 2009 and has over five years of experience in the legal field. Prior to joining us, Ms. Lian worked as an associate at Baker & McKenzie's Hong Kong office from 2007 to March 2009 focusing on mergers and acquisitions and general corporate transactions, and Grandall Legal Group (Shanghai), during 2009, focusing on capital markets and private and public securities offerings. In her early career, starting in 2001, she worked in a law firm in Canada, focusing on general practice in Canada, for over three years. Ms. Lian obtained a juris doctor degree in the Faculty of Law from the University of British Columbia in 2007. She received a master's degree in Materials Science and Engineering in 2001 from the University of Florida. She graduated from Shanghai University with a bachelor's degree in Materials Science and Engineering in 1996. She is admitted to practice law in New York.

*Andrew S. Harper*, aged 60, has been our chief geoscientist from 2001 to 2008 and recently rejoined us on April 1, 2010. Mr. Harper was our chief geologist and president of our international operations from 2001 to 2008. Mr. Harper has over 30 years of experience in the oil and gas industry, during which he acquired his experience working in the exploration and production team of ARCO International Oil & Gas Company prior to joining us in 2001. During his time with ARCO, Mr. Harper worked extensively overseas, including assignments in Chile, Dubai, Norway, the United Kingdom and Indonesia, and as ARCO's resident manager in Bogota, Colombia. Mr. Harper also worked as a basin studies director, Latin America exploration director and exploration project director at the headquarters of ARCO International in the United States from 1990 to 1996 and as an exploration manager at the Andean Basins in ARCO Latin America Inc. from 1999 to 2000. Mr. Harper received a bachelor's degree in Geology from Williams College and a master's degree in Geology from the University of Southern California.

*Mei Liming*, aged 30, has been our financial manager since May 27, 2009. Prior to his position as our financial manager, Mr. Mei held the position of vice financial manager from October 2006 to May 2009 and accountant from January 2005 to October 2006. Mr. Mei graduated from Beijing Institute of Petrochemical Technology with a bachelor's degree in Accounting in 2003. Prior to joining our company, Mr. Mei worked as an accountant in SONY in 2004.

***Joint Company Secretaries***

*Allen Mak*, CA, is our joint company secretary. Besides being a chartered accountant certified by the Canadian Institute of Chartered Accountants, Mr. Mak has over 27 years of experience in finance and accounting, as further set out in "– Directors". As a result of his involvement in the listing of a number of companies in Hong Kong and as adviser to various companies listed in Hong Kong on transactions involving the Listing Rules, Mr. Mak is familiar with the Listing Rules and the corporate governance of a listed company. In addition, since he joined our Group on July 9, 2009, Mr. Mak has been closely involved in the preparation of our Group's initial public offering.

*Chu Man Yee*, ACS, ACIS, aged 39, is our joint company secretary. Ms. Chu is a senior manager of the corporate services division of Tricor Services Limited. Ms. Chu is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Chu has approximately 16 years of experience in the company secretarial area. Ms. Chu currently acts as the joint company secretary of MicroPort Scientific Corporation (Stock code: 853), a company also listed on the Hong Kong Stock Exchange.

**Relationship among Directors and Senior Management**

Save for Mr. Zhao, our vice chairman, senior vice president and executive director, who is the brother-in-law of Mr. Zhang, our chairman, chief executive officer and executive director, there are no family relationships between any of our directors and senior management.

**Remuneration of Directors and Senior Management**

Our directors receive remuneration in the forms of fees, salaries, allowances and other benefits-in-kind, including our contribution to the pension plan on their behalf.

The aggregate remuneration that we paid to our directors for each of the three financial years ended December 31, 2010 was approximately RMB17,493,000, RMB18,200,000 and RMB24,078,000, respectively. The increase in aggregate remuneration for the year ended December 31, 2010 as compared to that for the year ended December 31, 2009 was primarily due to the revision in the remuneration packages of our executive directors in contemplation of our initial public offering, upon recommendation made by an international compensation consultant firm engaged by us, and as a result of the share-based compensation charge in relation to share options granted to some of our directors , which was minimal in 2009 as the share options were granted close to the end of 2009, was more significant in 2010 since there was a half year charge.

The aggregate remuneration that we paid to our five highest paid individuals of our company for each of the three financial years ended December 31, 2010 was approximately RMB23,850,000, RMB20,035,000 and RMB30,936,000, respectively.

No director nor senior management is entitled to any severance benefits upon termination of their employment with our company.

Our directors' remuneration is subject to review by the remuneration committee and the Board of Directors at the end of each financial year of our company.

**Stock Incentive Plan**

On November 27, 2010, the Board adopted a new share option scheme ("Scheme") to enable us to grant options to selected participants as incentives or rewards for their contributions to our Group. Participants of the Scheme include any executive director, non-executive director or full time employee of the Group as invited by the Board. The Scheme shall be valid and effective for a period of 10 years commencing from the approval of the Scheme.

**Share Option Scheme**

Our Board of Directors has conditionally adopted the Share Option Scheme pursuant to written shareholders resolutions dated November 27, 2010.

**Audit Committee**

Our company established an audit committee on November 23, 2010 with effect from December 14, 2010, the date of listing of our ordinary shares on the Main Board of the Hong Kong Stock Exchange with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our company.

The audit committee currently comprises three directors, namely Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive director. Mr. Miller is the chairman of the audit committee.

**Remuneration Committee**

Our company established a remuneration committee on November 23, 2010 with effect from December 14, 2010 with written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board regarding the compensation of our executive directors and senior management. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of our senior management.

The remuneration committee currently comprises Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive director. Mr. Mei is the chairman of the remuneration committee.

**Nomination Committee**

Our company established a nomination committee on November 23, 2010 with effect from December 14, 2010. The primary duties of the nomination committee are to assist the Board in selecting individuals qualified to become our directors and in determining the composition of the Board and its committees.

The nomination committee currently comprises Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive director. Mr. Mei is the chairman of the nomination committee.

**Corporate Governance Measures**

Our company has adopted the Code on Corporate Governance Practices (the "Code") the Listing Rules. The Code sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders. Our company will state in its interim and annual report whether it has complied with the Code, and will provide details of, and reasons for, any deviations from it in the Corporate Governance Report which will be included in its annual report. Our company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers which provides, among other matters, prohibitions on directors' dealings in securities and protection of minority shareholders' rights. Our directors are therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority shareholders' rights.

Furthermore, our directors are required to comply with provisions under the Listing Rules and certain matters are required to be reviewed by our independent non-executive directors. Our directors are of the view that the significant proportion of independent non-executive directors comprising our Board of Directors should enhance our overall corporate governance standards.

In addition to the safeguards mentioned above, an annual review will be performed by our independent non-executive directors with regard to the information provided by our Controlling Shareholders. After the annual review, our independent non-executive directors will decide whether to exercise our rights in respect of the compliance and enforcement of a Non-competition Deed as described below. Our company will disclose all decisions on the matters pertaining to the annual review either through the annual report, or by way of announcements to the public. Our Controlling Shareholders will provide all information necessary for the annual review and the enforcement of the Non-competition Deed, after which they will make an annual declaration on compliance and the manner of compliance with the Non-competition Deed in the annual reports of our company.

**Non-Competition Undertaking From Our Controlling Shareholders**

In order to maintain a clear delineation of our respective businesses going forward, FEEL, Mr. Zhang and Mr. Zhao (together the "Covenantors") have jointly and severally entered into the Non-Competition Deed, pursuant to which each of the Covenantors has undertaken to our company (for itself and for the benefit of its subsidiaries) that, during the Non-Compete Period (as defined below), each of them will not, whether as principal or agent and whether undertaken directly or indirectly (including through any of their associates, subsidiaries, partnerships, joint ventures or other contractual arrangements) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in any business related to exploration, development and production of oil and such other business conducted or carried on by our company from time to time (the "Restricted Business").

Notwithstanding the foregoing, each of the Covenantors may:

(a) carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business where the opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business has first been offered or made available to our company and the Covenantors shall provide such information as may reasonably be required by our company in order to make an informed assessment of such business opportunity, and our company, after review and approval by our independent non-executive directors or shareholders as required under relevant laws and regulations, has declined such opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business, provided that the principal terms by which any Covenantor (or any of their associate(s)) subsequently engages in, invests in, participates in or otherwise is interested in such Restricted Business are not more favorable in any material aspect than those offered or made available to our company;

(b) have interests in shares or other securities (whether or not listed on any stock exchange) of a company conducting any Restricted Business provided that:

(i) the Covenantors taken together are not so interested as to be able to exercise or control the exercise of 5% or more of the voting power at general meetings of such company or control the composition of a majority of the board of directors of such company; and

(ii) at all times there is another independent shareholder who either alone is, or together with its or its associates taken together are, directly or indirectly interested so as to be able to exercise or control the exercise of a greater amount of voting power at general meetings of such company than the Covenantors are able, or control the composition of a majority of the board of directors of such company.

The "Non-Compete Period" stated in the Non-Competition Deed refers to the period commencing on December 14, 2010 and ending on the earlier of:

(a) the date on which the Covenantors (individually or collectively) and/or any of their associates, individually or collectively, cease to be a controlling shareholder of our company within the meaning of the Listing Rules; and

(b) the date on which the shares cease to be listed on the Hong Kong Stock Exchange.

Under the Non-Competition Deed, in the event that, during the Non-Compete Period, any of the Covenantors intends to dispose of any Restricted Business or any interest in any Restricted Business, the Covenantors shall first offer to our company the right to acquire such business or interest and it may only proceed with such disposal to any third party, on terms not more favorable than those offered to our company, following the rejection of such offer by our company.

Our Controlling Shareholders have also undertaken to provide an annual confirmation to the company confirming that it and its associates have not breached the terms of the Non-Competition Deed and to provide all information necessary, subject to confidentiality restrictions owed by the Covenantors to a third party for the annual review by the independent non-executive directors and professional advisers (if they so require) for the enforcement of the Non-Competition Deed.

The following measures will be adopted by our company in respect of the enforceability of the Non-Competition Deed:

(a) our independent non-executive directors will review, on an annual basis, the compliance of the Non-Competition Deed, including any potential conflicts of interest and competition arising from the taking up by our Controlling Shareholders of opportunities rejected by our Group pursuant to the Non-Competition Deed; and

(b) our company will disclose decisions on matters reviewed by our independent non-executive directors relating to compliance and enforcement of the Non-Competition Deed in annual reports of our company or by way of announcement to the public.

Our directors are of the view that our Group's measures are adequate to safeguard the effectiveness of the Non-Competition Deed.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and its associates will be required to comply with the requirements of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements.

## PRINCIPAL SHAREHOLDERS

So far as our directors are aware as of March 31, 2011, the following persons will be directly or indirectly interested in 5% or more of the issued Shares:

| Shareholder | Number of Shares | Percentage of Shares |
|---|---|---|
| FEEL[(1)] | 1,414,600,000 | 53.6% |
| Mr. Fung Che[(2)] | 252,196,000 | 9.6% |
| Ever Union Capital Limited[(2)] | 252,196,000 | 9.6% |
| Harmony Energy | 237,438,000 | 9.0% |
| David Bonderman[(3)] | 230,838,000 | 8.7% |
| James Coulter[(3)] | 230,838,000 | 8.7% |
| TPG[(3)] | 211,855,234 | 8.0% |

(1) FEEL is held by Mr. Zhang and Mr. Zhao as to 9.99% and 90%, respectively. On May 16, 2003, 9,999 shares in FEEL were issued to Mr. Zhang, who then transferred 9,000 shares out of his 9,999 shares to Mr. Zhao on October 4, 2003. Mr. Zhang and Mr. Zhao have entered into an Acting-in-Concert Agreement under which they agreed to act in concert in relation to all matters that require the decisions of the shareholders of FEEL.

(2) Consists of 237,438,000 ordinary shares held by Harmony Energy Limited and 14,758,000 ordinary shares held by Ever Union Capital Limited, a company incorporated in the British Virgin Islands. Harmony Energy Limited is a wholly owned subsidiary of Ever Union Capital Limited. Mr. Fung Che is the sole shareholder of Ever Union Capital Limited and has voting and investment control over the securities beneficially owned by Ever Union Capital Limited.

(3) The interests deemed to be held by each of David Bonderman and James Coulter consists of 258,497,000 ordinary shares held by TPG and 20,570,000 ordinary shares held by TPG Star Energy Co-Invest, LLC. The sole shareholder of TPG is TPG Star, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Star GenPar, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Star GenPar Advisors, LLC., a Delaware limited liability company, whose sole member is TPG Holdings I, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Holdings I-A, LLC, a Delaware limited liability company, whose sole member is TPG Group Holdings (SBS), L.P., a Delaware limited partnership, which is managed by its general partner, TPG Group Holdings (SBS) Advisors, Inc., a Delaware company, whose shareholders are David Bonderman and James Coulter. TPG Star Energy Co-Invest, LLC is a Delaware limited liability company, whose managing member is TPG Star Advisors, L.L.C., a Delaware limited liability company, whose sole member is TPG Ventures Holdings, L.L.C., a Delaware limited liability company, whose managing member is TPG Ventures Partners, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Ventures Professionals, L.P., a Delaware limited partnership, which is managed by its general partner, Tarrant Advisors, Inc., a Texas company, whose sole shareholder is Tarrant Capital Advisors, Inc., a Delaware company, whose shareholders are David Bonderman and James Coulter.

## RELATED PARTY TRANSACTIONS

We have entered into various transactions which will continue from time to time with various of our connected persons. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

Set out below is further information on such continuing connected transactions. As a listed company on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain "connected transactions" with "connected persons" be approved by a company's independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

**Lease of vehicles by Ms. Zhao Jiangbo to us**

Ms. Zhao Jiangbo ("Mrs. Zhang"), the spouse of Mr. Zhang, our executive director, chairman and chief executive officer, and is therefore a connected person of our company, as defined in the Listing Rules. We entered into a framework vehicle rental agreement with Mrs. Zhang on November 23, 2010 (the "Vehicle Rental Agreement"), pursuant to which Mrs. Zhang agreed to rent to us from time to time a number of vehicles for the purpose of the day-to-day business operations of our Group, subject to the entering into of individual contracts as agreed between Mrs. Zhang and us pursuant to the Vehicle Rental Agreement. Mrs. Zhang has been regularly leasing a substantial number of vehicles, being private passenger cars, to us since 2008. Considering the long-term relationship that we have with Mrs. Zhang, we consider that it would be more convenient to continue to directly lease vehicles from Mrs. Zhang. The rental fees paid by us to Mrs. Zhang will be based on normal commercial terms and negotiated on arm's length basis between the parties, and shall be no less favorable than terms offered by independent third parties to our Group. The Vehicle Rental Agreement has a term commencing from December 14, 2010 and valid until December 31, 2012 and will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by our company on the same terms.

***Historical amounts***

Given that we began renting vehicles from Mrs. Zhang on January 1, 2008, the only historical amounts for these transactions are for the period from January 1, 2008 to December 31, 2010. The aggregate rental fees paid by us to Mrs. Zhang for the financial years ended December 31, 2008, 2009 and 2010 were approximately RMB2.2 million, RMB4.3 million and RMB3.3 million, respectively.

***Proposed cap and basis of cap***

It is expected that the aggregate annual rental fees to be paid by us to Mrs. Zhang under the Vehicle Rental Agreement for the financial years ending December 31, 2011 and 2012 will not exceed RMB5.0 million and RMB5.5 million, respectively. The proposed caps are determined by reference to the historical values of the transactions between Mrs. Zhang and us, and the expected increase in demand for vehicles to be rented by us from Mrs. Zhang taking into account the business growth prospects of our Group, which is in line with the growth in our Group's capital expenditures. In addition, we expect we will require more vehicles to assist in the day-to-day operations of our Group based on the anticipated expansion of our operations in the Daan, Moliqing and Miao 3 oilfields and our plans to further invest in and expand our business operations.

**Lease of office spaces by Mrs. Zhang to us**

We entered into a lease agreement and a supplemental agreement with Mrs. Zhang on January 1, 2010 and September 28, 2010 respectively (together, the "Existing Lease Agreement"), pursuant to which Mrs. Zhang agreed to lease to us with effect from January 1, 2010 and valid until December 31, 2010 two office spaces with a total area of approximately 524.79 square meters as our company's headquarters at Suites 402 and 406, Block C, Grand Place, No. 5 Hui Zhong Road, Chaoyang District, Beijing, the PRC (the "Office Premises"), for an

aggregate yearly rental fee of approximately RMB1.13 million. We also entered into a lease agreement with Mrs. Zhang on November 28, 2010 (the "New Lease Agreement"), pursuant to which Mrs. Zhang agreed to lease to us the Office Premises with effect from January 1, 2011 and valid until December 31, 2012. Pursuant to the New Lease Agreement, the monthly rental in respect of each of the two years ending December 31, 2012 is approximately RMB108,000 and RMB125,000, respectively. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has confirmed that the current rental fees payable by us to Mrs. Zhang are based on prevailing market rates and the other terms of the Existing Lease Agreement are on normal commercial terms and conditions.

***Historical amounts***

Given that we only commenced leasing the office premises from Mrs. Zhang on January 1, 2008, the only historical amounts for these transactions are for the period from January 1, 2008 to December 31, 2010. The aggregate annual rental fees paid by us to Mrs. Zhang for the years ended December 31, 2008, 2009 and 2010 were approximately RMB1.0 million, RMB1.3 million and RMB1.1 million, respectively.

***Proposed cap and basis of cap***

It is expected that the aggregate annual rental fees to be paid by us to Mrs. Zhang under the Existing Lease Agreement and the New Lease Agreement for the years ending December 31, 2011 and 2012 will not exceed RMB1.3 million and RMB1.5 million, respectively.

The proposed cap in respect of the year ending December 31, 2010 reflects the yearly rental under the Existing Lease Agreement. The proposed caps in respect of the two years ending December 31, 2011 and 2012 reflect the rental fees payable by us to Mrs. Zhang under the New Lease Agreement.

**Lease of vehicles by Jilin Guotai to us**

Mrs. Zhang and Mr. Zhao, our executive director, vice chairman and senior vice president, currently own 70% and 30% of Jilin Guotai, respectively. Jilin Guotai is therefore a connected person of our company. Jilin Guotai, one of the largest oilfield service providers in Songyuan, Jilin Province, is principally engaged in well maintenance, well logging, well cementing, fracturing, downhole operation, and processing and sale of drilling and extraction accessories. Since 2007, Jilin Guotai has been providing various oilfield services to our Group. Our Group engages in the oil industry as oilfield operator whilst Jilin Guotai provides oilfield services that are ancillary to the operation of oilfields. Our directors are of the view that Jilin Guotai, as a service provider to our Group, provides oilfield services and engages in businesses that supplement the operation of our Group. As such, there is no competition, directly or indirectly, between the business of Jilin Guotai and ours. Our company considers that the inclusion of Jilin Guotai in our Group, being a service provider of ancillary oilfield services, is not in line with our Group's current focus on expansion strategies.

We entered into a framework vehicle rental agreement with Jilin Guotai on November 23, 2010 (the "Guotai Vehicle Rental Agreement"), pursuant to which Jilin Guotai agreed to rent to us from time to time a number of vehicles for the purpose of the day-to-day business operations of our Group, subject to the entering into of individual contracts as agreed between Jilin Guotai and us pursuant to the Guotai Vehicle Rental Agreement. The rental fees will be based on normal commercial terms and negotiated on arm's length basis between the parties, and shall be no less favorable than those offered by independent third parties to our Group. The Guotai Vehicle Rental Agreement has a term commencing from December 14, 2010 and valid until December 31, 2012 and will be automatically renewed every three years subject to compliance with the Listing Rules by the company on the same terms.

***Historical amounts***

The historical annual rental fees paid by us to Jilin Guotai for the lease of the vehicles for the years ended December 31, 2008, 2009 and 2010 were approximately RMB1.7 million, RMB3.6 million and RMB2.3 million, respectively.

***Proposed cap and basis of cap***

It is expected that the aggregate annual rental fees to be paid by us to Jilin Guotai under the Guotai Vehicle Rental Agreement for the years ending December 31, 2011 and 2012 will not exceed RMB3.0 million and RMB3.6 million, respectively.

The proposed caps are determined by reference to the historical values of the transactions between Jilin Guotai and us and the expected increase in demand for vehicles to be rented from Jilin Guotai taking into account the business growth prospects of our Group, which is in line with the growth in our Group's capital expenditures. In addition, we expect we will require more vehicles to assist in the day-to-day operations of our Group based on the anticipated expansion of our operations in the Daan, Moliqing and Miao 3 oilfields and our plans to further invest in and expand our business operations.

**Provision of oilfield services by Jilin Guotai to us**

We entered into a framework oilfield service agreement with Jilin Guotai on November 23, 2010 (the "Oilfield Service Agreement"), pursuant to which Jilin Guotai agreed to provide to us from time to time various oilfield services including well maintenance services, well logging services, oil tanker transportation services, oilfield construction related works and other oil operations related services, subject to the entering into of individual contracts as agreed between Jilin Guotai and us pursuant to the Oilfield Service Agreement. The service fees will be based on normal commercial terms and negotiated on arm's length basis between the parties, and shall be no less favorable than those offered by independent third parties to our Group. The Oilfield Service Agreement has a term commencing from December 14, 2010 and valid until December 31, 2012 and will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by our company on the same terms. If Jilin Guotai does not provide oilfield services to us, we do not foresee any difficulty in obtaining similar services from independent third parties.

***Historical amounts***

The aggregate annual service fees paid by us to Jilin Guotai for the provision of such oilfield services for each of the years ended December 31, 2008, 2009 and 2010 were approximately RMB92.8 million, RMB77.3 million and RMB108.6 million, respectively.

***Proposed cap and basis of cap***

It is expected that the aggregate annual service fees to be paid by us to Jilin Guotai pursuant to the Oilfield Service Agreement for the years ending December 31, 2011 and 2012 will not exceed RMB169.0 million and RMB202.8 million, respectively.

The proposed caps are determined by reference to the historical transaction values of the transactions between us and Jilin Guotai and the anticipated demand for such services by us taking into account the business growth prospects of our Group, which is in line with the growth in our Group's capital expenditures, the annual budgets (providing for, among other things, that the number of wells expected to be drilled in the oilfields in 2011 is 367) approved by the joint management committee in accordance with the overall development plans, and the development plan to drill 398 gross wells in 2012. We therefore anticipate to require increasingly more oilfield services based on the increase in the number of wells expected to be drilled and the overall development plans for the oilfields that we operate in.

## DESCRIPTION OF OTHER INDEBTEDNESS

*The following is a summary of our current indebtedness and their respective terms as of the date of this offering memorandum. The following summary does not purport to be complete.*

As of December 31, 2010, we had total bank loans and other borrowings of RMB1,291.2 million, comprised solely of interest-bearing bank loans.

### Term Loan and Revolving Credit Facility with CITIC Bank International Limited and CITIC Bank Guangzhou

On July 28, 2009, MIE entered into a five-year US$200 million term loan and revolving credit facility with CITIC Bank International Limited and CITIC Bank Guangzhou, referred to as the CITIC Bank Facility, primarily to repay a loan from Standard Bank, develop oilfields and for working capital purposes.

The facility includes two long-term term loans and one short-term revolving facility, which can be converted into a term facility towards the end of the third year. We drew down US$122.0 million (RMB830 million) from CITIC Bank International Limited on July 31, 2009 to repay a loan from Standard Bank. As of December 31, 2010, we had outstanding bank borrowings of RMB1,291.2 million under this credit facility. We further drew down US$78 million (RMB546 million) subsequently during the 2009 financial year. There was no unused facility as at December 31, 2009 and 2010.

On November 27, 2010, we entered into a supplemental deed to the CITIC Bank Facility to restructure our security arrangement with CITIC Bank International Limited and CITIC Bank Guangzhou under the facility agreement in order for our company to list on the Stock Exchange, subject to applicable work and waiver fees.

On April 18, 2011, we entered into a consent and amendment letter to the CITIC Bank Facility to amend certain provisions of the CITIC Bank Facility in order for our Company to issue the Notes and the Subsidiary Guarantees (provided that such issuance takes place no later than July 13, 2011) and in order to allow for prepayment of the loans on not less than five business days' notice. This letter and the amendments contained therein remain subject to the satisfaction of customary conditions precedent for a letter of this nature. Under the terms of the letter, the Guarantee of the Notes to be provided by MIE will be fully subordinated in right, time and priority of payments to the rights and claims of CITIC Bank International Limited and CITIC Bank Guangzhou under the CITIC Bank Facility.

We will use a portion of proceeds from this offering to repay the CITIC Bank Facility in full. Upon repayment in full, the CITIC Bank Facility will be cancelled and the subordination of the Guarantee of the Notes provided by MIE will not be subject to subordination to the CITIC Bank Facility.

#### *Interest*

Under the facility agreement, the interest rate applicable for an interest period is the London Interbank Offered Rate ("LIBOR") plus a margin of 4.50% per annum.

#### *Maturity and Prepayment*

Under the facility agreement, the term loans do not require principal repayments for the first three years, and the principal repayments are made starting from July 28, 2012, with five successive half-yearly payment installments to be made from that date.

We have the right to prepay, without penalty or premium, all or part of the term loan provided that at least five business days prior notice is given to the agent. If such prepayment funds are provided to MIE or to us by another bank or financial institution (but not including funds provided by any private equity fund or obtained by way of initial public offering, placement, rights offering or other equity issuance of shares in MIE or in us) or the prepayment is funded by the proceeds of this offering, such prepayment shall, if such prepayment is made before July 28, 2012 , be subject to a 0.5% prepayment fee of the amount prepaid or, if such prepayment is made on or after July 28, 2012, a 0.2% prepayment fee of the amount prepaid.

***Guarantee and Security***

The facility is secured primarily by 100% of the ordinary shares in MIE held by us, an assignment of our bank accounts for the collection of oil revenue, our entitlement under the production sharing contracts, a charge over our debt service reserve account, and an assignment of our interest in our insurance policies.

Concurrently, under the amended facility agreement, the company agreed to provide a corporate guarantee for MIE's obligations under the credit facility.

We are required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility.

***Covenants***

The term loan and revolving credit facility contains certain restrictive covenants that limit our ability to, among other things:

- incur additional indebtedness of more than US$10 million from any bank or financial institution in the PRC; and

- declare cash dividends of more than 15% of our annual consolidated net profit prior to this offering (with the exception of a cash dividend of no more than US$20 million that may be declared immediately prior to this offering) or 30% of our annual consolidated net profit after this offering, create or incur liens, acquire, merge or consolidate with others and dispose of assets.

The facility, as amended, also contains the following financial covenants:

- our consolidated tangible net worth, subject to certain adjustments, will be not less than (i) RMB1.0 billion from 2009 to 2011 and (ii) RMB1.5 billion for 2012;

- our ratio of consolidated total borrowing to consolidated tangible net worth, subject to certain adjustments, will not exceed (i) 140% from 2009 to 2010 and (ii) 100% for 2011;

- our ratio of consolidated total borrowings to consolidated EBITDA (as defined in the credit facility agreement) will not exceed (i) 270%, from 2009 to 2010, (ii) 220% from 2011 to 2012 and (iii) 180% for 2013; and

- our total capital expenditure in any financial year will not exceed RMB1.0 billion, save that prior to our initial public offering we obtained a waiver pursuant to which the amount of total capital expenditures allowable for the financial year ending December 31, 2011 was raised to RMB1.3 billion.

Under the facility agreement, as amended, we have also agreed to procure FEEL to continue to be our largest shareholder, holding not less than 35% of the issued share capital in our company, and maintain management control of our company.

***Events of Default***

The facility agreement contains certain customary events of default, including insolvency and breaches of the terms of the facility agreement. The agent bank, as directed by the majority lenders, is entitled to terminate the facility agreement and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

## DESCRIPTION OF THE NOTES

For purposes of this "Description of the Notes," the term "Company" refers only to MIE Holdings Corporation, a company incorporated with limited liability under the laws of the Cayman Islands, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a "Subsidiary Guarantor," and each such guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an indenture (the "Indenture"), to be dated as of the Original Issue Date, among the Company, the initial Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the "Trustee").

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees (as defined below). This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date during normal office hours at the corporate trust office of the Trustee at 39th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

### Brief Description of the Notes

The Notes are:

- general senior obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Senior Guarantors on a senior basis, subject to the limitations described below under the caption "– The Subsidiary Guarantees" and in "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees";
- guaranteed by Senior Subordinated Subsidiary Guarantors on a senior subordinated basis, subject to the limitations described below under the caption "– The Subsidiary Guarantees" and in "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees";
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below); and
- effectively subordinated in right of payment to certain secured debt of the Subsidiary Guarantors permitted to be Incurred under the Indenture to the extent of any security other than the Collateral.

In addition, subject to the limitations described in "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees," the Notes will be secured by a pledge of the Collateral as described below under the caption "– Security" and will:

- be secured by a first priority lien on the Collateral (subject to any Permitted Collateral Liens); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on May 12, 2016 unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "– Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued. The Notes will bear interest at 9.75% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on May 12 and November 12 of each year (each an "Interest Payment Date"), commencing November 12, 2011.

Interest on the Notes will be paid to Holders of record at the close of business on the day 15 calendar days before each Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or premium (if any) or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Trustee, then payment of principal or premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360 day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in Dublin, Ireland (which initially will be the corporate trust administration office of the Paying Agent, currently located at Ground Floor, 1 North Wall Quay, Dublin 1, Ireland, Attention: Agency and Trust – PPA), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed at the Company's expense to the address of the Holders as such address appears in the Note register. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

**The Subsidiary Guarantees**

On the Original Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries and the initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries. All of the Restricted Subsidiaries that are not Subsidiary Guarantors are collectively referred to herein as the "Non-Guarantor Subsidiaries."

As of the Original Issue Date, the Company has no Subsidiaries organized under the laws of the PRC. None of the future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that the Restricted Subsidiaries organized under the laws of the PRC may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its Indebtedness and its trade creditors before it will be able to distribute any of its assets to the Company. See "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees – We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries."

The Subsidiary Guarantee of each Subsidiary Guarantor that is a Senior Guarantor:

- is a general senior obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of any assets other than the Collateral serving as security therefor;

- is senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;

- ranks at least *pari passu* with all other existing and future unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

The Subsidiary Guarantee of each Subsidiary Guarantor that is a Senior Subordinated Subsidiary Guarantor:

- is a general senior subordinated obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of any assets other than the Collateral serving as security therefor;

- is subordinated in right of payment to all future Designated Senior Indebtedness Incurred by such Subsidiary Guarantor;

- is senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and

- ranks at least *pari passu* with all existing and future Senior Subordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

On the Original Issue Date, (i) MI Energy Corporation ("MIE"), MIE New Ventures Corporation ("MIE New Ventures"), Palaeontol Cooperatief U.A. ("Palaeontol") and Palaeontol B.V. (the "Purchaser") will be Senior Guarantors, (ii) there will be no Senior Subordinated Subsidiary Guarantors and (iii) there will be no Non-Guarantor Subsidiaries. If after the Original Issue Date, MIE Incurs Indebtedness pursuant to a Credit Facility, its Guarantee in favor of the Notes will become a Senior Subordinated Subsidiary Guarantee. MIE will at all times remain a Subsidiary Guarantor.

As of March 31, 2011, the Company and its consolidated subsidiaries had approximately RMB1,281.7 million (US$194.2 million) of consolidated indebtedness outstanding, all of which was secured. This entire amount is indebtedness incurred under the CITIC Facility. A part of the proceeds of this offering will be used to repay the CITIC Facility in full. Upon repayment in full, the CITIC Facility will be cancelled.

Upon consummation of the Acquisition, the Target will become a Restricted Subsidiary and a Subsidiary Guarantor.

The Company will cause each of its future Subsidiaries (other than Subsidiaries that are organized under the laws of the PRC), immediately upon becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes. Each Subsidiary of the Company that guarantees the Notes after the Original Issue Date is referred to as a "Future Subsidiary Guarantor" and, upon execution of the applicable supplemental indenture to the Indenture, will be a "Subsidiary Guarantor." Notwithstanding the foregoing, the Company shall not be obligated to cause a Restricted Subsidiary to Guarantee the Notes, or shall be entitled to limit the value of any such Guarantee, as applicable, to the extent that such Guarantee would be expected to give rise to or result in (now or in the future) any violation of applicable law.

In addition, subject to the limitations described in "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees," the Notes and the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor will be secured by a pledge of the Collateral as described below under the caption "– Security" and will:

- be secured by a first ranking security interest in the Collateral (subject to any Permitted Collateral Liens) pledged by each Subsidiary Guarantor Pledgor, as described below under the caption "– Security"; and

- after giving effect to any sharing of Collateral as described under the caption "– Security" below, rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral pledged by each Subsidiary Guarantor securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees – The Subsidiary Guarantees may be challenged under applicable financial assistance, insolvency, corporate benefit or fraudulent transfer or unfair preference laws, which could impair the enforceability of the Subsidiary Guarantees."

***Subordination of the Senior Subordinated Subsidiary Guarantors***

The Subsidiary Guarantors have the ability to incur additional Indebtedness of up to the greater of (i) US$250.0 million and (ii) 30% of Consolidated Tangible Assets as Permitted Indebtedness under Credit Facilities as set forth under clause (b)(1) of "– Certain Covenants – Limitation on Indebtedness and Preferred Stock". If MIE or any future Subsidiary Guarantor that is a China Subsidiary Incurs Indebtedness under Credit Facilities it will be Designated Senior Indebtedness and the Subsidiary Guarantee provided by any such Subsidiary Guarantor will be subordinated and become a Senior Subordinated Subsidiary Guarantee.

The payment of all Obligations by any Senior Subordinated Subsidiary Guarantor on or relating to the Notes, including the Subsidiary Guarantee of each Senior Subordinated Subsidiary Guarantors, will be subordinated in right of payment to the prior payment in full in cash or cash equivalents of all Obligations due in respect of Designated Senior Indebtedness. As of the Original Issue Date, the Company and its consolidated subsidiaries have no Designated Senior Indebtedness and there are no Senior Subordinated Subsidiary Guarantors.

The holders of Designated Senior Indebtedness will be entitled to receive payment in full in cash or cash equivalents of all Obligations due in respect of such Indebtedness before the Holders will be entitled to receive any payment or distribution of any kind or character with respect to any Obligations on or relating to the Notes, including the Subsidiary Guarantee, in the event of any distribution to creditors of the relevant Senior Subordinated Subsidiary Guarantor:

- in a total or partial liquidation, dissolution or winding up of such Senior Subordinated Subsidiary Guarantor;

- in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to such Senior Subordinated Subsidiary Guarantor or its assets;

- in an assignment for the benefit of creditors; or

- in any marshalling of such Senior Subordinated Subsidiary Guarantor's assets and liabilities.

In addition, the Senior Subordinated Subsidiary Guarantor may not make any payment or distribution of any kind or character with respect to any Obligations on or relating to the Notes, including the Subsidiary Guarantee, or acquire any Notes for cash or assets or otherwise, if:

- a payment default on any Designated Senior Indebtedness occurs and is continuing; or

- any other default occurs and is continuing on any Designated Senior Indebtedness that permits holders of such Indebtedness to accelerate its maturity and the Trustee receives a notice of such default (a "Payment Blockage Notice") from the Representative of such Indebtedness.

Payments on and distributions with respect to any Obligations on or with respect to the Notes may and shall be resumed:

- in the case of a payment default, upon the date on which all payment defaults are cured or waived; and

- in case of a nonpayment default, the earliest of (1) the date on which all such non-payment defaults are cured or waived, (2) 179 days after the date on which the applicable Payment Blockage Notice is received or (3) the date on which the Trustee receives notice from the Representative for relevant Designated Senior Indebtedness rescinding the Payment Blockage Notice, unless the maturity of such Indebtedness has been accelerated.

No new Payment Blockage Notice may be delivered unless and until 360 days have elapsed since the effectiveness of the immediately prior Payment Blockage Notice.

No nonpayment default that existed or was continuing on the date of delivery of any Payment Blockage Notice to the Trustee shall be, or be made, the basis for a subsequent Payment Blockage Notice unless such default shall have been cured or waived for a period of not less than 90 consecutive days. Any subsequent action or any breach of any financial covenants for a period ending after the date of delivery of the initial Payment Blockage Notice that in either case would give rise to a default pursuant to any provisions under which a default previously existed or was continuing will constitute a new default for this purpose.

Notwithstanding anything to the contrary, payments and distributions made from the trust established pursuant to the provisions described under "– Defeasance will be permitted and will not be subordinated so long as the payments into the trust were made in accordance with the requirements described under "– Defeasance" and did not violate the subordination provisions when they were made.

The Company must, or must procure that the relevant Senior Subordinated Subsidiary Guarantor, promptly notify the Representative of relevant Designated Senior Indebtedness if payment of the Notes is accelerated because of an Event of Default.

As a result of the subordination provisions described above in the event of a bankruptcy, liquidation or reorganization of a Senior Subordinated Subsidiary Guarantor, Holders may recover less ratably than creditors of the Company who are holders of Designated Senior Indebtedness. See "Risk Factors – Risks Relating to the

Notes and the Subsidiary Guarantees – Your right to receive payment on the Senior Subordinated Subsidiary Guarantees is subordinated to any future Designated Senior Indebtedness."

***Release of the Subsidiary Guarantees***

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "– Defeasance – Defeasance and Discharge";
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale or disposition (including by way of merger or consolidation) of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants described under the captions "– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "– Certain Covenants – Limitation on Asset Sales," and "– Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture;
- upon a Kazakh Business IPO, *provided* that the sale of shares complies with "– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" and *provided further* that in such event any Indebtedness incurred by such Kazakh Subsidiary and any Subsidiary of such Kazakh Subsidiaries under clause (b)(1) under "– Certain Covenants – Limitation on Indebtedness and Preferred Stock" shall be deemed to constitute an Incurrence not permitted by clause (b)(1) under "– Certain Covenants – Limitation on Indebtedness and Preferred Stock;"
- upon a Permitted IPO, *provided* that (1) any Indebtedness incurred by the relevant Subsidiary Guarantor and any Subsidiary of such Subsidiary Guarantor under clause (b)(1) under "– Certain Covenants – Limitation on Indebtedness and Preferred Stock" shall be deemed to constitute an Incurrence not permitted by clause (b)(1) under "– Certain Covenants – Limitation on Indebtedness and Preferred Stock" and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the terms of the Indenture.

On the Original Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries and each of the Restricted Subsidiaries will be a Subsidiary Guarantor. However, under the circumstances described below under the caption "– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture and will not guarantee the Notes.

**Security**

The Company has agreed, for the benefit of the Holders, to grant, or cause each Subsidiary Guarantor to grant a first-priority share pledge (each a "Share Pledge"), over the Capital Stock owned by the Company or

such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC and Senior Subordinated Subsidiary Guarantors) after the Original Issue Date, immediately upon such Person becoming a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee. Notwithstanding the foregoing, that the Company shall not be obligated to pledge or cause such Capital Stock to be pledged, to the extent that such pledge would reasonably be expected to give rise to or result in (now or in the future) any violation of applicable law. None of the Capital Stock of any future Restricted Subsidiary organized under the laws of the PRC will be pledged at any time in the future.

The Share Pledges are the "Collateral". The Collateral will be pledged to Citicorp International Limited, as collateral agent and/or as security agent for the benefit of the Trustee and the Holders on a senior basis.

On the Original Issue Date, none of the Capital Stock of the Restricted Subsidiaries will be pledged.

Each Subsidiary Guarantor that pledges Capital Stock of a Restricted Subsidiary, upon giving such pledge, will be a "Subsidiary Guarantor Pledgor."

The realizable value of the Collateral securing the Notes and the Subsidiary Guarantees is unlikely to be sufficient to satisfy the Company's and the Subsidiary Guarantor's obligations under the Notes and the Subsidiary Guarantees, and the Collateral securing the Notes and the Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture and the Security Documents. See "– Release of Security" and "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees – The realizable value of the collateral securing the Notes may not be sufficient to satisfy the Company's obligations under the Notes and such collateral may be reduced or diluted under certain circumstances."

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Event of Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

***Permitted Pari Passu Secured Indebtedness***

On or after the Original Issue Date and subject to the Indenture, the Company and the Subsidiary Guarantor Pledgors may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such Pari Passu Subsidiary Guarantee, "Permitted Pari Passu Secured Indebtedness"); *provided* that (i) the Company or the Subsidiary Guarantor Pledgor are permitted to Incur such Indebtedness under the covenant under the caption "– Certain Covenants – Limitation on Indebtedness and Preferred Stock," (ii) the holders of such Indebtedness (or their representative) become party to the Intercreditor Agreement referred to below, (iii) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Subsidiary Guarantee substantially similar to and no more restrictive on the Company and the Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents, and (iv) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee and the collateral agent an Opinion of Counsel and

Officers' Certificate with respect to compliance with the conditions stated in (i), (ii) and (iii) above and corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee and/or the Collateral Agent, as the case may be, will be permitted and authorized, without the consent of any Holder, to enter into the Intercreditor Agreement and any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration in accordance with the terms of the Indenture, the Intercreditor Agreement and the Security Documents of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph and the terms of the Indenture (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for Permitted Collateral Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

***Intercreditor Agreement***

Prior to the first Incurrence of any Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the Trustee will enter into an intercreditor agreement (the ''Intercreditor Agreement''), with the Company, the Subsidiary Guarantor Pledgors and the holders of such Permitted Pari Passu Secured Indebtedness (or their representative). The Intercreditor Agreement will provide, among other things, that (1) the parties thereto shall share equal priority and pro rata entitlement in and to the Collateral and the proceeds thereof; (2) the conditions under which the parties thereto will consent to the release of or granting of any Lien on such Collateral; and (3) the conditions under which the parties thereto will enforce their rights with respect to such Collateral and the Indebtedness secured thereby.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any supplements, amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

***Enforcement of Security***

The first priority Liens securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, will be granted to the Collateral Agent, subject to *pari passu* sharing with Permitted Pari Passu Indebtedness. The Collateral Agent will hold such liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Collateral Agent has agreed to act as secured party on behalf of the Trustee (for the benefit of the Holders) under the applicable Security Documents and on behalf of the other Holders of *pari passu* Indebtedness, to follow the instructions provided to it under the Indenture and the Security Documents and to carry out certain other duties. Each of the Collateral Agent and the Trustee shall in its own capacity be a secured party.

The Indenture and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Collateral Agent has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture. See "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees – The value of the Collateral securing the Notes may not be sufficient to satisfy our obligations under the Notes and such collateral may be reduced or diluted under certain circumstances."

All payments received and all amounts held by the Collateral Agent in respect of the Collateral under the Security Documents will be applied as follows:

*first*, to the Collateral Agent for any unpaid fees, costs and expenses (including indemnification payments) incurred under the Intercreditor Agreement or the Security Documents;

*second*, pro rata to each of the Trustee and any agent or representative of any series of Permitted Pari Passu Secured Indebtedness for any unpaid fees, costs and expenses (including indemnification payments) under the applicable secured party document;

*third*, pro rata to each of the Trustee for the benefit of Holders and, to the extent applicable, to holders of Permitted Pari Passu Secured Indebtedness (or their representative), inclusive of any fees and expenses of each secured party (to the extent not paid pursuant to the second item above), and the principal, interest and premium thereon and for the benefit of the holders of each thereof in accordance with the terms of the relevant secured party document; and

*fourth*, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Collateral Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or security to its satisfaction. In addition, the Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Collateral Agent's Liens on the Collateral. Neither the Trustee, the Collateral Agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Collateral Agent, the Collateral Agent's officers, employees and directors for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Collateral Agent arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Collateral Agent.

This section, "– Enforcement of Security," shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "– Permitted Pari Passu Secured Indebtedness" above.

***Release of Security***

The security created in respect of the Collateral granted under the Security Documents may be released in relation to the Notes and the Subsidiary Guarantees in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as *provided* below under the caption "– Defeasance – Defeasance and Discharge";
- with respect to the pledge of Capital Stock of a Subsidiary Guarantor, upon the designation by the Company of such Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture;

- upon certain dispositions of the Collateral in compliance with the covenants under the captions "– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "– Certain Covenants – Limitation on Asset Sales" or in accordance with the provision under the caption "– Consolidation, Merger and Sale of Assets";

- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture; or

- in whole or in part, with the requisite consent of the Holders in accordance with the provisions described under "– Amendments and Waiver."

**Further Issues**

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under clause (a) of the "– Certain Covenants – Limitation on Indebtedness and Preferred Stock" covenant described below and the other provisions of the Indenture; and, *provided further* that, in order for Additional Notes to have the same CUSIP, ISIN or other identifying number as the outstanding Notes, (i) both the Additional Notes and the Notes must be issued with no (or less than a *de minimis* amount of) original issue discount, (ii) the Additional Notes must be issued within 13 days of the issuance of the Notes, or (iii) the Additional Notes must be issued pursuant to a "qualified reopening," in each case, for U.S. federal income tax purposes.

**Optional Redemption**

At any time on or after May 12, 2014 the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to (but excluding) the redemption date, if redeemed during the 12-month period commencing on May 12 of any year set forth below:

| Period | Redemption Price |
|---|---|
| 2014 | 104.8750% |
| 2015 | 102.4375% |

At any time prior to May 12, 2014 the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but excluding) the redemption date.

In addition, at any time prior to May 12, 2014 the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 109.75% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but excluding) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed, the Trustee will select Notes for redemption as follows:

- if the Notes are listed on any securities exchange, in compliance with the requirements of the principal securities exchange on which the Notes are then traded; or

- if the Notes are not listed on any securities exchange, on a pro rata basis, by lot or by such other method as the Trustee deems fair and appropriate.

No Note of US$200,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

**Repurchase of Notes Upon a Change of Control**

Not later than 30 days following on the occurrence of a Change of Control, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Future debt of the Company may also (i) prohibit the Company from purchasing Notes in the event of a Change of Control, (ii) provide that a Change of Control is a default or (iii) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Company. The ability of the Company to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors – Risks Relating to the Notes and the Subsidiary Guarantees – We may not be able to repurchase the Notes upon a Change of Control."

The definition of Change of Control includes a phrase relating to the sale of "all or substantially all" of the assets of the Company. No precise definition of the phrase has been established under applicable law, and the phrase will likely be interpreted under applicable law of the relevant jurisdictions based on particular facts and circumstances. Accordingly, there may be a degree of uncertainty as to the ability of a Holder to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

**No Mandatory Redemption or Sinking Fund; Offers to Purchase; Open Market Purchases**

The Company is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Company may be required to offer to purchase Notes as described under the captions "– Repurchase of Notes Upon a Change of Control" and "– Certain Covenants – Limitation on Asset Sales." The Company may at any time and from time to time purchase Notes in the open market or otherwise provided that any such Notes, once purchased, must not be resold. The Notes so purchased, while held by or on behalf of the the Company or any Affiliate of the Company, shall not entitle the holder to vote the Notes and shall not be deemed outstanding for purposes of calculating quorums.

**Additional Amounts**

All payments of principal of, and premium (if any) and interest on, the Notes or under the Subsidiary Guarantees or the Security Documents will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "– Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor, as the case may be, is organized or resident for tax purposes or any jurisdiction from or through which payment is made (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note of such amounts payable under the Notes, the Subsidiary Guarantees or the Security Documents as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder or beneficial owner of such Note, Subsidiary Guarantee or the Security Document, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or Security Document, as the case may be, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly *provided* for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30 day period;

(C) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner; or

(D) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(iii) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) any tax, duty, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest or any premium on the Note or payments under the Subsidiary Guarantees; or

(v) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii), (iii) and (iv); or

(b) to a Holder that is a fiduciary, partnership, limited liability company or person other than the sole beneficial owner of any payment, to the extent that such payment would be required to be included for tax purposes in the income under the laws of a Relevant Jurisdiction of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or limited liability company or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

In addition to the foregoing, the Company and the Subsidiary Guarantors will also pay and indemnify the holder for any present or future stamp, issue, registration, court or documentary taxes, or any other excise or property taxes, charges or similar levies (including penalties, interest and any other reasonable expenses related thereto) which are levied by any tax jurisdiction on the execution, delivery, issuance or registration of any of the Notes, this Indenture, any Subsidiary Guarantee or any other document referred to therein (other than a transfer of the Notes after this offering) or the receipt of any payments with respect thereto, or any such taxes, charges or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of any of the Notes or any Subsidiary Guarantee.

If the Company or any Subsidiary Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Subsidiary Guarantee, each of the Company or the relevant Subsidiary Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 45 days prior to that payment date, in which case the Company or the relevant Subsidiary Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information necessary to enable the Paying Agents to pay such Additional Amounts to holders on the relevant payment date. The Company and the relevant Subsidiary Guarantor will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts. The Trustee shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

The Company or the relevant Subsidiary Guarantor will make all withholdings and deductions required by law and will timely remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Company or the relevant Subsidiary Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Company or the relevant Subsidiary Guarantor will furnish to the Trustee (or to a holder upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Company or a Subsidiary Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee or the holder) by such entity.

The above obligations will survive any termination, defeasance or discharge of this Indenture, any transfer by a holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Company or any Subsidiary Guarantor is incorporated, engaged in business for tax purposes or resident for tax purposes or any jurisdiction from or through which such Person makes any payment on the Notes (or any Guarantee) and any department or political subdivision thereof or therein.

Whenever there is mentioned in any context the payment of principal, premium or interest in respect of any Note, any Subsidiary Guarantee or any Security Document, such mention shall be deemed to include 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.

**Redemption for Tax Reasons**

The Notes may be redeemed, at the option of the Company or a Surviving Person (as defined under the caption "– Consolidation, Merger and Sale of Assets"), as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and reasonable notice in advance of such notice to the Holders to the Trustee and the Paying Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

(2) any change in the existing official position, or the stating of an official position, regarding the application, administration or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice),

which change or amendment becomes effective on or after (i) with respect to the Company or any initial Subsidiary Guarantor, the Original Issue Date or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, the date such Future Subsidiary Guarantor or Surviving Person becomes a Future Subsidiary Guarantor or Surviving Person, as the case may be, with respect to any payment due or to become due under the Notes or the Indenture, the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Subsidiary Guarantor or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before the Tax Redemption Date:

(1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person or such Subsidiary Guarantor, as the case may be, by taking reasonable measures available to it; and

(2) an Opinion of Counsel or an opinion of a tax consultant, in either case, of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts, withhold or deduct such taxes, duties or assessments or other governmental charges results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

**Certain Covenants**

Set forth below are summaries of certain covenants contained in the Indenture.

***Limitation on Indebtedness and Preferred Stock***

(a) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness) and the Company will not permit any Restricted Subsidiary to issue any Preferred Stock; *provided* that the Company and any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.75 to 1.0.

(b) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary, may Incur each and all of the following ("Permitted Indebtedness"):

(1) Indebtedness of the Company or any Subsidiary Guarantor Incurred pursuant to Credit Facilities in an aggregate principal amount at any time outstanding not to exceed the greater of US$250.0 million or 30% Consolidated Tangible Assets; less the amount of any permanent repayments of such Indebtedness made with Net Available Cash from Asset Dispositions in accordance with the provisions of "– Limitation on Asset Sales";

(2) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee;

(3) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (b)(1), (b)(2) or (b)(4) of this covenant (after giving effect to the application of the proceeds as described in this offering memorandum);

(4) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (x) any event which results in any such Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (b)(4) and (y) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must be unsecured and be subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor;

(5) Indebtedness ("Permitted Refinancing Indebtedness") issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under clause (a) or clause (b)(2), (b)(3), this clause (b)(5) or (b)(7) of this covenant; *provided* that (A) the aggregate principal amount (or accreted value, if applicable), or if issued with original issue discount, aggregate issue price) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of the Indebtedness renewed, refunded, refinanced, replaced, exchanged, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith); (B) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee shall only be permitted under this clause (b)(5) if (x) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee, such new

Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, (C) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (D) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause (b)(5) by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(6) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(7) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (i) all or any part of the purchase price (including any adjustment of purchase price or similar obligations) of assets, real or personal property, Capitalized Lease Obligations or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property, Capitalized Lease Obligations or equipment which will, upon such acquisition, become a Restricted Subsidiary or (ii) all or any part of the purchase price (including any adjustment of purchase price or similar obligations) or the cost of development, construction or improvement of assets, real or personal property, Capitalized Lease Obligations or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided, however,* that in each case (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such assets, property, Capitalized Lease Obligations or equipment or completion of such development, construction or improvement, and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (b)(7) (together with refinancings thereof) does not exceed an amount equal to 10.0% of Total Assets;

(8) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

(9) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 60 days following receipt by the Company or such Restricted Subsidiary, as applicable, of a demand for reimbursement;

(10) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or

Restricted Subsidiary (other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition); *provided* that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Company or any Restricted Subsidiary from the disposition of such business, assets or Restricted Subsidiary;

(11) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within five Business Days of Incurrence;

(12) (i) guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (ii) guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (b)(6) or (b)(7) above or clause (b)(13) below;

(13) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; provided that the aggregate principal amount of Indebtedness permitted by this clause (b)(13) at any time outstanding does not exceed US$10.0 million (or the Dollar Equivalent thereof);

(14) any Pari Passu Subsidiary Guarantees by any Subsidiary Guarantor; and any Permitted Pari Passu Secured Indebtedness of the Company; and

(15) the issuance of Preferred Stock by any Restricted Subsidiary to the Company or to any other Restricted Subsidiary that is a direct or indirect parent company of the issuing Restricted Subsidiary, provided, however, that any issuance, sale or transfer that results in any such Preferred Stock being held by a Person other than the Company or a Restricted Subsidiary that is such a parent will be deemed to constitute an issuance of such Preferred Stock that was not permitted by this clause (15).

(c) For purposes of determining compliance with this "– Limitation on Indebtedness and Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first sentence of clause (a) of this covenant, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness *provided, however* any Indebtedness outstanding at any time under any Credit Facilities shall be deemed to be Incurred under clause (b)(1) of this covenant.

(d) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies. For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-dominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-dominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based

on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

***Limitation on Restricted Payments***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (a) through (d) below being collectively referred to as "Restricted Payments"):

(a) declare or pay any dividend or make any distribution on or with respect to the Company's or any Restricted Subsidiary's Capital Stock (other than dividends or distributions payable solely in shares of the Company's or any Restricted Subsidiary's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(b) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock (including options, warrants or other rights to acquire such shares of Capital Stock) of the Company, any Restricted Subsidiary or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(c) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any Subsidiary Guarantee (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or

(d) make any Investment, other than a Permitted Investment;

unless, at the time of, and after giving effect to, the proposed Restricted Payment:

(A) no Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(B) the Company could Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "– Limitation on Indebtedness and Preferred Stock"; and

(C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall not exceed the sum (without duplication) of:

(i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the semi-annual fiscal period in which the Notes are issued and ending on the last day of the Company's most recently ended semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been *provided* to the Trustee at the time of such Restricted Payment; plus

(ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) including the sale of options and warrants to purchase Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon the exercise by a

Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

(iii) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (w) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case, to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (x) the unconditional release of a guarantee provided by the Company or any Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (y) the net cash proceeds from the sale of any such Investment (except to the extent such proceeds are included in the calculation of Consolidated Net Income) or (z) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; plus

(iv) the amount by which Indebtedness of the Company or any Subsidiary Guarantor is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any Subsidiary Guarantor convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus

(v) US$10.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable on a pro rata basis or on a basis more favorable to the Company to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company; *provided* that dividends or distributions to a Person other than the Company or a Wholly Owned Restricted Subsidiary will be excluded in calculating whether the conditions of clause (C) of the preceding paragraph have been met;

(6) the payment of a dividend in an amount of HK$92,447,000 as set forth in the Company's Hong Kong Stock Exchange Announcement of Results for the Year ended December 31, 2010, dated March 9, 2011;

(7) the redemption, repurchase or other acquisition of Capital Stock of the Company from employees, former employees, directors or former directors of the Company or any of its Restricted Subsidiaries (or permitted transferees of such persons), or their authorized representatives upon the death, disability or termination of employment of such employees or directors, in an aggregate amount not to exceed US$1.0 million (or the Dollar Equivalent thereof);

(8) any repurchase of Capital Stock deemed to occur upon the exercise of stock options to the extent such Capital Stock represent a portion of the exercise price of those stock options;

(9) the declaration and payment of regularly scheduled or accrued dividends to holders of preferred stock of a Restricted Subsidiary issued on or after the Original Issue Date in accordance with the Fixed Charge Coverage Ratio test described above under the caption "– Limitation on Indebtedness and Preferred Stock";

(10) payments of cash, dividends, distributions, advances or other Restricted Payments by the Company or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(11) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Subordinated Indebtedness (i) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness in the event of a Change of Control in accordance with provisions similar to the "– Repurchase of Notes Upon a Change of Control" covenant or (ii) at a purchase price not greater than 100% of the principal amount thereof in accordance with provisions similar to the "– Limitation on Asset Sales" covenant; provided that, prior to or simultaneously with such purchase, repurchase, redemption, defeasance or other acquisition or retirement, the Company has made the Change of Control Offer or Offer to Purchase, as applicable, as provided in such covenant with respect to the Notes and has completed the repurchase or redemption of all Notes validly tendered for payment in connection with such Change of Control Offer or Offer to Purchase;

*provided that*, in the case of clause (2), (3), (4), (6) or (9) above, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (C) of the first paragraph of this "– Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US$10.0 million (or the Dollar Equivalent thereof), 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 "– Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

(a) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

(2) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

(3) make loans or advances to the Company or any other Restricted Subsidiary; or

(4) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(b) The provisions of paragraph (a) do not apply to any encumbrances or restrictions:

(1) existing in agreements as in effect on the Original Issue Date and any extensions, refinancings, renewals, supplements, amendments or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal, supplement, amendment or replacement, taken as a whole, are no more restrictive in any material respect than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(2) in the Notes, the Subsidiary Guarantees, the Indenture, the Security Documents,

(3) existing under or by reason of applicable law, rule, regulation or order;

(4) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(5) that otherwise would be prohibited by the provision described in clause (a)(4) of this covenant if they arise, or are agreed to in the ordinary course of business, and that (x) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, (y) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (z) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(6) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "– Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "– Limitation on Indebtedness and Preferred Stock" and "– Limitation on Asset Sales" covenants;

(7) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clause (b)(1), (b)(7) or (b)(13) of the "– Limitation on Indebtedness and Preferred Stock" covenant if, as determined by the Board of Directors, such encumbrances or restrictions (x) are customary for such types of agreements and (y) are not expected to materially and adversely affect the ability of the Company to make required payments on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced; or

(8) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business.

***Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries***

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

(3) the sale of all of the shares of Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "– Limitation on Asset Sales" covenant;

(4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "– Limitation on Asset Sales" covenant;

(5) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale) pursuant an agreement in connection with the Acquisition in effect on the Original Issue Date and disclosed in this offering memorandum, as in effect on the Original Issue Date and made in accordance with the "– Limitation on Asset Sales" covenant; and

(6) the issuance or sale of Capital Stock of a Restricted Subsidiary that does not remain a Restricted Subsidiary after such issuance or sale; *provided* that (a) the transaction complies with the "– Limitation on Restricted Payments" covenant and (b) the Company applies the Net Cash Proceeds of such issuance or sale in accordance with the "– Limitation on Asset Sales" covenant.

Notwithstanding the foregoing, a Restricted Subsidiary may issue Common Stock to its shareholders on a pro rata basis or on a basis more favorable to the Company and its Restricted Subsidiaries.

***Limitation on Issuances of Guarantees by Restricted Subsidiaries***

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted

Subsidiary, unless (a)(1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for (x) an unsubordinated Subsidiary Guarantee in the case of a Restricted Subsidiary who is not an obligor under Designated Senior Indebtedness of payment of the Notes by such Restricted Subsidiary or (y) a Subordinated Subsidiary Guarantee in the case of a Restricted Subsidiary that is an obligor under Designated Senior Indebtedness and (2) 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 Subsidiary Guarantee until the Notes have been paid in full. For the avoidance of doubt, the Kazakh Subsidiaries will at all times Guarantee the Notes on a senior basis.

If the Guaranteed Indebtedness (A) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

***Limitation on Transactions with Shareholders and Affiliates***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (a) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (b) with any Affiliate of the Company (each an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or an Affiliate of the Company or such Restricted Subsidiary; and

(2) the Company delivers to the Trustee:

(A) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and 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 or series of related Affiliate Transactions involving aggregate consideration in excess of US$20.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(A) above, an opinion issued by an accounting, appraisal or investment banking firm of recognized international standing as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clause (a) or (b) of the first paragraph of the covenant described under the caption "– Limitation on Restricted Payments" if permitted by that covenant;

(4) (x) any agreement in effect on the Original Issue Date and disclosed in this offering memorandum, as in effect on the Original Issue Date or as thereafter amended or replaced in any manner, that, taken as a whole, is not more disadvantageous to the Holders or the Company in any material respect than such agreement as it was in effect on the Original Issue Date or (y) any transaction pursuant to any agreement referred to in the immediately preceding clause (x);

(5) any sale of Capital Stock (other than Disqualified Stock) of the Company;

(6) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme; and

(7) transactions with a Person (other than an Unrestricted Subsidiary of the Company) that is an Affiliate of the Company solely because the Company owns, directly or through a Restricted Subsidiary, an interest in the Common Stock of such Person.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "– Limitation on Restricted Payments" covenant, and (ii) any transaction between or among the Company and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clauses (a) or (b) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

***Limitation on Liens***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Collateral Liens).

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind that do not constitute Collateral, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

***Limitation on Sale and Leaseback Transactions***

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company may enter into a Sale and Leaseback Transaction if:

(a) the Company could have (1) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under clause (a) of the covenant described under the caption "– Limitation on Indebtedness and Preferred Stock" and (2) incurred a Lien to secure such Indebtedness pursuant to the covenant described under the caption "– Limitation on Liens," in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;

(b) the gross cash proceeds of that 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

(c) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company applies the proceeds of such transaction in compliance with, the covenant described under the caption "– Limitation on Asset Sales."

***Limitation on Asset Sales***

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(a) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(b) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(c) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur, at the time of and after giving pro forma effect to such Asset Disposition, at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "– Limitation on Indebtedness and Preferred Stock";

(d) at least 75% of the consideration received consists of cash or Temporary Cash Investments. For purposes of this provision, each of the following will be deemed to be cash:

(A) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and

(B) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

(1) satisfy all mandatory repayment obligations under Designated Senior Indebtedness arising by reason of such Asset Sale (and, if such Designated Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto); or

(2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets that will be used in the Permitted Business ("Replacement Assets").

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess proceeds of less than US$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds equals to or exceeds US$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

(i) accumulated Excess Proceeds, multiplied by

(ii) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use such Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any other *pari passu* Indebtedness tendered into (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes and such other *pari passu* Indebtedness will be purchased on a pro rata basis based on the principal amount of Notes and such other *pari passu* Indebtedness tendered (or required to be prepaid or redeemed). Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

***Limitation on the Company's Business Activities***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than a Permitted Business; *provided, however,* that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant under the caption "– Limitation on Restricted Payments."

***Use of Proceeds***

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than in the approximate amounts and for the purposes specified under the caption "Use of Proceeds" in this offering memorandum.

***Designation of Restricted and Unrestricted Subsidiaries***

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (a) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (b) neither the Company nor any Restricted Subsidiary guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; (c) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary; (d) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness, or any Lien on any property, of the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption "– Limitation on Indebtedness and Preferred Stock" or such Lien would violate the covenant described under the caption "– Limitation on Liens"; (e) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated as Unrestricted Subsidiaries in accordance with this paragraph; (f) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under the caption "Limitation on Restricted Payments" under which the amount of such Investment would be equal to the Fair Market Value of the Issuer's proportionate interest in such Subsidiary on such date; and (g) such Restricted Subsidiary does not own or operate or possess any material license, franchise or right used in connection with the ownership or operation of any part of the Company's or its Restricted Subsidiaries' business.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (a) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (b) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "– Limitation on Indebtedness and Preferred Stock"; (c) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "– Limitation on Liens"; (d) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (e) if such Restricted Subsidiary is not

organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor; and (f) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under "– Security."

***Government Approvals and Licenses; Compliance with Law***

The Company will, and will cause each Restricted Subsidiary to, (a) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Business, (b) preserve and maintain good and valid title to its properties and assets (including extraction and land-use rights) free and clear of any Liens other than Permitted Liens and (c) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (1) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (2) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

***Anti-Layering***

The Company will not, and will not permit any Subsidiary Guarantor to, Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or guarantees securing or in favor of some but not all of such Indebtedness.

***Provision of Financial Statements and Reports***

(a) So long as any of the Notes remain outstanding, the Company will furnish to the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other securities exchange on which the Company's ordinary shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that, if at any time the ordinary shares of the Company cease to be listed for trading on a recognized securities exchange, the Company will file with the Trustee and furnish to the Holders:

(1) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally recognized firm of independent accountants;

(2) as soon as they are available, but in any event within 60 calendar days after the end of the first semi-annual fiscal period of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally recognized firm of independent accountants;

(3) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third fiscal quarters of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material

respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period; and

(4) annual financial statements furnished pursuant to clause (1) shall be accompanied by a reserve report from an independent petroleum engineer dated as of the most recent year end relating to the Company and its Subsidiaries, in a form substantially identical to the reserve reports included in this offering memorandum.

(b) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (1) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent semi-annual fiscal periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, together with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (2) as soon as possible and in any event within 10 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of such Default, and the action which the Company proposes to take with respect thereto.

(c) Further, the Company has agreed that, during any period in which the Company is neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company, as the case may be, will supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

**Events of Default**

The following events will be defined as "Events of Default" in the Indenture:

(a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(c) default in the performance or breach of the provisions of the covenants described under the caption "– Consolidation, Merger and Sale of Assets," or "– Certain Covenants – Limitation on Liens," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "– Repurchase of Notes upon a Change of Control" or "– Certain Covenants – Limitation on Asset Sales", or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a first priority lien on the Collateral (subject to any Permitted Collateral Liens) in accordance with the covenant described under the caption "– Security";

(d) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice of such default or breach to the Company by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(e) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists

or shall hereafter be created, (1) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (2) a failure to pay principal of when the same becomes due;

(f) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(g) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(h) the Company or any Significant Subsidiary (1) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (2) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary, or for all or substantially all of the property and assets of the Company or any Significant Subsidiary, or (3) effects any general assignment for the benefit of creditors;

(i) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;

(j) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or

(k) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Collateral Agent or the Trustee, as the case may be, ceases to have a first priority security interest in the Collateral (subject to any Permitted Collateral Liens).

If an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(x) all existing Events of Default, other than the non-payment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

(y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may (but shall not be obligated to) pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes (and subject to receiving indemnity and/or security satisfactory to the Trustee), foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders with respect to the Collateral as the Collateral Agent or the Trustee, as the case may be, deems appropriate or is directed by the Holders of at least 25% in aggregate principal amount of outstanding Notes. See "– Security."

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law, the Indenture or the Security Documents that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee or the Collateral Agent will not be required to expend or risk its own funds or otherwise incur any financial liability in following such direction if it does not receive indemnity and/or security satisfactory to it. A Holder may not pursue any remedy with respect to the Indenture or the Notes unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders provide the Trustee with indemnity and/or security reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the indemnity and/or security; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Two Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and the Security Documents and that the Company and its Restricted Subsidiaries have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture and the Security Documents. See "– Certain Covenants – Provision of Financial Statements and Reports."

**Consolidation, Merger and Sale of Assets**

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(a) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, the British Virgin Islands, Hong Kong, Canada, the United Kingdom or the United States or any jurisdiction thereof and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, or from or through which payment is made, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

(b) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(c) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(d) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "– Certain Covenants – Limitation on Indebtedness and Preferred Stock";

(e) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (c) and (d)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

(f) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under this covenant, shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and

(g) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with or merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and

its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless:

(A) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;

(B) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(C) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(D) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US$l.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "– Certain Covenants – Limitation on Indebtedness and Preferred Stock";

(E) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (C) and (D)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(F) no Rating Decline shall have occurred;

*provided* that this paragraph shall not apply to (1) any sale or other disposition that complies with the "– Certain Covenants – Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "The Subsidiary Guarantees – Release of the Subsidiary Guarantees" and (2) a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company that may adversely affect Holders.

**No Payments for Consents**

The Company will not and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

**Defeasance**

***Defeasance and Discharge***

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the

provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(a) the Company has (1) deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (2) delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture;

(b) the Company has delivered to the Trustee (1) either (x) an Opinion of Counsel of recognized international standing with respect to U.S. federal tax laws which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel, and (2) an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and

(c) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound.

In the case of either discharge or defeasance, each of the Subsidiary Guarantees will terminate.

***Defeasance of Certain Covenants***

The Indenture further will provide that the certain provisions of the Indenture will no longer be in effect upon the deposit with the Trustee, in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (b)(2) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

***Defeasance and Certain Other Events of Default***

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes

are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

**Amendments and Waiver**

***Amendments Without Consent of Holders***

The Indenture, the Notes or any Security Document may be amended, without the consent of any Holder, to:

(a) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes or any Security Document;

(b) comply with the provisions described under "Consolidation, Merger and Sale of Assets";

(c) evidence and provide for the acceptance of appointment by a successor Trustee;

(d) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(e) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(f) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;

(g) add additional Collateral to secure the Notes or any Subsidiary Guarantee and create or register Liens on such additional Collateral;

(h) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(i) effect any changes to the Indenture in a manner necessary to comply with the procedures of DTC;

(j) permit Permitted Pari Passu Secured Indebtedness in accordance with the terms of the Indenture (including, without limitation, permitting the Trustee and the Collateral Agent to enter into the Intercreditor Agreement or any amendments to the Security Documents or the Indenture, the appointment of any collateral agent to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness and taking any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture); or

(k) make any other change that, in the good faith opinion of the Board of Directors, would provide any additional right or benefit to Holders or that does not materially and adversely affect the rights of any Holder.

***Amendments With Consent of Holders***

Amendments of the Indenture, the Notes or any Security Document may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding

Notes may waive future compliance by the Company with any provision of the Indenture, the Notes or any Security Document; *provided, however,* that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(a) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(b) reduce the principal amount of, or premium, if any, or interest on, any Note;

(c) change the currency, time or place of payment of principal of, or premium, if any, or interest on, any Note;

(d) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;

(e) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(f) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(g) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(h) release any Collateral, except as provided in the Indenture and the Security Documents;

(i) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(j) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(k) amend, change or modify any provision of any Security Document or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture or such Security Document;

(l) after the occurrence of the Change of Control or Asset Sale, as the case may be, reduce the amount payable upon such Change of Control Offer or Offer to Purchase with the Excess Proceeds from such Asset Sale or change the time or manner by which such Change of Control Offer or Offer to Purchase with the Excess Proceeds from Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale;

(m) change the redemption date or the redemption price of the Notes from that stated under "– Optional Redemption" or "– Redemption for Tax Reasons";

(n) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(o) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

**Unclaimed Money**

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

**No Personal Liability of Incorporators, Stockholders, Members, Officers, Directors or Employees**

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, member, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under any applicable law.

**Concerning the Trustee, the Registrar, the Paying Agent and the Collateral Agent**

Citicorp International Limited is to be appointed as Trustee under the Indenture and Citigroup Global Market, Deutschland AG is to be appointed as registrar (the "Registrar") and Citibank, N.A. London Branch is to be appointed as paying and transfer agent (the "Paying Agent") with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates and shall not be obligated to account for any profits therefrom; *provided, however*, that if the Trustee acquires any conflicting interest, it must eliminate such conflict or resign.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if a Global Note is exchanged for Certificated Notes, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, and make an announcement of such exchange through the SGX-ST that will include all material information with respect to the delivery of the Certificated Notes, including details of the paying agent in Singapore.

Citicorp International Limited will initially act as Collateral Agent or Trustee, as the case may be, under the Security Documents in respect of the Security over the Collateral. The Collateral Agent or the Trustee, as the case may be, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Collateral Agent or the Trustee, as the case may be, may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the Holders. The Collateral Agent or the Trustee, as the case may be, will be under no obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders, unless such Holders have provided to the Collateral Agent or the Trustee, as the case may be, with indemnity and/or security satisfactory to the Collateral Agent or the Trustee, as the case may be, against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes agrees, for the benefit of the Collateral Agent or the Trustee, as the case may be, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Collateral Agent or the Trustee, as the case may be, in respect of such risks.

The Trustee and the Collateral Agent are entitled to rely on all instructions, notices, declarations, calculations and certifications received pursuant to the Indenture, the Intercreditor Agreement and the Security Documents without investigating or being responsible for the accuracy, authenticity and validity of these instructions, notices, declarations, calculations and certifications.

The Collateral Agent, the Trustee, the Registrar or the Paying Agent, as the case may be, shall not be responsible for the performance by any other person appointed by the Company in relation to the Notes and, unless notified in writing to the contrary, shall assume that the same are being duly performed. The Collateral Agent, the Trustee, the Registrar or the Paying Agent, as the case may be, shall not be responsible for the value of the Collateral nor any liability for the validity, sufficiency or enforceability thereof. The Collateral Agent, the Trustee, the Registrar or the Paying Agent, as the case may be, shall not be liable to any Holders or any other person for any action taken by the Holders or The Collateral Agent, the Trustee, the Registrar or the Paying Agent, as the case may be, in accordance with the instructions of the Holders. The Collateral Agent, the Trustee, the Registrar or the Paying Agent, as the case may be, shall be entitled to rely on any written direction of the Holders which has been duly given by the Holders of the requisite principal amount of the Notes outstanding.

**Book-Entry; Delivery and Form**

The certificates representing the Notes will be issued in fully registered form without interest coupons, Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Regulation S Global Note") and will be deposited with Citibank, N.A., London Branch as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Restricted Global Note"; and together with the Regulation S Global Notes, the "Global Notes") and will be deposited with Citibank, N.A., London Branch as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Beneficial owners may hold their interests in a Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company nor any of the Subsidiary Guarantors, the Trustee nor the Paying Agent 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 interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee.

The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

The Company expects that DTC will take any action permitted to be taken by a Holder (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes 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 will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Transfer Restrictions."

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or the Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "Transfer Restrictions," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

**The Clearing Systems**

***General***

DTC, Euroclear and Clearstream have advised the Company as follows:

*DTC*. DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York 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 of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the initial purchaser. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly ("indirect participants"). Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

*Euroclear and Clearstream*. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through

electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

***Initial Settlement***

Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the Business Day following the settlement date against payment for value on the settlement date.

***Secondary Market Trading***

Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if a transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to the U.S. depositaries.

Because of time zone differences, credits of Notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the Business Day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Clearstream participants or Euroclear participants on such Business Day. Cash received in Clearstream or Euroclear as a result of sales of Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the Business Day following settlement in DTC.

**Notices**

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or

by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice shall be deemed to have been delivered on the day such notice is delivered to DTC or if by mail, when so sent or deposited.

**Consent to Jurisdiction; Service of Process**

The Company and each of the Subsidiary Guarantors will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint CT Corporation System currently at 111 Eighth Avenue, New York, New York 10011, for receipt of service of process in any such suit, action or proceeding.

**Governing Law**

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

**Definitions**

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"*Acquisition*" means the acquisition of 100% of the participation interests in Emir-Oil LLC, pursuant to the terms of the Acquisition Agreement.

"*Acquisition Agreement*" means the participation interest purchase agreement dated February 14, 2011 entered into between the Purchaser, the Company and BMB Munai, Inc. and as may be amended from time to time in accordance with the provisions of the Indenture, the "Acquisition Agreement".

"*Acquisition Closing Date*" means the date upon which the Acquisition is consummated.

"*Acquired Indebtedness*" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary, whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"*Adjusted Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"*Affiliate*" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition or (iii)

who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (i) or (ii). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"*Applicable Premium*" means with respect to a Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the redemption price of such Note on May 12, 2014 (such redemption price being described in the first paragraph in the "– Optional Redemption" section exclusive of any accrued interest), plus all required remaining scheduled interest payments due on such Note through (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Note on such Redemption Date.

"*As Adjusted Total Assets*" means, as of any date on or before a Kazakh Business IPO, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee; and as of any date after a Kazakh Business IPO, the total consolidated assets of the Company and its Restricted Subsidiaries excluding the total assets of the relevant Kazakh Subsidiary and any subsidiaries of such Kazakh Subsidiary measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee.

"*Asset Acquisition*" means (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"*Asset Disposition*" means (a) for the purposes of the covenant described under the caption "– Certain Covenants – Limitation on Asset Sales," the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of all or substantially all of the assets that constitute a division or line of business of the Company; and (b) for all other purposes, the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

"*Asset Sale*" means any sale, transfer or other disposition of any assets (including by way of merger, consolidation or Sale and Leaseback Transaction and including any sale or issuance of the Capital Stock of any Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided* that "Asset Sale" shall not include:

(a) sales, transfers or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(b) the disposition of Temporary Cash Investments in the ordinary course of business;

(c) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the covenant described under the caption "– Certain Covenants – Limitation on Restricted Payments";

(d) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(e) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;

(f) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;

(g) a transaction covered by the covenant under the caption "– Consolidation, Merger and Sale of Assets";

(h) the sale or transfer (whether or not in the ordinary course of business) of oil and gas properties or direct or indirect interests in real property, *provided* that at the time of such sale or transfer such properties do not have associated with them any proved reserve;

(i) the abandonment, farm-out, lease or sublease of developed or undeveloped oil and gas properties in the ordinary course of business;

(j) the trade or exchange by any of the Subsidiary Guarantors of any oil and gas property owned or held by such Subsidiary Guarantor for any oil and gas property owned or held by another Person;

(k) the sale or transfer of hydrocarbons or other mineral products in the ordinary course of business;

(l) any sale or issuance of Capital Stock pursuant an agreement in connection with the Acquisition in effect on the Original Issue Date and disclosed in this offering memorandum, as in effect on the Original Issue Date; and

(m) any sale, transfer or other disposition of any assets by the Company or any Restricted Subsidiary, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any other Restricted Subsidiary.

"*Attributable Indebtedness*" means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in such Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease 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.

"*Average Life*" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"*Board of Directors*" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"*Board Resolution*" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution in lieu of a meeting executed by the requisite members of the Board of Directors.

"*Business Day*" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London, Singapore or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

"*Capital Stock*" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

"*Capitalized Lease*" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"*Capitalized Lease Obligations*" means the discounted present value of the rental obligations under a Capitalized Lease.

"*Change of Control*" means the occurrence of one or more of the following events:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any "person" (within the meaning of Section 13(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than one or more Permitted Holders;

(2) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), 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 (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;

(3) the Permitted Holders are the beneficial owners of less than 35.0% of the total voting power of the Voting Stock of the Company;

(4) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of the total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(5) individuals who on the Original Issue Date constituted the Board of Directors (together with any new directors whose election was approved by a vote of at least two-thirds of the members of the Board of Directors then in office who were members of the Board of Directors on the Original Issue Date or whose election was previously so approved) cease for any reason to constitute a majority of the members of the Board of Directors then in office; or

(6) the adoption of a plan relating to the liquidation or dissolution of the Company.

"*China Subsidiary*" means MI Energy Corporation and its Subsidiaries.

"*CITIC Facility*" means the facility agreement dated July 28, 2009 between MI Energy Corporation as Borrower, the banks named therein and CITIC Ka Wah Limited as Facility Agent, as amended by an amendment letter dated October 29, 2009, a supplemental deed dated November 27, 2010 and a consents and amendment letter dated April 18, 2011.

"*Clearstream*" means Clearstream Banking, société anonyme, Luxembourg.

"*Commodity Agreement*" means any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

"*Common Stock*" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding on the Original Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares.

"*Comparable Treasury Issue*" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes from the redemption date to.

"*Comparable Treasury Price*" means, with respect to any redemption date:

(1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"*Consolidated EBITDA*" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense;

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains or losses or sales of assets); and

(3) depreciation expense, depletion expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income, all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP;

*provided* that (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any Restricted Subsidiary.

"*Consolidated Fixed Charges*" means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) the product of (a) all dividend payments on any series of Disqualified Stock of the Company or any Preferred Stock of any Restricted Subsidiary (other than any such Disqualified Stock or any Preferred Stock held by the Company or a Wholly-Owned Restricted Subsidiary or to the extent paid in Capital Stock (other than Disqualified Stock)) multiplied by (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of the Company and the Restricted Subsidiaries, expressed as a decimal.

"*Consolidated Interest Expense*" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations and imputed interest with respect to Attributable Indebtedness, (ii) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (iii) the interest portion of any deferred payment obligation, (iv) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (v) the net costs associated with Hedging Obligations (including the amortization of fees), (vi) interest accruing on Indebtedness of any other Person that is guaranteed by the Company or any Restricted Subsidiary proportionate to the extent that such Indebtedness is guaranteed or secured by a Lien on assets of the Company or any Restricted Subsidiary, (vii) any capitalized interest and (viii) all other non-cash interest expense; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting, except to the extent of the amount of net income actually paid in cash to, or the amount of loss actually funded in cash by, the specified Person or a Restricted Subsidiary of the Person during such period;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Company or any Restricted Subsidiary;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after-tax gains realized on the sale or other disposition of (A) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of business or (B) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or any Restricted Subsidiary);

(6) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains.

"*Consolidated Net Worth*" means, at any date of determination, stockholders' equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any Restricted Subsidiary, each item to be determined in accordance with GAAP.

"*Consolidated Tangible Assets*" means, with respect to any specified Person for any period, the aggregate of the total assets of such Person and its Restricted Subsidiaries for such period, less intangible assets on a consolidated basis, as shown in the balance sheet and as determined in conformity with GAAP.

"*Continuing*" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"*Credit Facilities*" means one or more debt facilities or commercial paper facilities, agreements, credit facility documentation or arrangements with banks, insurance companies or other institutional lenders or investors providing for revolving credit loans, term loans, receivables financing (including through the sale or factoring of receivables to such lenders or to special purpose entities formed to borrow from or issue securities to such lenders against such receivables), letters of credit or other forms of guarantees and assurances, including overdrafts, in each case, as amended, restated, modified, supplemented, renewed, refunded, replaced (whether upon or after termination or otherwise), refinanced, increased or extended in whole or in part from time to time and whether provided under one or more other credit agreements or financing agreements (without limitation as to amount outstanding or committed, or the maturity, terms, conditions, covenants, or other provisions thereof or parties thereto) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents).

"*Currency Agreement*" means any foreign exchange forward contract, currency swap agreement, currency hedge agreement, currency option agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

"*Default*" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"*Designated Senior Indebtedness*" means Senior Indebtedness of a Senior Subordinated Subsidiary Guarantor under or in respect of the Credit Facilities incurred under clause (b)(1) under the "– Certain Covenants – Limitations on Indebtedness".

"*Dollar Equivalent*" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"*Disqualified Stock*" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is one year after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is one year after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the date that is one year after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "– Certain Covenants – Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of the Notes as are required to be repurchased pursuant to the "– Certain Covenants – Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control" covenants.

"*DTC*" means The Depository Trust Company and its successors.

"*Equity Offering*" means any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date to any Person other than a Wholly Owned Restricted Subsidiary or any Permitted Holder; *provided* that the aggregate gross cash proceeds received by the Company from such transaction shall be no less than US$20.0 million (or the Dollar Equivalent thereof).

"*Euroclear*" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"*Fair Market Value*" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"*Fitch*" means Fitch Inc. and its successors.

"*Fixed Charge Coverage Ratio*" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual fiscal periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee (the "Two Semi-annual Period") to (2) the aggregate Consolidated Fixed Charges during such Two Semi-annual Period. In making the foregoing calculation:

(A) pro forma effect shall be given to any Indebtedness or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Two Semi-annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-annual Period), in each case as if such Indebtedness or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that in the event of any such repayment or redemption, Consolidated EBITDA for such Two Semi-annual Period shall not include any interest income actually earned by the Company or such Restricted Subsidiary during such Two Semi-annual Period in respect of the funds used to repay or redeem such Indebtedness or Preferred Stock;

(B) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(C) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period;

(D) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period; and

(E) pro forma effect shall be given to the creation, designation or re-designation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or re-designation had occurred on the first day of such Reference Period;

*provided* that to the extent that clause (C) or (D) of this paragraph requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full semi-annual fiscal periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"*GAAP*" means International Financial Reporting Standards as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

"*guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"*Hedging Obligation*" of any Person means the obligations of such Person pursuant to any Commodity Agreement, Currency Agreement or Interest Rate Agreement.

"*Holder*" means the Person in whose name a Note is registered in the Note register.

"*Incur*" means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"*Indebtedness*" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;

(7) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;

(8) to the extent not otherwise included in this definition, Hedging Obligations; and

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

The amount of Indebtedness of any Person at any time shall be the outstanding balance at such time of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* that:

(A) the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;

(B) money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(C) that the amount of or the principal amount of Indebtedness with respect to any Hedging Obligation shall be equal to zero if Incurred pursuant to clause (b)(6) of the covenant described under the caption "– Certain Covenants – Limitation on Indebtedness and Preferred Stock"; *provided* that such amount shall be equal to the net amount payable if such Hedging Obligation terminated at or prior to that time due to a default by such Person.

"*Interest Rate Agreement*" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

"*Investment*" means:

(i) any direct or indirect advance, loan or other extension of credit to another Person,

(ii) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),

(iii) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or

(iv) any guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

For the purposes of the provisions of the "– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries" and "– Certain Covenants – Limitation on Restricted Payments" covenants: (i) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the portion of the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation representing the percentage ownership of such Unrestricted Subsidiary at such time and (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"*Investment Grade*" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest Rating Categories, by S&P or any of its successors or assigns or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest Rating Categories, by Moody's or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody's or both, as the case may be.

"*Kazakh Business IPO*" means an underwritten initial public offering of Common Stock (not Disqualified Stock) of a Kazakh Subsidiary after the Acquisition Closing Date on the Hong Kong Stock Exchange, the New York Stock Exchange, Nasdaq or an other internationally recognized stock exchange to any Person other than a Wholly Owned Restricted Subsidiary or any Permitted Holder; *provided* that the aggregate gross cash proceeds received by the Subsidiary from such transaction shall be no less than US$50.0 million (or the Dollar Equivalent thereof).

"*Kazakh Subsidiaries*" means MIE New Ventures and its Subsidiaries.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"*MIE*" means MI Energy Corporation.

"*Moody's*" means Moody's Investors Service, Inc. and its affiliates.

"*Net Cash Proceeds*" means:

(a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of

    (1) brokerage commissions and other fees and expenses (including fees and expenses of counsel and financial or other professional advisors) related to such Asset Sale;

    (2) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;

    (3) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

    (4) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

(b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when

received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"*Offer to Purchase*" means an offer to purchase the Notes by the Company from the Holders commenced by mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good

faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"*Officer*" means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor, one of the directors or executive officers of such Subsidiary Guarantor.

"*Officers' Certificate*" means a certificate signed by two Officers.

"*Opinion of Counsel*" means a written opinion from legal counsel which is addressed to the Trustee, is in form and substance reasonably acceptable to the Trustee, and meets the requirements of the Indenture. The counsel may be an employee of or counsel to the Company.

"*Original Issue Date*" means the date on which the Notes are originally issued under the Indenture.

"*Pari Passu Subsidiary Guarantee*" means a guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided* that (i) the Company is permitted to Incur such Indebtedness under the covenant described under the caption "– Certain Covenants – Limitation on Indebtedness and Preferred Stock" and (ii) such guarantee ranks *pari passu* with the Subsidiary Guarantee of such Subsidiary Guarantor.

"*Permitted Business*" means (1) the business of acquiring, exploiting, developing, producing, operating and disposing of interests in oil, natural gas, liquid natural gas and other hydrocarbon and mineral properties or products produced in association with any of the foregoing; (2) the business of gathering, marketing, distributing, treating, processing, storing, refining, selling and transporting (including by railcars or pipelines) of any production from such interests or properties and products produced in association therewith and the marketing of oil, natural gas, other hydrocarbons and minerals obtained from unrelated Persons; (3) any other related energy business, including power generation and electrical transmission business, directly or indirectly, from oil, natural gas and other hydrocarbons and minerals produced substantially from properties in which the Company or its Restricted Subsidiaries, directly or indirectly, participates; (4) any business relating to oil field sales and service; and (5) any business or activity relating to, arising from, or necessary, appropriate or incidental to the activities described in the foregoing clauses (1) through (4) of this definition.

"*Permitted Collateral Liens*" means (i) Liens on the Collateral securing the Notes and the Subsidiary Guarantees thereof (and any Hedging Obligations with respect thereto), (ii) Liens on the Collateral securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under "Security – Permitted Pari Passu Secured Indebtedness" and (iii) statutory Liens on the Collateral arising by operation of law.

"*Permitted Holders*" means any or all of the following:

(1) Far East Energy Limited, Mr. Zhang Ruilin and Mr. Zhao Jiangwei;

(2) any Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of "Affiliate") of either of the Persons specified in clause (1) of this definition; and

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are more than 80% owned by Persons specified in clauses (1) and (2) of this definition.

"*Permitted Investment*" means:

(1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted

Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) Temporary Cash Investments;

(3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in compromise or settlement of debts created in the ordinary course of business or satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;

(7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) any securities or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under the caption "– Certain Covenants – Limitation on Asset Sales";

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under the caption "– Certain Covenants – Limitation on Liens";

(10) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers;

(11) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of a Permitted Business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;

(12) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers, compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of a Permitted Business;

(13) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any Restricted Subsidiary, in each case, in the ordinary course of a Permitted Business;

(14) Guarantees of Indebtedness Incurred in accordance with the covenant "– Certain Covenants – Limitation on Indebtedness and Preferred Stock;" and

(15) other Investments which, when taken together with all other Investments pursuant to this clause (15) and then outstanding will not exceed US$15.0 million (or the Dollar Equivalent thereof).

"*Permitted IPO*" means an underwritten initial public offering of Common Stock (not Disqualified Stock) of any Subsidiary other than MIE or any Kazakh Subsidiary after the Original Issue Date on the Hong Kong Stock Exchange, the New York Stock Exchange, Nasdaq or other internationally recognized stock exchange to any Person other than a Wholly Owned Restricted Subsidiary or any Permitted Holder; *provided* that (i) the aggregate gross cash proceeds received by the Subsidiary from such transaction shall be no less than US$50.0 million (or the Dollar Equivalent thereof) and (ii) as of the balance sheet date of the latest available semi-annual financial statements of the Company, the aggregate As Adjusted Total Assets attributable to the Subsidiary Guarantors (calculated on an unconsolidated basis for each Subsidiary Guarantor, after intercompany eliminations and after giving pro forma effect to (x) the release of any Subsidiary Guarantee in such Permitted IPO and (y) any acquisition or disposition by the Company or any Subsidiary Guarantor that has occurred between such balance sheet date and the date of determination) shall be equal to or greater than 85% of the As Adjusted Total Assets.

"*Permitted Liens*" means:

(1) Liens securing Indebtedness and other obligations under Credit Facilities to the extent such Indebtedness is permitted under clause (b)(1) under the "– Certain Covenants – Limitation on Indebtedness and Preferred Stock" covenant; *provided* that any Liens comprising share pledges over the Capital Stock of any Kazakh Subsidiary will secure the Notes on an equal and ratable basis with the Indebtedness or obligation under the Credit Facilities secured by such Lien for so long as such Indebtedness or obligation is secured by such Lien;

(2) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(4) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(5) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;

(6) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

(7) any interest or title of a lessor in the property subject to any operating lease;

(8) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(9) Liens in favor of the Company or any Restricted Subsidiary;

(10)Liens arising from attachment or the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;

(11)Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(12)Liens existing on the Original Issue Date;

(13)Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (b)(5) of the covenant described under the caption "– Certain Covenants – Limitation on Indebtedness and Preferred Stock"; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(14)Liens (including extensions and renewals thereof) upon real or personal property acquired after the Original Issue Date of the Company or any Restricted Subsidiary; *provided* that (a) such Lien is created solely for the purpose of securing Indebtedness Incurred under clause (b)(7) of the covenant described under the caption "– Certain Covenants – Limitation on Indebtedness and Preferred Stock," (b) such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (c) the principal amount of Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (d) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is Incurred in the ordinary course of business and (y) at the time such Lien is Incurred, the aggregate book value of property or assets as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets subject to Liens Incurred pursuant to this clause (14), does not exceed 150% of the aggregate principal amount of Indebtedness secured by such Liens;

(15)Permitted Collateral Liens;

(16)Liens under the Security Documents;

(17)easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;

(18)Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (b)(6) of the covenant described under the caption "– Certain Covenants – Limitation on Indebtedness and Preferred Stock";

(19)Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(20)Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company

or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(21)Liens on property securing Indebtedness which is permitted to be Incurred under clause (b)(13) of the covenant "– Certain Covenants – Limitation on Indebtedness and Preferred Stock";

(22)Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(23)Liens in pipeline or pipeline facilities that arise under operation of law;

(24)Liens arising under operating agreements, joint venture agreements, partnership agreements, oil and gas leases, farm-out agreements, division orders, contracts for the sale transportation or exchange of oil or natural gas, utilization and pooling declarations and agreements, area of mutual interest agreements and other agreements that are customary in the Permitted Business;

(25)Liens reserved in oil and gas mineral leases for bonus or rental payments and for compliance with the terms of such leases;

(26)Liens over cash paid into an escrow account pursuant to any purchase arrangement as part of any permitted acquisition or disposal by the Parent or a Restricted Subsidiary on condition that the cash paid into such escrow account in relation to such acquisition or disposal (x) does not represent more than 10.0% of the purchase price or sales price of such acquisition or disposal or (y) if greater than the amount specified in (x), such Liens exist for no more than 10 Business Days; and

(27)other Liens securing obligations in an aggregate amount not exceeding US$5.0 million.

"*Permitted Pari Passu Secured Indebtedness*" has the meaning set forth under "Security – Permitted Pari Passu Secured Indebtedness."

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"*PRC*" means the People's Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan.

"*Preferred Stock*" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

"*Rating Agencies*" means (i) S&P, (ii) Moody's, (iii) Fitch and (iv) if none of S&P, Moody's or Fitch make a rating of the Notes publicly available, one or more "nationally recognized statistical rating organizations," as the case may be, within the meaning of Section 15E under the Exchange Act and Rule 17g thereunder, selected by the Company, which shall be substituted for S&P or Moody's or both, as the case may be.

"*Rating Category*" means (i) with respect to S&P or Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Moody's used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "1," "2" and "3" for Moody's; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P or Fitch, a decline in a rating from "BB+" to "BB," as well as from "BB-'' to "B+," will constitute a decrease of one gradation).

"*Rating Date*" means that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"*Rating Decline*" means the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Notes are rated by two or more Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two Rating Agencies shall be below Investment Grade;

(b) in the event the Notes are rated by only one of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(c) in the event the Notes are rated below Investment Grade by two or more Rating Agencies on the Rating Date, the rating of the Notes by any two Rating Agencies shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"*Reference Treasury Dealer*" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the fifth Business Day preceding such redemption date.

"*Renminbi*" or "*RMB*" means the lawful currency of the People's Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of the Indenture.

"*Restricted Subsidiary*" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"*S&P*" means Standard & Poor's Ratings Services and its affiliates.

"*Sale and Leaseback Transaction*" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"*Security Documents*" means, collectively, the pledge or charge agreements and any other agreements or instruments that, including the Indenture, may evidence or create any security interest in favor of the Trustee, the Collateral Agents and/or any Holders in any or all of the Collateral.

"*Senior Guarantor*" means any Subsidiary Guarantor that is either (i) not an obligor in respect of any Credit Facilities or (ii) any Subsidiary Guarantor that is an obligor in respect of any Credit Facilities other than a China Subsidiary.

"*Senior Subordinated Subsidiary Guarantor*" means any Subsidiary Guarantor that is both (i) an obligor in respect of any Credit Facilities and (ii) a China Subsidiary.

"*Senior Indebtedness*" of the Company or any Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or such Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes or (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (i) any obligation to the Company or any Restricted Subsidiary, (ii) trade payables or (iii) Indebtedness Incurred in violation of the Indenture.

"*Senior Subordinated Indebtedness*" means with respect to the Senior Subordinated Subsidiary Guarantors (a) the Subsidiary Guarantee and (b) any other Indebtedness that is not Senior Indebtedness and ranks *pari passu* with the Subsidiary Guarantee.

"*Significant Subsidiary*" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC replacing references therein to 10% with 5%.

"*Stated Maturity*" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"*Subordinated Indebtedness*" means any Indebtedness of the Company or any Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes or any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

"*Subsidiary*" means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% of the outstanding Voting Stock is owned, directly or indirectly, by such Person and which is "controlled" and consolidated by such Person in accordance with GAAP; *provided, however,* that with respect to clause (ii) the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be "controlled" by such Person under GAAP and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of "– Designation of Restricted and Unrestricted Subsidiaries" covenant.

"*Subsidiary Guarantee*" means any guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"*Subsidiary Guarantor*" means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"*Subsidiary Guarantor Pledgor*" means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any Person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

"*Target*" means Emir-Oil LLC.

"*Temporary Cash Investment*" means any of the following:

(1) direct obligations of the United States of America, any state of the European Economic Area, the People's Republic of China and Hong Kong or any agency of the foregoing or obligations fully and unconditionally guaranteed by the United States of America, any state of the European Economic Area, the People's Republic of China and Hong Kong or any agency of the foregoing, in each case maturing within one year;

(2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the

laws of the United States of America or any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing within 180 days of the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P;

(5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof and rated at least "A" by S&P or Moody's;

(6) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Bank of China, Bank of Communications, Hongkong and Shanghai Banking Corporation, Industrial and Commercial Bank of China and Pudong Development Bank (ii) any other bank or trust company organized under the laws of the PRC or Hong Kong, whose long-term debt rating by Moody's or S&P is as high or higher than any of those banks listed on clause (i) of this paragraph or (iii) any other commercial bank whose long-term rating is "Baa1" (or higher) according to Moody's or "BBB+" (or higher) according to S & P, *provided* that, in the case of clause (iii), such deposits do not exceed US$50.0 million (or the Dollar Equivalent thereof) in the aggregate on any date of determination.

"*Total Assets*" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee.

"*Trade Payables*" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 90 days.

"*Transaction Date*" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"*Unrestricted Subsidiary*" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

"*U.S. Government Obligations*" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which

is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the holder thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"*Voting Stock*" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"*Wholly Owned*" means, with respect to any Subsidiary of any Person, the ownership of 100% of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that solely for purposes of clause (b) of the first paragraph of the covenant described under the caption "– Certain Covenants – Limitation on Restricted Payments," a Restricted Subsidiary shall be considered a Wholly Owned Restricted Subsidiary if the ownership of 90% or more of the outstanding Capital Stock of such Restricted Subsidiary is owned, directly or indirectly, by the Company.

# TAXATION

*The following summary is based on tax laws of the Cayman Islands, Hong Kong, PRC and the United States as in effect on the date of this offering memorandum, and is subject to the changes in Cayman Islands, Hong Kong, U.S. law or PRC, including changes that could have retroactive effect. The following summary does not take into account or discuss the tax laws of any countries other than the Cayman Islands, Hong Kong, PRC and the United States. Prospective purchasers in all jurisdictions are advised to consult their own tax advisors as to Cayman Islands, Hong Kong, U.S. or PRC or other tax consequence of the Acquisition, ownership and disposition of the Notes.*

## Cayman Islands Taxation

In the opinion of Maples and Calder, our Cayman Islands counsel, the following is a summary of the material Cayman Islands tax consequences relevant to the purchase, ownership and disposition of the Notes.

The Cayman Islands currently levy no taxes on individual or corporations based on profits, income, gains or appreciations and there is no taxation i the nature of inheritance tax or estate duty.

Pursuant to the Tax Concession Law (1999 Revision) of the Cayman Islands, we have obtained a twenty year undertaking from the Governor-in-Council (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to our company or our operations; and (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of our company.

The Cayman Islands is not a party to any double tax treaties relevant to the payment of any sum by or to the Company.

## Hong Kong Taxation

### *Withholding Tax*

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

### *Profits Tax*

Hong Kong profits tax is charged on every person carrying a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 12 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong;
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

**PRC Taxation**

***Taxation of Interest***

The New EIT Law imposes a withholding tax at the rate of 10% on interest paid by PRC "resident enterprises" to a holder of notes that is a "non-resident enterprise" so long as such "non-resident enterprise" holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent such interests are sourced within China. If we are considered a PRC "resident enterprise," interest payable to "non-resident enterprise" holders of the notes may be treated as income derived from sources within China and be subject to PRC withholding tax. It is unclear whether the PRC tax authorities would treat us as a PRC "resident enterprise." To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to holders of notes who qualify for such treaty benefits.

***Taxation On Capital Gains***

The New EIT Law imposes a tax at the rate of 10% on capital gains realized by a holder of notes that is a "non-resident enterprise" so long as any such "non-resident enterprise" holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China, to the extent such capital gains are sourced within China. If we are considered a PRC "resident enterprise," capital gains realized by holders of notes may be treated as income derived from sources within China and be subject to PRC tax. It is unclear whether the PRC tax authorities would treat us as a PRC "resident enterprise," and the application of capital gains tax to holders of notes is uncertain. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to holders of notes who qualify for such treaty benefits.

**Kazakhstan Taxation**

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes by the Issuer to an individual who is a tax 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 actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by the Issuer to residents of Kazakhstan or to tax non-residents who maintain a permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), other than to individuals, is subject to Kazakhstan income tax unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan.

In addition, gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax. Any gains derived by Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

Payments of interest to Non-Kazakhstan Holders under the Subsidiary Guarantee issued by Emir-Oil will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest under such Subsidiary Guarantee to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Singapore, Switzerland and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Payments of interest to Kazakhstan Holders under the Subsidiary Guarantee issued by Emir-Oil, other than to Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15%.

**Dutch Taxation**

For the purpose of this paragraph, "Dutch Taxes" shall mean taxes of whatever nature levied by or on behalf of the Netherlands or any of its subdivisions or taxing authorities.

"The Netherlands" means the part of the Kingdom of the Netherlands located in Europe.

Any payments made by Palaeontol Coöperatief U.A. and/or Palaeontol B.V. under the Subsidiary Guarantees will not be subject to withholding or deduction for, or on account of, any Dutch Taxes.

No Dutch Taxes of a documentary nature, such as capital tax, stamp or registration tax or duty, are payable by Palaeontol Cooperatief U.A. and/or Palaeontol B.V. by reason only of the execution or delivery of the Subsidiary Guarantees by either company.

No other Dutch Taxes of a documentary nature, such as capital tax, stamp or registration tax or duty, are payable by or on behalf of a holder of Notes by reason only of the issue, acquisition or transfer of the Notes.

**United States Federal Income Taxation**

**TO COMPLY WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY PROSPECTIVE INVESTORS, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"); (B) ANY SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following discussion is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes by a U.S. holder (defined below) but does not purport to be a complete analysis of all potential tax effects. This summary is based on the Code, Treasury regulations issued thereunder, and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. No rulings from the U.S. Internal Revenue Service ("IRS")

have been or are expected to be sought with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained.

This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances or to holders subject to special rules, such as:

- banks, insurance companies, or other financial institutions;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- partnerships or other pass-through entities, or persons holding the Notes through such entities;
- real estate investment trusts or regulated investment companies;
- persons liable for the alternative minimum tax;
- tax-exempt organizations;
- U.S. expatriates;
- U.S. holders whose functional currency is not the U.S. dollar; or
- persons holding the Notes as part of a straddle, hedge, conversion or integrated transaction.

In addition, this discussion is limited to persons who purchase the Notes for cash at original issue and at their "issue price" (the first price at which a substantial part of the Notes is sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Notes as capital assets within the meaning of section 1221 of the Code.

For purposes of this discussion, a "U.S. holder" is a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation or any entity taxable as a corporation created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- any estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a United States person.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Holders that are partnerships, and partners in such partnerships, should consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Notes.

**Prospective purchasers of the Notes should consult their tax advisors concerning the tax consequences of holding the Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.**

***Payments of Interest***

The following discussion assumes the Notes are not issued with original issue discount ("OID") for U.S. federal income tax purposes. If, contrary to this assumption, the amount of discount on the Notes exceeds a statutorily defined *de minimis* amount, the Notes will be treated as issued with OID. In such event, a U.S. holder of the Notes will be required to include such OID in income on a constant yield basis in advance of the receipt of cash to which such income is attributable.

Payments of stated interest (including any foreign taxes withheld therefrom) and any Additional Amounts on the Notes will be taxable to a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes.

Interest income (including any Additional Amounts) on a Note will constitute foreign source, "passive category" income (but could, in the case of certain U.S. holders, constitute "general category" income) for purposes of computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. Subject to certain limitations and conditions, any foreign taxes withheld from interest income on a Note will be treated as foreign income tax eligible for credit against the U.S. holder's U.S. federal income tax liability or, at the holder's election, eligible for deduction in computing the holder's U.S. federal taxable income. U.S. holders should consult their tax advisors regarding the creditability or deductibility of any withholding taxes.

In certain circumstances, we may be obligated to make payments in excess of stated interest and the principal amount of the Notes. We believe the Notes should not be treated as contingent payment debt instruments because of these additional payments. This position is based in part on assumptions regarding the likelihood, as of the date of issuance of the Notes, that such additional payments will be made. Our position is binding on a holder, unless the holder discloses in the proper manner to the IRS that it is taking a different position. However, our position is not binding on the IRS. If the IRS successfully challenges this position, and the Notes are treated as contingent payment debt instruments, the timing, amount and character of a U.S. holder's income with respect to the Notes could be materially different from the consequences described herein. This discussion assumes the Notes will not be treated as contingent payment debt instruments.

***Sale, Exchange, Redemption or other Disposition of the Notes***

Upon the sale, exchange, redemption or other taxable disposition of a Note, a U.S. holder will generally recognize gain or loss equal to the difference between the amount realized upon the disposition and the U.S. holder's adjusted tax basis in the Note. For this purpose, the amount realized upon the disposition will not include any amount attributable to accrued but unpaid stated interest, which will be taxable as interest income to the extent not previously included in the U.S. holder's income. The U.S. holder's adjusted tax basis in the Note will generally be the cost of the Note to the U.S. holder.

Any gain or loss will be capital gain or loss, and if the U.S. holder has held the Note for more than one year at the time of disposition, long-term capital gain or loss. Long-term capital gain recognized by certain non-corporate U.S. holders, including individuals, will generally be subject to reduced tax rates. The deductibility of capital losses is subject to limitations.

Any gain or loss will generally be U.S.-source income for purposes of computing a U.S. holder's foreign tax credit limitation. As described in "Taxation – PRC Taxation," we may be treated as a PRC resident enterprise for PRC tax purposes. If we are deemed to be a PRC resident enterprise for PRC tax purposes, any gain from a sale or other disposition of the Notes may be subject to PRC income taxes. In that case, a U.S. holder's amount

realized would include the gross amount of the proceeds of the disposition. U.S. holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and the creditability of any PRC tax on gain from a disposition of the Notes.

***Information Reporting and Backup Withholding***

A U.S. holder may be subject to information reporting and backup withholding when such holder receives payments of interest and principal on the Notes or proceeds from a sale or other disposition of the Notes, unless (i) the holder is an exempt recipient or (ii) in the case of backup withholding, the holder provides a correct taxpayer identification number and complies with applicable certification requirements. U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

In addition, certain U.S. holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for the Notes held in accounts maintained by certain financial institutions).

## PLAN OF DISTRIBUTION

We intend to offer the Notes through the Initial Purchasers. Subject to the terms and conditions contained in a purchase agreement dated May 5, 2011 (the "Initial Purchase Agreement") by and among the Initial Purchasers, us and the Subsidiary Guarantors, we have agreed to sell to the Initial Purchasers and the Initial Purchasers have agreed to purchase from us the Notes.

Subject to the terms and conditions set forth in the Initial Purchase Agreement, the Initial Purchasers have agreed to purchase all of the Notes being sold pursuant to the Initial Purchase Agreement if any of these Notes are purchased. The price at which the Notes are offered and other selling terms may be changed from time to time without notice by the Initial Purchasers. The Initial Purchasers may offer the Notes in various jurisdictions through certain of its affiliates.

We and the Subsidiary Guarantors have agreed in the Initial Purchase Agreement to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchasers may be required to make in respect thereof.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by its counsel, including the validity of the Notes, and other conditions contained in the Initial Purchase Agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchasers or their respective affiliates may purchase the Notes for its own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or other securities of the Company, its subsidiaries or associates at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of Notes). The Initial Purchasers or certain of their respective affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

### Commissions and Discounts

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

### Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any applicable state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes except to persons it reasonably believes to be qualified institutional buyers, or pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S.

In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

**New Issue of Notes**

The Notes are a new issue of securities with no established trading market. Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. We have been advised by the Initial Purchasers that they each presently intend to make a market in the Notes after completion of the offering. However, it is under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

**Settlement**

We expect that delivery of the notes will be made to investors on or about the closing date specified on the cover of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes hereunder will be required, by virtue of the fact that the notes initially settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

**No Sales of Similar Securities**

We have agreed that we will not, for a period of 90 days after the date of this offering memorandum, without first obtaining the prior written consent of the Initial Purchasers, directly or indirectly, offer, sell, contract to sell, issue or otherwise dispose of any debt securities with a tenor of more than one year, except for the Notes sold to the Initial Purchasers pursuant to the Initial Purchase Agreement.

**Short Positions and Stabilizing Transactions**

In connection with the offering, any of the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. Such Initial Purchaser must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the Initial Purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

**Notice to Prospective Investors in the PRC**

This offering memorandum does not constitute a public offer of the Notes, whether by sale or by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document.

**Notice to Prospective Investors in Hong Kong**

The Notes have not been and will not be offered or sold in Hong Kong, by means of any document, other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO or (ii) in circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. The Initial Purchasers have not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are intended to be disposed of to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

**Notice to Prospective Investors in Singapore**

The Initial Purchasers have acknowledged that this offering memorandum or any other material distributed by it relating to the Notes has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and that the Notes will be offered in Singapore pursuant to exemptions under Section 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, the Initial Purchasers have not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor under the SFA; or

(b) a trust (where the trustee is not an accredited investor under the SFA) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor under the SFA,

securities (as defined in Section 239(1) of the SFA) of that corporation, or the beneficiaries' rights and interest (however described) in that trust, as the case may be, shall not be transferable within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA unless:

(1) the transfer is to an institutional investor under Section 274 of the SFA, or to a relevant person defined in Section 275(2) of the SFA respectively, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

**Notice to Prospective Investors in Japan**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and the Initial Purchasers have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

**Notice to Prospective Investors in the EEA**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any Notes which are the subject of the offering contemplated by this offering memorandum may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Notes may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000; and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

(c) by the Initial Purchasers to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive) subject to obtaining the prior consent of the Initial Purchasers for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of the Notes shall result in a requirement for the publication by us or any Initial Purchasers of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. Any person making or intending to make any offer of the Notes within the EEA should only do so in circumstances in which no obligation arises for us or any of the Initial Purchasers to produce a prospectus for such offer. Neither we nor the Initial Purchasers have authorized, nor does it authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by the Initial Purchasers which constitute the final offering of the Notes contemplated in this offering memorandum.

For the purposes of this provision, and your representation below, the expression an "offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Notes to be offered so as to enable an investor to decide to purchase any Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under, the offer of the Notes contemplated by this offering memorandum will be deemed to have represented, warranted and agreed to and with us and each Initial Purchaser that:

(A) it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(B) in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Notes acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" (as defined in the Prospectus Directive), or in circumstances in which the prior consent of the Initial Purchasers has been given to the offer or resale; or (ii) where the Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

**Notice to Prospective Investors in the United Kingdom**

In the United Kingdom, this offering memorandum is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

**Notice to Investors in the Cayman Islands**

The Notes will not be offered or sold to the public or to any member of the public in the Cayman Islands.

**Other Relationships**

The Initial Purchasers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

## TRANSFER RESTRICTIONS

*Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, charge or other transfer of the Notes.*

**United States Restrictions**

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only to (1) "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) ("QIBs") in compliance with Rule 144A, and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A; or (ii) a purchaser that is outside the United States;

2. acknowledge that the Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except as set forth below;

3. agree that if it should resell or otherwise transfer the Notes, it will do so only: (a)(i) to the Company or any subsidiary thereof; (ii) inside the United States to a QIB in compliance with Rule l44A; (iii) outside the United States in an offshore transaction in compliance with Rule 904 under the Securities Act; (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or (b) if such purchaser is a subsequent investor of an interest in the Restricted Global Note, as set forth in (a) above and, in addition, pursuant to any other available exemption from the registration Requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes otherwise than as described in (a)(i), (a)(ii) or (a)(iii) above or (c) below, we, the Subsidiary Guarantors, the Trustee or any Paying Agent may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption);or (c) pursuant to an effective registration statement under the Securities Act;

4. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;

5. understand that if it is a purchaser outside the United States, the Notes will be represented by the Regulation S Global Note and that transfers thereto are restricted as described under "Description of the Notes – Book-Entry; Delivery and Form." If it is a QIB, it understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, charged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide each of the Trustee and the Paying Agent with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;

6. understand that each Note sold within the United States will bear a legend to the following effect unless otherwise agreed by us and the holder thereof (unless such Note has been sold pursuant to a registration statement that has been declared effective under the Securities Act):

   THIS NOTE AND THE SUBSIDIARY GUARANTEES RELATED TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND ACCORDINGLY, THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT WITHIN THE TIME PERIOD REFERRED TO IN RULE 144 UNDER THE SECURITIES ACT AS IN EFFECT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) IF SUCH PURCHASER IS AN INITIAL PURCHASER (I) TO MIE HOLDINGS CORPORATION OR ANY SUBSIDIARY THEREOF; (II) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT; (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); OR (B) IF SUCH PURCHASER IS A SUBSEQUENT PURCHASER OF AN INTEREST IN THE RESTRICTED GLOBAL NOTE, AS SET FORTH IN (2)(A) ABOVE AND, IN ADDITION, PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY NOTES OTHERWISE THAN AS DESCRIBED IN (2)(A)(I), (A)(II) OR A(III) ABOVE OR (2)(C) BELOW, THE COMPANY, THE SUBSIDIARY GUARANTORS, THE TRUSTEE OR ANY PAYING AGENT MAY, IN CIRCUMSTANCES THAT ANY OF THEM DEEMS APPROPRIATE, REQUIRE EVIDENCE AS TO COMPLIANCE WITH ANY SUCH EXEMPTION); OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE AND THE PAYING AGENT. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE AND THE PAYING AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS;

7. acknowledge that the Company, the Subsidiary Guarantors, the Paying Agent, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Subsidiary Guarantors, the Paying Agent and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

8. acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to it with respect to us or the offering, other than the information contained in this offering memorandum;

9. represent that it is relying only on this offering memorandum in making its investment decision with respect to the Notes; and

10. represent that it has had access to such financial and other information concerning us and the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask questions of, and request information from, us.

## LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Latham & Watkins as to matters of United States federal securities and New York law and Hong Kong law, Maples and Calder as to matters of Cayman Islands law, Zhong Lun Law Firm as to matters of PRC law, GRATA Law Firm as to matters of Kazakhstan law and De Brauw Blackstone Westbroek N.V. as to matters of Dutch law. Certain legal matters with respect to the Notes will be passed upon for the Initial Purchasers by White & Case with respect to United States federal securities, New York law and Kazakhstan law and Jingtian & Gongcheng as to matters of PRC law.

## INDEPENDENT PUBLIC ACCOUNTANTS

The financial statements of our Group for each of the years ended December 31, 2008, 2009 and 2010, included in this offering memorandum have been audited by PricewaterhouseCoopers, independent public accountant, as stated in the financial statements included in this offering memorandum.

The financial statements of Emil-Oil for each of the years ended March 31, 2008, 2009 and 2010 and for the nine months ended December 31, 2010 included in this offering memorandum have been audited by Baker Tilly Hong Kong Limited, independent public accountant, as stated in the financial statements included in this offering memorandum.

## INDEPENDENT TECHNICAL CONSULTANTS

The Group's estimated proved, probable and possible oil reserves presented in this offering memorandum are estimates that have been prepared by Ryder Scott Company, L.P., an independent petroleum engineering consulting firm based in the United States specializing in oil reservoir evaluation and economic analysis. Ryder Scott Company, L.P. has given and not withdrawn its written consent to the issue of this offering memorandum with the inclusion herein of its name, all references to their independent technical reports dated December 31, 2008, 2009 and 2010, the inclusion of the summary independent technical report dated April 26, 2011 in this offering memorandum and the use of the information therein.

Emir-Oil's estimated proved, probable and possible oil reserves presented in this offering memorandum are estimates that have been prepared by Chapman Petroleum Engineering Ltd., an independent appraisal firm located in Canada and Emir-Oil's independent petroleum engineering firm. Emir-Oil has given and not withdrawn its written consent to the issue of this offering memorandum with the inclusion herein of its name, the inclusion of its independent technical report as of December 31, 2010 in this offering memorandum and the use of the information therein.

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*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

**PricewaterhouseCoopers**
22/F, Prince's Building
Central, Hong Kong

December 1, 2010

The Directors
MIE Holdings Corporation

J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We report on the financial information of MIE Holdings Corporation (the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated statements of financial position as at December 31, 2007, 2008 and 2009 and June 30, 2010, the statements of financial position of the Company as at December 31, 2008 and 2009 and June 30, 2010, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated December 1, 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on March 20, 2008 as an exempted company with limited liability under the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1 of Section II headed "General information and group reorganization" below, which was completed on January 12, 2009, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganization").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

The consolidated financial statements of the Group for each of the years ended December 31, 2007, 2008 and 2009 prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements") were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company pursuant to separate terms of engagement with the Company. The financial statements of the subsidiaries of the Company were prepared in accordance with the IFRSs.

The financial information has been prepared based on the Underlying Financial Statements, or, where appropriate, unaudited consolidated financial statements of the Company, with no adjustment made thereon.

**Directors' responsibility for the financial information**

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Reporting accountant's responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus a true and fair view of the state of affairs of the Company as at December 31, 2008 and 2009 and June 30, 2010 and of the state of affairs of the Group as at December 31, 2007, 2008 and 2009 and June 30, 2010 and of the Group's results and cash flows for each of the Relevant Periods then ended.

**Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2009 and a summary of significant accounting policies and other explanatory notes (the "Stub Period Comparative Financial Information").

The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with IFRSs.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the Prospectus, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with IFRSs.

## I. FINANCIAL INFORMATION

The following is the financial information of the Group as at December 31, 2007, 2008, 2009 and June 30, 2010 and for each of the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2010.

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Notes | As at December 31, | | | As at June 30, |
|---|---|---|---|---|---|
| | | 2007 | 2008 | 2009 | 2010 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 6 | 1,707,106 | 2,486,943 | 2,665,143 | 2,931,523 |
| Intangible asset | 7 | 558 | 6,043 | 2,599 | 1,617 |
| Derivative financial instruments | 8 | – | 94,912 | – | – |
| Amount due from shareholder | 12 | 449,438 | – | – | – |
| Trade and other receivables | 9 | – | 71,805 | 70,360 | 114,567 |
| | | 2,157,102 | 2,659,703 | 2,738,102 | 3,047,707 |
| **Current assets** | | | | | |
| Inventories | 11 | 36,582 | 73,858 | 76,078 | 48,408 |
| Derivative financial instruments | 8 | – | 132,761 | 20,307 | 6,243 |
| Trade and other receivables | 9 | 341,937 | 103,796 | 489,571 | 362,631 |
| Amount due from shareholder | 12 | 359,550 | 422,880 | 81,074 | – |
| Pledged deposits | 10 | – | 50,222 | 30,729 | 30,606 |
| Cash and cash equivalents | 13 | 77,166 | 382,119 | 290,271 | 268,329 |
| | | 815,235 | 1,165,636 | 988,030 | 716,217 |
| **TOTAL ASSETS** | | 2,972,337 | 3,825,339 | 3,726,132 | 3,763,924 |
| **EQUITY** | | | | | |
| **Capital and reserves attributable to equity holders of the Group** | | | | | |
| Ordinary shares | 14 | 684 | 684 | 659 | 535 |
| Preferred shares | 14 | – | – | 171 | 420 |
| Other reserves | 15 | (270) | 49,023 | 403,909 | 424,311 |
| Retained earnings | | 668,953 | 1,094,058 | 848,707 | 852,754 |
| Total equity | | 669,367 | 1,143,765 | 1,253,446 | 1,278,020 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Asset retirement obligations | 16 | 27,702 | 4,624 | 6,978 | 9,270 |
| Deferred income tax liabilities – net | 17 | 47,574 | 102,770 | 86,400 | 12,625 |
| Trade and other payables | 18 | – | 233,688 | 170,235 | 331,554 |
| Borrowings | 19 | 730,460 | 765,475 | 1,242,963 | 1,243,630 |
| | | 805,736 | 1,106,557 | 1,506,576 | 1,597,079 |
| **Current liabilities** | | | | | |
| Derivative financial instruments | 8 | – | 25,257 | – | – |
| Trade and other payables | 18 | 1,497,234 | 1,495,083 | 863,687 | 786,962 |
| Borrowings | 19 | – | 54,677 | 102,423 | 101,863 |
| | | 1,497,234 | 1,575,017 | 966,110 | 888,825 |
| **Total liabilities** | | 2,302,970 | 2,681,574 | 2,472,686 | 2,485,904 |
| **TOTAL EQUITY AND LIABILITIES** | | 2,972,337 | 3,825,339 | 3,726,132 | 3,763,924 |
| Net current (liabilities)/assets | | (681,999) | (409,381) | 21,920 | (172,608) |
| Total assets less current liabilities | | 1,475,103 | 2,250,322 | 2,760,022 | 2,875,099 |

## STATEMENTS OF FINANCIAL POSITION

| | As at December 31, | | As at June 30, |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in MIE | – | 1,371,125 | 1,390,867 |
| Amount due from MIE | – | 323,713 | 321,691 |
| | – | 1,694,838 | 1,712,558 |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | 33 | 25 |
| Prepaid expense | – | 12,786 | 15,727 |
| | 10 | 12,819 | 15,752 |
| **TOTAL ASSETS** | 10 | 1,707,657 | 1,728,310 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Ordinary shares | – | 659 | 535 |
| Preferred shares | – | 171 | 420 |
| Other reserves | – | 1,707,585 | 1,710,588 |
| Accumulated deficit | (368) | (3,482) | (1,346) |
| **Total equity** | (368) | 1,704,933 | 1,710,197 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Salary payable | 368 | – | – |
| Stock appreciation rights liabilities | – | 2,260 | 16,660 |
| Other liabilities | – | 464 | 1,453 |
| Amount due to MIE | 10 | – | – |
| **Total liabilities** | 378 | 2,724 | 18,113 |
| **TOTAL EQUITY AND LIABILITIES** | 10 | 1,707,657 | 1,728,310 |
| Net current (liabilities)/assets | (368) | 10,095 | (2,361) |
| Total assets less current liabilities | (368) | 1,704,933 | 1,710,197 |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Notes | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|
| | | 2007 | 2008 | 2009 | 2009 | 2010 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Revenue** | 5 | 1,221,624 | 1,971,688 | 1,166,827 | 363,760 | 947,364 |
| **Operating expenses** | | | | | | |
| Purchases, services and other | | (111,729) | (96,905) | (123,587) | (46,587) | (61,546) |
| Employee compensation costs | 20 | (52,996) | (69,014) | (67,651) | (24,756) | (57,596) |
| Depreciation, depletion and amortisation | | (286,792) | (475,172) | (445,824) | (226,547) | (268,015) |
| Impairment of property, plant and equipment | 6 | – | (32,000) | – | – | – |
| Distribution expenses | | (16,962) | (23,355) | (21,861) | (6,782) | (15,183) |
| Administrative expenses | | (65,054) | (89,249) | (62,253) | (22,762) | (25,283) |
| Provision for impairment of other receivables | 9 | (49,843) | – | – | – | – |
| Taxes other than income taxes | 21 | (159,998) | (538,126) | (73,308) | (3,497) | (148,617) |
| Other income/(loss) | 22 | 32,777 | 133,758 | (131,124) | (85,774) | (10,960) |
| Total operating expenses | | (710,597) | (1,190,063) | (925,608) | (416,705) | (587,200) |
| **Profit/(loss) from operations** | | 511,027 | 781,625 | 241,219 | (52,945) | 360,164 |
| Finance income | 23 | 11,897 | 45,673 | 1,552 | 930 | 7,260 |
| Finance costs | 23 | (88,808) | (53,460) | (58,832) | (24,553) | (40,246) |
| **Finance costs – net** | 23 | (76,911) | (7,787) | (57,280) | (23,623) | (32,986) |
| **Profit/(loss) before income tax** | | 434,116 | 773,838 | 183,939 | (76,568) | 327,178 |
| **Income tax (expense)/benefit** | 24 | (125,163) | (162,748) | (73,462) | 2,909 | (88,723) |
| **Net profit/(loss) for the year/ period** | | 308,953 | 611,090 | 110,477 | (73,659) | 238,455 |
| **Total comprehensive income/(loss) for the year/period** | | 308,953 | 611,090 | 110,477 | (73,659) | 238,455 |
| **Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the company** | | | | | | |
| **Earnings/(loss) per share, Basic (expressed in RMB per share)** | 29 | 3.1 | 6.1 | 1.0 | (0.7) | 2.0 |
| **Earnings/(loss) per share, Diluted (expressed in RMB per share)** | 29 | 3.1 | 6.1 | 1.0 | (0.7) | 2.0 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Note | Ordinary shares | Preferred shares | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at January 1, 2007** | | 684 | – | (270) | 360,000 | 360,414 |
| **Comprehensive income for the year** | | | | | | |
| Net profit for the year | | – | – | – | 308,953 | 308,953 |
| | | – | – | – | 308,953 | 308,953 |
| **As at January 1, 2008** | | 684 | – | (270) | 668,953 | 669,367 |
| **Comprehensive income for the year** | | | | | | |
| Net profit for the year | | – | – | – | 611,090 | 611,090 |
| Transfer to safety fund reserve | 15 | – | – | 49,293 | (49,293) | – |
| | | – | – | 49,293 | 561,797 | 611,090 |
| **Transactions with owners** | | | | | | |
| Deemed dividend distribution | 25 | – | – | – | (136,692) | (136,692) |
| Total transactions with owners | | – | – | – | (136,692) | (136,692) |
| **As at January 1, 2009** | | 684 | – | 49,023 | 1,094,058 | 1,143,765 |
| **Comprehensive income for the year** | | | | | | |
| Net profit for the year | | – | – | – | 110,477 | 110,477 |
| Transfer to safety fund reserve | 15 | – | – | 14,213 | (14,213) | – |
| | | – | – | 14,213 | 96,264 | 110,477 |
| **Transactions with owners** | | | | | | |
| Employees stock options | 14c | – | – | 1,224 | – | 1,224 |
| Issuance of redeemable ordinary shares | 14a | – | – | (35,043) | – | (35,043) |
| Cancellation of redeemable ordinary shares | 14a | – | – | 35,043 | – | 35,043 |
| Issuance of Series A preferred shares for cash | 14b | – | 146 | 339,449 | – | 339,595 |
| Issuance of Series A preferred shares in exchange for ordinary shares | 14b | – | 25 | 61,429 | – | 61,454 |
| Cancellation of ordinary shares | 14b,15 | (25) | – | (61,429) | – | (61,454) |
| Deemed dividend distribution | 25 | – | – | – | (341,615) | (341,615) |
| Total transactions with owners | | (25) | 171 | 340,673 | (341,615) | (796) |
| **As at December 31,2009** | | 659 | 171 | 403,909 | 848,707 | 1,253,446 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

| | Note | Ordinary shares | Preferred shares | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Six months ended June 30, 2009 (Unaudited)** | | | | | | |
| Balance at January 1, 2009 | | 684 | – | 49,023 | 1,094,058 | 1,143,765 |
| **Comprehensive income for the period** | | | | | | |
| Net loss for the period | | – | – | – | (73,659) | (73,659) |
| Transfer to safety fund reserve | | – | – | 3,507 | (3,507) | – |
| | | – | – | 3,507 | (77,166) | (73,659) |
| **Transaction with owners** | | | | | | |
| Issuance of Redeemable Ordinary share | 14a | – | – | (35,043) | – | (35,043) |
| As at June 30, 2009 | | 684 | – | 17,487 | 1,016,892 | 1,035,063 |
| **Six months ended June 30, 2010** | | | | | | |
| Balance at January 1, 2010 | | 659 | 171 | 403,909 | 848,707 | 1,253,446 |
| **Comprehensive income for the period** | | | | | | |
| Net profit for the period | | – | – | – | 238,455 | 238,455 |
| Transfer to safety fund reserve | 15 | – | – | 16,824 | (16,824) | – |
| Current translation difference | | – | – | (1,646) | – | (1,646) |
| | | – | – | 15,178 | 221,631 | 236,809 |
| **Transaction with owners** | | | | | | |
| Employees stock options | | – | – | 5,349 | – | 5,349 |
| Cancellation of ordinary shares | 14a,15 | (124) | – | (614,047) | – | (614,171) |
| Issuance of series B preferred shares in exchange of ordinary shares | 14b,15 | – | 249 | 613,922 | – | 614,171 |
| Cash dividend distribution | 25 | – | – | – | (136,532) | (136,532) |
| Deemed dividend distribution | 25 | – | – | – | (81,052) | (81,052) |
| As at June 30, 2010 | | 535 | 420 | 424,311 | 852,754 | 1,278,020 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Notes | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|
| | | 2007 | 2008 | 2009 | 2009 | 2010 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Cash flows from operating activities** | | | | | | |
| Cash generated from operations | 26 | 587,408 | 1,694,427 | 38,631 | 3,049 | 751,161 |
| Interest paid | | (36,769) | (51,932) | (58,629) | (24,867) | (31,965) |
| Income tax paid | | (33,134) | (192,983) | (50,264) | (500) | (160,150) |
| Net cash generated from/(used in) operating activities | | 517,505 | 1,449,512 | (70,262) | (22,318) | 559,046 |
| **Cash flows from investing activities** | | | | | | |
| Purchases of property, plant and equipment | | (831,453) | (1,238,537) | (881,374) | (216,162) | (427,439) |
| Decrease/(increase) in pledged deposits | | 231,450 | (50,222) | 19,460 | (29,449) | – |
| Loan repayments from shareholder | | 92,246 | 78,983 | – | – | – |
| Loan granted to shareholder | | (207,250) | – | – | – | – |
| Loan granted to PSC partner | | (4,445) | (88,272) | (21,733) | (17,500) | (17,070) |
| Loan repayment from shareholder | | – | 16,988 | – | – | – |
| Interest received | | 4,108 | 2,577 | 1,834 | 866 | 53 |
| Net cash used in investing activities | | (715,344) | (1,278,483) | (881,813) | (262,245) | (444,456) |
| **Cash flows from financing activities** | | | | | | |
| Proceeds from borrowings | | 730,460 | 136,690 | 1,447,977 | – | – |
| Repayments of borrowings | | (481,950) | – | (927,345) | – | – |
| Proceeds from issuance of preferred shares | | – | – | 339,595 | – | – |
| Cash dividends paid | | – | – | – | – | (136,532) |
| **Net cash generated from/(used in) financing activities** | | 248,510 | 136,690 | 860,227 | – | (136,532) |
| **Net increase/(decrease) in cash and cash equivalents** | | 50,671 | 307,719 | (91,848) | (284,563) | (21,942) |
| **Exchange losses on cash and cash equivalents** | | – | (2,766) | – | – | – |
| Cash and cash equivalents at beginning of the year/period | | 26,495 | 77,166 | 382,119 | 382,119 | 290,271 |
| **Cash and cash equivalents at end of the year/period** | 13 | 77,166 | 382,119 | 290,271 | 97,556 | 268,329 |

## II. NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1 GENERAL INFORMATION AND GROUP REORGANIZATION

The Company was incorporated by, Far East Energy Limited ("FEEL") a company incorporated on May 16, 2003 in Hong Kong with limited liability. Prior to January 12, 2009, two of FEEL's direct and ultimate shareholders, Mr. Zhang and Mr. Zhao, together own 99.9% of FEEL. On November 20, 2009, they signed an acting-in-concert agreement. As a result of Mr Zhang and Mr Zhao share ownership and the acting-in-concert agreement, they ultimately control the Company through FEEL.

MI Energy Corporation ("MIE") is a limited liability company incorporated in Cayman Islands and domiciled in the People's Republic of China ("PRC" or "China"). MIE was a wholly owned subsidiary of FEEL, the ultimate holding company of MIE throughout the financial years ended December 31, 2007, 2008 and 2009 until January 12, 2009, when MIE became a wholly owned subsidiary of the Company and the Company became a subsidiary of FEEL pursuant to the Reorganization described below. Mr. Zhang and Mr. Zhao ultimately control MIE through their controlling interest in FEEL.

On January 12, 2009, FEEL restructured its subsidiaries in preparation for a public offering of the Company's shares and as part of an amendment to MIE's then US$150 million banking facility from Standard Bank. Under the restructuring, the Company issued an additional 99,999,000 ordinary shares to FEEL in exchange for 50,000 ordinary shares of MIE, which was the entire interest in MIE held by FEEL at the time of exchange ("the Reorganization") (See Note 2(a)). As such MIE became a wholly owned subsidiary of the Company (together referred to as "the Group") and a predecessor entity for the Relevant Periods as defined below prior to the Company's incorporation. FEEL became the ultimate parent company of MIE. After the Reorganization, through FEEL, Mr. Zhang and Mr. Zhao continued to ultimately control both the Company and MIE.

The Group's principal business is to engage in the development, production and sale of crude oil through MIE's four production sharing projects it obtained in 2001 and located at four oil blocks. On May 26, 2001, MIE was assigned all of Microbes, Inc.'s, its then parent company, 90% foreign participating interest in the Production Sharing Contracts ("PSCs") of four oil blocks, namely, Daan, Moliqing and Miao 3 in Jilin Province with PetroChina and Luojiayi 64 block in Shengli of Shandong Province. The Group conducts its oil production business through the four production sharing projects. The Daan and Miao 3 projects were established in 1997, and the Moliqing project was established in 1998. The duration of those three projects are 30 years with the commercial production period being up to 20 years. The Group acts as the operator of these four PSCs. The Group and Global Oil Corporation ("GOC"), hold a 90% interest and a 10% interest in the foreign participating interest in the first three PSCs, respectively. (Note 2(c)).

As of January 1, 2005, the Daan project was in the commercial production phase. As of October 1, 2008, the Miao 3 project attained commercial production. As of December 1, 2008, the Moliqing project reached commercial production. In 2006, the Luojiayi 64 block stopped work and in 2005 MIE's related investment was fully written off (Note 27(b)).

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The Company prepared the accompanying consolidated financial information in accordance with IFRS as issued by the IASB.

The Reorganization of the Group in January 2009 involved subsidiaries of FEEL, the Company and MIE. Accordingly, the Reorganization and the combination of the Company and its predecessor MIE are considered to be a reorganization of entities under the common control of FEEL's ultimate

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### (a) Basis of preparation – continued

controlling shareholders, Mr. Zhang and Mr. Zhao. In addition, FEEL directly controlled both the Company and MIE prior to the Reorganization and continues to control the Group after the Reorganization. Accordingly, in the absence of available guidance under IFRSs, the Company accounted for the Reorganization described in Note 1 above as a reorganization of entities under common control in a manner similar to a pooling of interests.

On the basis described above, this financial information presents the consolidated results of operations, and cash flows of the Company and MIE, now comprising the Group, from the earliest date presented (January 1, 2007) through the years ended December 31, 2007, 2008 and 2009 and six months ended June 30, 2010 and the consolidated financial position of the Group as of December 31, 2007, 2008 and 2009 and June 30, 2010 as if the Reorganization had been consummated since inception and the business activities had been conducted by the Company throughout the Relevant Periods. Consequently, the assets, liabilities, revenues and expenses of the Company and MIE are included at their historical amounts. The share capital amounts in the consolidated statements of financial position for all periods presented reflect the Company's share capital after the Reorganization. Any differences during the Relevant Periods are recorded in other reserves.

All significant intra-group transactions and balances have been eliminated on consolidation.

The principal accounting policies used in preparation of the consolidated financial information are set out below. The policies have been consistently applied to all years presented unless otherwise stated. The consolidated financial information have been prepared under the historical cost convention, as modified by revaluation of financial derivative instruments at fair value through profit or loss.

Although the Group had a deficiency of net current assets of RMB172,608,000 as at June 30, 2010, the Group has taken certain steps to enable the Group to continue as a going concern. The working capital deficit was anticipated as the Group accelerated its capital program. The Group has the ability to manage these positions due to the anticipated monthly positive cash flows generated from its operations and the ability to negotiate and modify the terms with its trade creditors. After taking into consideration the above, the directors believe that the Group has sufficient cash to enable it to settle its liabilities as and when they fall due. Accordingly, the consolidated financial information has been prepared on a going concern basis.

The preparation of consolidated financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in Note 4.

***New accounting pronouncements***

(i) New standards, amendments to and interpretations on existing standards adopted by the Group are as follows:

- IAS 7 (Amendment) 'Statement of cash flows', effective for periods beginning on or after January 1, 2010. The amendment requires only expenditures that result in a recognised asset in the statement of financial position to be classified as investing activities.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continued

**(a) Basis of preparation** – continued

***New accounting pronouncements*** – continued

- IFRS 2 (Amendments), "share-based payments" is effective for annual beginning on or after July 1, 2009. IFRS 2 (Amendments), 'Group cash-settled share-based payment transactions' effective from January 1, 2010. In addition to incorporating IFRIC Int 8 'Scope of IFRS 2' and IFRIC-Int 11, 'IFRS 2 – group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the clarification of group arrangements that were not covered by the interpretation.

The adoption of these new standards and amendments do not have a material impact on the Group's or Company's financial information.

(ii) New standards, amendments and interpretations to existing standards not yet effective and not early adopted

- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption.
- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from January 1, 2011. Earlier application, in whole or in part, is permitted.
- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after February 1, 2010. Earlier application is permitted.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after July 1, 2010. Earlier application is permitted.
- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective January 1, 2011.

The Group is in the process of reviewing the impact of the above standards and do not expect to have a material impact on the Group's or Company's financial information at the current stage.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### (b) Consolidation

***Subsidiary***

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Assets, liabilities and results of operations of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group.

They are derecognized or excluded from the consolidated financial information from the date that control ceases. The Group adopts an accounting policy that accounts for the combination of entities under common control using the carryover basis. Accordingly, assets and liabilities of the transferred entities are accounted for at the historical amounts, as determined by the previous owner under IFRS. The Reorganization referred to in Note 1 above has been accounted for using predecessor values, as if the Company has been the holding company of the subsidiaries from inception of the existence of common control by the controlling shareholder. The difference between the consideration paid and the aggregate value of the assets and liabilities of the acquired entity is recognized as an adjustment to equity and presented as capital reserves.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Production sharing contracts

The Group's development and production activities are conducted jointly with others through production sharing contracts. These contracts establish joint control over the development and production activities. The assets are not owned by a separate legal entity but are controlled by individual participants in the production sharing contracts. Each participant is entitled to a predetermined share of the related output and bears an agreed share of the costs.

The consolidated financial information reflect:

(i) MIE's assets used in jointly controlled operations;

(ii) any liabilities that MIE has incurred;

(iii) MIE's share of any liabilities incurred jointly with the other PSC partners in relation to the joint production;

(iv) any income from the sale or use of MIE's share of the output of the production, together with its share of any expenses incurred in the production; and

(v) any expenses that MIE has incurred in respect of its interest in the production.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### (c) Production sharing contracts – continued

Pursuant to the three PSCs with PetroChina, the annual gross production of the crude oil shall, after payment for value added tax and royalty, be firstly deemed as the cost recovery oil and shall be used for cost recovery in the following sequence:

- Payment in kind for the operating costs actually incurred by MIE and GOC (collectively "the foreign partners') and PetroChina.
- The remainder of the cost recovery oil shall, after payment for the operating costs, be deemed as investment recovery oil. Such investment recovery oil shall be used for the simultaneous recovery of the pilot test costs, the development costs incurred by foreign partners and the predevelopment costs spent by PetroChina in proportion of 20% by PetroChina and 80% by foreign partners. The unrecovered costs of the parties shall be carried forward to and recovered from the investment recovery oil in succeeding calendar years until being fully recovered.
- In any calendar years after all pilot test costs and development costs to that time have been recovered, the remainder of the gross production of crude oil for that period shall be allocated in proportion of PetroChina 52% and foreign partners 48%.
- The operating costs so incurred after the date of commencement of commercial production shall be paid respectively by PetroChina and foreign partners in accordance with the proportion of oil allocated to each party.

GOC is entitled to a 10% share of the foreign participating interest in property, plant and equipment, income and expenses. The Group received income and paid expenses on behalf of GOC. These are recorded in the relevant accounts with GOC (Note 28).

### (d) Foreign currency translation

#### *(i) Functional and presentation currency*

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Most assets and operations of the Group are located in the PRC, and functional currency of the Company and MIE is Renminbi ("RMB"). The presentation currency of the consolidated financial information is the RMB.

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statements of comprehensive income within 'finance income' or 'finance cost'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income'.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### (e) Property, plant and equipment

Property, plant and equipment, including oil and gas properties, is stated at historical cost less accumulated depreciation, depletion, amortization and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the reporting year in which they are incurred.

Except for oil and gas properties, depreciation is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Office equipment | 3 years |
| Motor vehicles and production equipment | 10 years |

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress is not depreciated until it is ready for its intended use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized within other income or other expense in the consolidated statements of comprehensive income.

### (f) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as construction in progress pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas 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. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any costs of unproved properties capitalized in oil and gas properties.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### (f) Oil and gas properties – continued

The cost of oil and gas properties is amortized at the field level based on the unit of production method. Unit of production rates are based on oil and gas proved developed producing reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements. The Group's reserves estimates represent crude oil which management believes can be reasonably produced within the current terms of their production agreements.

### (g) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (h) Intangible assets

Intangible assets represent computer software. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 years.

### (i) Loans and receivables

The Group's loans and receivables comprise 'trade and other receivables' in the consolidated statements of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for expected realization greater than 12 months after the end of the reporting period. These are classified as non-current assets.

### (j) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For derivative instruments that do not qualify for hedge accounting, changes in the fair value of these derivative instruments are recognized immediately in the consolidated statements of comprehensive income.

### (k) Leases

Leases where the Group is a lessee in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the term of the lease.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### (l) Inventories

Inventories are crude oil and materials and supplies which are stated at the lower of cost and net realizable value. Materials and supplies costs are determined by the specific identification method. Crude oil costs are determined by the weighted average cost method. The cost of crude oil comprise direct labour, depreciation, other direct costs and related production overhead, but excludes borrowing costs.

### (m) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income.

### (n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less from the time of purchase.

### (o) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the territories where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continued

**(o) Current and deferred income tax** – continued

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**(p) Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent years, borrowings are stated at amortized cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the year of the borrowings using the effective interest method.

Borrowing costs are recognized as an expense in the year in which they are incurred except for the portion eligible for capitalization as part of qualifying property, plant and equipment. Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the end of the reporting period.

**(q) Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**(r) Provisions**

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts can be made.

Provision for future decommissioning and restoration is recognized in full on the installation of oil and gas properties. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than due to passage of time, which is regarded as interest expense, is reflected as an adjustment to the provision and oil and gas properties.

**(s) Employee benefits**

***(i) Defined contribution plan***

The Group has various defined contribution plans for state pensions, housing fund and other social obligations in accordance with the local conditions and practices in the municipalities and province in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expenses when they are due.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continued

**(s) Employee benefits** – continued

***(ii) Equity-settled share-based compensation – Stock options***

The Group operates a stock incentive compensation plan for share-based payment transactions, such as stock options under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options on the grant date. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and other reserves when the options are exercised.

***(iii) Cash-settled share-based compensation – Stock appreciation rights***

Compensation under the stock appreciation rights is measured based on the fair value of the liability incurred and its expenses over the vesting period. The liability is remeasured at each reporting period to its fair value until settlement with all the changes in liability recorded in employee compensation costs in the consolidated statement of comprehensive income, the related liability is included in the salaries and welfare payable.

**(t) Revenue recognition**

Revenues are recognized upon delivery of crude oil that are allocated to MIE under the PSC (See Note 2(c)). Revenues are recognized only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and where the amount of revenue and the costs incurred or to be incurred in respect of the transactions can be measured reliably and probable economic benefit will flow to the Company.

According to general oil and gas practice, the physical nature of taking (lifting) oil is such that a partner may take more oil than it is entitled to as defined by the contract (PSC). For some of the reported periods, PetroChina had taken more oil than its entitlement (overlifted) due to timing difference between oil delivery and allocation and hence MIE is deemed to have sold the overlift to PetroChina.

Differences between the crude oil sold and the group's share of crude oil are overlift (liftings greater than production entitlement) and underlift (production entitlement greater than liftings), which are recorded against cost of sales and as revenue at market value, respectively.

**(u) Repairs and maintenance**

Repairs and maintenance are recognized as expenses in the year/period in which they are incurred.

**(v) Share capital**

Ordinary shares are classified as equity.

Preferred shares issued by the Company are classified as equity when they are not redeemable by the Company and there is no obligation outside the control of the Company to pay dividends.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### (w) Dividend distributions

Dividend distributions to the Group's Shareholders are recognized as a liability in the Group's consolidated financial information in the period in which the dividends are approved by the board of directors.

### (x) Earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year/period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting the profit or loss attributable to equity holders of the Company accordingly for related amounts. The effect of potentially dilutive ordinary shares are included only if they are dilutive.

### (y) Segment reporting

The Group operates as a single operating segment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

#### *(a) Market risk*

*(i) Foreign exchange risk*

The majority of the Group's sales are in US dollars, while production and other expenses are incurred in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates. The Group may enter into forward foreign exchange contracts (Note 8) to manage the risk of unfavourable fluctuations in the foreign exchange rate.

At December 31, 2007, 2008 and 2009 and June 30, 2010, if the US dollar had weakened/strengthened by 1% against the RMB with all other variables held constant, profit before income tax for the year/period would have been RMB9,708,000, RMB222,000, RMB9,152,000 and RMB9,470,000 higher/lower respectively, mainly as a result of foreign exchange gains/losses on translation of US-denominated trade and other receivables, bank deposits and borrowings.

**3 FINANCIAL RISK MANAGEMENT** – continued

**3.1 Financial risk factors** – continued

***(a) Market risk*** – continued

*(ii) Cash flow interest rate risk*

The Group has no significant interest bearing assets. The Group's income and operating cash flows are substantially independent of the changes in market rates. The Group's interest rates risk arises from borrowings. A detailed analysis of the Group's borrowings, together with their respective effective interest rates and maturity dates, are included in Note 19.

Based on a sensitivity analysis, the impact on profit before income tax for the year/period ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010 of a 50 basis-point shift would be an increase of RMB3,652,000, RMB4,100,000, RMB6,727,000 and RMB3,364,000, respectively or decrease of RMB3,652,000, RMB4,100,000, RMB6,727,000 and RMB3,364,000, respectively.

*(iii) Price risk*

The Group is engaged in crude oil development, production and selling activities. Prices of crude oil are affected by both domestic and global factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Prior to 2008, the Group did not use any derivative instruments to hedge against potential price fluctuations of crude oil and therefore the Group was exposed to general price fluctuations of crude oil. During the year/period ended December 31, 2008 and 2009 and the six months ended June 30, 2010, the Group entered into put option contracts (Note 8) to manage its price risk. If the crude oil price were to increase or decrease by US$1, the impact on the Group's profit before income tax for the six months ended June 30, 2010 as a result of revaluing the put option would be a decrease of RMB433,000 and increase of RMB484,000 (2009: decrease of RMB2,462,000 or decrease of RMB1,803,000; 2008: decrease of RMB9,105,000 or increase of RMB7,841,000), respectively.

***(b) Credit risk***

As the majority of the cash at bank balance is placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Therefore, credit risk arises primarily from trade and other receivables. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, pledged deposits, amounts due from a related party and trade and other receivables included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk.

The Group has no significant concentration of credit risk for its cash and cash equivalents. The Group has one customer which accounts for 100% of its revenue and as such, has concentration of credit risk for its trade and other receivables. However, the Group regards it as low risk as this customer is PetroChina, a state-owned enterprise with a high credit rating.

***(c) Liquidity risk***

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities and net-settled derivative financial assets and liabilities into relevant maturity groupings based on the remaining year at the end of the reporting period to their contractual maturity dates.

**3 FINANCIAL RISK MANAGEMENT** – continued

**3.1 Financial risk factors** – continued

***(c) Liquidity risk*** – continued

The amounts disclosed in the table are the contractual undiscounted cash flows of principal amount and interests.

Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At December 31, 2007** | | | | |
| Borrowings | 47,678 | 106,428 | 756,265 | – |
| Trade and other payables | 1,497,234 | – | – | – |

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At December 31, 2008** | | | | |
| Borrowings | 107,882 | 271,773 | 609,431 | – |
| Derivative financial instruments – oil put option | (132,761) | (94,912) | – | – |
| Derivative financial instruments – foreign exchange | 25,257 | – | – | – |
| Trade and other payables | 1,495,083 | 140,353 | 93,335 | – |

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At December 31, 2009** | | | | |
| Borrowings | 168,164 | 61,200 | 1,350,080 | – |
| Derivative financial instruments – oil put option | (20,307) | – | – | – |
| Trade and other payables | 863,687 | 170,235 | – | – |

**3 FINANCIAL RISK MANAGEMENT** – continued

**3.1 Financial risk factors** – continued

***(c) Liquidity risk*** – continued

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At June 30, 2010** | | | | |
| Borrowings | 167,373 | 65,689 | 1,309,247 | – |
| Derivative financial instruments – oil put option | (6,243) | – | – | – |
| Trade and other payables | 786,962 | 331,554 | – | – |

**3.2 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position plus net debt. The gearing ratios at December 31, 2007, 2008 and 2009 and June 30, 2010 were as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total borrowings *(Note 19)* | 730,460 | 820,152 | 1,345,386 | 1,345,493 |
| Less: cash and cash equivalents *(Note 13)* | (77,166) | (382,119) | (290,271) | (268,329) |
| Net debt | 653,294 | 438,033 | 1,055,115 | 1,077,164 |
| Total equity | 669,367 | 1,143,765 | 1,253,446 | 1,278,020 |
| Total capital | 1,322,661 | 1,581,798 | 2,308,561 | 2,355,184 |
| Gearing ratio | 49% | 28% | 46% | 46% |

## 3 FINANCIAL RISK MANAGEMENT – continued

### 3.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group are disclosed in the respective accounting policies. The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, pledged deposits, current portion of trade and other receivables, current portion of trade and other payables and current portion of borrowings.

The Group adopted the amendment to IFRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at December 31, 2007, 2008 and 2009 and June 30, 2010:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Assets | | | |
| As at December 31, 2007 | | | |
| Derivative financial instruments | | | |
| – Oil put option | – | – | – |
| As at December 31, 2008 | | | |
| Derivative financial instruments | | | |
| – Oil put option | – | 227,673 | – |
| – Forward foreign exchange contract | – | 25,257 | – |
| As at December 31, 2009 | | | |
| Derivative financial instruments | | | |
| – Oil put option | – | 20,307 | – |
| As at June 30, 2010 | | | |
| Derivative financial instruments | | | |
| – Oil put option | – | 6,243 | – |

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group's consolidated financial information.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – continued

### (a) Estimation of proved oil reserves

Proved Reserves are those quantities of petroleum that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped Reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery.

The Group's reserve estimates were prepared for each oilfield and include only crude oil that the Group believes can be reasonably produced within current economic and operating conditions.

Proved Reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, Proved Reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved Reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. The Group classified its Proved Reserves into two categories: Proved Developed Producing Reserves and Proved Undeveloped Reserves. Proved Developed Producing Reserves is used for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Group's consolidated financial information for property, plant and equipment related to oil and gas production activities. A reduction in Proved Developed Producing Reserves will increase depreciation, depletion and amortization charges (assuming constant production) and reduce net profit. Proved Reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

In general, changes in the technical maturity of oil reserves resulting from new information becoming available from development and production activities and change in oil price have tended to be the most significant cause of annual revisions.

### (b) Estimated impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired (Note 6).

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – continued

### (c) Estimation of asset retirement obligations ("ARO")

Provisions are recognized for the future decommissioning and restoration of oil and gas properties that will cease operation prior to the expiration of PSCs. The amounts of the provision recognized are the present values of the estimated future expenditures that the Group is expected to incur. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of oil and gas properties. Changes in any of these estimates will impact the operating results and the financial position of the Group over the remaining economic lives of the oil and gas properties.

### (d) Advance from customers

As at December 31, 2008, advance from PetroChina of RMB458.5 million included a liability of 487.8 million (2007: RMB113.9 million). The liability arose from the recovery of 671,223 barrels of oil from PSC in excess of MIE's entitlement ("Excess Entitlement"). During the period to November 2009, the Excess Entitlement was extinguished by the cumulative payment of RMB478.4 million to PetroChina.

## 5 REVENUE

The Group's revenue relates to the sale of crude oil in one geographical location, China. All revenue is realized through the sale of the Group's share of crude oil to PetroChina pursuant to the PSC.

## 6 PROPERTY, PLANT AND EQUIPMENT

| | Oil and gas properties | Construction in progress | Office equipment | Motor vehicles and production equipment | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | | | |
| At January 1, 2007 | 1,249,358 | 210,281 | 3,133 | 7,518 | 1,470,290 |
| Additions | 11,981 | 832,493 | 2,446 | 4,203 | 851,123 |
| Transfer in/(out) | 908,475 | (908,475) | – | – | – |
| At December 31, 2007 | 2,169,814 | 134,299 | 5,579 | 11,721 | 2,321,413 |
| Additions | – | 1,326,020 | 2,323 | 6,548 | 1,334,891 |
| Transfer in/(out) | 1,366,073 | (1,366,073) | – | – | – |
| Adjustment *(Note 16)* | (23,078) | – | – | – | (23,078) |
| At December 31, 2008 | 3,512,809 | 94,246 | 7,902 | 18,269 | 3,633,226 |
| Additions | 1,991 | 592,981 | 85 | 5,567 | 600,624 |
| Transfer in/(out) | 539,902 | (539,902) | – | – | – |
| At December 31, 2009 | 4,054,702 | 147,325 | 7,987 | 23,836 | 4,233,850 |
| Additions | 17,721 | 514,824 | – | 2,475 | 535,020 |
| Transfer in/(out) | 526,450 | (526,450) | (88) | 88 | – |
| At June 30, 2010 | 4,598,873 | 135,699 | 7,899 | 26,399 | 4,768,870 |

## 6 PROPERTY, PLANT AND EQUIPMENT – continued

| | Oil and gas properties | Construction in progress | Office equipment | Motor vehicles and production equipment | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Accumulated depreciation and impairment** | | | | | |
| At January 1, 2007 | (322,143) | – | (735) | (435) | (323,313) |
| Charge for the year | (288,688) | – | (1,356) | (950) | (290,994) |
| At December 31, 2007 | (610,831) | – | (2,091) | (1,385) | (614,307) |
| Charge for the year | (497,623) | – | (1,303) | (1,050) | (499,976) |
| Impairment charge | (32,000) | – | – | – | (32,000) |
| At 31 December 2008 | (1,140,454) | – | (3,394) | (2,435) | (1,146,283) |
| Charge for the year | (418,497) | – | (923) | (3,004) | (422,424) |
| At December 31, 2009 | (1,558,951) | – | (4,317) | (5,439) | (1,568,707) |
| Charge for the period | (267,517) | – | (924) | (199) | (268,640) |
| At June 30, 2010 | (1,826,468) | – | (5,241) | (5,638) | (1,837,347) |
| **Net book value** | | | | | |
| At December 31, 2007 | 1,558,983 | 134,299 | 3,488 | 10,336 | 1,707,106 |
| At December 31, 2008 | 2,372,355 | 94,246 | 4,508 | 15,834 | 2,486,943 |
| At December 31, 2009 | 2,495,751 | 147,325 | 3,670 | 18,397 | 2,665,143 |
| At June 30, 2010 | 2,772,405 | 135,699 | 2,658 | 20,761 | 2,931,523 |

| (Unaudited) | Oil and gas properties | Construction in progress | Office equipment | Motor vehicles and production equipment | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cost | | | | | |
| At January 1, 2009 | 3,512,809 | 94,246 | 7,902 | 18,269 | 3,633,226 |
| Additions | (357) | 52,940 | 100 | 963 | 53,646 |
| Transfer in/(out) | 107,910 | (107,910) | – | – | – |
| At June 30, 2009 | 3,620,362 | 39,276 | 8,002 | 19,232 | 3,686,872 |
| **Accumulated depreciation and impairment** | | | | | |
| At January 1, 2009 | (1,140,454) | – | (3,394) | (2,435) | (1,146,283) |
| Charge for the period | (215,453) | – | (821) | (1,313) | (217,587) |
| At June 30, 2009 | (1,355,907) | – | (4,215) | (3,748) | (1,363,870) |

## 6 PROPERTY, PLANT AND EQUIPMENT – continued

Included in property, plant and equipment are assets amounting to RMB2,931,378,000 (Cost of RMB4,767,741,000 less accumulated depreciation and impairment of RMB1,836,363,000) as at June 30, 2010 directly used in and operated under the Group's three PSCs with PetroChina. The Group is currently the operator of these assets. After the earlier of full recovery of development costs or expiry of these PSCs, PetroChina will become the operator of these assets.

The additions of oil and gas properties of the Group for the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010 included RMB11,981,000, RMBnil, RMB1,991,000 and RMB2,038,000 respectively relating to the asset retirement obligations recognized during the year (Note 16).

Depreciation charges of RMB6,612,000, RMB31,416,000, RMB9,540,000 and RMB11,096,000 relating to the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010, respectively, have been costed into inventories (Note 11).

Bank borrowing is collateralized by the property, plant and equipment for the value of RMB1,707,106,000 and RMB2,486,943,000 as at December 31, 2007 and 2008, respectively.

The impairment charge in 2008 is provided on the Group's share of oil and gas properties of the Miao 3 project which were affected the lower oil prices. The amount represents the difference between the carrying value of the assets and its recoverable amount. The recoverable amount is determined based on value in use by using the discounted cash flow method. The discount rate used was 12% and the crude oil price was assumed to be US$55 per barrel.

## 7 INTANGIBLE ASSET

Intangible asset represents computer software as at December 31, 2007, 2008 and 2009 and June 30, 2010 with a net book value of RMB558,000, RMB6,043,000, RMB2,599,000 and RMB1,617,000, respectively.

## 8 DERIVATIVE FINANCIAL INSTRUMENTS

| | As at December 31, 2008 | | As at December 31, 2009 | | As at June 30, 2010 | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Forward foreign exchange contract | – | 25,257 | – | – | – | – |
| Oil put option | 227,673 | – | 20,307 | – | 6,243 | – |
| | 227,673 | 25,257 | 20,307 | – | 6,243 | – |
| Less non-current portion: | | | | | | |
| Oil put option | (94,912) | – | – | – | – | – |
| Current portion | 132,761 | 25,257 | 20,307 | – | 6,243 | – |

## 8 DERIVATIVE FINANCIAL INSTRUMENTS – continued

### (a) Forward foreign exchange contract

The notional principal amount of the outstanding forward foreign exchange contract as at December 31, 2008 was RMB342,307,220. There is no outstanding forward foreign exchange contract as at December 31, 2009 and June 30, 2010.

### (b) Oil put option

The Group has used oil put options purchased from Standard Bank to manage its exposure to movements in the price of crude oil. MIE has bought an option, but not the obligation, to notionally sell to the financial institution 5,236,710 barrel at a strike price of US$62.50, in monthly instalments ranging from 130,061 barrel to 154,378 barrel from January 1, 2008 to December 31, 2010 (the "Bought Option"). In addition, MIE has sold an option to the financial institution, so that the financial institution can notionally sell to MIE 5,236,710 barrel at a strike price of US$42.50 in monthly instalments ranging from 130,061 barrel to 154,378 barrel from January 1, 2008 to December 31, 2010 (the "Sold Option") under the same terms and conditions as the Bought Option. The effect of the above is that Group will receive money from the financial institution each month, in respect of the notional volume of that month, if the average monthly West Texas Intermediate ("WTI") crude oil spot price of oil falls below US$62.50, but the maximum payout by the financial institution is limited to US$20.00 per barrel.

The balance as at June 30, 2010 represents the remaining contractual Bought Option and Sold Option of 862,920 barrels (2009: 1,896,121 barrels; 2008: 3,558,003 barrels) which will mature in December 2010.

## 9 TRADE AND OTHER RECEIVABLES

### (a) Summary of trade and other receivables

| | | As at December 31, | | | As at June 30, |
|---|---|---|---|---|---|
| | | 2007 | 2008 | 2009 | 2010 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets** | | | | | |
| **Current** | | | | | |
| Trade receivables from PetroChina | (Note 28) | 141,772 | – | 50,723 | 161,894 |
| Amounts due from related parties | (Note 28) | 87,210 | 73,368 | 75,438 | 107,193 |
| Less: Provision for impairment | | (7,492) | – | – | – |
| Amounts due from related parties – net | | 79,718 | 73,368 | 75,438 | 107,193 |
| Loans to third parties | | 65,119 | – | – | – |
| Less: Provision for impairment | | (30,080) | – | – | – |
| Loans to third parties-net | | 35,039 | – | – | – |
| Advances to employees | | 9,549 | 10,598 | 4,145 | 15,408 |
| Less: Provision for impairment | | (1,035) | (2,995) | – | – |
| Advances to employees – net | | 8,514 | 7,603 | 4,145 | 15,408 |
| Financial derivatives receivables | | – | 20,784 | – | – |
| Unbilled receivables | | – | – | 161,429 | – |
| Other receivables – others | | – | – | 655 | 8,322 |
| | | 265,043 | 101,755 | 292,390 | 292,817 |
| **Non-current** | | | | | |
| Amounts due from related party | (Note 28) | – | 66,190 | 70,360 | 37,871 |
| | | 265,043 | 167,945 | 362,750 | 330,688 |
| **Non-financial assets** | | | | | |
| **Current** | | | | | |
| Advances to suppliers | | 87,746 | 8,709 | 143,796 | 1,834 |
| Less: Provision for impairment | | (11,236) | (6,877) | – | – |
| Advances to suppliers – net | | 76,510 | 1,832 | 143,796 | 1,834 |
| Advances to suppliers – related party | (Note 28) | – | – | 38,673 | 50,324 |
| Prepayments to third parties | | 384 | 209 | 1,926 | 1,929 |
| Other deferred assets | | – | – | 12,786 | 15,727 |
| | | 76,894 | 2,041 | 197,181 | 69,814 |
| **Non-current** | | | | | |
| Advances to suppliers | | – | 5,615 | – | 76,696 |
| | | 76,894 | 7,656 | 197,181 | 146,510 |
| **Total** | | 341,937 | 175,601 | 559,931 | 477,198 |
| Total current | | 341,937 | 103,796 | 489,571 | 362,631 |
| Total non-current | | – | 71,805 | 70,360 | 114,567 |
| **Total** | | 341,937 | 175,601 | 559,931 | 477,198 |

**9 TRADE AND OTHER RECEIVABLES** – continued

**(b) The fair values of trade and other receivables financial assets are as follows:**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables from PetroChina | 141,772 | – | 50,723 | 161,894 |
| Amounts due from related parties | 79,718 | 139,558 | 145,798 | 145,064 |
| | 221,490 | 139,558 | 196,521 | 306,958 |
| Other receivables – third parties | 43,553 | 28,387 | 166,229 | 23,730 |
| | 265,043 | 167,945 | 362,750 | 330,688 |

**(c) The aging analysis of trade receivables were as follows:**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 0 – 90 days | 141,772 | – | 50,723 | 161,894 |
| | 141,772 | – | 50,723 | 161,894 |

As of December 31, 2007, 2008 and 2009 and June 30, 2010, there were no trade receivables past due which are impaired.

**(d) As of December 31, 2007, 2008 and 2009 and June 30, 2010, the amount and aging of other receivables impaired are as follows:**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| < 1 year | 28,800 | – | – | – |
| 1-2 years | 622 | 1,621 | – | – |
| 2-3 years | 13,299 | 6,087 | – | – |
| > 3 years | 7,122 | 2,164 | – | – |
| | 49,843 | 9,872 | – | – |

The impairment of other receivables for the year ended December 31, 2007 principally relates to the long outstanding loans to third parties and advance to suppliers which are not considered recoverable in accordance with the Group's policy (Note 2(m)).

**9 TRADE AND OTHER RECEIVABLES** – continued

**(e) The carrying amounts of trade and other receivables are denominated in the following currencies:**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Renminbi | 339,562 | 174,020 | 314,506 | 160,841 |
| United States Dollars | 2,375 | 1,581 | 245,425 | 316,357 |
| | 341,937 | 175,601 | 559,931 | 477,198 |

**(f) Movements in the provision for impairment of other receivables are as follows:**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At January 1** | – | (49,843) | (9,872) | – |
| Provision for receivable impairment | (49,843) | – | – | – |
| Receivables written off during the year as uncollectible | – | 39,971 | 9,872 | – |
| **At December 31** | (49,843) | (9,872) | – | – |

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above. The Group does not hold any collateral as security.

**10 PLEDGED DEPOSITS**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Pledged deposits | – | 50,222 | 30,729 | 30,606 |

As at December 31, 2008, pledged deposits represent the bank deposits pledged for borrowings, and guarantee of a bank loan to a related party (Note 28(e)).

## 10 PLEDGED DEPOSITS – continued

As at December 31, 2009 and June 30, 2010, pledged deposit represents bank deposit pledged for borrowings. The carrying amounts of pledged deposits are denominated in the following currencies:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Renminbi | – | 17,055 | – | – |
| United States Dollars | – | 33,167 | 30,729 | 30,606 |
| | – | 50,222 | 30,729 | 30,606 |

## 11 INVENTORIES

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Oil in tank | 9,357 | 36,315 | 13,033 | 14,345 |
| Materials and supplies | 27,225 | 37,543 | 63,045 | 34,063 |
| | 36,582 | 73,858 | 76,078 | 48,408 |
| Included in inventories are amounts stated | | | | |
| At cost | 36,582 | 72,055 | 76,078 | 48,408 |
| At net realizable value | | | | |
| – oil in tank | – | 1,803 | – | – |
| | 36,582 | 73,858 | 76,078 | 48,408 |

Depreciation charges of RMB6,612,000, RMB31,416,000, RMB9,540,000 and RMB11,096,000 have been included in the balance above for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 respectively (Note 6).

Impairment charges of RMB nil, RMB3,898,000, nil and nil were provided for during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 respectively, for oil in tank produced by the Miao 3 Project due to low oil prices.

## 12 AMOUNT DUE FROM SHAREHOLDER

| | | As at December 31, | | | As at June 30, |
|---|---|---|---|---|---|
| | | 2007 | 2008 | 2009 | 2010 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current | | | | | |
| Amount due from the controlling shareholder of FEEL | (Note 28) | 449,438 | – | – | – |
| Current | | | | | |
| Amount due from the controlling shareholder of FEEL | (Note 28) | 359,550 | – | – | – |
| Amount due from FEEL | (Note 28) | – | 422,880 | 81,074 | – |
| | | 808,988 | 422,880 | 81,074 | – |

Since 2004, Mr Zhang obtained several loans from MIE for his personal investments and investments for FEEL and its affiliates.

In September 2007, MIE and Mr Zhang entered into a repayment agreement under which the Renminbi loans of RMB901 million were re-denominated into US dollars loans of US$119.2 million. Mr Zhang agreed to repay the amount outstanding in ten (10) equal instalments from December 31, 2007 to July 31, 2010. As a result, in the fourth quarter of 2007, Mr Zhang made repayments to MIE in the aggregate amount of RMB92 million or US$12.6 million. As of December 31, 2007, the outstanding loan due from Mr Zhang amounted to US$110.8 million (RMB809 million).

In 2008, Mr Zhang made further repayment in the aggregate amount of RMB79 million which reduced the amount outstanding to RMB730 million or US$106.8 million. In April 2008, Mr Zhang proposed to settle the amount in full upon completion of a loan reorganization plan involving MIE, FEEL, the shareholders of FEEL and third party investors. In December 2008, repayment terms of the loan reorganization plan were amended by the tripartite agreement detailed below.

MIE's prior credit facility with Standard Bank placed restrictions on declaring dividends by the Company. In December 2008, MIE reached an agreement with Standard Bank that allowed the MIE to reorganize its inter-entity balances, which resulted in the inter-entity balances being amalgamated and the distribution of a deemed dividend to FEEL. On December 31, 2008, a tripartite agreement, between MIE, FEEL and Mr Zhang, was executed (the "Tripartite Agreement"). The Tripartite Agreement provided the following:

- All rights of MIE in respect of the amount due from Mr Zhang was assigned to FEEL, in exchange for a debt incurred by FEEL in favour of MIE for the same amount and on the same terms and conditions (the "Interim Loan");
- An existing amount owed by MIE to FEEL, of approximately US$25 million, was used to partially repay the Interim Loan;
- MIE made a deemed dividend distribution of US$20 million (RMB136,692,000) to FEEL. The deemed dividend was used to partially repay the Interim Loan;
- Upon receipt by MIE of any subscription monies from any issuance of shares in MIE, envisaged by the Tripartite Agreement, MIE would declare a further distribution to FEEL, equal to the amount of the subscription monies received, and the deemed distribution would be used to partially repay the Interim Loan.

## 12 AMOUNT DUE FROM SHAREHOLDER – continued

Under the above Tripartite Agreement, MIE assigned US$106.8 million (RMB703 million), being the amount due from Mr Zhang to MIE, to FEEL, for an amount due from FEEL to MIE of US$106.8 million on the same terms and conditions as the loan to Mr Zhang. MIE and FEEL agreed to offset this receivable with an amount due from MIE to FEEL of approximately US$25 million. After these transactions, FEEL owed MIE US$81.9 million. On December 31, 2008, MIE made a non-cash dividend of US$20 million (RMB136,692,000) to FEEL. As at December 31, 2008, the remaining balance of the Interim Loan from the Group to FEEL was US$61.9 million (RMB422,880,000).

Following the US$50 million net investment (being gross investment of US$53 million less transaction costs of US$3 million) by TPG Star Energy into the Company in July 2009, the Company distributed a US$50 million (RMB341,615,000) deemed dividend to FEEL, as allowed by the Standard Bank facility agreement amended in January 2009. The distribution of the US$50 million deemed dividend was used by FEEL to repay a portion of the outstanding amount of the Interim Loan (Note 25).

CITIC Ka Wah Bank agreed that the remaining balance of the Interim Loan of RMB81,052,000 (US$11.9 million) could be settled by a further non-cash deemed dividend.

The amount due from FEEL of RMB81,052,000 was settled on March 31, 2010 (Note 25).

## 13 CASH AND CASH EQUIVALENTS

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash in hand | 65 | 53 | 46 | 62 |
| Cash at bank | 77,101 | 382,066 | 290,225 | 268,267 |
| | 77,166 | 382,119 | 290,271 | 268,329 |

Cash and cash equivalents are denominated in the following currencies:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Renminbi | 34,174 | 292,609 | 185,026 | 93,489 |
| United States Dollars | 42,992 | 89,510 | 105,245 | 174,840 |
| | 77,166 | 382,119 | 290,271 | 268,329 |

Renminbi-denominated deposits are placed with banks in the PRC. The conversion of these Renminbi-denominated deposits into foreign currencies and remittance out of the PRC are subject to certain PRC rules and regulations of foreign exchange control promulgated by the PRC government. Also, the exchange rates are determined by the PRC government.

## 14 SHARE CAPITAL

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Ordinary shares | 684 | 684 | 659 | 535 |
| Preferred shares | – | – | 171 | 420 |
| | 684 | 684 | 830 | 955 |

As described in Note 1, the Company was incorporated in Cayman Islands on March 20, 2008. The total number of authorized shares is 180,000,000 shares comprising 150,000,000 ordinary shares with a par value of US$0.001 per share and 30,000,000 Series A preferred shares with a par value of US$0.001 per share as at December 31, 2009. Each share has one vote.

On February 5, 2010, FEEL, shareholders of FEEL, MIE and the Company entered into a shares purchase agreement with Harmony Energy Limited. To enable the transaction, the Company's authorized share capital was increased to 230,000,000 shares comprising 150,000,000 ordinary shares with a par value of US$0.001 per share, 30,000,000 Series A preferred shares with a par value of US$0.001 per share and 50,000,000 Series B preferred shares with a par value of US$0.001 per share.

**14 SHARE CAPITAL** – continued

**(a) Ordinary shares**

The details of the ordinary share capital of the Company for the relevant periods are as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Authorized, issued and fully paid: | | | | |
| At January 1 | | | | |
| 100,000,000 ordinary shares of US$0.001 each | 684 | 684 | 684 | |
| Cancellation of ordinary shares | | | | |
| 3,643,730 ordinary shares at US$0.001 each *(Note 14b)* | – | – | (25) | |
| At December 31 | | | | |
| 100,000,000 ordinary shares of US$0.001 each | 684 | 684 | – | |
| 96,356,270 ordinary shares at US$0.001 each | – | – | 659 | |
| | 684 | 684 | 659 | |
| At January 1, 2010 | | | | |
| 96,356,270 ordinary shares at US$0.001 each | | | | 659 |
| Cancellation of ordinary shares | | | | |
| 18,212,560 ordinary shares at US$0.001 each | | | | (124) |
| At June 30, 2010 | | | | |
| 78,143,710 ordinary shares at US$0.001 each | | | | 535 |

On April 16, 2010, in preparation for the intended Qualified IPO, the shareholders approved resolutions effecting certain amendments to the authorized and issued share capital to:

- effect a 10-for-one split of the Company's share capital pursuant to which each ordinary share, Series A preferred share and Series B preferred share of the Company was subdivided into 10 shares at a par value of US$0.001 per share, such that the authorized share capital of the Company of US$230,000 is divided into 150,000,000 ordinary shares of a par value of US$0.001 each, 30,000,000 Series A preferred shares of a par value of US$0.001 each and 50,000,000 Series B preferred shares of a par value of US$0.001 each.
- Adjust 607,287 ordinary shares of a par value of US$0.01 each reserved under the 2009 Stock Incentive Compensation for delivery in connection with the grant, vesting or other issuance of stock incentive awards to 6,072,870 ordinary shares of a par value of US$0.001 each, to reflect the subdivision of the Company's ordinary shares approved by the shareholders of the Company.

**14 SHARE CAPITAL** – continued

**(a) Ordinary shares** – continued

- immediately upon the closing of the Qualified IPO (which has yet to occur as at date of these financial information):
  - convert all of the then currently issued and outstanding 25,101,220 Series A preferred shares into 25,101,220 ordinary shares in accordance with the conversion rights disclosed in Note 14b; and
  - convert all of the then currently issued 36,425,120 Series B preferred shares into 18,212,560 ordinary shares in accordance with the conversion rights disclosed in Note 14b.

All share and per share amounts presented in the consolidated financial information have been restated on a retroactive basis to reflect the effect of share split and issuances.

Pursuant to a resolution in writing of the shareholders of the Company passed on November 27, 2010, subject to the global offering become unconditional,

(a) immediately upon conversion of the Series A Preferred Shares and Series B Preferred Shares and prior to the completion of listing, all the unissued 30,000,000 Series A Preferred Shares and unissued 50,000,000 Series B Preferred Shares with a nominal value of US$0.001 each will be designated as Ordinary Shares with a nominal value of US$0.001 each;

(b) the authorized share capital of the Company be increased from US$230,000 divided into 230,000,000 Ordinary shares of US$0.001 each to US$100,000,000 divided into 100,000,000,000 Shares of US$0.001 each;

(c) the Directors were authorized to allot and issue a total of 2,078,542,510 Shares credited as fully paid at par to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on November 23, 2010 in proportion to their then existing respective shareholdings by way of capitalization of the sum of US$2,078,542.51 standing to the credit of the share premium account of the Company. The shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

***Reserve arising from redeemable ordinary shares***

In January 2009, Standard Bank acquired 1,970,490 of the Company's ordinary shares (representing 1.97% of the outstanding share capital) for US$5,123,000 (RMB35,043,000) from FEEL. Concurrently, FEEL also sold Standard Bank a conversion option that allowed the Company's ordinary shares to be converted into the preferred shares, on the same terms and conditions as any new preferred shares issued by the Company exceeding US$20 million (RMB136 million) during the term of the option. If Standard Bank did not convert the ordinary shares, Standard Bank had the right to sell the ordinary shares back to MIE at their original issuance price (US$5,123,000). FEEL and the Company were jointly and severally liable with MIE for this arrangement.

At the date of the sale of ordinary shares from FEEL to Standard Bank, the fair value of MIE's liability to Standard Bank amounted to US$5,123,000 (RMB35,043,000).

In October 2009, those ordinary shares were bought back by FEEL from Standard Bank and the option was terminated and the corresponding liability US$5,123,000 (RMB35,043,000) was transferred back to equity.

The above movements have been reflected in the consolidated statements of changes in equity.

**14 SHARE CAPITAL** – continued

**(b) Preferred shares**

| | As at December 31, 2009 | As at June 30, 2010 |
|---|---|---|
| | **RMB'000** | **RMB'000** |
| Authorized, issued and fully paid: | | |
| At July 9, 2009 | | |
| Issuance of 21,457,490 Series A preferred shares of US$0.001 each | 146 | |
| At October 30, 2009 | | |
| Issuance of 3,643,730 Series A preferred shares at US$0.001 each | 25 | |
| At December 31, 2009 | | |
| 25,101,220 Series A preferred shares of US$0.001 each | 171 | |
| At June 30, 2010 | | |
| 25,101,220 Series A preferred shares of US$0.001 each | | 171 |
| At March 10, 2010 | | |
| Issuance of 36,425,120 shares Series B preferred shares of US$0.001 each | | 249 |
| At June 30, 2010 | | |
| 36,425,120 Series B preferred shares of US$0.001 each | | 249 |
| Total preferred shares | | 420 |

On June 19, 2009, FEEL, the Company, MIE and TPG Star Energy Ltd. ("TPG") entered into a Series A preferred share subscription agreement and put option agreement ("TPG SPA"), with the following terms:

(i) The Company issued 21,457,490 Series A preferred shares to TPG representing 17.667% of the capital of the Company for consideration of US$53,000,000 (RMB362,000,000) less transaction fee US$3,000,000 (RMB20,490,000).

(ii) Each of the Series A preferred share:

- has the same voting and dividend rights, other than deemed dividends, as those of ordinary shares into which Series A preferred share is convertible;
- is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion ratio;
- will automatically convert into fully paid ordinary shares at the applicable conversion ratio immediately prior to a qualified initial public offering ("IPO"); and
- is convertible to ordinary shares at the initial conversion ratio of 1:1.

(iii) FEEL granted a put option to TPG which requires FEEL to purchase all or some of the Series A preferred shares. The option guarantees that TPG will recover its initial cost at a compounded rate of return of 15%. FEEL, MIE and the Company are jointly and severally liable for this obligation.

**14 SHARE CAPITAL** – continued

**(b) Preferred shares** – continued

(iv) In the event of a liquidation, dissolution or winding up of the Company, the available assets and funds of the Company are distributed to the series A and series B preferred shareholders, on a pro rata basis ahead of ordinary shareholders. The holders of the series A preferred shares are entitled to recover the original purchase price and, if a put given to series A preferred shareholders is exercised, an amount that would result in the shareholders obtaining a compounded rated of return of 15% from the issue of the series A preferred shares, less any distributions made to the shareholders during the investment period. The holders of the series B preferred shares are entitled to recover the original purchase price.

The above transaction incurred additional cost of RMB1.9 million and was completed and became enforceable on July 9, 2009 when the Series A preferred shares were issued to TPG.

On October 26, 2009, FEEL, the Company and MIE entered into a shares purchase agreement with Sino Link Limited, an indirect subsidiary of CITIC Group, pursuant to which FEEL sold 3,643,730 Series A preferred shares to Sino Link Limited for a consideration of US$9 million (RMB61,454,000). As FEEL was not at that time the holder of any Series A preferred shares, the Company redeemed 3,643,730 ordinary shares held by FEEL and issued in exchange 3,643,730 Series A preferred shares to FEEL, which were then transferred to Sino Link Limited on October 30, 2009.

On February 5, 2010, FEEL, MIE and the Company entered into a shares purchase agreement with Harmony Energy Limited, a company incorporated in British Virgin Islands and a wholly owned subsidiary of Ever Union Capital Limited, pursuant to which FEEL sold 36,425,120 Series B preferred shares for a consideration of US$89,970,000 (RMB614,171,000) (Note 33). As FEEL was not at that time the holder of any Series B preferred shares, on March 10, 2010, the Company repurchased 18,212,560 ordinary shares held by FEEL and issued in exchange 36,425,120 Series B preferred shares to FEEL, which FEEL transferred to Harmony Energy Limited.

Each Series B preferred share:

(i) has the same voting and dividend rights, other than deemed dividends, as those of the ordinary share into which such Series B preferred share is convertible;

(ii) is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion rate;

(iii) will automatically convert into fully paid ordinary shares at the applicable conversion rate immediately prior to a qualified IPO; and

(iv) is convertible to ordinary shares at the initial conversion rate of 2:1.

In the event of a liquidation, dissolution or winding up of the Company, the available assets and funds of the Company are distributed to the series A and series B preferred shareholders, on a pro rata basis ahead of ordinary shareholders. The holders of the series B preferred shares are entitled to recover the original purchase price. The holders of the series A preferred shares are entitled to recover the original purchase price and, if a put given to series A preferred shareholders is exercised, an amount that would result in the shareholders obtaining a compounded rated of return of 15% from the issue of the series A preferred shares, less any distributions made to the shareholders during the investment period.

**14 SHARE CAPITAL** – continued

**(c) Stock incentive compensation plans**

The board of directors of the Company has adopted a 2009 stock incentive compensation plan on November 20, 2009 which is intended to attract and retain the best available personnel for positions of substantial responsibility, and provide additional incentive to employees, directors and consultants. The Company has reserved 6,072,870 ordinary shares for issuance under the 2009 stock incentive compensation plan.

***(A) Stock options***

The options granted under the 2009 stock incentive compensation plan are evidenced by an option award agreement between the Company and its employees that contains, among other things, the number of shares granted and provisions concerning exercisability and forfeiture upon termination of employment, as determined by the board of the Company.

*Vesting schedule* The options granted under the 2009 stock incentive compensation plan vest over a two or three-year period following a specified vesting commencement date. Typically, the options granted vest at each anniversary of the grant date within the vesting period, subject to the participant continuing to be an employee on each vesting date.

*Right to exercise* The term of the options granted under the 2009 stock incentive compensation plan will not exceed ten years from the grant date. Where the option agreement permits, the exercise of the options that were vested before the termination of the participant or before the termination of the participant without cause by the Company, the options will terminate to the extent not exercised or purchased on the thirty-first day after such termination. Where the option agreement permits ordinary vesting and exercise upon termination due to the participant's death, permanent disability or injury, the options remain subject to ordinary vesting schedule and exercise. Upon termination of the participant by the company for cause, options not already exercised lapse immediately.

On November 20, 2009, the Company granted options for 1,480,870 ordinary shares to certain officers and employees. The exercise price of each option granted is US$2.39. During six months ended June 30, 2010, 100,400 share options have lapsed due to termination of employment. Out of the 1,480,870 and 1,380,470 outstanding options, none were exercisable during 2009 and for six months ended June 30, 2010 respectively. The share options outstanding as at December 31, 2009 and June 30, 2010 was 1,480,870 and 1,380,470, respectively with exercise price of US$2.39.

***(B) Stock appreciation rights***

Stock appreciation rights granted under the 2009 stock incentive compensation plan are evidenced by a stock appreciation rights award agreement between the Company and employees that contains, among other things, the number of notional ordinary shares to which the stock appreciation rights relate and the provisions concerning exercisability and forfeiture upon termination of employment or consulting arrangement.

*Vesting schedule* Stock appreciation rights granted under the 2009 stock incentive compensation plan vest over a three-year period following a specified vesting commencement date. One-third of the stock appreciation rights granted vest at each anniversary of the grant date within the three-year vesting period, subject to the participant continuing to be an employee or a service provider on each vesting date. There is no entitlement to the stock appreciation right unless and until there is an IPO.

*Right to exercise* The term of stock appreciation rights granted under the 2009 stock incentive compensation plan will not exceed ten years from the grant date. When a participant exercises the stock appreciation rights, the Company will pay such participant an amount in cash determined by multiplying (i) the excess of the fair market value of an ordinary share on the exercise date over the grant price by (ii) the number of notional ordinary shares to which the stock appreciation rights relate stated in such participant's exercise notice.

**14 SHARE CAPITAL** – continued

**(c) Stock incentive compensation plans** – continued

***(B) Stock appreciation rights*** – continued

On November 20, 2009, the board of directors of the Company granted certain officers and employees stock appreciation rights pertaining to 2,560,180 notional ordinary shares to which the stock appreciation rights relate. The exercise price of each stock appreciation right is US$2.39. Where the stock appreciation rights agreement permits the exercise of the stock appreciation rights that were vested before the termination by the participant or before the termination of the participant without cause by the Company, the stock appreciation rights will terminate to the extent not exercised on the thirty-first day after such termination. Where the stock appreciation rights agreement permits ordinary vesting and exercise upon termination due to participant's death, permanent disability or injury, the stock appreciation rights remain subject to ordinary vesting schedule and exercise. Upon termination of the participant by the company for cause, stock appreciation rights not already exercised lapse immediately.

Out of the 2,560,180 outstanding stock appreciation rights, none were exercisable as of December 31, 2009. The stock appreciation rights outstanding as at December 31, 2009 was 2,560,180 with exercise price of US$2.39.

On February 26, 2010, the board of directors of the Company granted certain employees stock appreciation rights pertaining to 25,100 notional ordinary shares with exercise price of $4.78 per notional ordinary shares.

On February 26, 2010, the board of directors of the Company approved amended stock appreciation rights award agreement to be implemented for certain selected participants. For these selected participants, a portion or all of the one third of the granted stock appreciation rights shall vest and become exercisable on each anniversary of the grant date according to the performance evaluation target mark attained by these participants. All other terms of the stock appreciation rights award agreement remain unchanged.

During the six months ended June 30, 2010, 12,550 stock appreciation rights with exercise price of US$2.39 have lapsed due to termination of employment.

Out of the 2,572,730 outstanding stock appreciation rights, none were exercisable as of June 30, 2010. The stock appreciation rights outstanding as at June 30, 2010 were 2,547,630 with exercise price of US$2.39 and 25,100 with exercise price of US$4.78.

***(C) Fair Values of Stock Incentive Compensation Plans***

The fair value of options granted on November 20, 2009 determined using the Binomial Model was US$1.93 per option. The significant inputs into the model were fair value per share of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of stock appreciation rights granted on November 20, 2009 determined using the Binomial Model was US$1.85 per right. The significant inputs into the model were fair value per share price of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0%, stock appreciation rights life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

**14 SHARE CAPITAL** – continued

**(c) Stock incentive compensation plans** – continued

***(C) Fair Values of Stock Incentive Compensation Plans*** – continued

The fair value of stock appreciation rights as at December 31, 2009 determined using the Binomial Model was US$2.06 per right. The significant inputs into the model were fair value per share price of US$3.63 as of December 31, 2009, exercise price shown above, volatility of 66.26%, dividend yield of 0%, stock appreciation rights life of 9.89 years, and an annual risk-free interest rate of 3.923%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of stock appreciation rights granted on November 20, 2009, as of June 30, 2010, determined using the binomial model was US$3.0 per right. The significant inputs into the model were the fair value per share of US$4.88 as of June 30, 2010, the exercise price of US$2.39, volatility of 66.26%, dividend yield of 0%, stock appreciation rights life of 9.39 years and an annual risk-free interest rate of 3.923%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

In February 26, 2010, our board of directors granted 25,100 additional stock appreciation rights. The fair value of stock appreciation rights granted on February 26, 2010, as of June 30, 2010 determined using the binomial model was US$2.18 per right. The significant inputs into the model were the fair value per share of US$4.88 as of June 30, 2010, the exercise price of US$4.78, volatility of 66.26%, dividend yield of 0%, stock appreciation rights life of 9.66 years, and an annual risk-free interest rate of 3.923%.

***(D) Plans for remaining reserved shares under the plan***

The Group has 6,072,870 ordinary shares for issuance under the 2009 stock incentive compensation plan. It has granted stock options for 1,380,470 ordinary shares and stock appreciation rights of 2,572,730 as at June 30, 2010. The Group plans to cancel the reservation made for the remaining of 2,006,720 shares under the plan before listing.

**15 OTHER RESERVES**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Capital reserve | (270) | (270) | (270) | (270) |
| Issue of Series A preferred shares – share premium | – | – | 400,878 | 400,878 |
| Issue of Series B preferred shares – share premium | – | – | – | 613,922 |
| Cancellation of ordinary shares | – | – | (61,429) | (675,476) |
| Share option reserve | – | – | 1,224 | 6,573 |
| Safety fund reserve | – | 49,293 | 63,506 | 80,330 |
| Currency translation difference | – | – | – | (1,646) |
| | (270) | 49,023 | 403,909 | 424,311 |

## 15 OTHER RESERVES – continued

**Safety Fund Reserve**

Pursuant to certain relevant PRC laws and regulations, the Group is required to set aside a certain amount in proportion to its production income for the relevant year as safety fund reserve. As the Group has no legal or constructive obligation to pay out these amounts at point of recognition, the amount has been treated as an appropriation of reserves in the equity account. The fund can be used for improvements of safety at the oil exploration projects, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from the safety fund reserve to retained earnings.

## 16 ASSET RETIREMENT OBLIGATIONS

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At beginning of the year | 14,556 | 27,702 | 4,624 | 6,978 |
| Liabilities incurred *(Note 6)* | 11,981 | – | 1,991 | 2,038 |
| Accretion expenses | 1,165 | – | 363 | 254 |
| Reversal *(Note 6)* | – | (23,078) | – | – |
| At end of the year | 27,702 | 4,624 | 6,978 | 9,270 |

The PSCs were unclear for the MIE's asset retirement obligations ("ARO") for onshore wells. The reversal in 2008 resulted from clarification MIE sought and received from legal counsel that year. Based on that clarification, MIE would be obligated only for wells abandoned during contractual periods, not wells abandoned after the PSC expiry. The previous estimate assumed an obligation to pay for MIE's share of abandonment costs for all wells in existence at December 31, 2007 even if such wells were scheduled to be abandoned after the expiry of the PSC. Therefore, MIE revised downward the estimated number of wells with ARO and reversed the net movement in the ARO against the asset retirement cost included in Oil and Gas Properties for those wells to be abandoned after the expiry of the PSC.

## 17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Deferred tax assets:** | | | | |
| Deferred tax assets to be recovered after more than 12 months | 18,492 | 12,627 | 6,480 | 7,053 |
| Deferred tax assets to be recovered within 12 months | 15,142 | 4,143 | 1,675 | 1,675 |
| | 33,634 | 16,770 | 8,155 | 8,728 |
| **Deferred tax liabilities:** | | | | |
| Deferred tax liabilities to be settled after more than 12 months | (78,869) | (110,461) | (92,170) | (18,579) |
| Deferred tax liabilities to be settled within 12 months | (2,339) | (9,079) | (2,385) | (2,774) |
| | (81,208) | (119,540) | (94,555) | (21,353) |
| Total – Deferred income tax liabilities – net | (47,574) | (102,770) | (86,400) | (12,625) |

The gross movements in the deferred tax account are as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At beginning of the year | (43,013) | (47,574) | (102,770) | (86,400) |
| (Charged)/credited to the consolidated statement of comprehensive income | (4,561) | (55,196) | 16,370 | 73,775 |
| At end of the year | (47,574) | (102,770) | (86,400) | (12,625) |

**17 DEFERRED INCOME TAX** – continued

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred tax assets**

| | Asset retirement obligations | Provisions | Other | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At January 1, 2007** | 4,367 | – | – | 4,367 |
| Credited to the consolidated statement of comprehensive income | 2,558 | 12,758 | 13,951 | 29,267 |
| **At December 31, 2007** | 6,925 | 12,758 | 13,951 | 33,634 |
| Charged to the consolidated statement of comprehensive income | (5,769) | (10,290) | (805) | (16,864) |
| **At December 31, 2008** | 1,156 | 2,468 | 13,146 | 16,770 |
| Credited / (charged) to the consolidated statement of comprehensive income | 588 | (2,468) | (6,735) | (8,615) |
| **At December 31, 2009** | 1,744 | – | 6,411 | 8,155 |
| Credited to the consolidated statement of comprehensive income | 573 | – | – | 573 |
| **At June 30, 2010** | 2,317 | – | 6,411 | 8,728 |

Others include mainly the interest expenses incurred in 2007 that are tax deductible over six (6) years as allowed by the local tax authority.

**Deferred tax liabilities**

| | Accelerated tax depreciation |
|---|---|
| | RMB'000 |
| **At January 1, 2007** | (47,380) |
| Charged to the consolidated statement of comprehensive income | (33,828) |
| **At December 31, 2007** | (81,208) |
| Charged to the consolidated statement of comprehensive income | (38,332) |
| **At December 31, 2008** | (119,540) |
| Credited to the consolidated statement of comprehensive income | 24,985 |
| **At December 31, 2009** | (94,555) |
| Credited to the consolidated statement of comprehensive income | 73,202 |
| **At June 30, 2010** | (21,353) |

## 18 TRADE AND OTHER PAYABLES

### (a) Summary of trade and other payables

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial liabilities** | | | | |
| **Current** | | | | |
| Trade payables | 888,162 | 983,775 | 647,308 | 528,386 |
| Amount due to related parties *(Note 28)* | 19,819 | – | – | 1,160 |
| Amount due to FEEL *(Note 28)* | 315,780 | – | – | – |
| Interest payable | 4,943 | 4,896 | 459 | 857 |
| Derivatives financial instrument premium payable *(Note 8)* | – | 15,808 | – | – |
| Other tax payable | – | 32,464 | 40,820 | 21,975 |
| Special oil levy *(Note 21)* | 65,944 | 70,311 | 61,118 | 93,634 |
| Other payables | 75,688 | 35,876 | 38,647 | 47,357 |
| **Non-current** | | | | |
| Derivatives financial instrument premium payable *(Note 8)* | – | 63,231 | – | – |
| Amounts due to related parties *(Note 28)* | – | 33,023 | – | – |
| Trade payables | – | – | 170,235 | 331,554 |
| **Non-financial liabilities** | | | | |
| **Current** | | | | |
| Salary and welfare payable | 33,070 | 22,451 | 20,283 | 34,089 |
| Income tax payable | 93,828 | 8,397 | 55,052 | 59,504 |
| Advances from PetroChina *(Note 28)* | – | 321,105 | – | – |
| **Non-current** | | | | |
| Advances from PetroChina *(Note 28)* | – | 137,434 | – | – |
| **Total** | 1,497,234 | 1,728,771 | 1,033,922 | 1,118,516 |
| Total current | 1,497,234 | 1,495,083 | 863,687 | 786,962 |
| Total non-current | – | 233,688 | 170,235 | 331,554 |
| **Total** | 1,497,234 | 1,728,771 | 1,033,922 | 1,118,516 |

In April 2009, certain vendors agreed to accept repayment of trade payables amounting to RMB467,846,000 over a two or three year period from April 2009. As a result, RMB102,094,000 of trade payables are classified as non-current liabilities as at December 31, 2009.

Stock appreciation rights liabilities of RMB16,660,000 (2009: RMB2,260,000) has been included in salaries and welfare payable for the six months ended June 30, 2010 (Note 20).

**18 TRADE AND OTHER PAYABLES** – continued

**(b) The carrying amounts of trade and other payables are denominated in the following currencies:**

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Renminbi | 1,476,825 | 1,652,470 | 1,033,421 | 1,117,658 |
| United States Dollars | 20,409 | 76,301 | 501 | 858 |
| | 1,497,234 | 1,728,771 | 1,033,922 | 1,118,516 |

The carrying amounts of trade and other payables approximate their fair values.

**19 BORROWINGS**

**(a) Summary of Borrowings**

| | As at December 31. | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Bank borrowings | | | | |
| Non-current | 730,460 | 765,475 | 1,242,963 | 1,243,630 |
| Current | – | 54,677 | 102,423 | 101,863 |
| Total borrowings | 730,460 | 820,152 | 1,345,386 | 1,345,493 |

In October 2007, MIE entered into a financing arrangement with Standard Bank, for a bank facility of US$150 million (approximately RMB1,125 million) which reduces to zero in 2013. MIE utilized US$100 million (approximately RMB750 million) in 2007 and further drew down US$20 million (approximately RMB136 million) in August 2008. As at December 31, 2008, the Group's unutilized loan facilities amounted to US$30 million (approximately RMB204 million, 2007: US$50 million or approximately RMB375 million). This revolving bank facility was amended on January 12, 2009 and the interest rate increased from LIBOR + 2.75% to LIBOR + 5.75%.

The Standard Bank loan was collateralized primarily by MIE's ordinary shares held by FEEL, assignment of MIE's bank account for collection of oil revenue, a charge over the debt service reserve account, the Group's share of entitlement under the PSCs, a fixed charge over the Group's property, plant and equipment (Note 6) and a floating charge over all present and future assets.

On July 28, 2009, MIE entered into a five-year US$200 million transferrable term loan and revolving credit facility with Citic Ka Wah Bank Limited and China CITIC Bank Corporation Limited Guangzhou Branch ("CITIC Facility"), primarily to repay the Standard Bank loan, fund the development oilfields and for general working capital purposes.

**19 BORROWINGS** – continued

**(a) Summary of Borrowings** – continued

The CITIC Facility includes two long-term term loans and one short-term revolving facility, which can be converted into a term loan towards the end of the third year. The term loans do not require principal repayments for the first three years and the principal repayments are made starting from the 37th month. The term loans under the facility bear an interest rate of LIBOR plus 4.50% per annum. The facility contains the following financial covenants:

(a) the consolidated tangible net worth, subject to certain adjustments, will be not less than (i) RMB1.0 billion from 2009 to 2011 and (ii) RMB1.5 billion for 2012;

(b) the ratio of consolidated total borrowing to consolidated tangible net worth, subject to certain adjustments, will not exceed (i) 140% from 2009 to 2010 and (ii) 100% for 2011;

(c) the ratio of consolidated total borrowings to consolidated EBITDA (as defined in the credit facility agreement) will not exceed (i) 270%, from 2009 to 2010, (ii) 220% from 2011 to 2012 and (iii) 180% for 2013; and

(d) the total capital expenditure in any financial year will not exceed RMB1.0 billion.

Any failure to maintain these covenants could result in an acceleration of obligations under the CITIC Facility. As at June 30, 2010, the Company did not breach these loan covenants.

The CITIC Facility is secured primarily by 100% of the ordinary shares in MIE held by the Company, 51% of the ordinary shares in the Company held by FEEL and 51% of ordinary shares in FEEL, an assignment of the bank accounts for the collection of oil revenue, the Group's entitlement under the PSCs, a charge over the Group's debt service reserve account, and an assignment of the Group's interest in the Group's insurance policies. The Group is required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility. As part of a restructure to the security arrangement in respect of the loan, after the year end the Company has agreed to provide a corporate guarantee to the lenders in respect of MIE's obligations.

MIE drew down US$122.0 million (RMB830 million) from the CITIC Facility on July 31, 2009 to repay the loan from Standard Bank. MIE further drew down US$78 million (RMB546 million) subsequently during the 2009 financial year. There is no unused facility as at December 31, 2009 and June 30, 2010.

**(b)** The effective interest rates at the dates of the consolidated statements of financial position are as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Effective interest rates on the borrowings | 7.58% | 6.51% | 6.56% | 4.71% |

**19 BORROWINGS** – continued

**(c)** The exposure of the Group's borrowings to contractual interest rate changes based on LIBOR + 2.75% at the dates of the statements of financial position at 2007 and 2008 and LIBOR + 4.5% at December 31, 2009 are as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <1 year | – | 54,677 | 102,423 | 101,863 |
| 1-2 years | 54,677 | 218,706 | – | – |
| 2-5 years | 675,783 | 546,769 | 1,242,963 | 1,243,630 |
| Total borrowings | 730,460 | 820,152 | 1,345,386 | 1,345,493 |

The fair value of the current and non-current portions of borrowings approximates their carrying amounts.

**(d)** The borrowings are denominated in US dollars (Note 3).

**20 EMPLOYEE COMPENSATION COSTS**

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Wages, salaries and allowances | 45,230 | 56,212 | 50,563 | 22,858 | 32,450 |
| Housing subsidies | 382 | 841 | 1,181 | 496 | 665 |
| Share options granted | – | – | 1,224 | – | 5,349 |
| Stock appreciation rights granted *(Note 18)* | – | – | 2,260 | – | 14,400 |
| Welfare and other expenses | 7,384 | 11,961 | 12,423 | 1,402 | 4,732 |
| | 52,996 | 69,014 | 67,651 | 24,756 | 57,596 |

## 20 EMPLOYEE COMPENSATION COSTS – continued

### (a) Directors' emoluments

Directors' emoluments for the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010 are set out below:

| Name of director | Wages, salaries and allowances | Housing subsidies | Share options granted | Welfare and other expenses | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **For the year ended December 31, 2007** | | | | | |
| Zhang Ruilin | 2,300 | – | – | 3 | 2,303 |
| Zhao Jiangwei | 2,300 | – | – | 3 | 2,303 |
| Forrest Dietrich | 8,659 | 237 | – | 48 | 8,944 |
| | | | | | 13,550 |
| **For the year ended December 31, 2008** | | | | | |
| Zhang Ruilin | 2,208 | – | – | 3 | 2,211 |
| Zhao Jiangwei | 2,098 | – | – | 3 | 2,101 |
| Forrest Dietrich | 12,761 | 259 | – | 161 | 13,181 |
| | | | | | 17,493 |
| **For the year ended December 31, 2009** | | | | | |
| Zhang Ruilin | 4,993 | 60 | – | 2 | 5,055 |
| Zhao Jiangwei | 4,521 | 40 | – | 2 | 4,563 |
| Forrest Dietrich | 2,820 | 1,771 | 312 | – | 4,903 |
| Allen Mark | 3,232 | 30 | 417 | – | 3,679 |
| Sing Wang | – | – | – | – | – |
| | | | | | 18,200 |
| **For the six months ended June 30, 2010** | | | | | |
| Zhang Ruilin | 3,616 | 180 | – | – | 3,796 |
| Zhao Jiangwei | 3,174 | 120 | – | – | 3,294 |
| Forrest Dietrich | 1,535 | 130 | 1,367 | – | 3,032 |
| Allen Mark | 2,056 | 90 | 1,822 | – | 3,968 |
| Sing Wang | – | – | – | – | – |
| | | | | | 14,090 |
| **For the six months ended June 30, 2009 (Unaudited)** | | | | | |
| Zhang Ruilin | 1,729 | – | – | – | 1,729 |
| Zhao Jiangwei | 1,621 | – | – | – | 1,621 |
| Forrest Dietrich | 820 | – | – | – | 820 |
| | | | | | 4,170 |

## 20 EMPLOYEE COMPENSATION COSTS – continued

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010 are as follows:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 (Unaudited) | 2010 |
| Directors | 3 | 3 | 4 | 3 | 4 |
| Non-director individuals | 2 | 2 | 1 | 2 | 1 |

The details of emoluments paid to the five highest individuals who were directors of the Company during the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010 have been included in Note (a) above. Details of emoluments paid to the remaining non-director individuals are as follows:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Wages, salaries and allowances | 6,854 | 6,149 | 1,710 | 1,783 | 2,063 |
| Housing subsidies | 200 | 208 | 15 | – | – |
| Stock appreciation rights granted | – | – | 110 | – | 2,120 |
| | 7,054 | 6,357 | 1,835 | 1,783 | 4,183 |

**(c)** During the Relevant Periods, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

## 21 TAXES OTHER THAN INCOME TAXES

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Taxes other than income taxes | 159,998 | 538,126 | 73,308 | 3,497 | 148,617 |

## 21 TAXES OTHER THAN INCOME TAXES – continued

Taxes other than income taxes represent a special oil levy which is paid or payable by petroleum exploration and development enterprises for the sales of domestic crude oil at a rate variable based on the oil prices. This levy was imposed by the PRC government and became effective from March 26, 2006.

## 22 OTHER INCOME/(LOSS)

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Net (loss)/gain on forward foreign exchange contract *(Note 8)* | – | (24,704) | 5,478 | 5,674 | – |
| Gain/(loss) on oil put option *(Note 8)* | – | 155,505 | (136,252) | (95,025) | (14,028) |
| Write-back of accounts payables | 29,038 | – | – | – | – |
| Others | 3,739 | 2,957 | (350) | 3,577 | 3,068 |
| Total | 32,777 | 133,758 | (131,124) | (85,774) | (10,960) |

The net gain and loss on the forward foreign exchange contract results from the exchange rate between the US dollar and the RMB being less than the rate set in the contract resulting in a loss of RMB24,704,000 for 2008 and a gain of RMB5,478,000 for 2009.

The net gain of the oil put option in the year ended December 31, 2008 is due to the WTI oil price during November 2008 and December 2008 being lower than the oil put option exercise price of US$62.50 per barrel and the unrealized valuation gain as at December 31, 2008 on the remaining put options that can be exercised in 2009 and 2010. The net loss of the oil put option in the year ended December 31, 2009 and the six months ended June 30, 2010 is due to the change in fair value of the unrealized portion of the oil put option.

## 23 FINANCE COSTS – NET

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Finance income** | | | | | |
| Interest income from savings accounts | 4,108 | 2,858 | 1,552 | 866 | 53 |
| Exchange gain | 7,789 | 42,815 | – | 64 | 7,207 |
| **Total finance income** | 11,897 | 45,673 | 1,552 | 930 | 7,260 |
| **Finance costs** | | | | | |
| Interest expenses | 41,712 | 53,391 | 56,498 | 24,538 | 40,220 |
| Bank charges | 45,932 | 69 | 88 | 9 | 26 |
| Exchange loss | – | – | 2,246 | – | – |
| Others | 1,164 | – | – | 6 | – |
| **Total finance costs** | 88,808 | 53,460 | 58,832 | 24,553 | 40,246 |
| **Finance costs – net** | 76,911 | 7,787 | 57,280 | 23,623 | 32,986 |

## 24 INCOME TAX EXPENSE

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Current income tax – domestic | 120,602 | 107,552 | 89,832 | (1,421) | 162,498 |
| Deferred income tax – domestic | 4,561 | 55,196 | (16,370) | (1,488) | (73,775) |
| | 125,163 | 162,748 | 73,462 | (2,909) | 88,723 |

The Company is an exempted company incorporated in the Cayman Islands. Under the laws of Cayman Islands, the Company is not subject to tax on income or capital gain.

Corporate income tax for its operation in China is provided on the basis of statutory profit for financial reporting purposes as defined by the PRC tax authorities, adjusted for income and expense items which are not assessable or deductible for income tax purposes. In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is 30% for the year ended December 31, 2007 and 25% for years ended December 31, 2008 and 2009 and the six months ended June 30, 2010.

**24 INCOME TAX EXPENSE** – continued

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the corporate income tax rate in the PRC applicable to the Group:

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Profit before income tax | 434,116 | 773,838 | 183,939 | 327,178 |
| Statutory tax rates | 30% | 25% | 25% | 25% |
| Tax calculated at the statutory tax rates | 130,235 | 193,460 | 45,985 | 81,795 |
| Effect of changes in PRC corporate income tax rate | (9,515) | – | – | – |
| Tax effect of income not subject to tax | (1,362) | (33,950) | (738) | – |
| Expenses not deductible for tax purposes | 5,805 | 3,238 | 35,394 | 7,664 |
| Prior year tax filling adjustments | – | – | (7,179) | (736) |
| Tax charge | 125,163 | 162,748 | 73,462 | 88,723 |

PRC tax regulations require tax to be assessed on activities that are undertaken, executed or managed in the PRC. During the relevant period, oil put option gains and losses were not subjected to nor deductible for income tax in PRC.

**25 EQUITY DISTRIBUTIONS**

On December 31, 2008, pursuant to the Tripartite Agreement (Note 12), MIE declared a deemed dividend distribution amounting to US$20 million (equal to RMB136,692,000). The distribution was off-set against the outstanding balance of the amount due from FEEL.

On July 7, 2009, MIE declared a deemed dividend distribution to the Company amounting to US$50 million (equal to RMB341,630,000) and the Company declared a deemed dividend distribution to FEEL amounting to US$50 million (equal to RMB341,615,000). The deemed dividend distribution to FEEL was off-set against the outstanding balance of the amount due from FEEL (Note 12).

On March 7, 2010, the Company declared a cash dividend of US$20 million (RMB136,532,000) in favour of all the shareholders of the Company which was paid on March 9, 2010.

On April 9, 2010, the Board ratified the March 31, 2010 deemed dividend of US$11.9 million (RMB81,052,000) to Far East Energy Limited, as allowed by the Fourth Amended and Restated Memorandum and Articles of Association of the Company and the Shareholders Agreement, as the dividend was used to settle the outstanding receivables from FEEL and did not exceed US$12 million allowed under the Shareholders Agreement.

## 26 CASH GENERATED FROM OPERATING ACTIVITIES

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Profit/(loss) before income tax | 434,116 | 773,838 | 183,939 | (76,568) | 327,178 |
| Adjustments for: | | | | | |
| Depreciation, depletion and amortization | 286,792 | 475,172 | 445,824 | 226,547 | 268,015 |
| Interest expenses – net *(Note 23)* | 37,604 | 50,533 | 54,946 | 23,672 | 40,167 |
| Impairment of inventory *(Note 11)* | – | 3,898 | – | – | – |
| Impairment of property, plant and equipment *(Note 6)* | – | 32,000 | – | – | – |
| Unrealized foreign exchange gain/(loss) | – | (46,998) | 2,246 | (64) | (7,207) |
| Fair value (gain)/loss on oil put option | – | (129,817) | 207,243 | 166,016 | 14,028 |
| Fair value loss/(gain) on foreign exchange contract | – | 25,257 | (25,240) | (13,989) | – |
| Changes in working capital: | | | | | |
| Inventories | (850) | (16,369) | (22,170) | (313) | 29,276 |
| Trade and other receivables | (211,661) | 257,992 | (226,528) | 20,095 | 34,538 |
| Trade and other payables | 41,407 | 268,921 | (581,629) | (342,347) | 45,166 |
| Cash generated from operations | 587,408 | 1,694,427 | 38,631 | 3,049 | 751,161 |

## 27 COMMITMENTS AND CONTINGENCIES

### (a) Commitments

Capital expenditure contracted for at the date of the consolidated statement of financial position but not recognized in the consolidated statement of financial position is as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Property, plant and equipment | 50,000 | – | – | – |

The Group has operating lease commitments related to its non-cancellable operating leases for offices.

**27 COMMITMENTS AND CONTINGENCIES** – continued

**(a) Commitments** – continued

The future aggregate minimum lease payments under operating leases are as follows:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| No later than 1 year | 123 | – | – | – |

Lease expenses for the six month ended June 30, 2010 relates to office rental of RMB3,027,000 (2009: RMB4,314,000; 2008: RMB4,314,000; 2007: RMB6,282,000).

**(b) Contingencies**

On August 28, 2000, MIE entered into a PSC with China Petroleum and Chemical Corporation ("Sinopec") for exploration and development of Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at Shengli and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at Shengli. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment of at least US$2 million under the PSC. MIE believes its investment in the project at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings.

## 28 RELATED PARTY TRANSACTIONS

**(a)** The following transactions and balances were carried out with related parties:

| | Year ended December 31. | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2009** | **2010** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| **Transactions with PSC partners** | | | | | |
| Global Oil Corporation | | | | | |
| Amounts received on behalf of GOC arising from the PSCs | 120,575 | 198,885 | 112,288 | 40,421 | 109,403 |
| Loan granted to GOC | 4,445 | 88,272 | 21,733 | 17,500 | 17,070 |
| Cost incurred on behalf of GOC from PSCs | 125,030 | 216,250 | 95,631 | 14,972 | 91,339 |
| PetroChina | | | | | |
| Sales to PetroChina | 1,221,624 | 1,971,688 | 1,166,827 | 363,760 | 947,364 |
| Cost incurred on behalf of PetroChina from PSCs | 51,420 | 96,114 | 107,952 | 54,603 | 62,438 |
| **Transactions with a company/person related to the controlling shareholder of FEEL** | | | | | |
| Jilin Guotai Petroleum Development Company* | | | | | |
| Purchases of materials and spare parts | 1,878 | 2,913 | 324 | – | 262 |
| Purchases of oil well drilling services | 68,599 | 92,840 | 77,318 | 18,728 | 61,851 |
| Rental of vehicles | 1,310 | 1,724 | 3,613 | 1,731 | 1,149 |
| Zhao Jiangbo | | | | | |
| Rental of vehicles and office premise | – | 3,216 | 5,652 | 2,826 | 2,624 |

* The amount disclosed above represents gross amount transacted between MIE, acting as operator for the three oilfields in Jilin, with the related company.

**28 RELATED PARTY TRANSACTIONS** – continued

**(b)** Amounts due from related parties included in trade and other receivables:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Amounts due from related companies and PSC partners** | | | | |
| **Current** | | | | |
| United Petroleum USA, LLC[1] (non-trade) | 1,701 | 1,571 | 1,569 | 1,561 |
| Jilin Sanhuan Petroleum Company (trade) | 7,492 | – | – | – |
| Global Oil Corporation (non-trade) | 15,547 | 54,994 | 55,901 | 73,462 |
| PetroChina (trade) | 141,772 | – | 50,723 | 161,894 |
| PetroChina (non-trade) | 62,470 | 16,803 | 17,968 | 32,170 |
| | 228,982 | 73,368 | 126,161 | 269,087 |
| Provision for impairment – Jilin Sanhuan Petroleum (trade) | (7,492) | – | – | – |
| | 221,490 | 73,368 | 126,161 | 269,087 |
| **Non-current** | | | | |
| Global Oil Corporation (non-trade) | – | 66,190 | 70,360 | 37,871 |
| | 221,490 | 139,558 | 196,521 | 306,958 |
| Advance to Supplier Jilin Guotai Petroleum Development Company (trade) | – | – | 38,673 | 50,324 |

1 United Petroleum USA, LLC is a fellow subsidiary of the Company and the Group pays miscellaneous fees on its behalf in the United States.

The above balances represent advances to related companies which arise mainly from purchase transactions with related parties and amounts received on behalf of the other PSC partners. A provision for impairment of RMB nil (2008: nil; 2007: RMB7,492,000) has been provided for the balance with Jilin Sanhuan Petroleum Company.

The non-trade amount due from the United Petroleum USA will be repaid before the Group's listing while the other balances with related parties arising from the Group's normal operations will not be fully settled before the Group's listing.

**28 RELATED PARTY TRANSACTIONS** – continued

**(c)** Amounts due to related companies included in trade and other payables:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Amounts due to ultimate parent company** | | | | |
| Amount due to FEEL (non-trade) | 315,780 | – | – | – |
| **Amounts due to PSC partners** | | | | |
| Global Oil Corporation (non-trade) | 18,507 | – | – | – |
| PetroChina (trade) *(Note 4(d))* | – | 458,539 | – | – |
| **Amounts due to other related parties** | | | | |
| Jilin Guotai Petroleum Development Company (trade) | 1,312 | 33,023 | – | – |
| Zhao Jiangbo (trade) | – | – | – | 1,160 |

The above balance with Jilin Guotai Petroleum Development Company arose mainly from purchase transactions and is repayable on demand and bears no interest.

The above balance with Zhao Jiangbo, spouse of controlling shareholder of FEEL, arose from rental of vehicles and office premises.

The balance with Global Oil Corporation and PetroChina relates to the PSCs and is repayable on demand and bear no interest.

**(d)** Amounts due from the controlling shareholder of FEEL and from FEEL:

| | As at December 31, | | | As at June 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Amount due from the controlling shareholder of FEEL (non-trade) *(Note 12)* | 808,988 | – | – | – |
| Amount due from FEEL (non-trade) *(Note 12)* | – | 422,880 | 81,074 | – |

The amount as at December 31, 2007 is unsecured, interest free and repayable in ten (10) equal instalments from December 31, 2007 to July 31, 2010.

The amount as at December 31, 2008 is unsecured, interest free and repayable in full upon the completion of the loan reorganization described in Note 12.

The amount as at December 31, 2009 is unsecured and interest free. The amount due from FEEL of RMB81,074,000 (US$11.9 million) was settled on March 31, 2010 by deemed dividend of US$11.9 million (Note 12).

**28 RELATED PARTY TRANSACTIONS** – continued

**(e) Guarantee given in favour of a related party**

In 2008, MIE pledged a deposit of RMB17 million to a bank to provide a guarantee for a bank loan to Jilin Guotai Petroleum Development Company. In 2009, MIE further pledged RMB29.4 million to a bank to provide a guarantee of a bank loan to the same related party. The pledged deposit has subsequently been released in September 2009.

**(f)** Key management compensation is presented below:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2009** | **2010** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| **Expenses** | | | | | |
| Short-term benefits: | | | | | |
| – Salaries | 2,914 | 6,142 | 10,457 | 4,702 | 8,873 |
| – Short-term bonuses | 11,209 | 12,483 | 7,842 | 1,557 | 4,631 |
| – Share options and share appreciation rights granted | – | – | 180 | – | 5,870 |
| – Benefits in-kind | 294 | 425 | 439 | – | 688 |
| **Total** | 14,417 | 19,050 | 18,918 | 6,259 | 20,062 |
| **Accrued liability** | | | | | |
| Short-term benefits: | | | | | |
| – Short-term bonuses | 11,209 | 12,483 | 7,843 | 1,535 | 4,631 |
| | 11,209 | 12,483 | 7,843 | 1,535 | 4,631 |

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

## 29 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Net profit/(loss) attributable to equity holders of the Company | 308,953 | 611,090 | 110,477 | (73,659) | 238,455 |
| Adjustment for: | | | | | |
| Dividends entitled by Series A preferred shares | – | – | (10,311) | – | (49,281) |
| Dividends entitled by Series B preferred shares | – | – | – | – | (22,125) |
| | 308,953 | 611,090 | 100,166 | (73,659) | 167,049 |
| Number of ordinary shares (thousands) | 100,000 | 100,000 | 99,393 | 100,000 | 85,087 |
| Earnings/(loss) per share, Basic (RMB per share) | 3.1 | 6.1 | 1.0 | (0.7) | 2.0 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible preferred shares and share options. The convertible preferred shares are assumed to be converted into ordinary shares. For share options, a calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. The number of ordinary shares calculated as above is compared with the number of ordinary shares that would have been issued assuming the exercise of the share options.

**29 EARNINGS PER SHARE** – continued

**(b) Diluted** – continued

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2009** | **2010** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Net profit/(loss) attributable to equity holders of the Company | 308,953 | 611,090 | 110,477 | (73,659) | 238,455 |
| Net profit/(loss) used to determine diluted earnings per share | 308,953 | 611,090 | 110,477 | (73,659) | 238,455 |
| **Weighted average number of ordinary shares in issue (thousands)** | 100,000 | 100,000 | 99,393 | 100,000 | 85,087 |
| Adjustments for: | | | | | |
| – Assumed conversion of convertible preferred shares (thousands) | – | – | 10,976 | – | 36,371 |
| – Share options (thousands) | – | – | 26 | – | 755 |
| Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands) | 100,000 | 100,000 | 110,395 | 100,000 | 122,213 |
| Earnings/(loss) per share, Diluted (RMB per share) | 3.1 | 6.1 | 1.0 | (0.7) | 2.0 |

**30 SUBSEQUENT EVENTS**

**(a) Incorporation of new subsidiary, MIE New Ventures**

On August 6, 2010, MIE New Ventures was incorporated in the Cayman Islands as an investment holding company with limited liability, and became a wholly owned subsidiary of the Company. On August 11, 2010, MIE New Ventures further allotted and issued 9,999 ordinary shares to the Company.

**(b) Intention to acquire GOC's 10% participating interest in the existing PSCs**

On April 8, 2010, the Company signed a Memorandum of Understanding in respect of a possible acquisition of all of GOC's 10% participating interest in the Daan, Miao 3 and Moliqing PSCs (the "interest"). Total consideration is to be the Company's equity value immediately prior to the IPO divided by 0.9 and times 10%. The consideration for the Interest will be settled by the Company in a combination of cash and stock of the Company.

**30 SUBSEQUENT EVENTS** – continued

**(b) Intention to acquire GOC's 10% participating interest in the existing PSCs** – continued

The assignment of the Interest is subject to negotiation and execution of a definitive agreement and approval by China National Petroleum Corporation, PetroChina and other relevant authorities in China. The Memorandum of Understanding terminates on 90 days after the IPO of the Company or the date of execution of the proposed SPA, whichever is earlier. At the date of the report, the proposed SPA has not been executed.

**(c) Intention to acquire new interests in other PSC**

On April 2, 2010, the Company signed a Memorandum of Understanding in respect of possible acquisitions of participating interest in certain PSC in the Jilin Province. If the Company wishes to acquire the participating interest, the consideration, to be paid in cash upon completion, will be based on the entitlement to oil from each participating interest, as determined by reserve reports issued by an independent international oil reserve valuation company, priced at US$12 per barrel.

The acquisition of the participating interest is subject to negotiations and execution of definitive agreements and approval by PetroChina, its local branch and other relevant authorities in China. The Memorandum of Understanding, which expires on the last day of the 6th month after the date of signature, is still under discussion at the date of this report.

**(d) Oil Put Options**

In October 2010, the Group purchased an option to notionally sell to Merrill Lynch Commodities, Inc. ("MLCI") 3,000,000 barrels of crude oil at a strike price of US$70.00 per barrel, in installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012. The price under the option is based on West Texas Intermediate crude oil prices. In addition, in October 2010, the Group sold an option to MLCI to notionally sell to us 3,000,000 barrels at a strike price of US$55.00 per barrel in installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 under the same terms and conditions as the purchased option. The effect of the above arrangement is that we will receive from MLCI each month the difference between the strike price of US$70.00 per barrel and the WTI crude oil price, in respect of the notional volume of that month, if the average monthly spot price of oil falls below US$70.00 per barrel, provided that the maximum payout by MLCI is limited to US$15.00 per barrel. Starting in April 2011, the Group will pay MLCI the premium of approximately US$1.09 million per quarter for the oil put option arrangement over a period of eight quarters. The options expire on December 31, 2012.

**(e) Supplementary agreement to CITIC Facility**

On November 27, 2010, in order for the Company to issue new shares in connection with the initial public offer, the Group entered into a supplemental deed to the CITIC Facility to restructure the security arrangement with CITIC Bank International Limited and CITIC Bank Guangzhou ("the lenders"). Under the supplemental deed,

i. the lenders agreed to release the share mortgages of 51% of the Ordinary shares in the Company held by FEEL and 51% of the Ordinary shares in FEEL held by shareholders of FEEL as security of the credit facility immediately before the Listing;

ii. the Group has also agreed to procure FEEL to continue to be the largest shareholder of the Company, holding not less than 35% of the issued share capital in the Company, and maintain management control of the Company;

**30 SUBSEQUENT EVENTS** – continued

**(e) Supplementary agreement to CITIC Facility** – continued

iii. the lenders also agreed to increase the capital expenditures allowable for 2011 from RMB1.0 billion to RMB1.288 billion;

iv. the Company agreed to provide a corporate guarantee for MIE's obligations under the credit facility. The lenders have also approved any sale of existing shares by FEEL up to 7% of our issued share capital immediately upon the occurrence of the Global Offering (including the Sale Shares of FEEL) either in or after the Global Offering, provided that FEEL shall continue to hold not less than 35% of the issued share capital in the Company.

The Group is required to pay a work fee of US$300,000 and a waiver fee of US$6 million. Any amount of work fee paid can be credited against the US$6 million wavier fees payable. The Group is required to pay a further waiver fee equal to 2.75% of the net amount received by FEEL from its sale of existing shares either in or after the Global Offering.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements of the Group have been prepared for the Company and its subsidiaries in respect of any period subsequent to June 30, 2010. Up to the date of this report, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to June 30, 2010.

Yours faithfully,
**PricewaterhouseCoopers**
*Certified Public Accountants*
Hong Kong



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**
22nd Floor Prince's Building
Central
Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

**To the shareholders of MIE Holdings Corporation**
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of MIE Holdings Corporation ("the Company") and its subsidiaries (together, the "Group") set out on pages 56 to 140, which comprise the consolidated and company statements of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' Responsibility for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Other Matters**

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, March 25, 2011

**Consolidated Statement of Financial Position**

| | Notes | As at December 31, 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *6* | 3,024,482 | 2,665,143 |
| Intangible asset | *7* | 1,677 | 2,599 |
| Derivative financial instruments | *8* | 20,285 | – |
| Trade and other receivables | *9* | 24,212 | 70,360 |
| | | 3,070,656 | 2,738,102 |
| **Current assets** | | | |
| Inventories | *11* | 36,664 | 76,078 |
| Derivative financial instruments | *8* | 11,168 | 20,307 |
| Trade and other receivables | *9* | 398,294 | 489,571 |
| Amount due from shareholder | *12* | – | 81,074 |
| Pledged deposits | *10* | 29,916 | 30,729 |
| Cash and cash equivalents | *13* | 680,033 | 290,271 |
| | | 1,156,075 | 988,030 |
| **TOTAL ASSETS** | | 4,226,731 | 3,726,132 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Group** | | | |
| Ordinary shares | *14* | 17,588 | 659 |
| Preferred shares | *14* | – | 171 |
| Share premium | *15* | 826,477 | 339,449 |
| Other reserves | *15* | 91,919 | 64,460 |
| Retained earnings | | | |
| – Proposed final dividend | *26* | 77,933 | – |
| – Others | | 946,014 | 848,707 |
| **Total equity** | | 1,959,931 | 1,253,446 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Asset retirement obligations | *16* | 9,270 | 6,978 |
| Deferred income tax liabilities – net | *17* | 8,694 | 86,400 |
| Trade and other payables | *18* | 137,598 | 170,235 |
| Borrowings | *19* | 1,191,862 | 1,242,963 |
| | | 1,347,424 | 1,506,576 |
| **Current liabilities** | | | |
| Trade and other payables | *18* | 775,137 | 808,635 |
| Current income tax liabilities | | 44,898 | 55,052 |
| Borrowings | *19* | 99,341 | 102,423 |
| | | 919,376 | 966,110 |
| **Total liabilities** | | 2,266,800 | 2,472,686 |
| **TOTAL EQUITY AND LIABILITIES** | | 4,226,731 | 3,726,132 |
| **Net current assets** | | 236,699 | 21,920 |
| **Total assets less current liabilities** | | 3,307,355 | 2,760,022 |

**Statement of Financial Position**

| | Notes | As at December 31, 2010 RMB'000 | As at December 31, 2009 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiary | | 1,400,552 | 1,371,125 |
| Amount due from subsidiary | | 602,021 | 323,713 |
| | | 2,002,573 | 1,694,838 |
| **Current assets** | | | |
| Cash and cash equivalents | *13* | 342,950 | 33 |
| Prepaid expenses | | – | 12,786 |
| | | 342,950 | 12,819 |
| **TOTAL ASSETS** | | 2,345,523 | 1,707,657 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Ordinary shares | *14* | 17,588 | 659 |
| Preferred shares | *14* | – | 171 |
| Share premium | *15* | 826,477 | 339,449 |
| Other reserves | *15* | 1,367,599 | 1,368,136 |
| Retained earnings/(Accumulated deficit) | | | |
| – Proposed final dividend | *26* | 77,933 | – |
| – Others | | 11,316 | (3,482) |
| **Total equity** | | 2,300,913 | 1,704,933 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Salary payable | | 5,960 | – |
| Stock appreciation rights liabilities | *18* | 21,260 | 2,260 |
| Other liabilities | | 17,390 | 464 |
| **Total liabilities** | | 44,610 | 2,724 |
| **TOTAL EQUITY AND LIABILITIES** | | 2,345,523 | 1,707,657 |
| **Net current assets** | | 298,340 | 10,095 |
| **Total assets less current liabilities** | | 2,300,913 | 1,704,933 |

**Consolidated Statement of Comprehensive Income**

| | Notes | Year ended December 31, 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Revenue** | *5* | 1,804,976 | 1,166,827 |
| **Operating expenses** | | | |
| Purchases, services and other | | (126,517) | (123,587) |
| Employee compensation costs | *20* | (110,346) | (67,651) |
| Depreciation, depletion and amortization | | (528,582) | (445,824) |
| Distribution expenses | | (28,424) | (21,861) |
| Administrative expenses | | (50,154) | (62,253) |
| Taxes other than income taxes | *21* | (289,296) | (73,308) |
| Other losses | *22* | (37,644) | (131,124) |
| Total operating expenses | | (1,170,963) | (925,608) |
| **Profit from operations** | | 634,013 | 241,219 |
| Finance income | *23* | 35,344 | 1,552 |
| Finance costs | *23* | (86,788) | (58,832) |
| **Finance costs – net** | *23* | (51,444) | (57,280) |
| **Profit before income tax** | | 582,569 | 183,939 |
| **Income tax expense** | *24* | (161,705) | (73,462) |
| **Net profit for the year** | | 420,864 | 110,477 |
| **Other comprehensive income:** | | | |
| Currency translation difference | | (10,941) | – |
| **Other comprehensive income for the year, net of tax** | | (10,941) | – |
| **Total comprehensive income for the year** | | 409,923 | 110,477 |
| **Net profit attributable to the equity holders of the Company** | | 420,864 | 110,477 |
| **Earnings per share, Basic (expressed in RMB per share)** | *30* | 0.19 | 0.06 |
| **Earnings per share, Diluted (expressed in RMB per share)** | *30* | 0.19 | 0.06 |
| **Dividends distributed during the year** | *26* | 217,584 | 341,615 |
| **Dividends proposed after the balance sheet date** | *26,31(c)* | 77,933 | – |

## Consolidated Statement of Changes in Equity

| | Note | Ordinary shares | Preferred shares | Share premium | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at January 1, 2009** | | 684 | – | – | 49,023 | 1,094,058 | 1,143,765 |
| **Comprehensive income for the year** | | | | | | | |
| Net profit for the year | | – | – | – | – | 110,477 | 110,477 |
| Transfer to safety fund reserve | *15* | – | – | – | 14,213 | (14,213) | – |
| | | – | – | – | 14,213 | 96,264 | 110,477 |
| **Transactions with owners** | | | | | | | |
| Employees stock options | *14c,20* | – | – | – | 1,224 | – | 1,224 |
| Issuance of redeemable ordinary shares | *14a* | – | – | (35,043) | – | – | (35,043) |
| Cancellation of redeemable ordinary shares | *14a* | – | – | 35,043 | – | – | 35,043 |
| Issuance of Series A preferred shares for cash | *14b* | – | 146 | 339,449 | – | – | 339,595 |
| Issuance of Series A preferred shares in exchange for ordinary shares | *14b* | – | 25 | 61,429 | – | – | 61,454 |
| Cancellation of ordinary shares | *14b,15* | (25) | – | (61,429) | – | – | (61,454) |
| Deemed dividend distribution | *26* | – | – | – | – | (341,615) | (341,615) |
| Total transactions with owners | | (25) | 171 | 339,449 | 1,224 | (341,615) | (796) |
| **As at December 31, 2009** | | 659 | 171 | 339,449 | 64,460 | 848,707 | 1,253,446 |
| **As at January 1, 2010** | | 659 | 171 | 339,449 | 64,460 | 848,707 | 1,253,446 |
| **Comprehensive income for the year** | | | | | | | |
| Net profit for the year | | – | – | – | – | 420,864 | 420,864 |
| Transfer to safety fund reserve | *15* | – | – | – | 28,040 | (28,040) | – |
| Currency translation difference | | – | – | – | (10,941) | – | (10,941) |
| | | – | – | – | 17,099 | 392,824 | 409,923 |
| **Transactions with owners** | | | | | | | |
| Employees stock options | | – | – | – | 10,360 | – | 10,360 |
| Cancellation of ordinary shares | *14a* | (124) | – | (614,047) | – | – | (614,171) |
| Issuance of Series B preferred shares in exchange of ordinary shares | *14b* | – | 249 | 613,923 | – | – | 614,172 |
| Cash dividend distribution | *26* | – | – | – | – | (136,532) | (136,532) |
| Deemed dividend distribution | *26* | – | – | – | – | (81,052) | (81,052) |
| Conversion of Series A shares to ordinary shares | *14* | 171 | (171) | – | – | – | – |
| Conversion of Series B shares to ordinary shares | | 124 | (249) | 125 | – | – | – |
| Capitalization issuance of ordinary shares to shareholders registered on November 23, 2010 | *14a* | 13,822 | – | (13,822) | – | – | – |
| Issuances of ordinary shares for Global Offering | *14a* | 2,936 | – | 500,849 | – | – | 503,785 |
| Total transactions with owners | | 16,929 | (171) | 487,028 | 10,360 | (217,584) | 296,562 |
| **As at December 31, 2010** | | 17,588 | – | 826,477 | 91,919 | 1,023,947 | 1,959,931 |

**Consolidated Statement of Cash Flows**

| | Notes | Year ended December 31, 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | *27* | 1,344,234 | 38,631 |
| Interest paid | | (72,420) | (58,629) |
| Income tax paid | | (256,915) | (50,264) |
| Net cash generated from/(used in) operating activities | | 1,014,899 | (70,262) |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (910,244) | (881,374) |
| (Increase)/decrease in pledged deposits | | (114) | 19,460 |
| Loan granted to PSC partner | | (91,586) | (21,733) |
| Interest received | | 143 | 1,834 |
| Net cash used in investing activities | | (1,001,801) | (881,813) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | – | 1,447,977 |
| Repayments of borrowings | | – | (927,345) |
| Payment of loan arrangement fees | | (27,114) | – |
| Proceeds from issuance of preferred shares | | – | 339,595 |
| Proceeds from Global Offering | | 605,219 | – |
| Payment of fees relating to Global Offering | | (64,909) | – |
| Cash dividends paid | *26* | (136,532) | – |
| **Net cash generated from financing activities** | | 376,664 | 860,227 |
| **Net increase/(decrease) in cash and cash equivalents** | | 389,762 | (91,848) |
| **Exchange losses on cash and cash equivalents** | | – | – |
| Cash and cash equivalents at beginning of the year | | 290,271 | 382,119 |
| **Cash and cash equivalents at end of the year** | *13* | 680,033 | 290,271 |

## Notes to the Consolidated Financial Statements

### 1 GENERAL INFORMATION AND GROUP REORGANIZATION

The Company was incorporated by Far East Energy Limited ("FEEL"), a company incorporated in Hong Kong with limited liability, on March 20, 2008. The Company is listed on the Stock Exchange of Hong Kong Limited.

MI Energy Corporation ("MIE") is a limited liability company incorporated in Cayman Islands and domiciled in the People's Republic of China ("PRC" or "China"). MIE was a wholly owned subsidiary of FEEL until January 12, 2009, when MIE became a wholly owned subsidiary of the Company and the Company became a subsidiary of FEEL. Mr. Zhang Ruilin and Mr. Zhao Jiangwei ultimately control MIE through their controlling interest in FEEL.

The Company and its subsidiaries' ("the Group") principal business is to engage in the development, production and sale of crude oil through MIE's four production sharing projects it obtained in 2001 and located at four oil blocks. On May 26, 2001, MIE was assigned all of Microbes, Inc.'s, its then parent company, 90% foreign participating interest in the production sharing contracts ("PSCs") of four oil blocks, namely, Daan, Moliqing and Miao 3 in Jilin Province with PetroChina and Luojiayi 64 block in Shengli of Shandong Province with China Petroleum and Chemical Corporation ("Sinopec") . The Daan and Miao 3 projects were established in 1997, and the Moliqing project was established in 1998. The duration of those three projects are 30 years with the commercial production period being up to 20 years. Daan, Moliqing and Miao 3 will expire in year 2024, year 2028 and year 2028 respectively. The Group acts as the operator of these four PSC's. The Group and Global Oil Corporation ("GOC"), hold a 90% interest and a 10% interest in the foreign participating interest in the PSCs for Daan, Moliqing and Miao 3, respectively. (Note 2(c)).

As of January 1, 2005, the Daan project was in the commercial production phase. As of October 1, 2008, the Miao 3 project attained commercial production. As of December 1, 2008, the Moliqing project reached commercial production. In 2006, the Luojiayi 64 block stopped work and in 2005 MIE's related investment was fully written off (Note 28(b)).

On August 6, 2010, MI Energy (Kazakhstan) Corporation was incorporated in the Cayman Islands as an investment holding company with limited liability, and became a wholly owned subsidiary of the Company. On August 11, 2010, MIE Kazakhstan further allotted and issued 9,999 ordinary shares of US$1 each to the Company. On October 14, 2010, the name of MIE Kazakhstan was changed as MIE New Ventures Corporation.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The Company prepared the accompanying consolidated financial statements in accordance with IFRS as issued by the IASB.

All significant intra-group transactions and balances have been eliminated on consolidation.

The principal accounting policies used in preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all years presented unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of financial derivative instruments at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

***New accounting pronouncements***

(i) New standards, amendments to and interpretations on existing standards adopted by the Group are as follows:

- IAS 7 (Amendment) 'statement of cash flows', effective for periods beginning on or after January 1, 2010. The amendment requires only expenditures that result in a recognized asset in the statement of financial position to be classified as investing activities.

- IFRS 2 (Amendments), "Share-based payments" is effective for annual beginning on or after July 1, 2009. IFRS 2 (Amendments), 'Group cash-settled share-based payment transactions' effective from January 1, 2010. In addition to incorporating IFRIC Int 8 'scope of IFRS 2' and IFRC-Int 11, 'IFRS 2–group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the clarification of group arrangements that were not covered by the interpretation.

The adoption of these new standards and amendments do not have a material impact on the Group's or Company's financial statements.

(ii) New standards, amendments and interpretations to existing standards not yet effective and not early adopted by the Group

- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption.

- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from January 1, 2011. Earlier application, in whole or in part, is permitted.

- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after February 1, 2010. Earlier application is permitted.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after July 1, 2010. Earlier application is permitted.

- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective January 1, 2011.

The Group is in the process of reviewing the impact of the above standards and do not expect these standards to have a material impact on the Group's or Company's financial statements at the current stage.

**(b) Consolidation**

***Subsidiaries***

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de- consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(c) Production sharing contracts**

The Group's development and production activities are conducted jointly with others through PSCs. These PSCs establish joint control over the development and production activities. The assets are not owned by a separate legal entity but are controlled by individual participants in the PSCs. Each participant is entitled to a predetermined share of the related output and bears an agreed share of the costs.

The consolidated financial statements reflect:

(i) MIE's assets used in jointly controlled operations;

(ii) any liabilities that MIE has incurred;

(iii) MIE's share of any liabilities incurred jointly with the other PSC partners in relation to the joint production;

(iv) any income from the sale or use of MIE's share of the output of the production, together with its share of any expenses incurred in the production; and

(v) any expenses that MIE has incurred in respect of its interest in the production.

Pursuant to the three PSCs with PetroChina, the annual gross production of the crude oil shall, after payment for value added tax and royalty, be firstly deemed as the cost recovery oil and shall be used for cost recovery in the following sequence:

- Payment in kind for the operating costs actually incurred by MIE and GOC (collectively "the foreign partners") and PetroChina.

- The remainder of the cost recovery oil shall, after payment for the operating costs, be deemed as investment recovery oil. Such investment recovery oil shall be used for the simultaneous recovery of the pilot test costs and the development costs incurred by foreign partners and the predevelopment costs spent by PetroChina in proportion of 20% by PetroChina and 80% by foreign partners. The unrecovered costs of the parties shall be carried forward to and recovered from the investment recovery oil in succeeding calendar years until being fully recovered.

- After all pilot test costs and development costs incurred up to that time have been recovered, the remainder of the gross production of crude oil for that period is referred to as profit oil and shall be allocated in proportion of PetroChina 52% and foreign partners 48%.

- The operating costs so incurred after the date of commencement of commercial production shall be paid respectively by PetroChina and foreign partners in accordance with the proportion of oil allocated to each party.

GOC is entitled to a 10% share of the foreign participating interest in property, plant and equipment, income and expenses. The Group received income and paid expenses on behalf of GOC. These are recorded in the relevant accounts with GOC (Note 29).

**(d) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollar ("US$"). The presentation currency of the consolidated financial statements is the RMB.

*(ii) Transactions and balances of each entity*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

**(e) Property, plant and equipment**

Property, plant and equipment, including oil and gas properties, is stated at historical cost less accumulated depreciation, depletion, amortization and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the reporting year in which they are incurred.

Except for oil and gas properties, depreciation is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Office equipment | 3 years |
| Motor vehicles and production equipment | 10 years |

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress is not depreciated until it is ready for its intended use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized within other income or other expense in the consolidated statements of comprehensive income.

**(f) Oil and gas properties**

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as construction in progress pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas 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. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any costs of unproved properties capitalized in oil and gas properties.

The cost of oil and gas properties is amortized at the field level based on the unit of production method. Unit of production rates are based on oil and gas proved developed producing reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements. The Group's reserves estimates represent crude oil which management believes can be reasonably produced within the current terms of their production agreements.

**(g) Impairment of non-financial assets**

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(h) Intangible assets**

Intangible assets represent computer software. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 years.

**(i) Loans and receivables**

The Group's loans and receivables comprise 'trade and other receivables' in the consolidated statements of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for expected realization greater than 12 months after the end of the reporting period. These are classified as non-current assets.

**(j) Derivative financial instruments**

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For derivative instruments that do not qualify for hedge accounting, changes in the fair value of these derivative instruments are recognized immediately in the consolidated statements of comprehensive income.

**(k) Leases**

Leases where the Group is a lessee in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the term of the lease.

**(l) Inventories**

Inventories are crude oil and materials and supplies which are stated at the lower of cost and net realizable value. Materials and supplies costs are determined by the first-in first-out method. Crude oil costs are determined by the weighted average cost method. The cost of crude oil comprise direct labour, depreciation, other direct costs and related production overhead, but excludes borrowing costs.

**(m) Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income.

**(n) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less from the time of purchase.

**(o) Current and deferred income tax**

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the territories where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**(p) Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent years, borrowings are stated at amortized cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the year of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the end of the reporting period.

Borrowing costs are recognized as an expense in the year in which they are incurred except for the portion eligible for capitalization as part of qualifying property, plant and equipment.

**(q) Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**(r) Provisions**

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts can be made.

Provision for future decommissioning and restoration is recognized in full on the installation of oil and gas properties. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than due to passage of time, which is regarded as interest expense, is reflected as an adjustment to the provision and oil and gas properties.

**(s) Employee benefits**

*(i) Defined contribution plan*

The Group has various defined contribution plans for state pensions, housing fund and other social obligations in accordance with the local conditions and practices in the municipalities and province in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expenses when they are due.

*(ii) Equity-settled share-based compensation – Stock options*

The Group operates a stock incentive compensation plan for share-based payment transactions, such as stock options under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options on the grant date. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and other reserves when the options are exercised.

*(iii) Cash-settled share-based compensation – Stock appreciation rights*

Compensation under the stock appreciation rights is measured based on the fair value of the liability incurred and its expenses over the vesting period. The liability is remeasured at each reporting period to its fair value until settlement with all the changes in liability recorded in employee compensation costs in the consolidated statement of comprehensive income, the related liability is included in the salaries and welfare payable.

**(t) Revenue recognition**

Revenues are recognized upon delivery of crude oil that are allocated to MIE under PSC (See Note 2(c)). Revenues are recognized only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and where the amount of revenue and the costs incurred or to be incurred in respect of the transactions can be measured reliably and probable economic benefit will flow to the Company.

According to general oil and gas practice, the physical nature of the taking (lifting) oil is such that a partner may take more oil than it is entitled to as defined by the contract (PSC). For the year ended December 31, 2009 and 2010, PetroChina had taken more oil than its entitlement (over lifted) and hence MIE is deemed to have sold the over lift to PetroChina.

**(u) Repairs and maintenance**

Repairs and maintenance are recognized as expenses in the year in which they are incurred.

**(v) Share capital**

Ordinary shares are classified as equity.

Preferred shares issued by the Company are classified as equity when they are not redeemable by the Company and there is no obligation outside the control of the Company to pay dividends.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(w) Dividend distributions**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

**(x) Earnings per share**

Basic earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting the profit or loss attributable to equity holders of the Company accordingly for related amounts. The effect of potentially dilutive ordinary shares are included only if they are dilutive.

**(y) Segment reporting**

The Group operates as a single operating segment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

***(a) Market risk***

*(i) Foreign exchange risk*

All of the Group's sales are in US dollars, while production and other expenses are incurred in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates. The Group may enter into forward foreign exchange contracts to manage the risk of unfavourable fluctuations in the foreign exchange rate.

At December 31, 2009 and 2010, if the US dollar had weakened/strengthened by 1% against the RMB with all other variables held constant, profit before income tax for the year would have been RMB9,152,000 and RMB9,660,000 higher/lower respectively, mainly as a result of foreign exchange gains/losses on translation of US-denominated trade and other receivables, bank deposits and borrowings.

*(ii) Cash flow interest rate risk*

The Group has no significant interest bearing cash assets. The Group's income and operating cash flows are substantially independent of the changes in market rates. The Group's interest rates risk arises from borrowings. A detailed analysis of the Group's borrowings, together with their respective effective interest rates and maturity dates, are included in Note 19.

Based on a sensitivity analysis, the impact on profit before income tax for the year ended December 31, 2009 and 2010 of a 50 basis-point shift would be an increase of RMB6,727,000 and RMB6,622,700, respectively or decrease of RMB6,727,000 and RMB6,622,700, respectively.

*(iii) Price risk*

The Group is engaged in crude oil development, production and selling activities. Prices of crude oil are affected by both domestic and global factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Prior to 2008, the Group did not use any derivative instruments to hedge against potential price fluctuations of crude oil and therefore the Group was exposed to general price fluctuations of crude oil. During the year ended December 31, 2009 and 2010, the Group entered into put option contracts (Note 8) to manage its price risk. If the crude oil price were to increase or decrease by US$1, the impact on the Group's profit before income tax for the year ended December 31, 2010 as a result of revaluing the put option would be a decrease of RMB1,566,000 and increase of RMB1,652,000 (2009: decrease of RMB2,462,000 or decrease of RMB1,803,000),respectively.

***(b) Credit risk***

As the majority of the cash at bank balance is placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. Therefore, credit risk arises primarily from trade and other receivables. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, pledged deposits, amounts due from a related party and trade and other receivables included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk.

The Group has no significant concentration of credit risk for its cash and cash equivalents. The Group has one customer which accounts for 100% of its revenue and as such, has concentration of credit risk for its trade and other receivables. However, the Group regards it as low risk as this customer is PetroChina, a state-owned enterprise with a high credit rating.

*(c) Liquidity risk*

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities and net-settled derivative financial assets and liabilities into relevant maturity groupings based on the remaining year at the end of the reporting period to their contractual maturity dates.

The amounts disclosed in the table are the contractual undiscounted cash flows of principal amount and interests.

Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At December 31, 2009** | | | | |
| Borrowings | 168,164 | 61,200 | 1,350,080 | – |
| Derivative financial instruments | | | | |
| – oil put option *(Note 8)* | (20,307) | – | – | – |
| Trade and other payables *(Note 18)* | 788,352 | 170,235 | – | – |
| **At December 31, 2010** | | | | |
| Borrowings | 158,575 | 583,844 | 727,196 | – |
| Derivative financial instruments | | | | |
| – oil put option *(Note 8)* | (11,168) | (20,285) | – | – |
| Trade and other payables *(Note 18)* | 718,729 | 137,598 | – | – |

**3.2 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of Debt over EBITDA. Debt is calculated as total borrowings including 'current and non-current borrowings' as shown in the consolidated statement of financial position. EBITDA is calculated as profit before finance income, finance cost, income tax and depreciation, depletion and amortization.

The Debt over EBITDA ratios at December 31, 2009 and 2010 were as follows:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Total borrowings *(Note 19)* | 1,291,203 | 1,345,386 |
| Profit before income tax | 582,569 | 183,939 |
| Finance income | (35,344) | (1,552) |
| Finance cost | 86,788 | 58,832 |
| Depreciation, depletion and amortization | 528,582 | 445,824 |
| EBITDA | 1,162,595 | 687,043 |
| Debt over EBITDA ratio | 1.1 | 2.0 |

### 3.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group are disclosed in the respective accounting policies. The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, pledged deposits, current portion of trade and other receivables, current portion of trade and other payables and current portion of borrowings.

The Group adopted the amendment to IFRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (ie. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at December 31, 2009 and 2010:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Assets | | | |
| As at December 31, 2009 | | | |
| Derivative financial instruments | | | |
| – Oil put option | – | 20,307 | – |
| As at December 31, 2010 | | | |
| Derivative financial instruments | | | |
| – Oil put option | – | 31,453 | – |

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group's consolidated financial statements.

### (a) Estimation of proved oil reserves

Proved reserves are those quantities of petroleum that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed producing reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery.

The Group's reserve estimates were prepared for each oilfield and include only crude oil that the Group believes can be reasonably produced within current economic and operating conditions.

Proved reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. The Group classified its proved reserves into two categories: proved developed producing reserves and proved undeveloped reserves. Proved developed producing reserves are used for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production) and reduce net profit and vice-versa. Proved reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

In general, changes in the technical maturity of oil reserves resulting from new information becoming available from development and production activities and change in oil price have tended to be the most significant cause of annual revisions.

**(b) Estimated impairment of property, plant and equipment**

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

**(c) Estimation of asset retirement obligations**

Provisions are recognized for the future decommissioning and restoration of oil and gas properties that will cease operation prior to the expiration of PSCs. The amounts of the provision recognized are the present values of the estimated future expenditures that the Group is expected to incur. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of oil and gas properties. Changes in any of these estimates will impact the operating results and the financial position of the Group over the remaining economic lives of the oil and gas properties.

## 5 REVENUE

The Group's revenue relates to the sale of crude oil in one geographical location, China. All revenue is realized through the sale of the Group's share of crude oil to PetroChina pursuant to the PSC.

## 6 PROPERTY, PLANT AND EQUIPMENT

| | Oil and gas properties | Construction in progress | Office equipment | Motor vehicles and production equipment | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At January 1, 2009** | | | | | |
| Cost | 3,512,809 | 94,246 | 7,902 | 18,269 | 3,633,226 |
| Accumulated depreciation and impairment | (1,140,454) | – | (3,394) | (2,435) | (1,146,283) |
| Net book value | 2,372,355 | 94,246 | 4,508 | 15,834 | 2,486,943 |
| **Year ended December 31, 2009** | | | | | |
| Opening net book value | 2,372,355 | 94,246 | 4,508 | 15,834 | 2,486,943 |
| Addition | 1,991 | 592,981 | 85 | 5,567 | 600,624 |
| Transfer in/(out) | 539,902 | (539,902) | – | – | – |
| Charge for the year | (418,497) | – | (923) | (3,004) | (422,424) |
| Closing net book value | 2,495,751 | 147,325 | 3,670 | 18,397 | 2,665,143 |
| **At December 31, 2009** | | | | | |
| Cost | 4,054,702 | 147,325 | 7,987 | 23,836 | 4,233,850 |
| Accumulated depreciation and impairment | (1,558,951) | – | (4,317) | (5,439) | (1,568,707) |
| Net book value | 2,495,751 | 147,325 | 3,670 | 18,397 | 2,665,143 |
| **Year ended December 31, 2010** | | | | | |
| Opening net book value | 2,495,751 | 147,325 | 3,670 | 18,397 | 2,665,143 |
| Addition | 2,038 | 878,266 | 1,108 | 7,196 | 888,608 |
| Transfer in/(out) | 835,415 | (835,415) | – | – | – |
| Charge for the year | (525,890) | – | (755) | (2,624) | (529,269) |
| Closing net book value | 2,807,314 | 190,176 | 4,023 | 22,969 | 3,024,482 |
| **At December 31, 2010** | | | | | |
| Cost | 4,892,155 | 190,176 | 9,095 | 31,032 | 5,122,458 |
| Accumulated depreciation and impairment | (2,084,841) | – | (5,072) | (8,063) | (2,097,976) |
| Net book value | 2,807,314 | 190,176 | 4,023 | 22,969 | 3,024,482 |

Included in property, plant and equipment are assets amounting to RMB3,024,326,000 (Cost of RMB5,121,063,000 less accumulated depreciation and impairment of RMB2,096,737,000) as at December 31, 2010 directly used in and operated under the Group's three PSCs with PetroChina.

The additions of oil and gas properties of the Group for the years ended December 31, 2009 and 2010 included RMB1,991,000 and RMB2,038,000 respectively relating to the asset retirement obligations recognized during the year (Note 16).

Depreciation charges of RMB9,540,000 and RMB11,837,000 relating to the years ended December 31, 2009 and 2010 respectively, have been capitalized in inventories (Note 11).

## 7 INTANGIBLE ASSET

Intangible asset represents computer software as at December 31, 2009 and 2010 with a net book value of RMB2,599,000 and RMB1,677,000, respectively.

## 8 DERIVATIVE FINANCIAL INSTRUMENTS

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **Assets** | | |
| Oil put option | 31,453 | 20,307 |
| Less: non-current portion: | (20,285) | – |
| Current portion | 11,168 | 20,307 |

**Oil put option**

The Group used oil put options purchased from Standard Bank ("Standard Bank Oil Hedge") to manage its exposure to movements in the price of crude oil for period from January 1, 2008 to December 31, 2010. MIE bought an option, but not the obligation, to notionally sell to the financial institution 5,236,710 barrel at a strike price of US$62.50, in monthly instalments ranging from 130,061 barrel to 154,378 barrel from January 1, 2008 to December 31, 2010 (the "Bought Option"). In addition, MIE sold an option to the financial institution, so that the financial institution can notionally sell to MIE 5,236,710 barrel at a strike price of US$42.50 in monthly instalments ranging from 130,061 barrel to 154,378 barrel from January 1, 2008 for December 31, 2010 (the "Sold Option") under the same terms and conditions as the Bought Option. The effect of the above is that Group received money from the financial institution each month, in respect of the notional volume of that month, if the average monthly West Texas Intermediate ("WTI") crude oil spot price of oil falls below US$62.50, but the maximum payout by the financial institution was limited to US$20.00 per barrel.

In October 2010, the Group further purchased an option to notionally sell to Merrill Lynch Commodities, Inc. ("MLCI") 3,000,000 barrels of crude oil at a strike price of US$70.00 per barrel, in instalments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 ("MLCI Oil Hedge"). The price under the option is based on WTI crude oil prices. In addition, in October 2010, the Group sold an option to MLCI to notionally sell to us 3,000,000 barrels at a strike price of US$55.00 per barrel in instalments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 under the same terms and conditions as the purchased option. The effect of the above arrangement is that we will receive from MLCI each month the difference between the strike price of US$70.00 per barrel and the WTI crude oil price, in respect of the notional volume of that month, if the average monthly WTI spot price of oil falls below US$70.00 per barrel, but the maximum payout by MLCI is limited to US$15.00 per barrel. The premium of US$8.74 million (RMB57.86 million) for this option is payable over 8 instalments on a quarterly basis from April 2011 (Note 18).

## 9 TRADE AND OTHER RECEIVABLES

### (a) Summary of trade and other receivables

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **Financial assets** | | |
| **Current** | | |
| Trade receivables from PetroChina *(Note 29)* | 25,973 | 50,723 |
| Other receivables due from related parties | | |
| – PetroChina *(Note 29)* | 33,225 | 17,968 |
| – Global Oil Corporation *(Note 29)* | 137,590 | 55,901 |
| – United Petroleum USA, LLC *(Note 29)* | – | 1,569 |
| Advances to employees | 7,134 | 4,145 |
| Unbilled receivables from PetroChina *(Note 29)* | 145,011 | 161,429 |
| Other receivables – others | 576 | 655 |
| | 349,509 | 292,390 |
| **Non-current** | | |
| Amounts due from related party | | |
| – Global Oil Corporation *(Note 29)* | 24,212 | 70,360 |
| | 373,721 | 362,750 |
| **Non-financial assets** | | |
| **Current** | | |
| Advances to suppliers | 1,210 | 143,796 |
| Advances to suppliers – related party *(Note 29)* | 45,283 | 38,673 |
| Prepayments to third parties | 2,292 | 1,926 |
| Other deferred assets | – | 12,786 |
| | 48,785 | 197,181 |
| **Total** | 422,506 | 559,931 |
| **Total current** | 398,294 | 489,571 |
| **Total non-current** | 24,212 | 70,360 |
| **Total** | 422,506 | 559,931 |

### (b) The fair values of trade and other receivables financial assets are as follows:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Trade receivables from PetroChina | 25,973 | 50,723 |
| Unbilled receivables from PetroChina | 145,011 | 161,429 |
| Other receivables due from related parties | 195,027 | 145,798 |
| | 366,011 | 357,950 |
| Other receivables – third parties | 7,710 | 4,800 |
| | 373,721 | 362,750 |

### (c) The aging analysis of trade receivables were as follows:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| 0 – 30 days | 25,973 | 50,723 |
| | 25,973 | 50,723 |

As of December 31, 2009 and 2010, there were no trade receivables past due which are impaired.

**(d) The carrying amounts of trade and other receivables are denominated in the following currencies:**

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Renminbi | 218,297 | 314,506 |
| United States Dollars | 204,209 | 245,425 |
| | 422,506 | 559,931 |

**(e) Movements in the provision for impairment of other receivables are as follows:**

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **At January 1** | – | (9,872) |
| Receivables written off during the year as uncollectible | – | 9,872 |
| **At December 31** | – | – |

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above. The Group does not hold any collateral as security.

## 10 PLEDGED DEPOSITS

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Pledged deposits | 29,916 | 30,729 |

As at December 31, 2009 and 2010, pledged deposit represents bank deposit pledged for borrowings. The carrying amounts of pledged deposits are denominated in United States Dollars.

## 11 INVENTORIES

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| *At cost* | | |
| Oil in tank | 15,648 | 13,033 |
| Materials and supplies | 21,016 | 63,045 |
| | 36,664 | 76,078 |

Depreciation charges of RMB9,540,000 and RMB11,837,000 have been included in the balance above for the years ended December 31, 2009 and 2010, respectively (Note 6).

## 12 AMOUNT DUE FROM SHAREHOLDER

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Current | – | – |
| Amount due from FEEL *(Note 29)* | – | 81,074 |
| | – | 81,074 |

The amount due from FEEL was settled by a non-cash deemed dividend on March 31, 2010 (Note 26).

## 13 CASH AND CASH EQUIVALENTS

| | Group | |
|---|---|---|
| | As at December 31, | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Cash in hand | 33 | 46 |
| Cash at bank | 680,000 | 290,225 |
| | 680,033 | 290,271 |

| | Company | |
|---|---|---|
| | As at December 31, | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Cash at bank | 342,950 | 33 |

Cash and cash equivalents are denominated in the following currencies:

| | Group | |
|---|---|---|
| | As at December 31, | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Renminbi | 273,371 | 185,026 |
| Hong Kong Dollars | 342,936 | – |
| United States Dollars | 63,726 | 105,245 |
| | 680,033 | 290,271 |

| | Company | |
|---|---|---|
| | As at December 31, | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Hong Kong Dollars | 342,936 | – |
| United States Dollars | 14 | 33 |
| | 342,950 | 33 |

Renminbi-denominated deposits are placed with banks in the PRC. The conversion of these Renminbi-denominated deposits into foreign currencies and remittance out of the PRC are subject to certain PRC rules and regulations of foreign exchange control promulgated by the PRC government. Also, the exchange rates are determined by the PRC government.

## 14 SHARE CAPITAL

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **Issued and fully paid:** | | |
| Ordinary shares | 17,588 | 659 |
| Preferred shares | – | 171 |
| | 17,588 | 830 |

Authorized ordinary and preferred shares

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | '000 | '000 |
| **Authorized:** | | |
| Ordinary shares of US$0.001 per share | 100,000,000 | 150,000 |
| Preferred shares | | |
| Series A preferred shares of US$0.001 each | – | 30,000 |
| Series B preferred shares of US$0.001 each | – | – |

As at December 31, 2009, the total number of authorized shares is 180,000,000 shares comprising 150,000,000 ordinary shares with a par value of US$0.001 each and 30,000,000 Series A preferred shares with a par value of US$0.001 each. Each share has one vote.

On February 5, 2010, FEEL, shareholders of FEEL, MIE and the Company entered into a shares purchase agreement with Harmony Energy Limited. To enable the transaction, the Company's authorized share capital was increased to 230,000,000 shares comprising 150,000,000 ordinary shares with a par value of US$0.001 each, 30,000,000 Series A preferred shares with a par value of US$0.001 each and 50,000,000 Series B preferred shares with a par value of US$0.001 each.

Pursuant to a resolution of the shareholders of the Company on November 27, 2010 and immediately prior to the Global Offering on December 14, 2010, the authorized share capital of the Company was increased from US$230,000 comprising 230,000,000 shares (comprising 150,000,000 ordinary shares with a par value of US$0.001 each, 30,000,000 Series A preferred shares with a par value of US$0.001 each and 50,000,000 Series B preferred shares with a par value of US$0.001 each) to US$100,000,000 comprising 100,000,000,000 shares of US$0.001 each.

**(a) Issued and fully paid ordinary shares**

The details of the issued and fully paid ordinary share capital of the Company for the relevant periods are as follows:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **Issued and fully paid:** | | |
| At January 1, 2009 | | |
| 100,000,000 ordinary shares of US$0.001 each | | 684 |
| At October 31, 2009 | | |
| Cancellation of ordinary shares 3,643,730 ordinary shares at US$0.001 each *(Note 14(b))* | | (25) |
| At December 31, 2009 | | |
| 96,356,270 ordinary shares at US$0.001 each | | 659 |
| At January 1, 2010 | | |
| 96,356,270 ordinary shares at US$0.001 each | 659 | |
| At March 10, 2010 | | |
| Cancellation of 18,212,560 ordinary shares at US$0.001 each | (124) | |
| At December 14, 2010 | | |
| Conversion of 25,101,220 Series A preferred shares to 25,101,220 ordinary shares at US$0.001 each *(Note 14(b))* | 171 | |
| Conversion of 36,425,120 Series B preferred shares to 18,212,560 ordinary shares at US$0.001 each *(Note 14(b))* | 124 | |
| Capitalization issuance of 2,078,542,510 ordinary shares at US$0.001 each to shareholders registered on November 23, 2010 | 13,822 | |
| Issuance of 441,334,000 ordinary shares at US$0.001 each during Global Offering | 2,936 | |
| At December 31, 2010 | | |
| 2,641,334,000 ordinary shares at US$0.001 each | 17,588 | |

On April 16, 2010, the shareholders adopted an ordinary resolution effecting certain amendments to the authorized and issued share capital to effect a 10-for-one split of the Company's share capital pursuant to which each ordinary share, Series A preferred share and Series B preferred share of the Company was subdivided into 10 shares at a par value of US$0.001 each, such that the authorized share capital of the Company of US$230,000 comprising 230,000,000 shares is divided into 150,000,000 ordinary shares of a par value of US$0.001 each, 30,000,000 Series A preferred shares with a par value of US$0.001 each and 50,000,000 Series B preferred shares with a par value of US$0.001 each.

In connection with the 10-for-one split, the 607,287 ordinary shares of a par value of US$0.01 each reserved under the MIE 2009 Stock Incentive Compensation (the "Plan") for delivery in connection with the grant, vesting or other issuance of stock incentive awards was adjusted to 6,072,870 ordinary shares of a par value of US$0.001 each, to reflect the subdivision of the Company's ordinary shares approved by the shareholders of the Company on April 16, 2010.

All share and per share amounts presented in the consolidated financial statements have been restated on a retroactive basis to reflect the effect of 10-for-one share split and issuances.

Pursuant to written resolutions passed by the Company's shareholders on November 27, 2010 and immediately prior to the completion of the Company's global offering for listing on the Stock Exchange of Hong Kong Limited ("Global Offering") on December 14, 2010, the Company:

(i) converted all issued and outstanding 25,101,220 Series A preferred shares and 36,425,120 Series B preferred shares into 25,101,220 ordinary shares and 18,212,560 ordinary shares respectively in accordance with the Company's then existing articles of association;

(ii) immediately upon conversion of the Series A preferred shares and Series B preferred shares into ordinary shares, designated all the unissued 30,000,000 Series A preferred shares and 50,000,000 Series B preferred shares with a par value of US$0.001 each as ordinary shares with a par value of US$0.001 each;

(iii) increased the authorized share capital of the Company from US$230,000 comprising 230,000,000 ordinary shares of US$0.001 each to US$100,000,000 comprising 100,000,000,000 shares of US$0.001 each;

(iv) allotted and issued a total of 2,078,542,510 ordinary shares credited as fully paid at par to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on November 23, 2010 in proportion to their then existing respective shareholdings by way of capitalization of the sum of US$2,078,542.51 (RMB13,822,000) standing to the credit of the share premium account of the Company ("Capitalization Issue"). The shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

On December 14, 2010, the Company issued 441,334,000 ordinary shares at HK$1.70 per share for the Global Offering.

***Reserve arising from redeemable ordinary shares***

In January 2009, Standard Bank acquired 1,970,490 of the Company's ordinary shares (representing 1.97% of the outstanding share capital) for US$5,123,000 (RMB35,043,000) from FEEL. Concurrently, FEEL also sold Standard Bank a conversion option that allowed the Company's ordinary shares to be converted into the preferred shares, on the same terms and conditions as any new preferred shares issued by the Company exceeding US$20 million (RMB136 million) during the term of the option. If Standard Bank did not convert the ordinary shares, Standard Bank had the right to sell the ordinary shares back to MIE at their original issuance price (US$5,123,000). FEEL and the Company were jointly and severally liable with MIE for this arrangement.

At the date of the sale of ordinary shares from FEEL to Standard Bank, the fair value of MIE's liability to Standard Bank amounted to US$5,123,000 (RMB35,043,000).

In October 2009, those ordinary shares were bought back by FEEL from Standard Bank and the option was terminated and the corresponding liability US$5,123,000 (RMB35,043,000) was transferred back to equity.

The above movements have been reflected in the consolidated statements of changes in equity.

**(b) Issued and fully paid preferred shares**

| | As at December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| **Issued and fully paid:** | | |
| **Series A preferred shares** | | |
| At July 9, 2009 | | |
| Issuance of 21,457,490 Series A preferred shares of US$0.001 each | | 146 |
| At October 30, 2009 | | |
| Issuance of 3,643,730 Series A preferred shares at US$0.001 each *(Note 14(a))* | | 25 |
| At December 31, 2009 | | |
| 25,101,220 Series A preferred shares of US$0.001 each | | 171 |
| At December 14, 2010 | | |
| Conversion of 25,101,220 Series A preferred shares of US$0.001 each to 25,101,220 ordinary shares *(Note 14(a))* | (171) | |
| At December 31, 2010 | | |
| Nil Series A preferred shares of US$0.001 each | – | |
| **Series B preferred shares** | | |
| At March 10, 2010 | | |
| Issuance of 36,425,120 Series B preferred shares of US$0.001 each | 249 | |
| At December 14, 2010 | | |
| Conversion of 36,425,120 Series B preferred shares of US$0.001 each to 18,212,560 ordinary shares *(Note 14(a))* | (249) | |
| At December 31, 2010 | | |
| Nil Series B preferred shares of US$0.001 each | – | |
| At December 31, 2010 | | |
| Total preferred shares | – | |

***Series A preferred shares***

On June 19, 2009, FEEL, the Company, MIE and TPG Star Energy Ltd. ("TPG") entered into a Series A preferred share subscription agreement and put option agreement ("TPG SPA"). The Company issued 21,457,490 Series A preferred shares to TPG representing 17.667% of the capital of the Company for consideration of US$53,000,000 (RMB362,000,000) less transaction fee US$3,000,000 (RMB20,490,000). The above transaction was completed and became enforceable on July 9, 2009 when the Series A preferred shares were issued to TPG.

On October 26, 2009, FEEL, the Company and MIE entered into a shares purchase agreement with Sino Link Limited, an indirect subsidiary of CITIC Group, pursuant to which FEEL sold 3,643,730 Series A preferred shares to Sino Link Limited for a consideration of US$9 million (RMB61,454,000). As FEEL was not at that time the holder of any Series A preferred shares, the Company redeemed 3,643,730 ordinary shares held by FEEL and issued in exchange 3,643,730 Series A preferred shares to FEEL, which were then transferred to Sino Link Limited on October 30, 2009.

Each of the Series A preferred share:

- has the same voting and dividend rights, other than deemed dividends, as those of ordinary shares into which Series A preferred share is convertible.
- is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion ratio.
- will automatically convert into fully paid ordinary shares at the applicable conversion ratio immediately prior to a Global Offering.
- is convertible to ordinary shares at the initial conversion ratio of 1:1.

FEEL granted a put option to holders of Series A preferred shares which requires FEEL to purchase all or some of the Series A preferred shares. The option guarantees that holders of Series A preferred shares will recover its initial cost at a compounded rate of return of 15%. FEEL, MIE and the Company are jointly and severally liable for this obligation.

In the event of a liquidation, dissolution or winding up of the Company, the available assets and funds of the Company are distributed to the Series A and Series B preferred shareholders, on a pro rata basis ahead of ordinary shareholders. The holders of the Series A preferred shares are entitled to recover the original purchase price and, if a put given to Series A preferred shareholders is exercised, an amount that would result in the shareholders obtaining a compounded rate of return of 15% from the issue of the Series A preferred shares, less any distributions made to the shareholders during the investment period.

***Series B preferred shares***

On February 5, 2010, FEEL, MIE and the Company entered into a shares purchase agreement with Harmony Energy Limited, a company incorporated in British Virgin Islands and a wholly owned subsidiary of Ever Union Capital Limited, pursuant to which FEEL sold 36,425,120 Series B preferred shares for a consideration of US$89,970,000 (RMB614,171,000). As FEEL was not at that time the holder of any Series B preferred shares, on March 10, 2010, the Company repurchased 18,212,560 ordinary shares held by FEEL and issued in exchange 36,425,120 Series B preferred shares to FEEL, which FEEL transferred to Harmony Energy Limited.

Each Series B preferred share:

– has the same voting and dividend rights, other than deemed dividends, as those of the ordinary share into which such Series B preferred share is convertible;

– is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion rate;

– will automatically convert into fully paid ordinary shares at the applicable conversion ratio immediately prior to a Global Offering; and

– is convertible to ordinary shares at the initial conversion ratio of 2:1.

In the event of a liquidation, dissolution or winding up of the Company, the available assets and funds of the Company are distributed to the Series A and Series B preferred shareholders, on a pro rata basis ahead of ordinary shareholders. The holders of the Series B preferred shares are entitled to recover the original purchase price.

All outstanding Series A preferred shares and Series B preferred shares have been converted to ordinary shares on December 14, 2010 pursuant to written resolutions passed by the Company's shareholders on November 27, 2010. (Note 14(a))

**(c) Stock incentive compensation plans**

The board of directors of the Company adopted the Plan on November 20, 2009 which is intended to attract and retain the best available personnel for positions of substantial responsibility, and provide additional incentive to employees, directors and consultants. The Company has reserved 6,072,870 ordinary shares for issuance under the Plan. The Company terminated the Plan pursuant to a resolution on November 27, 2010. Any options granted prior to the termination of the plan remain subject to the ordinary vesting and exercise provisions set out in the award agreement. A total of 4,422,000 shares originally reserved for the Plan were cancelled upon the termination of the Plan.

***(A) Stock options***

The options granted under the Plan are evidenced by an option award agreement between the Company and its employees that contains, among other things, the number of shares granted and provisions concerning exercisability and forfeiture upon termination of employment, as determined by the board of the Company.

*Vesting schedule* The options granted under the Plan vest over a two or three-year period following a specified vesting commencement date. Typically, the options granted vest at each anniversary of the grant date within the vesting period, subject to the participant continuing to be an employee on each vesting date.

*Right to exercise* The term of the options granted under the Plan will not exceed ten years from the grant date. Upon termination by the participant or termination of the participant without cause by the Company, any portion of the options that had not vested on or before such termination shall lapse immediately; any portion of the options that were vested before such termination to the extent not exercised within thirty days after such termination shall also lapse. Upon termination of the participant due to the participant's death, permanent disability or injury, the options remain subject to ordinary vesting schedule and exercise provision where the option agreement permits. Upon termination of the participant by the Company for cause, any portion of the options not already exercised lapse immediately.

On November 20, 2009, the Company granted options for 1,480,870 ordinary shares to certain officers and employees. The exercise price of each option granted is US$2.39. During year 2010, 100,400 share options have lapsed due to termination of employment.

On November 23, 2010, the Company granted options for 170,000 ordinary shares to the Company's independent non-executive Directors. The exercise price of each option granted is US$4.53.

After taking the Capitalization Issue into account, out of the 28,084,179 outstanding options, 8,334,971 were exercisable as of December 31, 2010. The share options outstanding as at December 31, 2010 were 25,004,913 with exercise price of US$0.13 and 3,079,266 with exercise price of US$0.25.

***(B) Stock appreciation rights***

Stock appreciation rights granted under the Plan are evidenced by a stock appreciation rights award agreement between the Company and employees that contains, among other things, the number of notional ordinary shares to which the stock appreciation rights relate and the provisions concerning exercisability and forfeiture upon termination of employment or consulting arrangement.

*Vesting schedule* Stock appreciation rights granted under the Plan vest over a three-year period following a specified vesting commencement date. One-third of the stock appreciation rights granted vest at each anniversary of the grant date within the three-year vesting period, subject to the participant continuing to be an employee or a service provider on each vesting date. There is no entitlement to the stock appreciation right unless and until there is a Global Offering.

*Right to exercise* The term of stock appreciation rights granted under the Plan will not exceed ten years from the grant date. When a participant exercises the stock appreciation rights, the Company will pay such participant an amount in cash determined by multiplying (i) the excess of the fair market value of an ordinary share on the exercise date over the grant price by (ii) the number of notional ordinary shares to which the stock appreciation rights relate stated in such participant's exercise notice.

On November 20, 2009, the board of directors of the Company granted certain officers and employees stock appreciation rights pertaining to 2,560,180 notional ordinary shares to which the stock appreciation rights relate. The exercise price of each stock appreciation right is US$2.39. Upon termination by the participant or termination of the participant without cause by the Company, any portion of the stock appreciation rights that had not vested on or before such termination shall lapse immediately; any portion of the stock appreciation rights that were vested before such termination to the extent not exercised within thirty days after such termination shall also lapse. Upon termination of the participant due to the participant's death, permanent disability or injury, the stock appreciation rights remain subject to ordinary vesting schedule and exercise provision where the stock appreciation rights agreement permits. Upon termination of the participant by the Company for cause, any portion of the stock appreciation rights not already exercised lapse immediately. During year 2010, 12,550 stock appreciation rights have lapsed due to termination of employment.

On February 26, 2010, the board of directors of the Company granted certain employees stock appreciation rights pertaining to 25,100 notional ordinary shares with exercise price of $4.78 per notional ordinary shares.

On February 26, 2010, the board of directors of the Company approved amended stock appreciation rights award agreement to be implemented for certain selected participants. For these selected participants, a portion or all of the one third of the granted stock appreciation rights shall vest and become exercisable on each anniversary of the grant date according to the performance evaluation target mark attained by these participants. All other terms of the stock appreciation rights award agreement remain unchanged.

On December 14, 2010, the total number of outstanding stock appreciation rights was adjusted to 46,600,713 by reason of Capitalization Issue. During 2010, a total of 212,167 stock appreciation rights with exercise price of US$0.13 have lapsed pursuant to the terms and conditions of the Plan. Out of the 46,388,546 outstanding stock appreciation rights, 15,169,856 stock appreciation rights were exercisable as of December 31, 2010. The stock appreciation rights outstanding as at December 31, 2010 were 45,933,902 with exercise price of US$0.13 and 454,644 with exercise price of $0.26.

***(C) Fair values of stock options***

The fair value of options granted on November 20, 2009 determined using the Binomial Model was US$1.93 per option. The significant inputs into the model were fair value per share of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of options granted on November 23, 2010 determined using the Binomial Mode was US$0.11 per option after taking into capitalization issue. The significant inputs into the model were fair value per share of US$0.22 at the grant date, exercise price shown above, volatility of 58.56%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 2.86%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

***(D) Fair values of stock appreciation rights***

The fair value of stock appreciation rights granted on November 20, 2009 determined using the Binomial Model was US$1.85 per right. The significant inputs into the model were fair value per share price of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0% stock appreciation rights life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of stock appreciation rights as at December 31, 2009 determined using the Binomial Model was US$2.06 per right. The significant inputs into the model were fair value per share price of US$3.63 at the grant date, exercise price shown above, volatility of 66.26%, dividend yield of 0% stock appreciation rights life of 9.89 years, and an annual risk-free interest rate of 3.923%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

After taking the Capitalization Issue into account, the fair value of stock appreciation rights granted on November 20, 2009 as of December 31, 2010 determined using the Binomial Model was US$0.11 per right. The significant inputs into the model were the fair value per share of US$0.22 as of December 31, 2010, the exercise price of US$0.13, volatility of 58.62%, dividend yield of 0%, stock appreciation rights life of 8.89 years and an annual risk-free interest rate of 3.15%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

On February 26, 2010, the Company granted 25,100 additional stock appreciation rights to certain employees of the Group. After taking the Capitalization Issue into account, the fair value of stock appreciation rights granted on February 26, 2010 as of December 31, 2010 determined using the Binomial Model was US$0.08 per right. The significant inputs into the model were the fair value per share of US$0.22 as of December 31, 2010, the exercise price of US$0.26, volatility of 58.62%, dividend yield of 0%, stock appreciation rights life of 9.16 years, and an annual risk-free interest rate of 3.15%.

## 15 SHARE PREMIUM AND OTHER RESERVES

### (a) Group

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Share premium | | |
| Ordinary shares | 826,477 | (61,429) |
| Series A preferred shares | – | 400,878 |
| | 826,477 | 339,449 |
| Capital reserve | (270) | (270) |
| Share option reserve | 11,584 | 1,224 |
| Safety fund reserve *(i)* | 91,546 | 63,506 |
| Currency translation reserve | (10,941) | – |
| Other reserves | 91,919 | 64,460 |

(i) Safety fund reserve

Pursuant to certain relevant PRC laws and regulations, the Group is required to set aside a certain amount in proportion to its production income for the relevant year as safety fund reserve. As the Group has no legal or constructive obligation to pay out these amounts at point of recognition, the amount has been treated as an appropriation of reserves in the equity account. The fund can be used for improvements of safety at the oil exploration projects, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from the safety fund reserve to retained earnings.

### (b) Company

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Share premium | | |
| Ordinary shares | 826,477 | (61,429) |
| Series A preferred shares | – | 400,878 |
| | 826,477 | 339,449 |
| Capital reserve | 1,366,956 | 1,366,912 |
| Share option reserve | 11,584 | 1,224 |
| Currency translation reserve | (10,941) | – |
| | 1,367,599 | 1,368,136 |

## 16 ASSET RETIREMENT OBLIGATIONS

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| At beginning of the year | 6,978 | 4,624 |
| Liabilities incurred *(Note 6)* | 2,038 | 1,991 |
| Accretion expenses | 254 | 363 |
| At end of the year | 9,270 | 6,978 |

## 17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **Deferred tax assets:** | | |
| Deferred tax assets to be recovered after more than 12 months | 5,378 | 6,480 |
| Deferred tax assets to be recovered within 12 months | 1,675 | 1,675 |
| | 7,053 | 8,155 |
| **Deferred tax liabilities:** | | |
| Deferred tax liabilities to be settled after more than 12 months | (12,789) | (92,170) |
| Deferred tax liabilities to be settled within 12 months | (2,958) | (2,385) |
| | (15,747) | (94,555) |
| Total Deferred income tax liabilities net | (8,694) | (86,400) |

The gross movements in the deferred tax account are as follows:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| At beginning of the year | (86,400) | (102,770) |
| Credited to the consolidated statement of comprehensive income | 77,706 | 16,370 |
| At end of the year | (8,694) | (86,400) |

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred tax assets**

| | Asset retirement obligations | Provisions | Other | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At January 1, 2009** | 1,156 | 2,468 | 13,146 | 16,770 |
| Credited/(charged) to the consolidated statement of comprehensive income | 588 | (2,468) | (6,735) | (8,615) |
| **At December 31, 2009** | 1,744 | – | 6,411 | 8,155 |
| Credited/(charged) to the consolidated statement of comprehensive income | 573 | – | (1,675) | (1,102) |
| **At December 31, 2010** | 2,317 | – | 4,736 | 7,053 |

Others include mainly the interest expenses incurred in 2007 that are tax deductible over six (6) years as allowed by the local tax authority.

**Deferred tax liabilities**

| | Accelerated tax depreciation |
|---|---|
| | RMB'000 |
| **At January 1, 2009** | (119,540) |
| Credited to the consolidated statement of comprehensive income | 24,985 |
| **At December 31, 2009** | (94,555) |
| Credited to the consolidated statement of comprehensive income | 78,808 |
| **At December 31, 2010** | (15,747) |

## 18 TRADE AND OTHER PAYABLES

### (a) Summary of trade and other payables

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **Financial liabilities** | | |
| **Current** | | |
| Trade payables | 527,319 | 647,308 |
| Amount due to related parties *(Note 29)* | 616 | – |
| Interest payable | 1,244 | 459 |
| Derivatives financial instrument premium payable *(Note 8)* | 33,577 | – |
| Other tax payable | 22,728 | 40,820 |
| Special oil levy *(Note 21)* | 87,939 | 61,118 |
| Other payables | 45,306 | 38,647 |
| **Non-current** | | |
| Derivatives financial instrument premium payable *(Note 8)* | 22,385 | – |
| Trade payables | 115,213 | 170,235 |
| | 856,327 | 958,587 |
| **Non-financial liabilities** | | |
| **Current** | | |
| Salary and welfare payable *(i)* | 56,408 | 20,283 |
| Total | 912,735 | 978,870 |
| Total current | 775,137 | 808,635 |
| Total non-current | 137,598 | 170,235 |
| **Total** | 912,735 | 978,870 |

(i) Stock appreciation rights liabilities of RMB21,260,000 (2009: RMB2,260,000) has been included in salaries and welfare payable for the year ended December 31, 2010 (Note 20).

**(b)** At December 31, 2009 and 2010, the ageing analysis of the trade and other payable based on invoice date is as follows:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| < 6 months | 608,245 | 707,559 |
| 6 months – 1 year | 212,457 | 50,246 |
| 1 – 2 years | 50,232 | 202,667 |
| 2 – 3 years | 35,305 | 12,219 |
| > 3 years | 6,496 | 6,179 |
| **Total** | 912,735 | 978,870 |

(c) The carrying amounts of trade and other payables are denominated in the following currencies:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Renminbi | 850,813 | 978,369 |
| United States Dollars | 61,922 | 501 |
| | 912,735 | 978,870 |

The carrying amounts of trade and other payables approximate their fair values.

## 19 BORROWINGS

### (a) Summary of borrowings

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Bank borrowings | | |
| Non-current | 1,191,862 | 1,242,963 |
| Current | 99,341 | 102,423 |
| Total borrowings | 1,291,203 | 1,345,386 |

In October 2007, MIE entered into a financing arrangement with Standard Bank for a bank facility of US$150 million (approximately RMB1,125 million) which reduced to zero in 2013. MIE utilized US$100 million (approximately RMB750 million) in 2007 and further drew down US$20 million (approximately RMB136 million) in August 2008. This revolving bank facility was amended on January 12, 2009 and the interest rate increased from LIBOR + 2.75% to LIBOR + 5.75%.

The Standard Bank loan was collateralized primarily by MIE's ordinary shares held by FEEL, assignment of MIE's bank account for collection of oil revenue, a charge over the debt service reserve account, the Group's share of entitlement under the PSCs, a fixed charge over the Group's property, plant and equipment and a floating charge over all present and future assets. The Group is required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility.

On July 28, 2009, MIE entered into a five-year US$200 million transferrable term loan and revolving credit facility with Citic Ka Wah Bank Limited and China CITIC Bank Corporation Limited Guangzhou Branch ("CITIC Facility"), primarily to repay the Standard Bank loan, fund the development oilfields and for general working capital purposes.

The CITIC Facility includes two long-term term loans and one short-term revolving facility, which can be converted into a term loan towards the end of the third year. The term loans do not require principal repayments for the first three years and the principal repayments are made starting from the 37th month. The term loans under the facility bear an interest rate of LIBOR plus 4.50% per annum. The facility contains the following financial covenants:

(a) the consolidated tangible net worth, subject to certain adjustments, will be not less than (i) RMB1.0 billion from 2009 to 2011 and (ii) RMB1.5 billion for 2012;

(b) the ratio of consolidated total borrowing to consolidated tangible net worth, subject to certain adjustments, will not exceed (i) 140% from 2009 to 2010 and (ii) 100% for 2011;

(c) the ratio of consolidated total borrowings to consolidated EBITDA (as defined in the credit facility agreement) will not exceed (i) 270%, from 2009 to 2010, (ii) 220% from 2011 to 2012 and (iii) 180% for 2013; and

(d) the total capital expenditure in any financial year will not exceed RMB1.0 billion.

Any failure to maintain these covenants could result in an acceleration of obligations under the CITIC Facility. As at December 31, 2010, the Company did not breach these loan covenants.

The CITIC Facility was secured primarily by 100% of the ordinary shares in MIE held by the Company, 51% of the ordinary shares in the Company held by FEEL and 51% of ordinary shares in FEEL, an assignment of the bank accounts for the collection of oil revenue, the Group's share of entitlement under the PSCs, a charge over the Group's debt service reserve account, and an assignment of the Group's interest in the Group's insurance policies. The Group is required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility.

MIE drew down US$122 million (RMB830 million) from the CITIC Facility on July 31, 2009 to repay the loan from Standard Bank. MIE further drew down US$78 million (RMB546 million) subsequently during the 2009 financial year. There is no unused facility as at December 31, 2009 and 2010.

On November 27, 2010, in connection with the Global Offering, the Group entered into a supplemental deed and other transaction documents relating to the CITIC Facility to restructure the financing arrangement with CITIC Bank International Limited (formerly the CITIC Ka Wah Limited) and CITIC Bank Guangzhou ("the lenders"). Pursuant to the restructuring documents,

i. the lenders agreed to release the share mortgages of 51% of the ordinary shares in the Company held by FEEL and 51% of the ordinary shares in FEEL held by shareholders of FEEL as security of the credit facility immediately before the Global Offering;

ii. the Company agreed to provide a corporate guarantee for MIE's obligations under the CITIC Facility contemporaneous with the release of the above mortgages.

iii. the Group agreed to procure FEEL to continue to be the largest shareholder of the Company, holding not less than 35% of the issued share capital in the Company, and maintain management control of the Company;

iv. the lenders agreed that, immediately upon the occurrence of the Global Offering, FEEL may dispose up to 7% of the Company's issued share capital held by FEEL either in or after the Global Offering;

v. the lenders also agreed to increase the capital expenditures allowable for 2011 from RMB1.0 billion to RMB1.288 billion.

The Group paid a waiver fee of US$6 million pursuant to the restructuring documents. The Group is required to pay a further waiver fee equal to 2.75% of the net amount received by FEEL from its sale of existing shares either in or after the Global Offering.

On December 14, 2010, the share mortgages of 51% of the ordinary shares in the Company held by FEEL and 51% of the ordinary shares in FEEL held by shareholders of FEEL as security of the credit facility were released and a corporate guarantee was provided by the Company concurrently with the release of the mortgages.

**(b)** The effective interest rates at the dates of the consolidated statements of financial position are as follows:

| | As at December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| Effective interest rates on the borrowings | 5.85% | 6.56% |

**(c)** The exposure of the Group's borrowings to contractual interest rate changes based on LIBOR + 4.5% at December 31, 2009 and LIBOR + 4.5% at December 31, 2010 are as follows:

| | As at December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| <1 year | 99,341 | 102,423 |
| 1-2 years | 529,816 | – |
| 2-5 years | 662,046 | 1,242,963 |
| Total borrowings | 1,291,203 | 1,345,386 |

The fair value of the current and non-current portions of borrowings approximates their carrying amounts.

**(d)** The borrowings are denominated in US dollars.

## 20 EMPLOYEE COMPENSATION COSTS

| | Year ended December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| Wages, salaries and allowances | 70,829 | 50,563 |
| Housing subsidies | 1,327 | 1,181 |
| Share options granted | 10,360 | 1,224 |
| Stock appreciation rights granted *(Note 18)* | 19,069 | 2,260 |
| Welfare and other expenses | 8,761 | 12,423 |
| | 110,346 | 67,651 |

**(a) Directors' emoluments**

Directors' emoluments for the year ended December 31, 2009 and 2010 are set out below:

| Name of director | Wages, salaries and allowances | Housing subsidies | Share options granted | Welfare and other expenses | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **For the year ended December 31, 2009** | | | | | |
| Zhang Ruilin | 4,993 | 60 | – | 2 | 5,055 |
| Zhao Jiangwei | 4,521 | 40 | – | 2 | 4,563 |
| Forrest Dietrich | 2,820 | 1,771 | 312 | – | 4,903 |
| Allen Mak | 3,232 | 30 | 417 | – | 3,679 |
| Sing Wang | – | – | – | – | – |
| | | | | | 18,200 |
| **For the year ended December 31, 2010** | | | | | |
| Zhang Ruilin | 3,500 | 360 | – | 300 | 4,160 |
| Zhao Jiangwei | 4,692 | 240 | – | 200 | 5,132 |
| Forrest Dietrich | 2,537 | 259 | 2,836 | – | 5,632 |
| Allen Mak | 5,193 | 180 | 3,781 | – | 9,154 |
| Sing Wang | – | – | – | – | – |
| | | | | | 24,078 |

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2009 and 2010 are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Directors | 4 | 4 |
| Non-director individual | 1 | 1 |

The details of emoluments paid to the five highest individuals who were directors of the Company during the years ended December 31, 2009 and 2010 have been included in Note (a) above. Details of emoluments paid to the remaining non-director individual are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Wages, salaries and allowances | 4,022 | 1,710 |
| Housing subsidies | – | 15 |
| Stock appreciation rights granted | 2,836 | 110 |
| | 6,858 | 1,835 |

**(c)** During the financial year ended December 31, 2010, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

**21 TAXES OTHER THAN INCOME TAXES**

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Taxes other than income taxes | 289,296 | 73,308 |

Taxes other than income taxes mainly represent a special oil levy which is paid or payable by petroleum exploration and development enterprises for the sales of domestic crude oil at a rate variable based on the oil prices. This levy was imposed by the PRC government and became effective from March 26, 2006.

## 22 OTHER LOSSES

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Net gain on forward foreign exchange contract | – | 5,478 |
| Loss on oil put option *(Note 8)* | (44,692) | (136,252) |
| Others | 7,048 | (350) |
| Total | (37,644) | (131,124) |

The net gain on the forward foreign exchange contract results from the exchange rate between the US dollar and the RMB being less than the rate set in the contract resulting in a gain of RMB5,478,000 for 2009.

The net loss of the oil put option in the year ended December 31, 2009 and 2010 is due to the change in fair value of the unrealized portion of the oil put option.

## 23 FINANCE COSTS – NET

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **Finance income** | | |
| Interest income from savings accounts | 144 | 1,552 |
| Exchange gain | 35,200 | – |
| **Total finance income** | 35,344 | 1,552 |
| **Finance costs** | | |
| Interest expenses | 86,777 | 56,498 |
| Bank charges | 11 | 88 |
| Exchange loss | – | 2,246 |
| **Total finance costs** | 86,788 | 58,832 |
| **Finance costs – net** | 51,444 | 57,280 |

## 24 INCOME TAX EXPENSE

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Current income tax | 239,411 | 89,832 |
| Deferred income tax | (77,706) | (16,370) |
| | 161,705 | 73,462 |

The Company is an exempted company incorporated in the Cayman Islands. Under the laws of Cayman Islands, the Company is not subject to tax on income or capital gain.

Corporate income tax for its operation in China is provided on the basis of statutory profit for financial reporting purposes as defined by the PRC tax authorities, adjusted for income and expense items which are not assessable or deductible for income tax purposes. In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is 25% for years ended December 31, 2009 and 2010.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the corporate income tax rate in the PRC applicable to the Group:

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Profit before income tax | 582,569 | 183,939 |
| Statutory tax rates | 25% | 25% |
| Tax calculated at the statutory tax rates | 145,642 | 45,985 |
| Tax effect of income not subject to tax | – | (738) |
| Expenses not deductible for tax purposes | 17,115 | 35,394 |
| Prior year tax filling adjustments | (736) | (7,179) |
| Additional-deduction for research and development expenses | (316) | – |
| Tax charge | 161,705 | 73,462 |

PRC tax regulations require tax to be assessed on activities that are undertaken, executed or managed in the PRC. During the relevant period oil put option gains and losses were not subjected to or deductible for income tax in PRC.

## 25 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB217,597,000 (2009: RMB338,501,000)

## 26 EQUITY DISTRIBUTIONS

On July 7, 2009, MIE declared non-cash deemed dividend distribution to the Company amounting to US$50 million (equal to RMB341,630,000) and the Company declared a non-cash deemed dividend distribution to FEEL amounting to US$50 million (equal to RMB341,615,000). The non-cash deemed dividend distribution to FEEL was off-set against the outstanding balance of the amount due from FEEL.

On March 7, 2010, the Company declared a cash dividend of US$20 million (RMB136,532,000) in favour of all the shareholders of the Company and the dividend was paid on March 9, 2010.

On April 9, 2010, the Board ratified the March 31, 2010 non-cash deemed dividend of US$11.9 million to FEEL, as allowed by the Fourth Amended and Restated Memorandum and Articles of Association of the Company and the Shareholders Agreement, as the non-cash deemed dividend was used to settle the outstanding receivables from FEEL and did not exceed US$12 million allowed under the Shareholders Agreement.

A dividend in respect of the year ended December 31, 2010 of HK$0.035 per share, amounting to a total dividend of HK$92,447,000 (RMB77,933,000), is to be proposed at the annual general meeting on May 6, 2011. These financial statements do not reflect this dividend payable.

## 27 CASH GENERATED FROM OPERATING ACTIVITIES

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Profit before income tax | 582,569 | 183,939 |
| Adjustments for: | | |
| Depreciation, depletion and amortization | 528,582 | 445,824 |
| Interest expenses – net *(Note 23)* | 86,633 | 54,946 |
| Unrealized foreign exchange (gain)/loss | (35,200) | 2,246 |
| Fair value loss on oil put option | 44,692 | 207,243 |
| Fair value gain on foreign exchange contract | – | (25,240) |
| Changes in working capital: | | |
| Inventories | 41,023 | (22,170) |
| Trade and other receivables | 86,426 | (226,528) |
| Trade and other payables | 9,509 | (581,629) |
| Cash generated from operations | 1,344,234 | 38,631 |

## 28 COMMITMENTS AND CONTINGENCIES

### (a) Commitments

The Group does not have any capital expenditure contracted for at the date of the consolidated statement of financial position.

The Group has operating lease commitments related to its non-cancellable operating leases for offices. The future aggregate minimum lease payments under these operating leases are as follows:

| | As at December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| < 1 years | 1,296 | – |
| 1-2 year | 1,500 | – |
| | 2,796 | – |

Lease expenses for the year ended December 31, 2010 relates to office and car rental of RMB6,591,000 (2009: RMB7,777,000).

### (b) Contingencies

On August 28, 2000, MIE entered into a PSC with Sinopec for exploration and development of Luojiayi 64 block at Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at Luojiayi 64 block at Shengli and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at Shengli. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment of at least US$2 million under the PSC. MIE believes its investment in the project at Luojiayi 64 block at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings.

## 29 RELATED PARTY TRANSACTIONS

The Group is controlled by FEEL, which owns 53.56% of the Company's shares and is also the ultimate parent of the Group. The ultimate controlling parties of the Group are Mr. Zhang Ruilin and Mr. Zhao Jiangwei.

The remaining 46.44% of the shares are held by TPG (8.02%), Harmony Energy (8.99%), TPG LLC (0.72%) and other public shareholders.

### (a) The following transactions and balances were carried out with related parties:

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| **Transactions with PSC partners** | | |
| *Global Oil Corporation* | | |
| Amounts received on behalf of GOC arising from the PSCs | 202,256 | 112,288 |
| Loan granted to GOC | 91,586 | 21,733 |
| Cost incurred on behalf of GOC from PSCs | 146,211 | 95,631 |
| *PetroChina* | | |
| Sales to PetroChina | 1,804,976 | 1,166,827 |
| Cost incurred on behalf of PetroChina from PSCs | 140,062 | 107,952 |
| **Transactions with a company/person related to the controlling shareholder of FEEL** | | |
| *Jilin Guotai Petroleum Development Company** | | |
| Purchases of materials and spare parts | 525 | 324 |
| Purchases of oil well services | 108,631 | 77,318 |
| Rental of vehicles | 2,298 | 3,613 |
| *Zhao Jiangbo* | | |
| Rental of office premise | 1,126 | 1,308 |
| Rental of vehicles | 3,276 | 4,344 |

* The amounts disclosed above represents gross amount transacted between the MIE, acting as operator for the 3 oilfields in Jilin, with the related companies. Jilin Guotai Petroleum Development Company is controlled by Zhao Jiangbo, spouse Mr. Zhang Ruilin.

**(b)** Amounts due from related parties included in trade and other receivables:

| | As at December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| **Amounts due from related companies and PSC partners** | | |
| **Current** | | |
| United Petroleum USA, LLC* (non-trade) *(Note 9)* | – | 1,569 |
| Global Oil Corporation (non-trade *(Note 9)* | 137,590 | 55,901 |
| PetroChina (trade) *(Note 9)* | 170,984 | 212,152 |
| PetroChina (non-trade) *(Note 9)* | 33,225 | 17,968 |
| | 341,799 | 287,590 |
| **Non-current** | | |
| Global Oil Corporation (non-trade) *(Note 9)* | 24,212 | 70,360 |
| | 366,011 | 357,950 |
| **Advance to Supplier** | | |
| Jilin Guotai Petroleum Development Company (trade) *(Note 9)* | 45,283 | 38,673 |

* United Petroleum USA, LLC is a fellow subsidiary of the Company and the Group paid miscellaneous fees on its behalf in the United States. The amount has been repaid during the year.

The above balances represent trade and unbilled receivables from PetroChina from sale of crude oil to PetroChina pursuant to the PSCs, advances to related companies which arise mainly from amounts received on behalf of the other PSC partners, expenditures incurred by the Group on behalf of other PSC partners pursuant to the PSCs, and purchase transactions with related parties.

**(c)** Amounts due to related companies included in trade and other payables:

| | As at December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| **Amounts due to other related parties** | | |
| Zhao Jiangbo (non-trade) *(Note 18)* | 616 | – |

The above balance with Zhao Jiangbo, spouse of controlling shareholder of FEEL, arose from rental of vehicles and office premises.

**(d)** Amounts due from FEEL:

| | As at December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| Amount due from FEEL (non-trade) *(Note 12)* | – | 81,074 |

The amount as at December 31, 2009 is unsecured and interest free. The amount due from FEEL as at December 31, 2009 was settled on March 31, 2010 by non-cash deemed dividend of US$11.9 million (Note 12 and Note 26).

**(e)** Guarantee given in favour of a related party

In 2009, MIE pledged RMB29.4 million to a bank to provide a guarantee of a bank loan to the same related party. The pledged deposit has subsequently been released in September 2009.

**(f)** Key management compensation is presented below:

| | Year ended December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| **Expenses** | | |
| Short-term benefits: | | |
| – Salaries | 21,032 | 10,457 |
| – Bonuses | 6,675 | 7,842 |
| – Share options and share appreciation rights granted | 15,937 | 180 |
| – Benefits in-kind | 2,021 | 439 |
| **Total** | 45,665 | 18,918 |
| **Accrued liability** | | |
| Short-term benefits: | | |
| – Bonuses | 6,675 | 7,843 |
| | 6,675 | 7,843 |

Bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

## 30 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | Year ended December 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **RMB'000** | **RMB'000** |
| Net profit attributable to equity holders of the Company | 420,864 | 110,477 |
| Adjustment for: | | |
| Dividends entitled by Series A preferred shares | (82,823) | (10,311) |
| Dividends entitled by Series B preferred shares | (48,082) | – |
| | 289,959 | 100,166 |
| Weighted average number of ordinary shares (thousands) | 1,538,264 | 1,800,339 |
| Earnings per share, Basic (RMB per share) | 0.19 | 0.06 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Prior to Company's Global Offering on December 14, 2010, the Company had two categories of dilutive potential ordinary shares: convertible preferred shares and share options. The convertible preferred shares are assumed to be converted into ordinary shares at the later of, beginning of the relevant year or date of issuance. For share options, a calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. Subsequent to the Company's Global Offering, the Company only has share options outstanding which are potentially dilutive.

The number of ordinary shares calculated as above for earnings per share, basic is increased by the number of ordinary shares that would have been issued assuming the exercise of the share options and conversion of preferred shares at the later of, beginning of the relevant year or date of issuance.

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Net profit attributable to equity holders of the Company | 420,864 | 110,477 |
| Net profit used to determine diluted earnings per share | 420,864 | 110,477 |
| Weighted average number of ordinary shares (thousands) | 1,538,264 | 1,800,339 |
| Adjustments for: | | |
| – Assumed conversion of convertible preferred shares (thousands) | 684,284 | 198,812 |
| – Share options (thousands) | 9,919 | 471 |
| Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands) | 2,232,467 | 1,999,622 |
| Earnings per share, Diluted (RMB per share) | 0.19 | 0.06 |

## 31 SUBSEQUENT EVENTS

### (a) Incorporation of subsidiaries

On February 8, 2011, Palaeontol Coöperatief U.A. was incorporated in the Netherlands as a cooperative with no liability with 99% held by MIE New Ventures Corporation and 1% held by MIE.

On February 11, 2011, Palaeontol B.V. was incorporated in the Netherlands as an investment holding company with limited liability and wholly owned by Palaeontol Coöperatief U.A.. The authorized share capital of the Palaeontol B.V. is 90,000 euros and is divided into 90,000 ordinary shares of one euro each.

### (b) Acquisition of participating interest in oilfield in Kazakhstan.

On February 14, 2011, Palaeontol B.V. ("the Purchaser"), a wholly-owned subsidiary of the Company, entered into a purchase agreement with BMB Munai, Inc. ("the Seller"), which is a Nevada corporation listed on the American Stock Exchange and an independent third party, pursuant to which the Purchaser conditionally agreed to acquire all right, title and interest relating to certain oilfields in Kazakhstan held by Emir-Oil LLC ("Target Company") and all right, title and interest in and to the loans made by the Seller to the Target Company for an aggregate consideration of US$170 million (subject to adjustment). The closing of the transaction is subject to the fulfilment of a number of conditions precedents.

The Company has granted Acap Limited, which is providing general consulting services to the Company in relation to above acquisition, a right to co-invest with the Company or its associates for up to 9.9% of the assets acquired in the acquisition, on the same term and condition under the Purchase Agreement within 36 months from the closing of the transaction. The Company also agreed to pay certain fees to Acap Limited, including a monthly retainer and a success fee equating to 2.5% of the consideration payable on closing date and, in the event that the Seller or its affiliates fail to consummate the acquisition with the Company or its affiliates, a break-up fee equating to 10% of any fees or compensation received or to be received by the Company.

### (c) Proposed dividend

A dividend in respect of the year ended December 31, 2010 of HK$0.035 per share, amounting to a total dividend of HK$92,447,000 (RMB77,933,000) is to be proposed at the annual general meeting on May 6, 2011. These financial statements do not reflect this dividend payable (Note 26).

*The following is the text of accountants' report on the Target Company received from the independent reporting accountants, Baker Tilly Hong Kong Limited, Certified Public Accountants, for the purpose of inclusion in this circular.*

BAKER TILLY
HONG KONG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
天職香港會計師事務所有限公司
12th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
香港干諾道中168-200號信德中心招商局大廈12樓

April 18, 2011

**Baker Tilly Hong Kong Limited**

The Board of Directors

MIE Holdings Corporation

The Board of Directors

BMB Munai, Inc.

Dear Sirs,

**MIE Holdings Corporation (the "HK Listco")**
**Palaeontol B.V. (the "Purchaser")**

**BMB Munai, Inc. (the "Seller" and the "Parent Company")**
**Emir-Oil, LLC (the "Company")**

**Circular in relation to a Major Transaction of the HK Listco (the "Circular")**

We set out below our report on the financial information regarding Emir-Oil, LLC (the "Company") for each of the three years ended March 31, 2008, 2009 and 2010, and the nine months period ended December 31, 2010 (the "Relevant Periods"), prepared by the management of the Seller and the directors of the Company on the basis set out in note 2 of Section A, for inclusion in the Circular issued by the HK Listco dated April 19, 2011 in connection with the proposed acquisition by the HK Listco of all issued and outstanding participation interests of the Company from the Seller (the "Acquisition"), as set out in the HK Listco's announcement of a "Major Acquisition relating to the Acquisition of All of the Issued and Outstanding Participation Interests of the Company and Discloseable Transaction relating to a Co-Invest Right granted to Acap Limited and Resumption of Trading" dated February 15, 2011. The Acquisition constitutes a major transaction by the HK Listco under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Main Board Listing Rules").

The Company was incorporated in the Republic of Kazakhstan (or "Kazakhstan") as a limited liability entity under the laws of Kazakhstan on March 20, 2002. The Company is the wholly owned subsidiary of the Seller.

The Company is the sole operating subsidiary of the Seller and is engaged in oil and gas exploration, production and sale. The Company operates four onshore oil fields near Aktau in the Caspian Sea area of Western Kazakhstan.

The Seller is a Nevada, USA Corporation originally incorporated in Utah, USA, in 1981.

The Seller is a public corporation with shares traded on the NYSE Amex (wording symbol KAZ) and on XETRA, the electronic trading platform of Deutsche Borse (SE code DL-, 001 DMW US09656A1051).

The Seller has its principal executive offices in Salt Lake City, Utah, USA, with an office in Almaty, Kazakhstan from where the operations and the Petroleum Depot base in Daulet Village near Aktau, Kazakhstan are monitored and managed.

The Company's registered office and principal place of business is the Petroleum Depot in Daulet village.

Hansen, Barnett & Maxwell, P.C. ("HBM") of Salt Lake City, a member firm of Baker Tilly International, has acted as the independent registered public accounting firm, under the Public Company Accounting Oversight Board (PCAOB) standards, of the Seller's group of companies, including the Company, for each of the Relevant Periods under separate terms of engagement with the Seller.

The financial information set out in this report, including the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Company for the Relevant Periods, and the statements of financial position of the Company as at March 31, 2008, 2009 and 2010 and December 31, 2010 together with the notes thereto have been prepared by the directors of the Company and the management of the Seller based on the financial information of the Company audited by us.

The financial information of the Company for the Relevant Periods was extracted from the audited group financial statements audited by HBM which were accounted for in accordance with US Generally Accepted Accounting Principles ("US GAAP") and used the Full Cost basis of accounting for its oil and gas assets.

The Company converted this original, audited financial information from compliance with US GAAP to compliance with International Financial Reporting Standards ("IFRS") issued by the International Accountant Standards Board ("IASB") and from the "Full Cost" basis to the "Successful Efforts" basis in accordance with the terms of the Purchase Agreement.

The conversions of original financial information were reviewed and, where appropriate, audited by us.

This financial statements for the Relevant Periods audited by us form the basis of the "Underlying Financial Statements" which we report upon here.

The financial information has been prepared based on the Underlying Financial Statements, or, where appropriate, unaudited financial information of the Company. No adjustments were considered necessary in the preparation of the financial information, which has been prepared on the basis set out in note 2 of Section A below.

**Directors' responsibility for the financial information**

The directors of the Company and the management of the Seller are responsible for the preparation and the true and fair presentation of the financial information in accordance with IFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the HK Listco are responsible for the contents of the Circular in which this report is included.

**Reporting accountant's responsibility**

Our responsibility is to form an independent opinion, based on our examination, on the financial information and to report our opinion solely to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Opinion**

In our opinion, the financial information, for the purposes of this report, give a true and fair view of the state of affairs of the Company as at March 31, 2008, 2009 and 2010 and at December 31, 2010 and of the Company's results and cash flows for each of the Relevant Periods.

**Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information set out in Section A below which comprises the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended December 31, 2009 and a summary of significant accounting policies and other explanatory notes.

The directors of the Company and the management of the Seller are responsible for the preparation and presentation of the stub period comparative financial information in accordance with the accounting policies set out in note 2 of Section A below which are in conformity with IFRS.

Our responsibility is to express a conclusion on the stub period comparative financial information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the stub period comparative financial information, for the purpose of the Circular, has not been prepared, in all material respects, in accordance with the accounting policies set out in note 2 of Section A below which are in conformity with IFRSs.

**SECTION A:**

**Financial information**

The following is the financial information of the Company as at March 31, 2008, 2009 and 2010 and December 31, 2010 and for each of the years ended March 31, 2008, 2009 and 2010, and the nine months period ended December 31, 2010.

**Statement of financial position**

| | Notes | As at March 31, 2008 | As at March 31, 2009 | As at March 31, 2010 | As at December 31, 2010 |
|---|---|---|---|---|---|
| | | *USD* | *USD* | *USD* | *USD* |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *6* | 128,585,815 | 178,765,039 | 174,395,286 | 179,724,828 |
| Intangible asset | *7* | 45,921 | 27,731 | 10,067 | 3,386 |
| Inventories | *10* | 11,002,684 | 13,989,643 | 13,714,952 | 13,894,381 |
| Long term VAT recoverable | *9* | 8,106,397 | 2,423,940 | 3,113,939 | 4,300,937 |
| Trade and other receivables | *8* | 11,893,451 | 122,040 | 141,312 | 843,697 |
| Restricted cash | *11* | 622,697 | 588,217 | 770,553 | 875,051 |
| | | 160,256,965 | 195,916,610 | 192,146,109 | 199,642,280 |
| **Current assets** | | | | | |
| Inventories | *10* | 4,882 | 5,029 | 2,895 | 2,576 |
| Trade and other receivables | *8* | 8,149,710 | 6,022,719 | 10,266,062 | 11,629,097 |
| Income tax recoverable | | 9,301 | 38,340 | 39,751 | 51,020 |
| Cash and cash equivalents | *12* | 2,122,730 | 2,393,216 | 3,448,001 | 3,000,565 |
| | | 10,286,623 | 8,459,304 | 13,756,709 | 14,683,258 |
| **TOTAL ASSETS** | | 170,543,588 | 204,375,914 | 205,902,818 | 214,325,538 |
| **OWNER'S EQUITY** | | | | | |
| Charter capital | *29* | 500 | 500 | 500 | 500 |
| Other reserve | | 16,757,594 | 14,282,961 | 11,615,631 | 9,545,513 |
| Retained earnings | | 831,182 | 27,985,108 | 40,871,634 | 39,543,853 |
| **Total owner's equity** | | 17,589,276 | 42,268,569 | 52,487,765 | 49,089,866 |

| | Notes | As at March 31, 2008 | 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|---|
| | | *USD* | *USD* | *USD* | *USD* |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Asset retirement obligations | *13* | 3,728,531 | 4,263,994 | 4,712,345 | 5,079,715 |
| Deferred income tax liabilities, net | *14* | 3,254,708 | 5,467,528 | 2,905,206 | 1,304,231 |
| Amount due to parent company | *16* | 115,473,193 | 118,519,920 | 115,901,015 | 110,647,375 |
| Interest payable due to parent company | *16* | 8,258,483 | 14,846,539 | 21,521,866 | 26,395,573 |
| Obligations under finance lease | *17* | – | – | 369,801 | 230,274 |
| | | 130,714,915 | 143,097,981 | 145,410,233 | 143,657,168 |
| **Current liabilities** | | | | | |
| Trade and other payables | *15* | 22,239,397 | 19,009,364 | 7,819,801 | 21,371,377 |
| Obligations under finance lease | *17* | – | – | 185,019 | 207,127 |
| | | 22,239,397 | 19,009,364 | 8,004,820 | 21,578,504 |
| **Total liabilities** | | 152,954,312 | 162,107,345 | 153,415,053 | 165,235,672 |
| **TOTAL EQUITY AND LIABILITIES** | | 170,543,588 | 204,375,914 | 205,902,818 | 214,325,538 |
| Net current (liabilities)/assets | | (11,952,774) | (10,550,060) | 5,751,889 | (6,895,246) |
| Total assets less current liabilities | | 148,304,191 | 185,366,550 | 197,897,998 | 192,747,034 |

## Statement of comprehensive income

| | Notes | Year ended March 31, 2008 | 2009 | 2010 | Nine months period ended December 31, 2009 | 2010 |
|---|---|---|---|---|---|---|
| | | USD | USD | USD | USD (Unaudited) | USD |
| **Revenue** | 5 | 60,196,625 | 69,616,875 | 57,274,526 | 41,735,735 | 41,638,143 |
| **Operating expenses** | | | | | | |
| Purchases, services and other | | 1,957,645 | 2,723,331 | 3,935,482 | 3,173,563 | 2,894,172 |
| Geological and geophysical expense | | 6,586,790 | 4,665,269 | 641,205 | 354,478 | 7,445,260 |
| Employee compensation costs | 18 | 2,893,483 | 3,608,239 | 2,927,939 | 2,400,436 | 3,152,682 |
| Depreciation, depletion and amortization | | 21,669,003 | 10,641,963 | 15,638,479 | 8,448,422 | 12,028,082 |
| Operating lease expense | | 2,167,533 | 2,808,661 | 1,244,125 | 880,851 | 990,560 |
| Administrative expenses | | 2,901,098 | 2,789,265 | 1,841,051 | 1,314,409 | 1,817,251 |
| Taxes other than income taxes | 19 | 1,557,388 | 9,509,744 | 13,542,468 | 9,502,812 | 11,500,033 |
| Write-off of inventories | | 79,641 | 139,992 | 214,946 | 161,614 | 61,925 |
| Other expense | 20 | 319,036 | 102,003 | 368,444 | 249,840 | 58,578 |
| Total operating expenses | | 40,131,617 | 36,988,467 | 40,354,139 | 26,486,425 | 39,948,543 |
| **Profit from operations** | | 20,065,008 | 32,628,408 | 16,920,387 | 15,249,310 | 1,689,600 |
| Finance income | 21 | 78,988 | 3,233,948 | 272,809 | 150,859 | 282,017 |
| Finance costs | 21 | (5,403,172) | (6,495,610) | (6,868,992) | (5,246,824) | (4,900,373) |
| **Finance costs – net** | | (5,324,184) | (3,261,662) | (6,596,183) | (5,095,965) | (4,618,356) |
| **Profit/(loss) before income tax** | | 14,740,824 | 29,366,746 | 10,324,204 | 10,153,345 | (2,928,756) |
| **Income tax (expense)/credit** | 22 | (7,060,210) | (2,212,820) | 2,562,322 | 865,068 | 1,600,975 |
| **Net profit/(loss) for the year/period** | 23 | 7,680,614 | 27,153,926 | 12,886,526 | 11,018,413 | (1,327,781) |
| **Total comprehensive income/(loss) for the year/period** | | 7,680,614 | 27,153,926 | 12,886,526 | 11,018,413 | (1,327,781) |

**Statement of changes in equity**

| | Charter capital *USD* | Other reserve *USD* | (Accumulated losses)/ retained earnings *USD* | Total equity *USD* |
|---|---|---|---|---|
| **As at April 1, 2008** | 500 | 18,200,133 | (6,849,432) | 11,351,201 |
| **Comprehensive income for the year** | | | | |
| Deemed contribution from parent company | – | (1,442,539) | – | (1,442,539) |
| Net profit for the year | – | – | 7,680,614 | 7,680,614 |
| **As at March 31, 2008** | 500 | 16,757,594 | 831,182 | 17,589,276 |
| **Comprehensive income for the year** | | | | |
| Deemed contribution from parent company | – | (2,474,633) | – | (2,474,633) |
| Net profit for the year | – | – | 27,153,926 | 27,153,926 |
| **As at March 31, 2009** | 500 | 14,282,961 | 27,985,108 | 42,268,569 |
| **Comprehensive income for the year** | | | | |
| Deemed contribution from parent company | – | (2,667,330) | – | (2,667,330) |
| Net profit for the year | – | – | 12,886,526 | 12,886,526 |
| **As at March 31, 2010** | 500 | 11,615,631 | 40,871,634 | 52,487,765 |
| **Nine months period ended December 31, 2009 (Unaudited)** | | | | |
| As at April 1, 2009 | 500 | 14,282,961 | 27,985,108 | 42,268,569 |
| **Comprehensive income for the period** | | | | |
| Deemed contribution from parent company | – | (1,981,498) | – | (1,981,498) |
| Net profit for the period | – | – | 11,018,413 | 11,018,413 |
| **As at December 31, 2009** | 500 | 12,301,463 | 39,003,521 | 51,305,484 |
| **Nine months period ended December 31, 2010** | | | | |
| As at April 1, 2010 | 500 | 11,615,631 | 40,871,634 | 52,487,765 |
| **Comprehensive loss for the period** | | | | |
| Deemed contribution from parent company | – | (2,070,118) | – | (2,070,118) |
| Net loss for the period | – | – | (1,327,781) | (1,327,781) |
| **As at December 31, 2010** | 500 | 9,545,513 | 39,543,853 | 49,089,866 |

*Notes:* Other reserve represents deemed contribution from the Parent Company arising from fair value adjustment fixed interest rate borrowings from the Parent Company. Details of this are set out in note 16.

## Statement of cash flows

| | Notes | Year ended March 31, 2008 | 2009 | 2010 | Nine months period ended December 31, 2009 | 2010 |
|---|---|---|---|---|---|---|
| | | *USD* | *USD* | *USD* | *USD* (Unaudited) | *USD* |
| **Cash flows from operating activities** | | | | | | |
| Cash generated from operations | *24* | 56,764,295 | 55,952,958 | 22,585,509 | 17,498,985 | 32,438,609 |
| Interest element of finance lease rentals paid | | – | – | (23,060) | – | (66,843) |
| Income tax paid | | (236) | (29,039) | (1,411) | – | (11,269) |
| Net cash generated from operating activities | | 56,764,059 | 55,923,919 | 22,561,038 | 17,498,985 | 32,360,497 |
| **Investing activities** | | | | | | |
| Purchase of property, plant and equipment | | (64,589,199) | (34,826,543) | (10,371,160) | (7,748,722) | (16,502,480) |
| Purchase of intangible assets | | (53,883) | – | (267) | (267) | (460) |
| Interest income received | | 78,988 | 244,166 | 272,809 | 150,859 | 282,017 |
| Exploration costs | | (6,586,790) | (4,665,269) | (641,205) | (354,478) | (7,445,260) |
| Increase in inventories and advances for inventories for capital projects | | (28,866,559) | (17,485,787) | (554,094) | (557,748) | (1,959,833) |
| Increase in restricted cash | | (319,000) | – | (182,336) | (175,843) | (104,498) |
| Net cash used in investing activities | | (100,336,443) | (56,733,433) | (11,476,253) | (8,686,199) | (25,730,514) |
| **Financing activities** | | | | | | |
| Loans from parent company | | 44,850,000 | 1,080,000 | – | – | – |
| Capital element of finance lease rentals paid | | – | – | – | – | (117,419) |
| Repayment of loans to parent company | | – | – | (10,030,000) | (6,600,000) | (6,960,000) |
| Net cash generated from/(used in) financing activities | | 44,850,000 | 1,080,000 | (10,030,000) | (6,600,000) | (7,077,419) |
| **Net increase/(decrease) in cash and cash equivalents** | | 1,277,616 | 270,486 | 1,054,785 | 2,212,786 | (447,436) |
| Cash and cash equivalents at beginning of the year/period | | 845,114 | 2,122,730 | 2,393,216 | 2,393,216 | 3,448,001 |
| **Cash and cash equivalents at end of the year/period** | *12* | 2,122,730 | 2,393,216 | 3,448,001 | 4,606,002 | 3,000,565 |

## Notes to the financial information

### 1. GENERAL INFORMATION

The Company is an entity organized under the laws of Kazakhstan on March 20, 2002 and is the sole operating subsidiary of the Seller. The Company is engaged in oil and gas exploration, production and sale, and operates four onshore oil fields near Aktau in the Caspian Sea of Western Kazakhstan. The registered and principal addresses of the Company are the same, being the Petroleum Depot, Daulet Village, Munailinskiy Region, 130005, Mangistau Oblast, Republic of Kazakhstan.

The Company is the operator of a number of oil and gas fields in Western Kazakhstan close to the Caspian Sea. The Government of the Republic of Kazakhstan (the "Government") initially issued the licence to Zhanaozen Repair and Mechanical Plant ("Zhanaozen") on April 30, 1999 to explore the Aksaz, Dolinnoe and Emir oil and gas fields (the "ADE Block" or the "ADE Fields"). On June 9, 2000, a contract for exploration for the Aksaz, Dolinnoe and Emir oil and gas fields was entered into between the Agency of the Republic of Kazakhstan on Investments and Zhanaozen. On September 23, 2002, the contract was assigned to the Company. On September 10, 2004, the Government extended the term of the contract for exploration and licence from five years to seven years to July 9, 2007. On February 27, 2007, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "MEMR") granted a second exploration period which was an extension to July 2009 for the entire exploration contract territory. On December 7, 2004, the Government assigned to the Company an exclusive right to explore an additional 260 square kilometres of land adjacent to the ADE Block, which is referred to as the "Southeast Block". The Southeast Block includes the Kariman field and the Yessen and Borly structures and is governed by the terms of the Company's original contract. On June 24, 2008, the MEMR agreed to extend the exploration stage of the Company's contract from July 2009 to January 2013 in order to permit the Company to conduct additional exploration drilling and testing activities within the ADE Block and the Southeast Block.

On October 15, 2008, the MEMR approved Addendum #6 to Contract No. 482 with the Company, dated June 9, 2000 extending Company's exploration territory from 460 square kilometres to a total of 850 square kilometres (approximately 210,114 acres). The additional territory is located to the north and west of the Company's current exploration territory, extending the exploration territory toward the Caspian Sea and is referred to herein as the "Northwest Block". The Northwest Block is governed by the terms of the Company's exploration stage contract on the ADE Block and the Southeast Block.

To move from the exploration stage to the commercial production stage, the Company must apply for and be granted a commercial production contract. The Company is legally entitled to apply for a commercial production contract and has an exclusive right to negotiate this contract. The Government is obligated to conduct these negotiations under the Law on Petroleum in Kazakhstan. If the Company does not move from the exploration stage to the commercial production stage, it has the right to produce and sell oil, including export oil, under the Law on Petroleum for the term of its existing contract.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The Company prepared the accompanying financial information in accordance with IFRS issued by the IASB.

The principal accounting policies used in preparation of the financial information are set out below. The policies have been consistently applied to all years presented unless otherwise stated. The financial information has been prepared under the historical cost convention.

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the financial information are set out in note 4.

**(b) Recent accounting pronouncements**

*(i) New standards, amendments and interpretations to existing standards adopted by the Company*

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company financial information:

| | |
|---|---|
| IFRSs (Amendments) | Improvements to IFRSs 2009 |
| IFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards |
| IFRS 1 (Amendments) | Additional Exemptions for First-time Adopters |
| IFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| IFRS 3 (Revised) | Business Combinations |
| IFRS 5 (Amendments) | Non-current Assets Held for Sale and Discontinued Operations |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements |
| IAS 39 (Amendments) | Eligible Hedged Items |
| IFRIC 17 | Distributions of Non-cash Assets to Owners |
| IFRIC 18 | Transfers of Assets from Customers |

The above amendments to IFRSs have had no material impact on the Company's results of operations and financial position, or do not contain any additional disclosure requirements specifically applicable to the financial information.

*(ii) New standards, amendments and interpretations to existing standards not yet effective and not early adopted*

Up to the date of approval of this financial information, the IASB has issued a number of amendments, new standards and Interpretations which are not yet effective and which have not been adopted in the financial information. Of these developments, the following relates to matters that may be relevant to the Company's operation and financial information:

| | |
|---|---|
| IFRSs (Amendments) | Improvements to IFRSs issued in 2010[(1)] |
| IFRS 1 (Amendments) | Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[(2)] |
| IFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[(3)] |
| IFRS 9 | Financial Instruments[(4)] |
| IAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[(5)] |
| IAS 24 (Revised) | Related Party Disclosures[(6)] |
| IAS 32 (Amendments) | Classification of Rights Issues[(7)] |
| IFRIC 14 (Amendments) | Prepayments of a Minimum Funding Requirement[(6)] |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments[(2)] |

(1) Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.

(2) Effective for annual periods beginning on or after July 1, 2010.

(3) Effective for annual periods beginning on or after July 1, 2011.

(4) Effective for annual periods beginning on or after January 1, 2013.

(5) Effective for annual periods beginning on or after January 1, 2012.

(6) Effective for annual periods beginning on or after January 1, 2011.

(7) Effective for annual periods beginning on or after February 1, 2010.

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of financial assets.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on financial information.

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application but is not yet in a position to determine whether their adoption will have a significant impact on the Company's results of operations and financial position.

**(c) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial information of the Company is measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). While most assets and operations of the Company are located in the Republic of Kazakhstan, its primary economic environment is the oil and gas industry. The functional currency of the oil and gas industry is United States Dollars (USD). The Parent Company is a USA corporation engaged solely in the oil and gas industry and the Parent company is the sole provider of funds to the Company which are almost all sourced in USD. For these reasons the functional currency of the Company and the Parent Company is USD. The presentation currency of the financial information is USD.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Foreign exchange gains and losses are presented in the statement of comprehensive income within "finance income" or "finance costs" as appropriate.

**(d) Property, plant and equipment**

Property, plant and equipment, including oil and gas properties, is stated at historical cost less accumulated depreciation, depletion, amortization and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting year in which they are incurred.

Except for oil and gas properties, depreciation is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Gas utilization facility | 10 years |
| Buildings and improvements | 7-10 years |
| Office equipment | 3-5 years |
| Motor vehicles and production equipment | 3-10 years |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress is not depreciated until it is ready for its intended use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized in the statement of comprehensive income.

**(e) Oil and gas properties**

The successful efforts method of accounting is used for the oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalized. Wells with proved developed reserves which are not in production are capitalized as oil and gas properties subject to impairment review. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as construction in progress pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas 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. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes.

The cost of oil and gas properties is amortized at the field level based on the unit of production method. Unit of production rates are based on oil and gas proved developed producing reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements. The Company's reserves estimates represent crude oil and gas which management believes can be reasonably produced within the current terms of their production agreements.

**(f) Impairment of non-financial assets**

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(g) Intangible asset**

Intangible asset represents computer software. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 to 4 years.

**(h) Loans and receivables**

The Company's loans and receivables comprise "trade and other receivables" in the statements of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with an expected realization longer than 12 months after the end of the reporting period. These are classified as non-current assets.

**(i) Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i) Classification of assets leased to the Company*

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases.

*(ii) Operating lease charges*

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(j) Inventories**

Inventories are crude oil and materials and supplies which are stated at the lower of cost and net realizable value. Materials and supplies costs are determined by the specific identification method. Crude oil costs are determined by the weighted average cost method. The cost of crude oil comprises direct labour, depreciation, other direct costs and related production overhead, but excludes borrowing costs.

**(k) Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The factors the Company considers when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the statement of comprehensive income.

**(l) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less from the time of purchase.

**(m) Current and deferred income tax**

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the territories where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

**(n) Intra-group borrowings**

The Company's borrowings are all borrowings from the Parent Company and are recognized initially at fair value, net of transaction costs incurred. In subsequent years, intra-group borrowings are stated at amortized cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the year of the borrowings using the effective interest method.

Costs on intra-group borrowings are recognized as an expense in the year in which they are incurred except for the portion eligible for capitalization as part of qualifying property, plant and equipment. Intra-group borrowings are classified as current liabilities unless the Company has unconditional rights to defer settlements of the liabilities for at least 12 months after the end of the reporting period.

**(o) Trade payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**(p) Provisions and contingent liabilities**

Provisions are recognized when the Company has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Provision for future decommissioning and restoration is recognized in full on the installation of oil and gas properties. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than due to passage of time, which is regarded as interest expense, is reflected as an adjustment to the provision and oil and gas properties.

Asset retirement obligations which meet the criteria of provisions are recognized as provisions and the amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil and gas properties. Interest expenses from the assets retirement obligations for each period are recognized with the effective interest method during the useful life of the related oil and gas properties.

If the conditions for the recognition of the provisions are not met, the expenditures for the decommissioning, removal and site cleaning will be expensed in the statement of comprehensive income when occurred.

**(q) Employee benefits**

The Company has defined contribution plans for mandatory pensions for employees and has other social/welfare obligations in accordance with the local law and practices in the Republic of Kazakhstan. A defined contribution plan is a pension and/or other social benefits plan under which the Company pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions and welfare payments are recognized as employee benefit expenses in profit or loss when they are due.

**(r) Revenue recognition**

Revenue and associated costs from the sale of oil and gas are recognised in the period when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, collectability is reasonably assured, delivery of oil and gas has occurred or when ownership title transfers.

**(s) Interest income recognition**

Interest income on financial assets that are classified as loans and receivables, and interest expense on financial liabilities other than those at fair value through profit or loss are determined using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

**(t) Repairs and maintenance**

Repairs and maintenance are recognized as expenses in the year in which they are incurred.

**(u) Liquidation fund**

The liquidation fund (site restoration and abandonment liability) is related primarily to the conservation and liquidation of the Company's wells and similar activities related to its oil and gas properties, including site restoration. Management assesses an obligation related to these costs with sufficient certainty based on internally generated engineering estimates, current statutory requirements and industry practices. The Company recognizes the estimated fair value of this liability. These estimated costs are recorded as an increase in the cost of oil and gas assets with a corresponding increase in the liquidation fund which is presented as a long-term liability. The oil and gas assets relating to the liquidation fund are depreciated on the unit of production basis separately for each field. An accretion expense, resulting from the changes in the liability due to passage of time by applying an effective interest method of allocation to the amount of the liability, is recorded as accretion expenses in the statement of comprehensive income.

The adequacies of the liquidation fund are periodically reviewed in the light of current laws and regulations and adjustments made as necessary.

**(v) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors. The Company operates as a single operating segment which is the production and sale of oil and gas. No geographical information has been presented as all of the Company's sales are generated from sales in Kazakhstan.

For the year ended March 31, 2008, 2009 and 2010, and nine months period ended December 31, 2009 and 2010, there was one customer for the production and sale of oil which bought USD57,626,429, USD65,721,241, USD56,135,606, USD40,596,215 and USD40,455,646, which accounted for over 90% of total sales of the Company.

The Company's gas is sold exclusively to Aktau Gas Producing Plant ("AGPP") the utility which provides gas to the Aktau region.

**(w) Related parties**

For the purposes of this financial information, a party is considered to be related to the Company if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;

(ii) the Company and the party are subject to common control;

(iii) the part is an associate of the Company or a joint venture in which the Company is a venture;

(iv) the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the part is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk and liquidity risk.

*(a) Foreign exchange risk*

Our functional currency is the USD (note 2(c)(i)) and to the extent that business transactions in Kazakhstan are denominated in the Kazakhstan Tenge we are exposed to transaction gains and losses that could result from fluctuations in the USD – Kazakhstan Tenge exchange rate. The Company does not engage in hedging transactions to protect itself from such risk, because management believes that the effects of foreign exchange risk is insignificant.

The foreign-denominated monetary assets and liabilities are revalued on a monthly basis with gains and losses on revaluation reflected in net income. A hypothetical 10% favourable or unfavourable change in the foreign currency exchange rate would have affected the Company's net profit/(loss) for the Relevant Periods by less than USD1 million.

*(b) Credit risk*

The majority of the cash at bank balance is placed with private banks and financial institutions. For banks and financial institutions, only high credit quality financial institutions are accepted. Therefore, the Company's credit risk arises primarily from trade and other receivables. Oil and gas sales are generally unsecured. Except for the write-off of other receivables of USD346,977 for the year ended March 31, 2009, the Company has not had any significant credit losses in the past and believes its accounts receivable are fully collectable. Accordingly, no allowance for doubtful accounts has been provided.

The Company is dependent on one customer for sales of crude oil. A reduction by this customer in the volumes of oil it purchases could result in a substantial decline in the Company's revenues and net profit/(loss).

Similarly, the Company is dependent on one customer for sales of crude gas. A reduction by this customer in the volumes of gas it purchases could result in a substantial decline in the Company's revenues and net profit/(loss).

During the years ended March 31, 2008, 2009 and 2010 and nine months period ended December 31, 2009 and 2010, the Company sold approximately 91%, 81%, 95%, 94% (unaudited) and 98% of the Company's crude oil production to Titan Oil Trading GmbH ("Titan Oil") respectively. Revenue from oil sold to Titan Oil made up 96%, 94%, 98%, 97% (unaudited) and 97% of the Company's revenue during the year ended March 31, 2008, 2009, 2010 and nine months period ended December 31, 2009 and 2010 respectively. The loss of Titan Oil could have a material adverse effect on the Company's operations in the short-term. Based on current demand for crude oil and the fact that alternate customers are readily available, the management is of the view that the loss of Titan Oil would not materially adversely affect the Company's operations in the medium and long-term.

The Company's gas is sold exclusively to Aktau Gas Producing Plant ("AGPP") the utility which provides gas to the Aktau region.

*(c) Liquidity risk*

As of March 31, 2008, 2009 and December 31, 2010, the Company had net current liabilities of approximately USD11,953,000, USD10,550,000 and USD6,895,000 respectively, which include trade and other payables of approximately USD22,239,000, USD19,009,000 and USD21,371,000 respectively. The directors of the Company closely monitor the cash flows of the Company and, upon maturity, would arrange bank loans, where necessary, to

enable the Company to carry on its operations in the foreseeable future. At the end of the reporting period, the Parent Company of the Company agreed to provide sufficient funds for the Company as needed. In this regard, the directors consider that the Company's liquidity risk is significantly reduced.

The Company's liquidity risk is managed on a group basis by the Parent Company. This management of the Company's liquidity risk involves maintaining sufficient cash and cash equivalents and an adequate availability of funding through an appropriate amount of committed credit facilities.

The table below analyses the Company's interest bearing liabilities and related interest and other long term and short term liabilities classified by maturity. The Company has based the analysis on the remaining years at the end of the relevant reporting period up to the contractual maturity date for each liability.

The amounts disclosed in the table are the contractual undiscounted cash flows of principal amounts and interest.

Balances due within 12 months are shown at their carrying amounts as the effect of discounting is not significant.

| **At March 31, 2008** | **Less than 1 year** *USD* | **Between 1 and 2 years** *USD* | **Between 2 and 5 years** *USD* | **Over 5 years** *USD* |
|---|---|---|---|---|
| Amount due to parent company and interest payable | – | – | 88,791,219 | 34,940,457 |
| Trade and other payables | 22,239,397 | – | – | – |

| **At March 31, 2009** | **Less than 1 year** *USD* | **Between 1 and 2 years** *USD* | **Between 2 and 5 years** *USD* | **Over 5 years** *USD* |
|---|---|---|---|---|
| Amount due to parent company and interest payable | – | – | 133,366,459 | – |
| Trade and other payables | 19,009,364 | – | – | – |

| **At March 31, 2010** | **Less than 1 year** *USD* | **Between 1 and 2 years** *USD* | **Between 2 and 5 years** *USD* | **Over 5 years** *USD* |
|---|---|---|---|---|
| Amount due to parent company and interest payable | – | – | 137,422,881 | – |
| Trade and other payables | 7,819,801 | – | – | – |

| **At December 31, 2010** | **Less than 1 year** *USD* | **Between 1 and 2 years** *USD* | **Between 2 and 5 years** *USD* | **Over 5 years** *USD* |
|---|---|---|---|---|
| Amount due to parent company and interest payable | – | – | 137,042,948 | – |
| Trade and other payables | 21,371,377 | – | – | – |

### 3.2 Capital risk management

Capital is managed at a group level by the Parent Company. The Parent Company's objectives when managing capital on behalf of the Company are to safeguard the Parent Company's and the Company's ability to continue as a going concern in order to provide returns for the Parent Company and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Parent Company monitors capital it supplies to the Company on the basis of the ratio between the Company's capital and its net debt. This ratio is calculated as "net debt" divided by total capital. Net debt is calculated as total intra-group borrowings less cash and cash equivalents. Total capital is calculated as owner's equity as shown in the statement of financial position plus net debt. The capital to net debt ratios at March 31, 2008, 2009 and 2010, and December 31, 2010 were as follows:

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** |
| | *USD* | *USD* | *USD* | *USD* |
| Total intra-group borrowings *(note 16)* | 123,731,676 | 133,366,459 | 137,422,881 | 137,042,948 |
| Less: cash and cash equivalents *(note 12)* | (2,122,730) | (2,393,216) | (3,448,001) | (3,000,565) |
| Net debt | 121,608,946 | 130,973,243 | 133,974,880 | 134,042,383 |
| Total owner's equity | 17,589,276 | 42,268,569 | 52,487,765 | 49,089,866 |
| Total capital | 139,198,222 | 173,241,812 | 186,462,645 | 183,132,249 |
| Ratio of capital to net debt | 87% | 76% | 72% | 73% |

### 3.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Company are disclosed in the respective accounting policies. The carrying amounts of the following financial assets and financial liabilities (with the exception of the intra-group borrowings from the Parent Company) approximate their fair value as all of them are short-term in nature: cash and cash equivalents, current portion of trade and other receivables, current portion of trade and other payables and current portion of borrowings.

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial information:

| | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|
| | As at March 31, | | | As at December 31, | As at March 31, | | | As at December 31, |
| | **2008** | **2009** | **2010** | **2010** | **2008** | **2009** | **2010** | **2010** |
| | *USD* | *USD* | *USD* | *USD* | *USD* | *USD* | *USD* | *USD* |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | 2,122,730 | 2,393,216 | 3,448,001 | 3,000,565 | 2,122,730 | 2,393,216 | 3,448,001 | 3,000,565 |
| Trade and other receivables | 6,342,314 | 3,328,229 | 7,703,944 | 9,470,186 | 6,342,314 | 3,328,229 | 7,703,944 | 9,470,186 |
| **Financial liabilities** | | | | | | | | |
| Trade and other payables | 22,003,181 | 18,815,234 | 7,640,934 | 21,136,173 | 22,003,181 | 18,815,234 | 7,640,934 | 21,136,173 |
| Amount and interest payable due to parent company | 123,731,676 | 133,366,459 | 137,422,881 | 137,042,948 | 123,731,676 | 133,366,459 | 137,422,881 | 137,042,948 |

The fair values of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- Receivables/borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the transactions. As at each reporting date, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on the Company's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Company's financial information.

### (a) Estimation of proved oil reserves

Proved Reserves are those quantities of petroleum that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved Developed Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved Undeveloped Reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery.

The Company's reserve estimates were prepared for each oilfield and include crude oil and gas that the Company believes can be reasonably produced within current economic and operating conditions.

Proved Reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, Proved Reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved Reserves are one of the key elements in the Company's investment decision-making process. They are also an important element in testing for impairment. The Company classified its Proved Reserves into Proved Developed Reserves and Proved Undeveloped Reserves. Proved Developed Reserves are the basis for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Company's financial information for property, plant and equipment related to oil and gas production activities. A reduction in Proved Developed Reserves will increase depreciation, depletion and amortization charges (assuming constant production) and reduce net profit. Proved Reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil reserves resulting from new information becoming available from development and production activities and change in oil price have tended to be the most significant causes of annual revisions.

### (b) Estimation of impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Company's business plans. Favourable changes to some assumptions may allow the Company to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired (note 6).

### (c) Estimation of asset retirement obligations ("ARO")

Provisions are recognized for the future decommissioning and restoration of oil and gas properties that will cease operation prior to the expiration of their exploration licence. The amounts of the provision recognized are the

present values of the estimated future expenditures that the Company is expected to incur. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also affected by the estimation of the economic lives of the oil and gas properties. Changes in any of these estimates will affect the operating results and the financial position of the Company over the remaining economic lives of the oil and gas properties.

**(d) Depreciation of property, plant and equipment**

The Company determines the estimated useful lives and related depreciation charges for the Company's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of a similar nature and function.

**(e) Impairment of trade, other and long term VAT receivables**

The policy for impairment of trade, other and long term VAT receivables of the Company is based on the evaluation of the collectability and aging analysis of trade, other and long term VAT receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at each reporting period.

**(f) Provision for obsolete inventories**

Management reviews the condition of the inventories of the Company and makes provision for identified obsolete and slow-moving inventory items that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Company carries out an inventory review at the end of each reporting period and makes provision for obsolete items. Management reassesses the estimation at the end of each reporting period.

**5. REVENUE**

Revenue and associated costs from the sale of oil and gas are recognised in the period when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, collectability is reasonably assured, delivery of oil and gas has been occurred or when ownership title transfers. Produced but unsold products are recorded as inventory until sold.

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Oil and gas properties *USD* | Gas utilization facility *USD* | Construction in progress *USD* | Buildings and improvements *USD* | Office equipment *USD* | Motor vehicles and production equipment *USD* | Total *USD* |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At March 31, 2007 | 67,904,839 | – | 4,165,654 | 326,251 | 281,703 | 1,066,823 | 73,745,270 |
| Additions | 76,737,094 | – | 1,972,000 | 2,977,524 | 91,223 | 1,416,396 | 83,194,237 |
| Disposals | – | – | – | – | (2,942) | (78,423) | (81,365) |
| Transfer in/(out) | 1,395,458 | – | 1,123,907 | (2,519,365) | – | – | – |
| At March 31, 2008 | 146,037,391 | – | 7,261,561 | 784,410 | 369,984 | 2,404,796 | 156,858,142 |
| Additions | 55,385,492 | – | 580,000 | 4,767,507 | 238,587 | 71,642 | 61,043,228 |
| Disposals | – | – | – | – | (3,144) | (15,354) | (18,498) |
| Transfer (out)/in | (1,545,818) | 13,470,631 | (7,841,561) | (3,456,766) | – | (626,486) | – |
| At March 31, 2009 | 199,877,065 | 13,470,631 | – | 2,095,151 | 605,427 | 1,834,598 | 217,882,872 |
| Additions | 10,307,815 | 75,000 | – | 15,393 | 221,314 | 901,025 | 11,520,547 |
| Disposals | – | – | – | – | (8,379) | (76,039) | (84,418) |
| Transfer in/(out) | – | 24,107 | – | – | (24,107) | – | – |
| At March 31, 2010 | 210,184,880 | 13,569,738 | – | 2,110,544 | 794,255 | 2,659,584 | 229,319,001 |
| Additions | 16,992,256 | – | – | 182 | 35,082 | 491,054 | 17,518,574 |
| Disposals | – | – | – | – | (45) | (7,180) | (7,225) |
| At December 31, 2010 | 227,177,136 | 13,569,738 | – | 2,110,726 | 829,292 | 3,143,458 | 246,830,350 |
| **Accumulated depreciation** | | | | | | | |
| At March 31, 2007 | (6,186,254) | – | – | (50,147) | (81,023) | (242,158) | (6,559,582) |
| Charge for the year | (21,447,415) | – | – | (53,175) | (83,671) | (155,105) | (21,739,366) |
| Written back on disposals | – | – | – | – | 1,773 | 24,848 | 26,621 |
| At March 31, 2008 | (27,633,669) | – | – | (103,322) | (162,921) | (372,415) | (28,272,327) |
| Charge for the year | (10,308,039) | – | – | (295,263) | (124,383) | (132,108) | (10,859,793) |
| Written back on disposals | – | – | – | – | 1,957 | 12,330 | 14,287 |
| At March 31, 2009 | (37,941,708) | – | – | (398,585) | (285,347) | (492,193) | (39,117,833) |
| Charge for the year | (14,991,935) | – | – | (540,671) | (119,000) | (179,970) | (15,831,576) |
| Written back on disposals | – | – | – | – | 3,594 | 22,100 | 25,694 |
| At March 31, 2010 | (52,933,643) | – | – | (939,256) | (400,753) | (650,063) | (54,923,715) |
| Charge for the period | (10,591,920) | (904,648) | – | (401,252) | (72,992) | (211,036) | (12,181,848) |
| Written back on disposals | – | – | – | – | 41 | – | 41 |
| At December 31, 2010 | (63,525,563) | (904,648) | – | (1,340,508) | (473,704) | (861,099) | (67,105,522) |
| **Net book value** | | | | | | | |
| At March 31, 2008 | 118,403,722 | – | 7,261,561 | 681,088 | 207,063 | 2,032,381 | 128,585,815 |
| At March 31, 2009 | 161,935,357 | 13,470,631 | – | 1,696,566 | 320,080 | 1,342,405 | 178,765,039 |
| At March 31, 2010 | 157,251,237 | 13,569,738 | – | 1,171,288 | 393,502 | 2,009,521 | 174,395,286 |
| At December 31, 2010 | 163,651,573 | 12,665,090 | – | 770,218 | 355,588 | 2,282,359 | 179,724,828 |

**(Unaudited)**

| | Oil and gas properties | Gas utilization facility | Construction in progress | Buildings and improvements | Office equipments | Motor vehicles and production equipment | Total |
|---|---|---|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* | *USD* | *USD* | *USD* |
| **Cost** | | | | | | | |
| At March 31, 2009 | 199,877,065 | 13,470,631 | – | 2,095,151 | 605,427 | 1,834,598 | 217,882,872 |
| Additions | 8,024,096 | 75,000 | – | 15,393 | 48,158 | 122,460 | 8,285,107 |
| Disposals | – | – | – | – | (8,379) | (61,064) | (69,443) |
| Transfer in/(out) | – | 24,107 | – | – | (24,107) | – | – |
| At December 31, 2009 | 207,901,161 | 13,569,738 | – | 2,110,544 | 621,099 | 1,895,994 | 226,098,536 |
| **Accumulated depreciation** | | | | | | | |
| At March 31, 2009 | (37,941,708) | – | – | (398,585) | (285,347) | (492,193) | (39,117,833) |
| Charge for the period | (7,968,192) | – | – | (404,071) | (88,902) | (132,168) | (8,593,333) |
| Written back on disposals | – | – | – | – | 3,594 | 8,622 | 12,216 |
| At December 31, 2009 | (45,909,900) | – | – | (802,656) | (370,655) | (615,739) | (47,698,950) |
| **Net book value** | | | | | | | |
| At December 31, 2009 | 161,991,261 | 13,569,738 | – | 1,307,888 | 250,444 | 1,280,255 | 178,399,586 |

The additions of oil and gas properties of the Company for the years ended March 31, 2008 and 2009 included USD1,308,130 and USD86,438, respectively relating to the asset retirement obligations recognized during the year (note 13). Related depletion charges for the years ended March 31, 2008, 2009, 2010 and nine months ended December 2010 were amounted to USD254,572, USD449,025, USD448,351 and USD367,370 respectively.

Obligations under finance leases for motor vehicles are collateralized by the motor vehicles with net book values of USDnil, USDnil, USD738,363 and USD689,138 as at March 31, 2008, 2009, 2010 and December 31, 2010 respectively.

## 7. INTANGIBLE ASSET

| | Software<br>*USD* |
|---|---|
| **Cost** | |
| At March 31, 2007 | 62,821 |
| Additions | 53,883 |
| Disposals | (4,338) |
| At March 31, 2008 | 112,366 |
| Additions | – |
| At March 31, 2009 | 112,366 |
| Additions | 267 |
| At March 31, 2010 | 112,633 |
| Additions | 460 |
| At December 31, 2010 | 113,093 |
| **Accumulated amortization** | |
| At March 31, 2007 | (40,634) |
| Charge for the year | (29,478) |
| Written back on disposals | 3,667 |
| At March 31, 2008 | (66,445) |
| Charge for the year | (18,190) |
| At March 31, 2009 | (84,635) |
| Charge for the year | (17,931) |
| At March 31, 2010 | (102,566) |
| Charge for the period | (7,141) |
| At December 31, 2010 | (109,707) |
| **Net book value** | |
| At March 31, 2008 | 45,921 |
| At March 31, 2009 | 27,731 |
| At March 31, 2010 | 10,067 |
| At December 31, 2010 | 3,386 |

| | Software<br>*USD*<br>**(Unaudited)** |
|---|---|
| **Cost** | |
| At March 31, 2009 | 112,366 |
| Additions | 267 |
| At December 31, 2009 | 112,633 |
| **Accumulated amortization** | |
| At March 31, 2009 | (84,635) |
| Charge for the period | (13,599) |
| At December 31, 2009 | (98,234) |
| **Net book value** | |
| At December 31, 2009 | 14,399 |

## 8. TRADE AND OTHER RECEIVABLES

### (a) Summary of trade and other receivables

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | **2008**<br>*USD* | **2009**<br>*USD* | **2010**<br>*USD* | **2010**<br>*USD* |
| **Financial assets** | | | | |
| **Current** | | | | |
| Trade receivables | 5,865,712 | 3,081,573 | 6,423,402 | 8,687,651 |
| Advances to employees | 372,124 | 105,339 | 440,159 | 640,712 |
| Other receivables – others | 104,478 | 141,317 | 840,383 | 141,823 |
| | 6,342,314 | 3,328,229 | 7,703,944 | 9,470,186 |
| **Non-financial assets** | | | | |
| **Current** | | | | |
| Advances to suppliers | 2,154,373 | 2,679,484 | 2,461,070 | 2,130,021 |
| Less: Provision for impairment | (346,977) | – | – | – |
| Advances to suppliers – net | 1,807,396 | 2,679,484 | 2,461,070 | 2,130,021 |
| Advances to suppliers – related party *(note 26)* | – | 15,006 | 101,048 | 28,890 |
| **Non-current** | | | | |
| Advances for materials to be used in plant, property and equipment | 11,893,451 | 122,040 | 141,312 | 843,697 |
| | 13,700,847 | 2,816,530 | 2,703,430 | 3,002,608 |
| **Total** | 20,043,161 | 6,144,759 | 10,407,374 | 12,472,794 |
| Total current | 8,149,710 | 6,022,719 | 10,266,062 | 11,629,097 |
| Total non-current | 11,893,451 | 122,040 | 141,312 | 843,697 |
| **Total** | 20,043,161 | 6,144,759 | 10,407,374 | 12,472,794 |

**(b) The fair values of trade and other receivables financial assets are as follows:**

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| Trade receivables | 5,865,712 | 3,081,573 | 6,423,402 | 8,687,651 |
| Other receivables | 476,602 | 246,656 | 1,280,542 | 782,535 |
| | 6,342,314 | 3,328,229 | 7,703,944 | 9,470,186 |

**(c) The aging analysis of trade receivables is as follows:**

As disclosed in note 3.1(b), over 90% of the trade receivables balance is related to Titan Oil. The Company has an established long term business relationship with this customer, therefore, the credit terms and credit period are determined in a flexible manner. The Company has continued monitoring the financial position of the customer to minimize the credit risk which may attach to its business. The following is an aging analysis of trade receivables (net of nil allowance for doubtful debts) based on the invoice date at the end of each reporting period.

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| 0 – 30 days | 4,265,874 | 2,033,143 | 4,362,077 | 5,518,365 |
| 31 – 60 days | – | – | 1,012,633 | 1,000,102 |
| 61 – 90 days | 1,599,838 | 1,048,430 | 1,048,692 | 2,169,184 |
| | 5,865,712 | 3,081,573 | 6,423,402 | 8,687,651 |

The maximum exposure to credit risk at the end of each reporting period is the fair value of each class of trade and other receivables referred to above. The Company does not hold any collateral as security.

**(d) The aging analysis of other receivables overdue but not impaired is as follows:**

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| < 1 year | 476,602 | 246,656 | 1,280,542 | 782,535 |

**(e) The carrying amounts of trade and other receivables are denominated in the following currencies:**

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| United States Dollars | 13,442,166 | 2,706,571 | 3,793,324 | 4,023,682 |
| Kazakhstan Tenge | 6,600,995 | 3,438,188 | 6,614,050 | 8,449,112 |
| | 20,043,161 | 6,144,759 | 10,407,374 | 12,472,794 |

**(f) Movements in the provision for impairment of other receivables are as follows:**

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| **At beginning of the year/period** | (211,475) | (346,977) | – | – |
| Provision for receivable impairment | (135,502) | – | – | – |
| Receivables written-off during the year as uncollectible | – | 346,977 | – | – |
| **At end of the year/period** | (346,977) | – | – | – |

As of March 31, 2008, 2009 and 2010 and December 31, 2010, there were no trade receivables past due which are impaired.

## 9. LONG TERM VAT RECOVERABLE

As of March 31, 2008, 2009, 2010 and December 31, 2010, the Company had long term VAT recoverable in the amount of USD8,106,397, USD2,423,940, USD3,113,939 and USD4,300,937 respectively. The VAT recoverable is denominated in Kazakhstan Tenge and is fully recoverable from the tax authority of the Republic of Kazakhstan. The VAT recoverable consists of VAT prepaid on local expenditures and imported goods incurred in the operations of the Company, which qualifies for refund in cash or by offset against the Company's fiscal obligations, including future income tax liabilities. Management is unable to estimate reliably when these amounts will be realized because: (1) of the unpredictability of future profit steams; and (2) all refund applications are subject to the tax authority's final approval. Therefore, the amounts are classified as non-current assets.

## 10. INVENTORIES

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| **Current asset:** | | | | |
| Oil in tank | 4,882 | 5,029 | 2,895 | 2,576 |
| **Non-current asset:** | | | | |
| Materials and supplies | 11,002,684 | 13,989,643 | 13,714,952 | 13,894,381 |
| **Total Inventories** | 11,007,566 | 13,994,672 | 13,717,847 | 13,896,957 |
| Included in inventories are amounts stated | | | | |
| At cost | 11,007,566 | 13,994,672 | 13,717,847 | 13,896,957 |
| At net realizable value | – | – | – | – |
| | 11,007,566 | 13,994,672 | 13,717,847 | 13,896,957 |

## 11. RESTRICTED CASH

Under the laws of the Republic of Kazakhstan, the Company is required to set aside funds for environmental remediation relating to its operations. As of March 31, 2008, 2009, 2010 and December 31, 2010 the Company had restricted cash balances amounting to USD622,697, USD588,217, USD770,553 and USD875,051, respectively, set aside for this purpose. Management is unable to estimate reliably when these amounts will be utilized, and therefore, these amounts are classified as a non-current asset.

## 12. CASH AND CASH EQUIVALENTS

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | *USD* | *USD* | *USD* | *USD* |
| Cash in hand | 16,264 | 538,221 | 8,280 | 51,997 |
| Cash in bank | 2,106,466 | 1,854,995 | 3,439,721 | 2,948,568 |
| | 2,122,730 | 2,393,216 | 3,448,001 | 3,000,565 |

As of March 31, 2008, 2009 and 2010 and December 31, 2010, cash and cash equivalents included USD14,203,574, USD2,371,558, USD1,321,774 and USD21,823 placed in money market funds, with a maturity of less than 3 months from the date of placement, which had 30 day single yields of 2.58%, 0.13%, 0.01% and 0.01%, respectively.

Cash and cash equivalents are denominated in the following currencies:

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | *USD* | *USD* | *USD* | *USD* |
| United States Dollars | 443,041 | 1,705,276 | 541,461 | 1,636,441 |
| Kazakhstan Tenge | 1,678,006 | 687,940 | 2,371,976 | 830,869 |
| European Union Euros | – | – | 534,564 | 533,255 |
| Russian Rubles | 1,683 | – | – | – |
| | 2,122,730 | 2,393,216 | 3,448,001 | 3,000,565 |

## 13. ASSET RETIREMENT OBLIGATIONS

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | *USD* | *USD* | *USD* | *USD* |
| At beginning of the year/period | 2,165,829 | 3,728,531 | 4,263,994 | 4,712,345 |
| Liabilities incurred *(Note 6)* | 1,308,130 | 86,438 | – | – |
| Accretion expenses | 254,572 | 449,025 | 448,351 | 367,370 |
| At end of the year/period | 3,728,531 | 4,263,994 | 4,712,345 | 5,079,715 |

## 14. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. In the Company's case, its sole tax authority is that of the Republic of Kazakhstan.

The offset amounts are as follows:

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| **Deferred tax assets:** | | | | |
| Deferred tax assets to be recovered after 12 months | 315,308 | 303,689 | 435,394 | 527,700 |
| Deferred tax assets to be recovered within 12 months | – | – | – | – |
| | 315,308 | 303,689 | 435,394 | 527,700 |
| **Deferred tax liabilities:** | | | | |
| Deferred tax liabilities to be settled after 12 months | (3,570,016) | (5,771,217) | (3,340,600) | (1,831,931) |
| Deferred tax liabilities to be settled within 12 months | – | – | – | – |
| | (3,570,016) | (5,771,217) | (3,340,600) | (1,831,931) |
| **Total – Deferred income tax liabilities – net** | (3,254,708) | (5,467,528) | (2,905,206) | (1,304,231) |

The gross movements in the deferred tax account are as follows:

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| At beginning of the year/period | 3,805,502 | (3,254,708) | (5,467,528) | (2,905,206) |
| (Charged)/credited to the statement of comprehensive income | (7,060,210) | (2,212,820) | 2,562,322 | 1,600,975 |
| At end of the year/period | (3,254,708) | (5,467,528) | (2,905,206) | (1,304,231) |

The movement in deferred tax assets and liabilities during the year/period, without the offsetting of balances within the same tax jurisdiction, is as follows:

| | Deferred tax assets (asset retirement obligation) *USD* | Deferred tax liabilities (property, plant and equipment) *USD* | Total *USD* |
|---|---|---|---|
| **At April 1, 2007** | 105,974 | 3,699,528 | 3,805,502 |
| Charged to the statement of comprehensive income | 209,334 | (7,269,544) | (7,060,210) |
| **At March 31, 2008** | 315,308 | (3,570,016) | (3,254,708) |
| Charged to the statement of comprehensive income | (11,619) | (2,201,201) | (2,212,820) |
| **At March 31, 2009** | 303,689 | (5,771,217) | (5,467,528) |
| Credited to the statement of comprehensive income | 131,704 | 2,430,618 | 2,562,322 |
| **At March 31, 2010** | 435,393 | (3,340,599) | (2,905,206) |
| Credited to the statement of comprehensive income | 92,307 | 1,508,668 | 1,600,975 |
| **At December 31, 2010** | 527,700 | (1,831,931) | (1,304,231) |

## 15. TRADE AND OTHER PAYABLES

### (a) Summary of trade and other payables

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | **2008** *USD* | **2009** *USD* | **2010** *USD* | **2010** *USD* |
| **Financial liabilities** | | | | |
| Trade payables | 21,224,757 | 17,690,492 | 3,295,970 | 16,690,608 |
| Mineral extraction tax payable | 613,980 | 436,165 | 1,125,040 | 1,081,588 |
| Rent export tax payable | – | 515,032 | 3,073,588 | 3,083,117 |
| Other tax payable | 52,174 | 125,387 | 135,778 | 228,704 |
| Amount due to a related party | 53,624 | – | – | – |
| Other payables | 58,646 | 48,158 | 10,558 | 52,156 |
| **Non-financial liability** | | | | |
| Salary and welfare payables | 236,216 | 194,130 | 178,867 | 235,204 |
| **Total** | 22,239,397 | 19,009,364 | 7,819,801 | 21,371,377 |

**(b) Trade and other payables currency denomination**

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| United States Dollars | 665,972 | 467,664 | 98,522 | 460,872 |
| Kazakhstan Tenge | 21,573,425 | 18,507,466 | 7,719,648 | 20,910,505 |
| European Union's Euros | – | – | 1,631 | – |
| Russian Rubles | – | 34,234 | – | – |
| | 22,239,397 | 19,009,364 | 7,819,801 | 21,371,377 |

**(c) Trade payables aging analysis**

The following is an aging analysis of trade payables presented based on the invoice date at the end of each reporting period.

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| 0-30 days | 8,129,902 | 476,399 | 881,171 | 310,101 |
| 31-60 days | 8,533,298 | 472,170 | 340,531 | 326,021 |
| 61-90 days | 1,206,489 | 420,668 | 248,928 | 487,368 |
| Over 90 days | 3,355,068 | 16,321,255 | 1,825,340 | 4,493,304 |
| | 21,224,757 | 17,690,492 | 3,295,970 | 5,616,794 |

The average credit period on purchase of goods is 80 days. The Company has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

**16. AMOUNT AND INTEREST PAYABLE DUE TO PARENT COMPANY**

**(a)**

| | 2008 | As at March 31, 2009 | 2010 | As at December 31, 2010 |
|---|---|---|---|---|
| | *USD* | *USD* | *USD* | *USD* |
| Unsecured fixed interest rate borrowings from parent company | | | | |
| Principal amount due to parent company | 115,473,193 | 118,519,920 | 115,901,015 | 110,647,375 |
| Interest payable due to parent company | 8,258,483 | 14,846,539 | 21,521,866 | 26,395,573 |
| Total intra-group borrowings | 123,731,676 | 133,366,459 | 137,422,881 | 137,042,948 |

**(b)**

During the years 2003, 2004, 2005 and 2007, the Company entered into several unsecured intra-group borrowings agreements with the Parent Company for unsecured fixed interest rate loans with maturity in 2013 and 2014. All of these intra-group loans bear interest of 5% per annum and are repayable on the contracted maturity dates stated in each of the agreements. Intra-group loans have been repaid as they mature and as of March 31, 2008, 2009,

2010 and December 31, 2010 the remaining amounts of intra-group loans payable to the Parent Company were USD115,473,193, USD118,519,920, USD115,901,015 and USD110,647,375 respectively. Accrued interest relating to these intra-group loans were USD8,258,483, USD14,846,539, USD21,521,866 and USD26,395,573 respectively and are payable with the principal at maturity. The amounts were recognized at fair value determined using cash flow discounted at an effective interest rate of 7%. The difference between the nominal value and the fair value of these intra-group loans and the interest were recognized as a deemed capital contribution from the Parent Company. None of the interest balances due at December 31, 2010 have been paid at the date of this report.

## 17. OBLIGATIONS UNDER FINANCE LEASES

The Company entered into finance lease agreement with a vehicle leasing company for the lease of oil road-tankers. The agreement becomes effective upon the Company receiving delivery of the oil road-tankers with a lease term of 3 years. The lease has no terms of renewal or purchase options and escalation clauses. The Company had obligations under finance leases repayable as follows:

| | As at March 31, | | | | | | As at December 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | |
| | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments |
| | *USD* | *USD* | *USD* | *USD* | *USD* | *USD* | *USD* | *USD* |
| Within 1 year | – | – | – | – | 185,019 | 252,674 | 207,127 | 292,826 |
| After 1 year but within 2 years | – | – | – | – | 240,149 | 277,616 | 230,274 | 266,325 |
| After 2 years but within 5 years | – | – | – | – | 129,652 | 190,292 | – | – |
| | – | – | – | – | 369,801 | 467,908 | 230,274 | 266,325 |
| | – | – | – | – | 554,820 | 720,582 | 437,401 | 559,151 |
| Less: Total future interest expenses | | – | | – | | (165,762) | | (121,750) |
| Present value of lease obligations | | – | | – | | 554,820 | | 437,401 |

## 18. EMPLOYEE COMPENSATION COSTS

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| Wages, salaries and allowances | 2,000,468 | 2,877,501 | 2,301,326 | 1,931,199 | 2,548,454 |
| Pension fund expenses | 386,047 | 450,119 | 350,997 | 262,981 | 322,212 |
| Welfare and other expenses | 506,968 | 280,619 | 275,616 | 206,256 | 282,016 |
| | 2,893,483 | 3,608,239 | 2,927,939 | 2,400,436 | 3,152,682 |

In accordance with the legislative requirements of the Republic of Kazakhstan, the Company is required to pay into an employee pension fund an amount equivalent to 10% of each employee's wages, up to a maximum of approximately USD700 per month. Pension fund payments are deducted from employees' salaries and included with other salary costs in the statement of comprehensive income. The Company does not have any other liabilities related to any supplementary pensions, post retirement health care, insurance benefits or retirement indemnities.

**(a) Directors' emoluments**

| Name of director | Wages, Salaries and allowances *USD* | Pension fund expenses *USD* | Welfare and other expenses *USD* | Total *USD* |
|---|---|---|---|---|
| **For the year ended March 31, 2008** | | | | |
| Toleush Tolmakov | 87,126 | 7,368 | 15,961 | 110,455 |
| **For the year ended March 31, 2009** | | | | |
| Toleush Tolmakov | 99,726 | 8,658 | 40,156 | 148,540 |
| **For the year ended March 31, 2010** | | | | |
| Toleush Tolmakov | 65,960 | 8,384 | 32,269 | 106,613 |
| **For the nine months ended December 31, 2009 (unaudited)** | | | | |
| Toleush Tolmakov | 47,578 | 6,110 | 29,061 | 82,749 |
| **For the nine months ended December 31, 2010** | | | | |
| Toleush Tolmakov (resigned December 1, 2010) | 58,389 | 6,585 | 17,023 | 81,997 |
| Zhienbet Aristambaev | 11,258 | 762 | 1,602 | 13,622 |
| | 69,647 | 7,347 | 18,625 | 95,619 |

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Company for the years ended March 31, 2008, 2009 and 2010 and the nine months periods ended December 31, 2009 and 2010 are set out below:

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2009 (Unaudited)** | **2010** |
| Directors | 1 | 1 | 1 | 1 | 1 |
| Non-director individuals | 4 | 4 | 4 | 4 | 4 |

The five highest paid individuals of the Company include one director during the years ended March 31, 2008, 2009 and 2010 and the nine months periods ended December 31, 2009 and 2010 details of which have been included in note 18 (a) above. Details of emoluments paid to the remaining non-director individuals are as follows:

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| Wages, salaries and allowances | 535,925 | 421,202 | 226,847 | 173,783 | 245,822 |
| Pension fund expenses | 18,986 | 16,298 | 25,859 | 19,928 | 12,395 |
| Welfare and other expenses | 83,333 | 121,717 | 45,124 | 38,058 | 51,047 |
| | 638,244 | 559,217 | 297,830 | 231,769 | 309,264 |

Their emoluments were within the following bands:

| | No. of non-director individuals | | | | |
|---|---|---|---|---|---|
| | Year ended March 31, | | | Nine months period ended December 31, | |
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| USDnil to USD120,000 | 3 | 1 | 4 | 4 | 4 |
| USD120,000 to USD184,000 | – | 2 | – | – | – |
| USD184,000 to USD248,000 | – | 1 | – | – | – |
| Above USD248,000 | 1 | – | – | – | – |

During the Relevant Periods, no director or the five highest paid individuals received any emolument from the Company as an inducement to join, upon joining the Company, to leave the Company or as compensation for loss of office.

## 19. TAXES OTHER THAN INCOME TAXES

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| **Taxes other than income taxes:** | | | | | |
| Royalty | 1,557,388 | 1,744,075 | – | – | – |
| Mineral extraction tax | – | 467,359 | 3,509,611 | 2,556,874 | 2,549,270 |
| Rent export tax | – | 515,032 | 10,032,857 | 6,945,938 | 8,214,750 |
| Rent export duty expenditures | – | 6,783,278 | – | – | 736,013 |
| | 1,557,388 | 9,509,744 | 13,542,468 | 9,502,812 | 11,500,033 |

Taxes other than income taxes represent special oil levies in the Republic of Kazakhstan which are paid or payable by petroleum exploration and development enterprises for the sale of crude oil and are calculated at rates which vary with the oil prices.

## 20. OTHER EXPENSE

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| Gain/(loss) from sales other than oil and gas | 275,065 | 15,947 | (32,648) | 68,558 | 55,974 |
| Provision for impairment loss on other receivables | (135,502) | – | – | – | – |
| Loss on disposal of property, plant and equipment | (54,744) | (4,211) | (58,724) | (57,227) | (7,184) |
| Loss on disposal of intangible asset | (671) | – | – | – | – |
| Other expenses | (403,184) | (113,739) | (277,072) | (261,171) | (107,368) |
| **Total** | (319,036) | (102,003) | (368,444) | (249,840) | (58,578) |

The gain or loss from sales other than oil (net of costs) comes from the sale of materials and supplies included in inventories of the Company to other organizations.

## 21. FINANCE COSTS – NET

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| **Finance income** | | | | | |
| Interest income from savings accounts | 78,988 | 244,166 | 272,809 | 150,859 | 282,017 |
| Exchange gain | – | 2,989,782 | – | – | – |
| **Total finance income** | 78,988 | 3,233,948 | 272,809 | 150,859 | 282,017 |
| **Finance costs** | | | | | |
| Interest expenses on intra-group borrowings | 5,207,907 | 6,422,886 | 6,378,396 | 4,826,789 | 4,573,982 |
| Finance lease interest expenses | – | – | 23,060 | – | 66,843 |
| Bank charges | 134,690 | 72,724 | 71,207 | 58,562 | 53,270 |
| Exchange loss | 60,575 | – | 396,329 | 361,473 | 206,278 |
| **Total finance costs** | 5,403,172 | 6,495,610 | 6,868,992 | 5,246,824 | 4,900,373 |
| **Finance costs – net** | (5,324,184) | (3,261,662) | (6,596,183) | (5,095,965) | (4,618,356) |

## 22. INCOME TAX (EXPENSE)/CREDIT

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| Current income tax – domestic | – | – | – | – | – |
| Deferred income tax – domestic | (7,060,210) | (2,212,820) | 2,562,322 | 865,068 | 1,600,975 |
| **Total** | (7,060,210) | (2,212,820) | 2,562,322 | 865,068 | 1,600,975 |

According to the exploration contracts with the Republic of Kazakhstan, for income tax purposes the Company can capitalize exploration and development costs and deduct all revenues received during the exploration stage in the calculation of taxable income. Therefore, the exploration contract permits the Company to be exempt from Kazakhstan corporate income tax for the period of its exploration phase.

By reason of this exemption, the tax on the Company's profit before income tax differs from the theoretical amount that would be charged using the corporate income tax rates in the Republic of Kazakhstan applicable to the Company:

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| Profit/(loss) before income tax | 14,740,824 | 29,366,746 | 10,324,204 | 10,153,345 | (2,978,756) |
| Statutory tax rate | 30% | 20% | 20% | 20% | 20% |
| Tax calculated at the statutory tax rate | 4,422,247 | 5,873,349 | 2,064,841 | 2,030,669 | (595,751) |
| Effect of changes in tax rate | – | 1,084,903 | – | – | – |
| Effect of the exploration stage tax benefit | 2,637,963 | (4,745,432) | (4,627,163) | (2,895,737) | (1,005,224) |
| **Tax charge/(credit)** | 7,060,210 | 2,212,820 | (2,562,322) | (865,068) | (1,600,975) |

## 23. NET PROFIT/(LOSS) FOR THE YEAR/PERIOD

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| Auditor's remuneration | 246,920 | 177,806 | 269,174 | 104,820 | 105,587 |
| Cost of inventories recognized as an expense | 79,641 | 139,992 | 214,946 | 161,614 | 61,925 |

## 24. CASH GENERATED FROM OPERATING ACTIVITIES

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| **Profit/(loss) before income tax** | 14,740,824 | 29,366,746 | 10,324,204 | 10,153,345 | (2,928,756) |
| Depreciation, depletion and amortization | 21,768,844 | 10,877,983 | 15,849,507 | 8,606,932 | 12,188,989 |
| Accretion expenses | 254,572 | 449,025 | 448,351 | 332,415 | 367,370 |
| Geological and geophysical expense | 6,586,790 | 4,665,269 | 641,205 | 354,478 | 7,445,260 |
| Loss on disposal of property, plant and equipment | 54,744 | 4,211 | 58,724 | 57,227 | 7,184 |
| Loss on disposal of intangible asset | 671 | – | – | – | – |
| Provision for impairment loss on other receivables | 135,502 | – | – | – | – |
| Interest income from savings accounts | (78,988) | (244,166) | (272,809) | (150,859) | (282,017) |
| Finance leases interest expense | – | – | 23,060 | – | 66,843 |
| Interest expenses | 5,207,907 | 6,422,886 | 6,378,396 | 4,826,789 | 4,573,982 |
| Write-off of inventories | 79,641 | 139,992 | 214,946 | 161,614 | 61,925 |
| Unrealized foreign exchange (gain)/loss | 60,575 | (2,989,782) | 396,329 | 361,473 | 206,278 |
| Operating cash flows before movements/changes in working capital | 48,811,082 | 48,692,164 | 34,061,913 | 24,703,414 | 21,707,058 |
| Changes in working capital: | | | | | |
| Inventories | (72) | (147) | 2,134 | (293) | 319 |
| Trade and other receivables | (5,470,308) | 3,863,241 | (5,110,051) | (3,118,204) | (2,630,832) |
| Trade and other payables | 13,423,593 | 3,397,700 | (6,368,487) | (4,085,932) | 13,362,064 |
| **Cash generated from operations** | 56,764,295 | 55,952,958 | 22,585,509 | 17,498,985 | 32,438,609 |

## 25. COMMITMENTS AND CONTINGENCIES

### (a) Historical investments by the Government of the Republic of Kazakhstan

The Government of the Republic of Kazakhstan conducted historical investment in exploration, drilling and infrastructure projects in the ADE Block, the Southeast Block and the Northwest Block of USD5,994,200, USD5,350,680 and USD5,372,076, respectively prior to the Company's interest in those properties. When and if, the Company applies for and, when and if, it is granted commercial production rights for the ADE Block, the Southeast Block or the Northwest Block, the Company will be required to begin repaying the Government for these historical investments. The terms of repayment are to be negotiated at the time the Company is granted commercial production rights.

### (b) Capital expenditure commitment

Prior to the extension of the exploration period granted to the Company in June 2008, the terms of its subsurface exploration contract required the Company to spend a total of USD48.8 million in exploration activities on the ADE Block by July 31, 2009.

In connection with the extensions granted in June and in October 2008, the Company's capital expenditure requirements were revised. To retain its rights under the contract, the Company must have spent USD9.1 million by January 9, 2010. In addition, the Company must spend USD21.5 million between January 10, 2010 and January 9, 2011, USD27.2 million between January 10, 2011 and January 9, 2012 and USD14.8 million between January 10, 2012 and January 9, 2013.

During the years ended March 31, 2008, 2009 and 2010 and the nine months period ended December 31, 2010, the Company spent a total of USD182.8 million, USD259.5 million, USD289.4 million and USD337 million in exploration activity respectively.

**(c) Potential payments upon termination or change in control**

The employment agreements with nine of the Company's employees provide for potential payments upon termination of the employment contract or change in control of the Company. The directors have estimated that if termination of employment occurred for all these contracts on December 31, 2010 the Company would be required to pay a total of USD658,600 including all other potential compensation.

**(d) Operating leases commitments**

As of March 31, 2008, 2009 and 2010 and December 31, 2010, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** |
| | *USD* | *USD* | *USD* | *USD* |
| Within one year | 239,076 | 146,453 | – | – |
| In second to fifth years inclusive | 179,307 | – | – | – |
| | 418,383 | 146,453 | – | – |

Operating lease payments represented rentals payable by the Company for use of certain land, containers and buildings which expired in December 31, 2009. The Company has not committed to other material operating leases arrangement since then.

**26. RELATED PARTY TRANSACTIONS AND BALANCES**

**(a) The followings transactions and balances were carried out with related parties:**

| | | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|---|
| | | **2008** | **2009** | **2010** | **2009** | **2010** |
| | | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | | **(Unaudited)** | |
| Transactions with: | | | | | | |
| Geo Seismic Service LLP | *(i)* | – | – | – | – | 5,699,099 |
| Term Oil LLC | *(ii)* | 96,541 | 221,903 | 254,427 | 72,703 | 73,384 |

(i) On March 31, 2010 BMB entered into an agreement for a 3D seismic survey to be conducted by Geo Seismic Service LLP ("Geo Seismic"). Mr. Toleush Tolmakov was the General Director of the Company (resigned December 1, 2010) and a holder of more than 10% of the outstanding common stock of the Parent Company, is a 30% owner of Geo Seismic.

The agreement provides that Geo Seismic will carry out 3D field seismic exploration activities of the Begesh, Aday, North Aday and West Aksaz structures, an area of approximately 96 square kilometers within the Company's Northwest Block. In exchange for these services, the Company will pay Geo

Seismic 570,000,000 Kazakhstan Tenge (USD3,800,000). In lieu of payment in Kazakhstan Tenge, the Company, at its sole election, may deliver restricted shares of common stock of the Parent Company at the agreed value of the higher of: (i) the average closing price of common shares of the Parent Company over the five days prior to final acceptance by the Company of the 3D seismic work; or (ii) $2.00 per share. The maximum number of shares of the Parent Company which may be delivered as payment in full is contracted to not exceed 1,900,000 restricted common shares. The 3D seismic study was completed in July 2010.

(ii) The Company leases ground fuel tanks and other oil fuel storage facilities warehouses and offices from Term Oil LLC. The Company had advances paid to Term Oil LLC of USDnil, USD15,006, USD101,048 and USD28,890 as of March 31, 2008, 2009 and 2010 and December 31, 2010 respectively. Toleush Tolmakov, the General Director of the Company for the Relevant Periods until December 1, 2010 is an owner of Term Oil LLC.

(iii) On June 26, 2009, the Parent Company entered into a Debt Purchase Agreement with Simage Limited, a British Virgin Islands international business corporation ("Simage"). Simage is a company owned by Toleush Tolmakov. Prior to the date of the Debt Purchase Agreement, Simage had acquired by assignment, certain accounts payable owned to third-party creditors of the Company in the amount of USD5,973,185 (the "Obligations"). Pursuant to the terms of the Debt Purchase Agreement, Simage assigned to the Parent Company all rights, titles and interests in and to the Obligations in exchange for the issuance of 2,986,595 shares of common stock of the Parent Company.

On December 14, 2009, the Company entered into an additional agreement with the Parent Company. Since the Parent Company had liabilities to the Company in the amount of USD9,970,000 related to loan agreements and the Company had liabilities to the Parent Company in the amount of USD5,001,418 as a result of the additional agreement between Simage and the Parent Company, amounts were netted off and the Company included the amount of USD5,001,418 in the principal amount of the loans borrowed from the Parent Company during the year ended March 31, 2010.

As a result of these agreements, the Company has effectively been released from obligations relating to amounts payable amounting to USD5,973,185. The Company has treated this Debt Purchase Agreement as a related party transaction because Simage is owned by Toleush Tolmakov, the General Director of the Company for the relevant Periods until December 1, 2010.

**(b) Amount due from a related party included in trade and other receivables:**

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** |
| | *USD* | *USD* | *USD* | *USD* |
| Term Oil LLC | – | 15,006 | 101,048 | 28,890 |
| Maximum outstanding amount during the year/period | – | 719,226 | 151,487 | 99,013 |

**(c) Amount due to a related party included in trade and other payables:**

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2010** |
| | *USD* | *USD* | *USD* | *USD* |
| Geo Seismic Service LLP | – | – | – | 3,867,028 |
| Term Oil LLC | 53,624 | – | – | – |

The balances with Geo Seismic Service LLP arose mainly from the 3D seismic survey described in note 26 (a)(i). The Term Oil LLC balance relates mainly to the lease of ground fuel tanks and other oil fuel storage facilities, warehouses and offices. The amounts due from/(to) Term Oil LLC are unsecured, interest free and repayable on demand.

**(d) Key management compensation:**

| | Year ended March 31, | | | Nine months period ended December 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | *USD* | *USD* | *USD* | *USD* | *USD* |
| | | | | (Unaudited) | |
| **Expenses** | | | | | |
| Wages, salaries and allowances | 243,398 | 350,358 | 286,504 | 216,752 | 258,582 |
| Pension fund expenses | 21,288 | 32,971 | 30,171 | 22,992 | 19,742 |
| Welfare and other expenses | 57,193 | 158,402 | 77,505 | 67,201 | 59,809 |
| **Total** | 321,879 | 541,731 | 394,180 | 306,945 | 338,133 |
| **Accrued liability** | 28,046 | 48,151 | 28,653 | 13,159 | 70,778 |

## 27. MAJOR NON-CASH TRANSACTIONS

During the years ended March 31, 2008, 2009 and 2010 and nine months period ended December 31, 2009 and 2010, the Company transferred certain materials and supplies (included in inventories) with carrying values of approximately USD17,537,750, USD17,316,685, USD524,694 and USD1,620,769 respectively to property, plant and equipment.

## 28. EVENT AFTER THE REPORTING PERIOD

On February 14, 2011, the Parent Company entered into the Purchase Agreement with HK Listco, and its subsidiary, the Purchaser, Palaeontol B.V., pursuant to which it agreed to sell all of its interest in its sole wholly-owned operating subsidiary, the Company, to the Purchaser. HK Listco, a Stock Exchange of Hong Kong listed company (SEHK: 1555), is one of the leading independent upstream oil companies operating onshore in the People's Republic of China (as measured by gross production under production sharing contracts). The initial purchase price is USD170 million and is subject to various closing adjustments. In connection with the sale, all intercompany notes of the Company in favour of the Parent Company will be transferred to the Purchaser.

## 29. CHARTER CAPITAL

| | As at March 31, | | | As at December 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| | *USD* | *USD* | *USD* | *USD* |
| Capital contribution by the parent company | 500 | 500 | 500 | 500 |

The Company is a Limited Liability Company with issued and outstanding paid participating interest of USD500 that is 100% owned by the Parent Company, BMB Munai, Inc.

## SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company have been prepared for the Company in respect of any period subsequent to December 31, 2010. Up to the date of this report, no dividend or distribution has been declared, made or paid by the Company in respect of any period subsequent to December 31, 2010.

Yours faithfully,
**Baker Tilly Hong Kong Limited**
*Certified Public Accountants*
Hong Kong, April 18, 2011

# MIE HOLDINGS CORPORATION

**Estimated**

**Future Reserves and Income**

**Attributable to Certain Interests**

**JILIN PROVINCE**
**PEOPLE'S REPUBLIC OF CHINA**

**SUMMARY REPORT**

**As of**

**December 31, 2010**


James R. Broome, P.G.
Texas Geologist License No. 1136
Senior Vice President

Miles R. Palke, P.E.
TBPE License No. 94894
Senior Petroleum Engineer

Larry P. Connor, P.E.
TBPE License No. 58639
Managing Senior Vice President

**RYDER SCOTT COMPANY, L.P.**
TBPE Firm Registration No. F-1580

**MIE HOLDINGS CORPORATION**
**As of December 31, 2010**

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RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

TBPE REGISTERED ENGINEERING FIRM F-1580
1100 LOUISIANA SUITE 3800 HOUSTON, TEXAS 77002-5235
FAX (713) 651-0849
TELEPHONE (713) 651-9191

April 26, 2011

MIE Holdings Corporation
2203 Timberloch Place, Suite 220
The Woodlands, Texas

Gentlemen:

At your request, we have prepared this report summarizing some of the key information presented in our reserves report provided to MIE Holdings Corporation (MIE) on March 6, 2011. We have not been informed of, nor are we aware of, any additional information now available that was not available when the original report was written which would materially change the results. Therefore the contents of this letter are derived from that report without change, and do not vary in any material fashion from it. In that report we presented an estimate of the proved, probable and possible reserves, future production, and income attributable to certain leasehold and royalty interests of MIE as of December 31, 2010. The subject properties are located in Jilin Province in the People's Republic of China. The reserves and income data included herein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (SPE-PRMS). The income data were estimated using future price and cost parameters as noted herein and held constant throughout the life of the properties (SPE-PRMS constant case). The properties reviewed by Ryder Scott represent 100 percent of the total net proved, probable and possible liquid hydrocarbon reserves and 100 percent of the total net proved, probable and possible gas reserves of MIE as of December 31, 2010.

The estimated reserves and future income amounts presented in this report, as of December 31, 2010, are related to hydrocarbon prices. As a result of both economic and political forces, there is significant uncertainty regarding the forecasting of future hydrocarbon prices. The recoverable reserves and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized below.

1015 4TH STREET, S.W. SUITE 600 CALGARY, ALBERTA T2R 1J4 TEL (403) 262-2799 FAX (403) 262-2790
621 17TH STREET, SUITE 1550 DENVER, COLORADO 80293-1501 TEL (303) 623-9147 FAX (303) 623-4258

**Constant Parameters (After Income Tax)**
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
**MIE Holdings Corporation**
As of December 31, 2010

| | Proved | | | | |
|---|---|---|---|---|---|
| | Developed | | | | |
| | Producing | Non-Producing | Undeveloped | Proved Tax | Total Proved |
| ***Net Remaining Reserves*** | | | | | |
| Oil/Condensate - Barrels | 19,748,421 | 752,866 | 12,434,941 | - | 32,936,228 |
| ***Income Data*** | | | | | |
| Future Gross Revenue | $1,284,843,982 | $48,940,829 | $809,173,138 | $ - | $2,142,957,949 |
| Deductions | $357,209,608 | $9,092,206 | $587,063,261 | $200,568,619 | $1,153,933,694 |
| Future Net Income (FNI) | $927,634,374 | $39,848,623 | $222,109,877 | ($200,568,619) | $989,024,255 |
| Discounted FNI @ 10% | $610,603,242 | $23,988,842 | $38,604,019 | ($116,614,165) | $556,581,938 |

| | Probable | | | | |
|---|---|---|---|---|---|
| | Developed | | | | |
| | Producing | Non-Producing | Undeveloped | Probable Tax | Total Probable |
| ***Net Remaining Reserves*** | | | | | |
| Oil/Condensate - Barrels | 7,422,556 | 204,284 | 11,977,961 | - | 19,604,801 |
| ***Income Data*** | | | | | |
| Future Gross Revenue | $484,419,588 | $13,279,656 | $780,923,317 | $ - | $1,278,622,561 |
| Deductions | $66,876,784 | $936,907 | $538,438,676 | $238,973,478 | $845,225,845 |
| Future Net Income (FNI) | $417,542,804 | $12,342,749 | $242,484,641 | ($238,973,478) | $433,396,716 |
| Discounted FNI @ 10% | $210,906,846 | $5,437,037 | $83,407,578 | ($142,406,830) | $157,344,631 |

| | Total Proved + Probable | | | | |
|---|---|---|---|---|---|
| | Developed | | | | |
| | Producing | Non-Producing | Undeveloped | Proved + Probable Tax | Total Proved + Probable |
| ***Net Remaining Reserves*** | | | | | |
| Oil/Condensate - Barrels | 27,170,977 | 957,150 | 24,412,902 | - | 52,541,029 |
| ***Income Data*** | | | | | |
| Future Gross Revenue | $1,769,263,570 | $62,220,485 | $1,590,096,455 | $ - | $3,421,580,510 |
| Deductions | $424,086,392 | $10,029,113 | $1,125,501,937 | $439,542,097 | $1,999,159,539 |
| Future Net Income (FNI) | $1,345,177,178 | $52,191,372 | $464,594,518 | ($439,542,097) | $1,422,420,971 |
| Discounted FNI @ 10% | $821,510,088 | $29,425,879 | $122,011,597 | ($259,020,995) | $713,926,569 |

| | Possible | | | | |
|---|---|---|---|---|---|
| | Developed | | | | |
| | Producing | Non-Producing | Undeveloped | Possible Tax | Total Possible |
| ***Net Remaining Reserves*** | | | | | |
| Oil/Condensate - Barrels | 5,057,601 | -43 | 8,801,614 | - | 13,859,172 |
| ***Income Data*** | | | | | |
| Future Gross Revenue | $330,547,865 | ($2,807) | $574,378,455 | $ - | $904,923,513 |
| Deductions | $19,002,835 | ($413) | $305,544,191 | $145,043,542 | $469,590,155 |
| Future Net Income (FNI) | $311,545,030 | ($2,394) | $268,834,264 | ($145,043,542) | $435,333,358 |
| Discounted FNI @ 10% | $142,271,643 | ($261,714) | $125,866,784 | ($72,774,764) | $195,101,949 |

| | Total Proved + Probable + Possible | | | | |
|---|---|---|---|---|---|
| | Developed | | | | |
| | Producing | Non-Producing | Undeveloped | Proved + Probable + Possible Tax | Total Proved + Probable + Possible |
| ***Net Remaining Reserves*** | | | | | |
| Oil/Condensate - Barrels | 32,228,578 | 957,107 | 33,214,516 | - | 66,400,201 |
| ***Income Data*** | | | | | |
| Future Gross Revenue | $2,099,811,435 | $62,217,678 | $2,164,474,910 | $ - | $4,326,504,023 |
| Deductions | $443,089,227 | $10,028,700 | $1,431,046,128 | $584,585,639 | $2,468,749,694 |
| Future Net Income (FNI) | $1,656,722,208 | $52,188,978 | $733,428,782 | ($584,585,639) | $1,857,754,329 |
| Discounted FNI @ 10% | $963,781,731 | $29,164,165 | $247,878,381 | ($331,795,759) | $909,028,518 |

Liquid hydrocarbons are expressed in standard 42 gallon barrels. All gas volumes are reported on an "as sold" basis expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of the areas in which the gas reserves are located.

The estimates of the reserves, future production, and income attributable to properties in this report were prepared using the economic software package PHDWin Petroleum Economic Evaluation Software, a copyrighted program of TRC Consultants L.C. The program was used solely at the request of MIE. Ryder Scott has found this program to be generally acceptable, but notes that certain summaries and calculations may vary due to rounding and may not exactly match the sum of the properties being summarized. Furthermore, one line economic summaries may vary slightly from the more detailed cash flow projections of the same properties, also due to rounding. The rounding differences are not material.

The future gross revenue is after the deduction of Excess Profits (EPT) and Value Added (VAT) taxes, rate based royalties and government's share of investment recovery oil and profit oil. The deductions incorporate the normal direct costs of operating the wells, tariffs, overhead (shown as other costs), recompletion costs, development costs, and certain abandonment costs net of salvage. The future net income is after the deduction of the appropriate income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist nor does it include any adjustment for cash on hand or undistributed income.

Liquid hydrocarbon reserves account for 100 percent of the total future gross revenue from proved, probable and possible reserves.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows.

Discounted Future Net Income (After Income Tax)
As of December 31, 2010

| Discount Rate Percent | (1P) Total Proved | Total Probable | (2P) Total Proved + Probable | Total Possible | (3P) Total Proved + Probable + Possible |
|---|---|---|---|---|---|
| 5 | $ 731,555,528 | $ 261,656,536 | $ 993,212,064 | $ 285,417,255 | $ 1,278,629,319 |
| 8 | $ 618,860,846 | $ 193,055,789 | $ 811,916,635 | $ 226,017,753 | $ 1,037,934,388 |
| 10 | $ 556,581,938 | $ 157,344,631 | $ 713,926,569 | $ 195,101,949 | $ 909,028,518 |
| 15 | $ 434,807,405 | $ 93,127,979 | $ 527,935,384 | $ 139,108,937 | $ 667,044,321 |
| 20 | $ 348,096,029 | $ 53,118,947 | $ 401,214,976 | $ 103,287,755 | $ 504,502,732 |

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

***Reserves Included in This Report***

The proved, probable and possible reserves included herein conform to definitions of proved, probable and possible reserves sponsored and approved by the Society of Petroleum Engineers (SPE), the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE) as set forth in the 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE-PRMS). An abridged version of the SPE/WPC/AAPG/SPEE proved, probable and possible reserves from the SPE-PRMS entitled "Petroleum Reserves Definitions" is included as an attachment to this report.

The various reserve status categories are defined in the attachment to this report entitled "Reserves Status Definitions and Guidelines." The developed proved, probable and possible non-producing reserves included herein consist of the behind pipe categories.

Reserves are those estimated remaining quantities of petroleum which are anticipated to be economically producible, as of a given date, from known accumulations under defined conditions. All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially

recoverable, from a given date forward. Probable reserves are those additional reserves that are less likely to be recovered than proved reserves. For probable reserves, it is equally likely that the actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves. Possible reserves are those additional reserves which are less likely to be recovered than probable reserves. For possible reserves, the actual remaining quantities recovered have a low probability of exceeding the sum of the estimated proved plus probable plus possible reserves. The reserves included herein were estimated using deterministic methods and presented as incremental quantities. Under the deterministic incremental approach, discrete quantities of reserves are estimated and assigned separately as proved, probable or possible based on their individual level of uncertainty

The reserves and income quantities attributable to the different reserve classifications that are included herein have not been adjusted to reflect these varying degrees of risk associated with them and thus are not comparable. Moreover, estimates of reserves may increase or decrease as a result of future operations, effects of regulation by governmental agencies or geopolitical risks. As a result, the estimates of oil and gas reserves have an intrinsic uncertainty. The reserves included in this report are therefore estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and if recovered, the revenues therefrom and the actual costs related thereto could be more or less than the estimated amounts.

The reserves reported herein are limited to the period prior to expiration of current contracts providing the legal right to produce or a revenue interest in such production. The properties are subjected to significant contractual fiscal terms that affect the net revenue to MIE for the production of these volumes. The prices and economic return received for these net volumes can vary significantly based on the terms of these contracts. Therefore, when applicable, Ryder Scott reviewed the fiscal terms of such contracts and discussed with MIE the net economic benefit attributed to such operations for the determination of the net hydrocarbon volumes and income thereof. Ryder Scott has not conducted an exhaustive audit or verification of such contractual information. Neither our review of such contractual information or our acceptance of MIE representations regarding such contractual information should be construed as a legal opinion on this matter.

Ryder Scott did not evaluate country and geopolitical risks in the People's Republic of China where MIE operates and has interests. MIE's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include matters relating to land tenure and leasing, the legal rights to produce hydrocarbons including the granting, extension or termination of production sharing contracts, the fiscal terms of various production sharing contracts, drilling and production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax, and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of reserves actually recovered and amounts of income actually received to differ significantly from the estimated quantities. In addition reserves estimates will generally be revised as additional geologic or engineering data become available or as economic conditions change.

The estimates of reserves presented herein were based upon a detailed study of the properties in which MIE derives an interest. In the course of our study we made a field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

***Estimates of Reserves***

The estimation of reserves involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities in accordance with the definitions set forth by the SPE-PRMS. The process of estimating the quantities of recoverable oil reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods, (2) volumetric-based methods and (3) analogy. These methods may be used singularly or in combination by the reserve evaluator in the process of estimating the quantities of reserves. The reserve evaluator must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated and the stage of development or producing maturity of the property.

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of reserves is identified, the evaluator must determine the uncertainty associated with the incremental quantities of the reserves. If the reserve quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity of the reserves is addressed by the reserve category assigned by the evaluator. Therefore, it is the categorization of reserve quantities as proved, probable and/or possible that addresses the inherent uncertainty in the estimated quantities reported.

Estimates of reserves quantities and their associated reserve categories may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of reserves quantities and their associated reserve categories may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

The reserves for the properties included herein were estimated by performance methods, the volumetric method and/or analogy. Approximately 73 percent of the total proved reserves included herein are related to waterflood recovery, the remaining 27 percent is related to primary recovery. Approximately 85 percent of the reserves attributable to producing wells and/or reservoirs were estimated by performance methods such as decline curve analysis which utilized extrapolations of historical production data available through December 31, 2010, in those cases where such data were considered to be definitive. The remaining 15 percent of the proved producing reserves were estimated using a combination of in-field analogues and/or volumetric methods where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the reserve estimates was considered to be inappropriate. All of the probable and possible producing reserves, as well as all of the proved, probable and possible non-producing and undeveloped reserves included herein were estimated by a combination of in-field analogues and volumetric methods. The volumetric analysis utilized all pertinent well and seismic data available through December 31, 2010. The data utilized in this analysis were supplied to Ryder Scott by MIE and were considered sufficient for the purpose thereof.

To estimate economically recoverable oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on current costs and pricing parameters, and forecasts of future production rates. Under the SPE-PRMS Section 2.2.2 and Table 3, proved reserves must be demonstrated to be commercially recoverable under defined economic conditions, operating methods and governmental regulations from a given date forward. We have applied the same criteria for economic commerciality to the probable and possible reserves included in this report. While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may also increase or decrease from existing levels, such changes were, in accordance with rules adopted by the SPE PRMS for a constant price case, omitted from consideration in making this evaluation.

MIE has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecast of future production and income, we have relied upon data furnished by MIE with respect to derived property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as tariff and/or processing fees, Excess Profits (EPT) and Value Added (VAT) taxes, recompletion and development costs, abandonment costs after salvage, product prices based on the SPE PRMS guidelines for a constant price case, adjustments or differentials for product prices, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by MIE. We consider the factual data used in this report appropriate and sufficient of preparing the estimates of reserves and future net revenues herein.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein. The reserves included herein were determined in conformance to definitions of proved, probable and possible reserves sponsored and approved by the Society of Petroleum Engineers (SPE), the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE) as set forth in the 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE-PRMS).

Changes from prior estimates

Ryder Scott's estimates of reserves presented in the December 31, 2010 report changed somewhat since the issuance of the Competent Person's Report for MIE which was issued on August 31, 2010. Of particular note, were changes to gross reserves which originated primarily from changes in the planned future drilling activities. First, for the Da'an field the planned drilling campaign from January 1, 2011 onward has increased considerably in scope. As of the issuance of that report, 569 proved, 692 probable, and 340 possible drilling activities were planned. MIE has increased this program to include 1161 future proven, 781 probable, and 431 possible locations. Of these additional locations, 455 are infill wells drilled on a smaller well spacing than the original pattern. The inclusion of recoverable volumes associated with the infill wells increases the gross reserves of the Da'an field by 12.56 million Barrels on a proved plus probable plus possible basis.

Further, in the Miao3 field, in the August 31 2010 report, there were no remaining drilling locations associated with proved, probable or possible reserves planned to be drilled after January 1, 2011. For this report, an additional 5 proved, 3 probable, and 25 possible locations have been recognized and scheduled for drilling by MIE within the next two years. Reserves associated with the wells have been added, accounting for a gross increase in 3P undeveloped reserves (proved plus probable plus possible) of 450.9 thousand Barrels of oil.

In the Moliqing area, the drilling program has been changed from 256 proved, probable and possible wells planned for drilling beyond January 1, 2011, to 217 proved, probable and possible locations. The reduction of planned well count accounts for a decrease in gross proved plus probable plus possible reserves of 4.6 million Barrels of oil.

***Future Production Rates***

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were held constant, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by MIE. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

***Hydrocarbon Prices***

MIE furnished us with the above mentioned average prices in effect on December 31, 2010, and the historical posted prices at Daqing. The hydrocarbon prices used herein are based on SPE-PRMS price parameters for a constant case and the Hong Kong Exchange requirements using the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements. For hydrocarbon products sold under contract, the contract prices, including fixed and determinable escalations, exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described.

No price is estimated for produced gas because there are no gas sales or reserves associated with MIE's interests. All produced gas is consumed in the field as fuel or by flaring.

The product prices that were used to determine the future gross revenue for each property reflect the Daqing posted price, as stipulated in the Production Sharing Contract.

In addition, the table below summarizes the net volume weighted benchmark prices adjusted for differentials and referred to herein as the "average realized prices." The average realized prices shown in the table below were determined from the total future gross revenue before production taxes and the total net reserves for the geographic area and presented in accordance with Hong Kong Exchange disclosure requirements for each of the geographic areas included in the report.

**Constant Price Case**

| Geographic Area | Product | Price Reference | Average Benchmark Price | Average Realized Price |
|---|---|---|---|---|
| People's Republic of China | Oil | Daqing | $77.51 | $77.51 |

The effects of derivative instruments designated as price hedges of oil quantities are not reflected in our individual property evaluations.

Estimates of future price parameters have been revised in the past because of changes in governmental policies, changes in hydrocarbon supply and demand, and variations in general economic conditions. The price parameters used in this report may be revised in the future for similar reasons.

***Costs***

Operating costs for the leases and wells in this report are based on the operating expense reports of MIE and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. For operated properties, the operating costs include an appropriate level of corporate general administrative and overhead costs. The tariff cost of $1.05 per barrel is included and the overhead, calculated as 1.5% of costs plus investments, is included as "other deductions". No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the leases or wells.

Development costs were furnished to us by MIE and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were significant. The estimates of the net abandonment costs furnished by MIE were accepted without independent verification. These estimated net abandonment costs were adjusted to account for the increase anticipated due to the addition of numerous planned, but presently undrilled wells. Future drilling, completion and abandonment costs net to MIE are presented below.

Future Drilling, Completion and Abandonment Costs Net to MIE
As of December 31, 2010

| Year | (1P) Total Proved | Total Probable | (2P) Total Proved + Probable | Total Possible | (3P) Total Proved + Probable + Possible |
|---|---|---|---|---|---|
| 2011 | $96,197,940 | $27,662,580 | $123,860,520 | $8,075,700 | $131,936,220 |
| 2012 | $123,199,558 | $44,712,540 | $167,912,098 | $1,926,720 | $169,838,818 |
| 2013 | $137,667,418 | $41,711,310 | $179,378,728 | $0 | $179,378,728 |
| 2014 | $63,616,590 | $114,838,470 | $178,455,060 | $0 | $178,455,060 |
| 2015 | $31,906,170 | $112,425,134 | $144,331,304 | $31,012,020 | $175,343,324 |
| 2016 | $2,083,320 | $57,250,634 | $59,333,954 | $115,775,730 | $175,109,684 |
| Remainder | $2,206,199 | $964,211 | $3,170,410 | $74,850,642 | $78,021,052 |
| Total | $456,877,195 | $399,564,879 | $856,442,074 | $231,640,812 | $1,088,082,886 |

The proved non-producing and undeveloped reserves in this report have been incorporated herein in accordance with MIE's plans to develop these reserves as of December 31, 2010. The implementation of MIE's development plans as presented to us and incorporated herein is subject to the approval process adopted by MIE's management. As the result of our inquiries during the course of preparing this report, MIE has informed us that the development activities included herein have been subjected to and received the internal approvals required by MIE's management at the appropriate local, regional and/or corporate level. In addition to the internal approvals as noted, certain development activities may still be subject to specific partner AFE processes, Joint Operating Agreement (JOA) requirements or other administrative approvals external to MIE. Additionally, MIE has assured us that they are not aware of any legal, regulatory, political or economic obstacles that would significantly alter their plans.

Current costs used by MIE were held constant throughout the life of the properties.

***Resources Included in This Report***

The 1C, 2C and 3C Contingent Resources and the Low, Best and High Undiscovered Prospective Resources included herein conform to definitions of 1C, 2C and 3C, Low Best and High Contingent and Prospective resources as specified in the (SPE-PRMS). The definitions of resources are included in the section "Petroleum Reserves Definitions" in this report. All Contingent Resources included herein are discovered and penetrated by wellbores but are considered to be below the current economic threshold. We have utilized the well tests and additional information from the wells in the area to estimate the volumes.

The recoverable contingent resource volumes and undiscovered prospective resource volumes have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of contingent and undiscovered prospective resources actually recovered may differ significantly from the estimated quantities presented in this report. The results of this study are summarized below.

**Net Technically Recoverable Oil Resources***
Certain Interests Derived from Production Sharing Agreements
**MI Energy Holdings Corporation**
As of December 31, 2010

| | Contingent Resources | | |
|---|---|---|---|
| | 1C | 2C | 3C |
| ***Net Remaining Resources*** | | | |
| Oil/Condensate – Barrels | 2,623,175 | 4,852,621 | 7,364,711 |

| | Undiscovered Prospective Resources | | |
|---|---|---|---|
| | Low | Best | High |
| ***Net Remaining Resources*** | | | |
| Oil/Condensate – Barrels | 2,413,825 | 4,898,458 | 7,378,782 |

Note: In accordance with SPE PRMS definitions, the resource volumes shown above are cumulative (2C includes 1C, and 3C includes 2C plus 1C) and (Best includes Low, and High includes Best plus Low)

* *Volumes determined assuming a reasonable net revenue interest for MI Energy Holdings, but not limited by the PSC termination date. Volumes have not been forecast, nor have they been tested for economic viability.*

***Estimates of Resources***

The Contingent Resources and Undiscovered Prospective Resources for the reservoirs within the subject properties were estimated by a deterministic volumetric model. All resources included are based on the assumption of an oil reservoir with solution gas. The volumetric parameters utilized for each reservoir are presented in the resource discussion of each field in this report. The resources included are subject to a license agreement which is described in the economic discussion section for the contract area. The resources included in this report are estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and estimates of resources may increase or decrease as a result of future operations or as data become available. By definition, the C1, C2, and the C3 resource estimates presented herein are characterized as having different degrees of associated risk and are therefore not comparable.

The Contingent Resources are from areas of the field that currently represent sub-economic volumes. In accordance with the SPE PRMS these volumes are classified as Contingent Resources.

The Prospective Resources are those areas or fault blocks that do not have wellbore penetrations. In accordance with the SPE PRMS these volumes are classified as Undiscovered Prospective Resources.

In the course of our study MIE did not provide the drilling schedule for well locations included in the Contingent and Prospective Resource areas. Ryder Scott did not project these volumes or conduct an economic evaluation and therefore can not quantify the volumes that will be recovered within the current license term. At MIE's request we have included the entire technically recoverable volumes in this report.

***Standards of Independence and Professional Qualification***

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over seventy years. Ryder Scott is employee owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any publicly traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

We are independent petroleum engineers with respect to MIE. Neither we nor any of our employees have any interest in the subject properties, and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The professional qualifications of the undersigned, the technical person**s** primarily responsible for reviewing and approving the reserves information discussed in this report, are included as an attachment to this letter.

***Terms of Usage***

This report was prepared for the exclusive use and sole benefit of MIE and may not be put to other use without our prior written consent for such use. The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

**RYDER SCOTT COMPANY, L.P.**
TBPE Firm Registration No. F-1580




Miles R. Palke, P.E.
TBPE License No. 94894
Senior Petroleum Engineer




Larry P. Connor, P.E.
TBPE License No. 58639
Managing Senior Vice President

James R. Broome, P.G.
Senior Vice President

LPC/sm

/sm

## Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Larry Connor was the primary technical person responsible for preparing the estimate of the reserves and future production included in this report.

Mr. Connor, an employee of Ryder Scott Company L.P. (Ryder Scott) since 1981, is a Managing Senior Vice President and is responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Connor served in a number of engineering positions with Amoco Production Company. For more information regarding Mr. Connor's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com.

Mr. Connor earned a Bachelor of Science degree in Industrial Engineering from Texas A&M University in 1977 and is a licensed Professional Engineer in the State of Texas, and the Provinces of Alberta, British Columbia and Saskatchewan, Canada. He is also a member of the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers. Mr. Connor served as the Chairman of the Houston Chapter of the Society of Petroleum Evaluation Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Connor fulfills. Mr. Connor attended an additional 11.5 hours of formalized in-house training as well as 8 hours of formalized external training during 2010 covering such topics as the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants. Mr. Connor has served as course instructor for the formalized in-house training of PSA programming using PHDwin$^{tm}$ software to analyze prospect evaluations.

Based on his educational background, professional training and more than 32 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Connor has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

## Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Miles Robert Palke was the primary technical person responsible for overseeing the estimate of the reserves, future production and income prepared by Ryder Scott presented herein.

Palke, an employee of Ryder Scott Company L.P. (Ryder Scott) since 2010, is a Senior Petroleum Engineer responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies with extensive experience in the Gulf of Mexico. Before joining Ryder Scott, Palke served in a number of engineering positions with BHP Billiton, Ryder Scott Company, and ARCO. For more information regarding Mr. Palke's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Experience/Employees.

Palke earned a Bachelor of Science in Petroleum Engineering from Texas A&M University in College Station TX and a Master of Science in Petroleum Engineering from Stanford University in Palo Alto California. Mr. Palke graduated Magna Cum Laude and with University Honors from Texas A&M University and is a registered Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Palke fulfills. As part of his 2010 continuing education hours, Palke attended 16 hours of formalized training relating to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Palke attended an additional 32 hours of formalized in-house training as well as 2 hours of formalized external training during 2010 covering such topics as the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants.

Based on his educational background, professional training and more than 14 years of practical experience in the estimation and evaluation of petroleum reserves, Palke has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

## Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Mr. James R. Broome was the primary technical person responsible for overseeing the analysis of certain petrophysical, geophysical and geological data relating to the volumetric estimates in this report.

Mr. Broome, an employee of Ryder Scott Company L.P. (Ryder Scott) since 1982, is a Senior Vice President responsible for coordinating and supervising staff and consulting geoscientists of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Broome served in a number of geological positions with Union Oil Company of California and Longhorn Oil and Gas. For more information regarding Mr. Broome's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com.

Mr. Broome earned a Bachelor of Arts degree in Geology from the University of South Florida in 1975 and a Master of Science in Geology from the University of Texas at Arlington in 1983. He is a licensed Professional Geologist in the State of Texas as well as a Certified Petroleum Geologist (AAPG). Mr. Broome is also a member of the American Association of Petroleum Geologists and the Houston Geological Society.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Geologists/Geophysicists requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Broome fulfills. As part of his 2010 continuing education Mr. Broome attended 4.5 hours of formalized in-house training as well as 7 hours of formalized external training during 2010 covering such topics as the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants. Mr. Broome was also involved, in a teaching capacity, in a 2-day seminar regarding the new SEC guidelines in a clients' offices.

Based on his educational background, professional training and more than 32 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Broome has attained the professional qualifications as a Reserves Estimator as set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

## PETROLEUM RESERVES DEFINITIONS

**As Adapted From:**
**PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)**
**Sponsored and Approved by:**
**SOCIETY OF PETROLEUM ENGINEERS (SPE),**
**WORLD PETROLEUM COUNCIL (WPC)**
**AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)**
**SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)**

### *PREAMBLE*

Reserves are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward under defined conditions. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability.

Estimation of reserves is done under conditions of uncertainty. The method of estimation is called deterministic if a single best estimate of reserves is made based on known geological, engineering, and economic data. The method of estimation is called probabilistic when the known geological, engineering, and economic data are used to generate a range of estimates and their associated probabilities. Identifying reserves as proved, probable, and possible has been the most frequent classification method and gives an indication of the probability of recovery. Because of the differences in uncertainty, caution should be exercised when aggregating reserves of different classifications.

Reserves estimates will generally be revised as additional geologic or engineering data becomes available or as economic conditions change.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves may be attributed to either conventional or unconventional petroleum accumulations under the SPE-PRMS. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale. The SPE-PRMS acknowledges unconventional petroleum accumulations as reserves regardless of their in-place characteristics, the extraction method applied, or the degree of processing required.

Reserves do not include quantities of petroleum being held in inventory and may be reduced for usage, processing losses and/or non-hydrocarbons that must be removed prior to sale.

## *SPE-PRMS RESERVES DEFINITIONS*

In March 2007, the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) jointly approved the "Petroleum Resources Management System" ("SPE-PRMS"). The SPE-PRMS consolidates, builds on, and replaces guidance previously contained in the 2000 "Petroleum Resources Classification and Definitions" and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources" publications.

The intent of the SPE, WPC, AAPG and SPEE in approving additional classifications beyond proved reserves is to facilitate consistency among professionals using such terms. In presenting these definitions, none of these organizations are recommending public disclosure of reserves classified as unproved. Public disclosure of the quantities classified as unproved reserves is left to the discretion of the countries or companies involved and should not be construed as replacing guidelines for public disclosures under the guidelines established by regulatory and/or other governmental agencies.

Reference should be made to the full SPE-PRMS for the complete definitions and guidelines as the following definitions, descriptions and explanations rely wholly or in part on excerpts from the SPE-PRMS document (direct passages excerpted from the SPE-PRMS document are denoted in italics herein).

## ***RESERVES (SPE-PRMS DEFINITIONS)***

The SPE-PRMS Section 1.1 and Table 1 define reserves as follows:

***Reserves.*** *Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status.*

## ***ADDITIONAL TERMS USED IN RESERVES EVALUATIONS (SPE-PRMS DEFINITIONS)***

The SPE-PRMS Sections 2.3, 2.3.4, 2.4 and Appendix A define the following terms as follows:

***Improved recovery.*** *Improved Recovery is the extraction of additional petroleum, beyond Primary Recovery, from naturally occurring reservoirs by supplementing the natural forces in the reservoir. It includes waterflooding and gas injection for pressure maintenance, secondary processes, tertiary processes and any other means of supplementing natural reservoir recovery processes. Improved recovery also includes thermal and chemical processes to improve the in-situ mobility of viscous forms of petroleum. (Also called Enhanced Recovery.)*

*Improved recovery projects must meet the same Reserves commerciality criteria as primary recovery projects. There should be an expectation that the project will be economic and that the entity has committed to implement the project in a reasonable time frame (generally within 5 years; further*

*delays should be clearly justified). If there is significant project risk, forecast incremental recoveries may be similarly categorized but should be classified as Contingent Resources.*

*The judgment on commerciality is based on pilot testing within the subject reservoir or by comparison to a reservoir with analogous rock and fluid properties and where a similar established improved recovery project has been successfully applied.*

*Incremental recoveries through improved recovery methods that have yet to be established through routine, commercially successful applications are included as Reserves only after a favorable production response from the subject reservoir from either (a) a representative pilot or (b) an installed program, where the response provides support for the analysis on which the project is based.*

*Similar to improved recovery projects applied to conventional reservoirs, successful pilots or operating projects in the subject reservoir or successful projects in analogous reservoirs may be required to establish a distribution of recovery efficiencies for non-conventional accumulations. Such pilot projects may evaluate both the extraction efficiency and the efficiency of unconventional processing facilities to derive sales products prior to custody transfer.*

*These incremental recoveries in commercial projects are categorized into Proved, Probable, and Possible Reserves based on certainty derived from engineering analysis and analogous applications in similar reservoirs.*

***Commercial.*** *When a project is commercial, this implies that the essential social, environmental and economic conditions are met, including political, legal, regulatory and contractual conditions. In addition, a project is commercial if the degree of commitment is such that the accumulation is expected to be developed and placed on production within a reasonable time frame. While 5 years is recommended as a benchmark, a longer time frame could be applied where for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.*

## ***PROVED RESERVES (SPE-PRMS DEFINITIONS)***

The SPE-PRMS Section 2.2.2 and Table 3 define proved oil and gas reserves as follows:

***Proved oil and gas reserves.*** *Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.*

*The area of the reservoir considered as Proved includes:*

*(1) the area delineated by drilling and defined by fluid contacts, if any, and*

*(2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.*

*In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines", Chapter 8).*

*Reserves in undeveloped locations may be classified as Proved provided that:*

- *The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive.*

- *Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with the drilled Proved locations.*

*For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.*

## ***UNPROVED RESERVES (SPE-PRMS DEFINITIONS)***

The SPE-PRMS Section 2.2.2 and Appendix A define unproved oil and gas reserves as follows:

***Unproved oil and gas reserves****. Unproved Reserves are based on geoscience and/or engineering data similar to that used in estimates of Proved Reserves, but technical or other uncertainties preclude such reserves being classified as Proved. Unproved Reserves may be further categorized as Probable Reserves or Possible Reserves. Based on additional data and updated interpretations that indicate increased certainty, portions of Possible and Probable Reserves may be re-categorized as Probable and Proved Reserves.*

## ***PROBABLE RESERVES (SPE-PRMS DEFINITIONS)***

The SPE-PRMS Section 2.2.2 and Table 3 define probable oil and gas reserves as follows:

***Probable oil and gas reserves****. Probable Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.*

*Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.*

***POSSIBLE RESERVES (SPE-PRMS DEFINITIONS)***

The SPE-PRMS Section 2.2.2 and Table 3 define possible oil and gas reserves as follows:

***Possible oil and gas reserves****. Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.*

*Possible Reserves may be assigned to areas of a reservoir adjacent to Probable Reserves where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.*

**RESERVES STATUS DEFINITIONS and GUIDELINES**

**As Adapted From:**
**PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)**
**Sponsored and Approved by:**
**SOCIETY OF PETROLEUM ENGINEERS (SPE),**
**WORLD PETROLEUM COUNCIL (WPC)**
**AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)**
**SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)**

Reserves status categories define the development and producing status of wells and reservoirs. The SPE-PRMS Table 2 define the reserves status categories as follows:

## DEVELOPED RESERVES (SPE-PRMS DEFINITIONS)

*Developed Reserves are expected quantities to be recovered from existing wells and facilities.*

*Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.*

### *Developed Producing*

*Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.*

*Improved recovery reserves are considered producing only after the improved recovery project is in operation.*

### *Developed Non-Producing*

*Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.*

### *Shut-In*

*Shut-in Reserves are expected to be recovered from:*

*(1) completion intervals which are open at the time of the estimate but which have not yet started producing;*
*(2) wells which were shut-in for market conditions or pipeline connections; or*
*(3) wells not capable of production for mechanical reasons.*

### *Behind-Pipe*

*Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production.*

*In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.*

***UNDEVELOPED RESERVES (SPE-PRMS DEFINITIONS)***

*Undeveloped Reserves are quantities expected to be recovered through future investments.*

*Undeveloped Reserves are expected to be recovered from:*

*(1) new wells on undrilled acreage in known accumulations;*
*(2) deepening existing wells to a different (but known) reservoir;*
*(3) infill wells that will increase recovery; or*
*(4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to*
  *(a) recomplete an existing well; or*
  *(b) install production or transportation facilities for primary or improved recovery projects.*

## PETROLEUM RESOURCES CLASSIFICATION AND DEFINITIONS

**As Adapted From:**
**2007 PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)[1]**
**Sponsored by:**
**SOCIETY OF PETROLEUM ENGINEERS (SPE),**
**WORLD PETROLEUM CONGRESS (WPC)**
**AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)**
**AND**
**SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)**

### *PREAMBLE*

Reserve and resource classification systems are intended to allow the evaluator to follow the progression of changes in the exploration and production life cycle of a reservoir, field, or project that arise as a result of obtaining more technical information or as a result of a change in the economic status. Most systems incorporate terminology to describe the progression of a project from the delineation of an initial prospect, to the confirmation of the prospect through exploration drilling, onto the appraisal and development phase, and finally from initial production through depletion. These reserve and resource definitions thus provide the decision making framework to manage risk and uncertainty through the classification and categorization of the recoverable hydrocarbon volumes.

The term “resources” is generally applied to “all quantities of petroleum (recoverable and unrecoverable) naturally occurring on or within the Earth’s crust, discovered and undiscovered, plus those quantities already produced”.

The term “reserves” is a subset of resources generally applied to the discovered “quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under defined conditions”.

All reserve and resource estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. Estimates will generally be revised as additional geologic or engineering data becomes available or as economic conditions change.

Estimation of reserves and resources is done under conditions of uncertainty. The method of estimation is called deterministic if a single best estimate of reserves and resources is made based on known geological, engineering, and economic data. The method of estimation is called probabilistic when the known geological, engineering, and economic data are used to generate a range of estimates and their associated probabilities. Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves and/or resource classifications.

Reserves and resources may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves and resources may be attributed to either conventional or unconventional petroleum accumulations under the SPE-PRMS. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale. The SPE-PRMS acknowledges unconventional petroleum accumulations as reserves and resources regardless of their in-place characteristics, the extraction method applied, or the degree of processing required.

Reserves and resources do not include quantities of petroleum being held in inventory and may be reduced for usage, processing losses and/or non-hydrocarbons that must be removed prior to sale.

***SPE-PRMS***

In March 2007, the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) jointly approved the "Petroleum Resources Management System" (SPE-PRMS). The SPE-PRMS consolidates, builds on, and replaces guidance previously contained in the 2000 "Petroleum Resources Classification and Definitions" and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources" publications.

Reference should be made to the full SPE-PRMS for the complete definitions and guidelines as the following definitions, descriptions and explanations rely wholly or in part on excerpts from the SPE-PRMS document (passages excerpted in their entirety from the SPE-PRMS document are denoted in italics herein). For convenience, Table 1: "Recoverable Resources Classes and Sub-Classes" from the SPE-PRMS has been reproduced in full and included as an attachment to this document.

The SPE-PRMS incorporates the petroleum initially-in-place as well as the recoverable and unrecoverable petroleum quantities into a common resource classification framework. *Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase.*

The SPE-PRMS defines the major resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum. The basic classification scheme requires establishment of criteria for a petroleum discovery and thereafter the distinction between commercial (Reserves) and sub-commercial projects (Contingent Resources) in known accumulations. Under this classification scheme, estimated recoverable quantities from accumulations that have yet to be discovered are termed Prospective Resources. Further, the SPE-PRMS includes all types of petroleum whether currently considered "conventional" or "unconventional".

Figure 1 shown at the end of this document is a graphical representation of the SPE, WPC, AAPG and SPEE resources classification system. The SPE-PRMS "classifies" reserves and resources according to project maturity and increasing chance of commerciality (vertical axis) and "categorizes" reserves and resources according to the *range of uncertainty* (horizontal axis) *of the estimated quantities potentially recoverable from an accumulation by a project*. The following definitions apply to the major subdivisions within the resources classification:

## RESOURCES CLASSIFICATION (SPE-PRMS)

Recoverable petroleum resources as described herein may be classified into one of three principal resource classifications: Prospective Resources, Contingent Resources, or Reserves. The distinction between Prospective and Contingent Resources depends on whether or not there exists one or more wells and other data indicating the potential for moveable hydrocarbons (e.g. the discovery status). Discovered petroleum resources may be classified as either Contingent Resources or as Reserves depending on the chance that if a project is implemented it will reach commercial producing status (e.g. chance of commerciality). The distinction between various "classifications" of Resources and Reserves relates to their discovery status and increasing chance of commerciality as described herein.

***The SPE-PRMS Section 1.1 and Appendix A define the following terms:***

### TOTAL PETROLEUM-INITIALLY-IN-PLACE

*Total Petroleum-Initially-in-Place is that quantity of petroleum which is estimated to exist originally in naturally occurring accumulations. Total Petroleum-Initially-in-Place is, therefore, that quantity of petroleum which is estimated, as of a given date, to be contained in known accumulations, plus those quantities already produced therefrom, plus those estimated quantities in accumulations yet to be discovered.*

Total Petroleum-Initially-in-Place may be subdivided into Discovered Petroleum-Initially-in-Place and Undiscovered Petroleum-Initially-in-Place, with Discovered Petroleum-Initially-in-Place being limited to known accumulations.

It is recognized that not all of the Petroleum-Initially-in-Place quantities may constitute potentially recoverable resources since the estimation of the proportion which may be recoverable can be subject to significant uncertainty and will change with variations in commercial circumstances, technological developments and data availability.

Given the aforementioned constraints, a portion of the Petroleum-Initially-in-Place may need to be classified as Unrecoverable.

### DISCOVERED PETROLEUM-INITIALLY-IN-PLACE

*Discovered Petroleum-Initially-in-Place is that quantity of petroleum which is estimated, as of a given date, to be contained in known accumulations prior to production.*

Discovered Petroleum-Initially-in-Place may be subdivided into Commercial and Sub-commercial categories, with the estimated potentially recoverable portion being classified as Reserves and Contingent Resources respectively, as defined below.

### KNOWN ACCUMULATION

The SPE-PRMS defines an accumulation as *an individual body of petroleum-in-place*. For an accumulation to be considered as "known", it must have been discovered. A discovery is defined as *one petroleum accumulation or several petroleum accumulations collectively, which have been penetrated by one or several exploratory wells which have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons*. The SPE-PRMS states in this context, *"significant" implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the*

*potential for economic recovery.* Known accumulations may contain Reserves and/or Contingent Resources.

RESERVES

*Reserves are defined as those quantities of petroleum which are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy the following criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied.*

Reserves are categorized in *accordance with the level of certainty associated with the estimates* (horizontal axis shown in Figure 1) *and may be further sub-classified based on project maturity and/or characterized by development and production status* (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

CONTINGENT RESOURCES

*Contingent Resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is insufficient to assess commerciality.*

Contingent Resources are categorized according to the range of technical uncertainty associated with the estimates (horizontal axis shown in Figure 1) may be further sub-classified based on project maturity and/or characterized by their economic status (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

UNDISCOVERED PETROLEUM-INITIALLY-IN-PLACE

*Undiscovered Petroleum-Initially-in-Place is that quantity of petroleum which is estimated, as of a given date, to be contained in accumulations yet to be discovered.*

The estimated potentially recoverable portion of Undiscovered Petroleum-Initially-in-Place is classified as Prospective Resources, as defined below.

PROSPECTIVE RESOURCES

*Prospective Resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future projects. Prospective Resources have both an associated chance of discovery and a chance of development.*

Prospective Resources are categorized in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be further sub-classified based on project maturity (Refer to Figure 2 at the end of this document). Reference should be made to the full SPE-PRMS for the complete definitions and guidelines.

***UNRECOVERABLE***

*Unrecoverable is a term that refers to that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.*

***ADDITIONAL TERMS USED IN RESOURCES CLASSIFICATION (SPE-PRMS)***

***CHANCE OF COMMERCIALITY***

The SPE-PRMS Section 2.1, Table 1 and Appendix A define the following terms relating to commerciality:

The "Chance of Commerciality", as denoted in the SPE-PRMS and as shown in Figure 1, *is the chance that the project will be developed and reach commercial producing status*.

The chance of commerciality is determined by the probability of a discrete event occurring. In the context of the SPE-PRMS, the discrete event is comprised of one of several conditions, as noted below, which impact the project's commercial viability.

*The commercial viability of a development project is dependent on a forecast of the conditions that will exist during the time period encompassed by the project's activities*. Commerciality is not solely determined based on the economic status of a project which refers to the situation where the income from an operation exceeds the expenses involved in, or attributable to, that operation. Conditions as noted in the SPE-PRMS include *technological, economic, legal, environmental, social, and governmental factors. While economic factors can be summarized as forecast costs and product prices, the underlying influences include, but are not limited to, market conditions, transportation and processing infrastructure, fiscal terms and taxes.*

A development project *may include one or many wells and associated production and processing facilities. One project may develop many reservoirs, or many projects may be applied to one reservoir. An accumulation or potential accumulation may be subject to several separate and distinct projects that are at different stages of exploration or development. Thus, an accumulation may have recoverable quantities in several resource classes simultaneously.*

***COMMERCIALITY APPLIED TO RESERVES***

Commerciality as applied to Reserves must be based upon all of the following criteria:

- *Evidence to support a reasonable timetable for development.*
- *A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria.*
- *A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.*
- *Evidence that the necessary production and transportation facilities are available or can be made available.*
- *Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.*
- *High confidence in the commercial producibility of the reservoir.*

*To be included in a Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming.*

In general, quantities should not be classified as Reserves unless there is *evidence of firm intention that the accumulation will be developed and placed on production within a reasonable time frame.* In certain circumstances, reserves may be assigned even though development may not occur for some time. *A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project.* The SPE-PRMS recommends *five years as a benchmark, but notes that a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives.*

For a project to be included in a Reserves class *there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.*

***COMMERCIALITY APPLIED TO CONTINGENT RESOURCES***

Estimated recoverable quantities from known accumulations that are not yet considered mature enough for commercial development as denoted by meeting all of the aforementioned conditions should be classified as Contingent Resources.

*Based on assumptions regarding future conditions and their impact on economic viability, projects currently classified as Contingent Resources may be broadly divided into two groups:*

- ***Marginal Contingent Resources*** *are those quantities associated with technically feasible projects that are either currently economic or projected to be economic under reasonably forecasted improvements in commercial conditions but are not committed for development because of one or more contingencies.*

- ***Sub-Marginal Contingent Resource****s are those quantities associated with discoveries for which analysis indicates that technically feasible development projects would not be economic and/or other contingencies would not be satisfied under current or reasonable forecasted improvements in commercial conditions. These projects nonetheless should be retained in the inventory of discovered resources pending unforeseen major changes in commercial conditions.*

*Those discovered in-place volumes for which a feasible development project cannot be defined using current or reasonably forecast improvements in technology are classified as Unrecoverable*.

## ***RESOURCES CATEGORIZATION (SPE-PRMS)***

All estimates of the quantities of petroleum potentially recoverable from an accumulation classified as having Prospective or Contingent Resources or Reserves involve uncertainty. The relative degree of uncertainty may be conveyed by placing the estimated quantities into one of several "categories" as described herein.

The SPE-PRMS Section 2.2 and Appendix A define the following terms:

RANGE OF UNCERTAINTY

The Range of Uncertainty, as denoted in the SPE-PRMS and as shown in Figure 1, reflects a range of estimated quantities potentially recoverable from an accumulation by a project. *Evaluators may assess recoverable quantities and categorize results by uncertainty using the deterministic incremental (risk-based) approach, the deterministic scenario (cumulative) approach, or probabilistic methods.*

## ***DETERMINISTIC METHODS (SPE-PRMS)***

## ***RESERVES***

For reserves, the range of uncertainty can be reflected as discrete incremental quantities termed Proved, Probable and Possible or expressed in cumulative terms as 1P (Proved), 2P (Proved plus Probable), and 3P (Proved plus Probable plus Possible), respectively.

## ***CONTINGENT RESOURCES***

For Contingent Resources, the range of uncertainty is generally expressed in deterministic scenario (cumulative) terms as 1C, 2C, 3C, respectively or in terms of probability using probabilistic methods. While the SPE-PRMS categorization scheme does not specifically prohibit the use of discrete incremental quantities for Contingent Resources, the SPE-PRMS does not denote the terms to be applied to these discrete incremental quantities.

## ***PROSPECTIVE RESOURCES***

For Prospective Resources, the range of uncertainty is generally expressed in deterministic scenario (cumulative) terms as low, best and high estimates or in terms of probability using probabilistic methods. As in the case of Contingent Resources, the SPE-PRMS categorization scheme does not specifically denote terms to be applied to discrete incremental quantities for Prospective Resources.

## ***INCREMENTAL TERMS FOR CONTINGENT AND PROSPECTIVE RESOURCES (RYDER SCOTT)***

Should evaluators choose to characterize the range of uncertainty for Contingent Resources or Prospective Resources in discrete incremental quantities, they should denote such quantities as such and provide sufficient detail in their report to allow an independent evaluator or auditor to clearly understand the basis for estimation and categorization of the recoverable quantities. For reports prepared by Ryder Scott Company (Ryder Scott), the range of uncertainty for discrete incremental quantities of Contingent Resources shall be termed 1C Incremental (1Ci), 2C Incremental (2Ci) and 3C Incremental (3Ci) and in the case of Prospective Resources shall be termed Low Estimate Incremental (LEi), Best Estimate Incremental (BEi) and High Estimate Incremental (HEi) where (i) denotes a specific incremental quantity.

***BEST ESTIMATE***

*Uncertainty in resource estimates is best communicated by reporting a range of potential results. However, if it is required to report a single representative result, the "best estimate" is considered the most realistic assessment of recoverable quantities.* The term "best estimate" is used here as a generic expression for the estimate considered being closest to the quantity that will actually be recovered from the accumulation between the date of the estimate and the time of abandonment. In the case of reserves, the best estimate is generally considered to represent *the sum of Proved and Probable estimates (2P). It should be noted that under the incremental (risk-based) approach for Reserves, discrete estimates are made for the quantities in each category for Proved and Probable, and they should not be aggregated without due consideration of their associated risk.* In the case of Contingent Resources and Prospective Resources, the best estimate would be represented by the 2C and Best Estimate, respectively. If probabilistic methods are used, this term would generally be a measure of central tendency of the uncertainty distribution (most likely/mode, median/P50 or mean). The terms "Low Estimate" and "High Estimate" should provide a reasonable assessment of the range of uncertainty in the Best Estimate.

***PROBABILISTIC METHODS (SPE-PRMS)***

If probabilistic methods are used, these estimated quantities should be based on methodologies analogous to those applicable to the definitions of Reserves, Contingent Resources and Prospective Resources; therefore, in general, the resulting probabilities should correspond to the deterministic terms as follows:

- There should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the 1P, 1C or Low Estimate.
- There should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the 2P, 2C or Best Estimate.
- There should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the 3P, 3C or High Estimate.

***COMPARABILITY OF SIMILAR RESERVES AND RESOURCE CATEGORIES***

As indicated in Figure 1, the 1C, 2C and 3C Contingent Resource estimates and the Low, Best and High Prospective Resource estimates of potentially recoverable volumes should reflect some comparability with the reserves categories of Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P), respectively. *While there may be a significant risk that sub-commercial or undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable volumes independently of such a risk.*

*Without new technical information, there should be no change in the distribution of technically recoverable volumes and their categorization boundaries when conditions are satisfied sufficiently to reclassify a project from Contingent Resources to Reserves.*

AGGREGATION

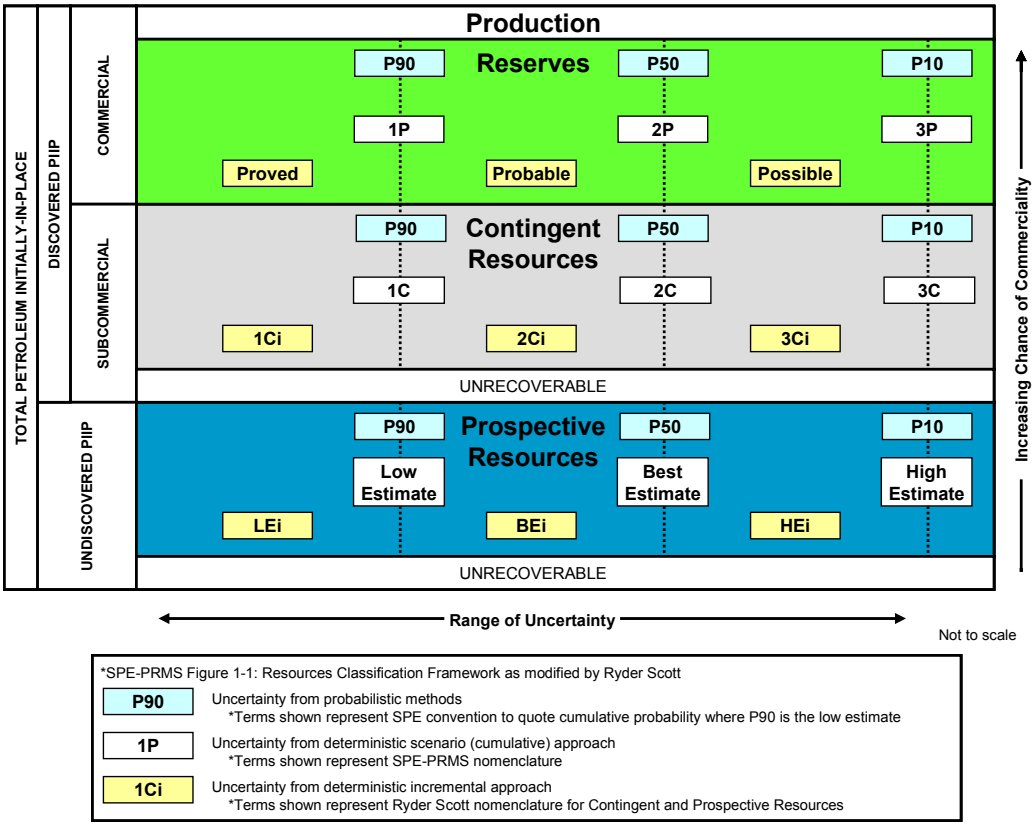
*Petroleum quantities classified as Reserves, Contingent Resources or Prospective Resources should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their classification. In particular, there may be a significant risk that accumulations containing Contingent Resources or Prospective Resources will not achieve commercial production.* Similarly, reserves and resources of different categories should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their categorization.

## RESOURCES CLASSIFICATION SYSTEM (SPE-PRMS)

### ***GRAPHICAL REPRESENTATION***

Figure 1 is a graphical representation of the SPE, WPC, AAPG, SPEE resources classification system. The horizontal axis represents the "Range of Uncertainty" in the estimated potentially recoverable volume for an accumulation by a project, whereas the vertical axis represents the "Chance of Commerciality", that is, the chance that the project will be developed and reach commercial producing status.

**Figure 1**
**SPE, WPC, AAPG, SPEE**
**RESOURCES CLASSIFICATION SYSTEM***




*SPE-PRMS Figure 1-1: Resources Classification Framework as modified by Ryder Scott

| | |
|---|---|
| P90 | Uncertainty from probabilistic methods<br>*Terms shown represent SPE convention to quote cumulative probability where P90 is the low estimate |
| 1P | Uncertainty from deterministic scenario (cumulative) approach<br>*Terms shown represent SPE-PRMS nomenclature |
| 1Ci | Uncertainty from deterministic incremental approach<br>*Terms shown represent Ryder Scott nomenclature for Contingent and Prospective Resources |

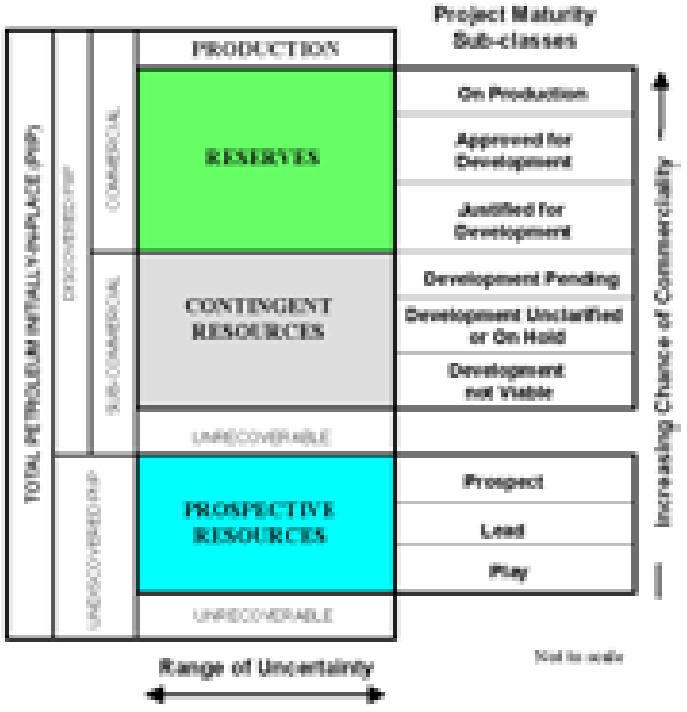
### ***INCREMENTAL TERMS FOR CONTINGENT AND PROSPECTIVE RESOURCES AS DEFINED BY RYDER SCOTT***

Should evaluators choose to characterize the range of uncertainty for Contingent Resources or Prospective Resources in discrete incremental quantities, they should denote such quantities as such and provide sufficient detail in their report to allow an independent evaluator or auditor to clearly understand the basis for estimation and categorization of the recoverable quantities. For reports prepared by Ryder Scott Company (Ryder Scott), the range of uncertainty for discrete incremental quantities of Contingent Resources shall be termed 1C Incremental (1Ci), 2C Incremental (2Ci) and 3C Incremental (3Ci) and in the case of Prospective Resources shall be termed Low Estimate Incremental (LEi), Best Estimate Incremental (BEi) and High Estimate Incremental (HEi) where (i) denotes a specific incremental quantity.

RESOURCES CLASSIFICATION SYSTEM (SPE-PRMS)

***GRAPHICAL REPRESENTATION***

**Figure 2**
**SPE, WPC, AAPG, SPEE**
**PROJECT MATURITY SUB-CLASSES**




[1] Petroleum Resources Management System prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), March 2007.

## Table 1: Recoverable Resources Classes and Sub-Classes

| Class/ Sub-Class | Definition | Guidelines |
|---|---|---|
| **Reserves** | Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. | Reserves must satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status.<br><br>To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame.<br><br>A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.<br><br>To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests |
| On Production | The development project is currently producing and selling petroleum to market. | The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%.<br><br>The project "decision gate" is the decision to initiate commercial production from the project. |
| Approved for Development | All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way. | At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies, such as outstanding regulatory approvals or sales contracts.<br><br>Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget.<br><br>The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells. |

| Class/ Sub-Class | Definition | Guidelines |
|---|---|---|
| Justified for Development | Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained. | In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class).<br><br>The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time. |
| **Contingent Resources** | Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies. | Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status. |
| Development Pending | A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future. | The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status.<br><br>The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production. |

| Class/ Sub-Class | Definition | Guidelines |
|---|---|---|
| Development Unclarified or on Hold | A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay. | The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a re-classification of the project to "Not Viable" status.<br>The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies. |
| Development Not Viable | A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential. | The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions.<br><br>The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future. |
| **Prospective Resources** | Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. | Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration. |
| Prospect | A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target. | Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program. |
| Lead | A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect. | Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios. |
| Play | A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects. | Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios. |

[1]Petroleum Resources Management System, prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), March 2007

**PETROLEUM RESERVES and RESOURCES STATUS DEFINITIONS and GUIDELINES**

**As Adapted From:**
**PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)**
**Sponsored and Approved by:**
**SOCIETY OF PETROLEUM ENGINEERS (SPE),**
**WORLD PETROLEUM COUNCIL (WPC)**
**AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)**
**SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)**

## RESERVES

Reserves status categories define the development and producing status of wells and reservoirs. The SPE-PRMS Table 2 defines the reserves status categories as follows:

## DEVELOPED RESERVES (SPE-PRMS DEFINITIONS)

*Developed Reserves are expected quantities to be recovered from existing wells and facilities.*

*Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.*

***Developed Producing***

*Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.*

*Improved recovery reserves are considered producing only after the improved recovery project is in operation.*

***Developed Non-Producing***

*Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.*

***Shut-In***

*Shut-in Reserves are expected to be recovered from:*

*(4) completion intervals which are open at the time of the estimate but which have not yet started producing;*
*(5) wells which were shut-in for market conditions or pipeline connections; or*
*(6) wells not capable of production for mechanical reasons.*

***Behind-Pipe***

*Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production.*

*In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.*

***UNDEVELOPED RESERVES (SPE-PRMS DEFINITIONS)***

*Undeveloped Reserves are quantities expected to be recovered through future investments.*

*Undeveloped Reserves are expected to be recovered from:*

*(5) new wells on undrilled acreage in known accumulations;*
*(6) deepening existing wells to a different (but known) reservoir;*
*(7) infill wells that will increase recovery; or*
*(8) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to*
*(a) recomplete an existing well; or*
*(b) install production or transportation facilities for primary or improved recovery projects.*

**CONTINGENT RESOURCES**

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent resource status categories may address the development and producing status of wells and reservoirs or may reflect the project maturity and/or be characterized by their economic status as noted in the SPE-PRMS Table 1 and Figure 2.

**PROSPECTIVE RESOURCES**

Prospective resources are by definition undeveloped as they are potentially recoverable from undiscovered accumulations. Prospective resource status categories reflect project maturity as noted in the SPE-PRMS Table 1 and Figure 2.

**MIE HOLDINGS CORPORATION**
**ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS**
**CURRENCY: USD PRICE SCENARIO: CONSTANT**
**AS OF DECEMBER 31, 2010**

**GRAND SUMMARY**

**ALL CLASSES**
**ALL CATEGORIES**

| | REVENUE INTEREST | | | PRODUCT PRICES | | | DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY | |
|---|---|---|---|---|---|---|---|---|
| | Expense Interest | Oil/ Condensate | Plant Products | Gas | Oil/Cond ($/bbl) | Plt. Prod. ($/bbl) | Gas ($/Mcf) | |
| **INITIAL** | | | | | | | **5.00 %** | **1,278,629,319** |
| **FINAL** | | | | | | | **8.00 %** | **1,037,934,388** |
| **REMARKS** | | | | | | | **10.00 %** | **909,028,518** |
| | | | | | | | **15.00 %** | **667,044,321** |
| | | | | | | | **20.00 %** | **504,502,732** |

| | | ESTIMATED 8/8THS PRODUCTION | | | COMPANY NET PRODUCTION | | | AVERAGE PRICES | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Number of Wells | Oil/Cond. (Barrels) | Plant Products (Barrels) | Gas (MMcf) | Oil/Cond. (Barrels) | Plant Products (Barrels) | Sales Gas (MMcf) | Oil/Cond. ($/bbl) | Plt Prod. ($/bbl) | Gas ($/Mcf) |
| **2011** | **1,823** | **7,462,132** | **0** | **0** | **3,731,150** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2012** | **2,167** | **10,383,610** | **0** | **0** | **5,116,283** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2013** | **2,574** | **12,543,008** | **0** | **0** | **5,823,456** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2014** | **2,984** | **13,692,420** | **0** | **0** | **6,213,425** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2015** | **3,408** | **14,522,741** | **0** | **0** | **6,468,704** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2016** | **3,827** | **14,580,009** | **0** | **0** | **6,491,434** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2017** | **4,097** | **13,928,767** | **0** | **0** | **5,656,429** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2018** | **4,123** | **12,673,204** | **0** | **0** | **4,767,072** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2019** | **4,121** | **11,385,267** | **0** | **0** | **4,289,275** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2020** | **4,113** | **10,326,451** | **0** | **0** | **3,899,996** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2021** | **4,110** | **9,340,555** | **0** | **0** | **3,540,815** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2022** | **3,982** | **8,641,526** | **0** | **0** | **3,279,136** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2023** | **3,981** | **8,015,458** | **0** | **0** | **3,044,078** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2024** | **3,979** | **7,526,523** | **0** | **0** | **2,859,058** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2025** | **357** | **888,413** | **0** | **0** | **345,462** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Sub-Total** | | **155,910,085** | **0** | **0** | **65,525,773** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Remainder** | | **2,246,704** | **0** | **0** | **874,428** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Total Future** | | **158,156,789** | **0** | **0** | **66,400,201** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Cumulative** | | **30,093,871** | **0** | **857** | | | | | | |
| **Ultimate** | | **188,250,660** | **0** | **857** | | | | | | |

| | COMPANY FUTURE GROSS REVENUE (FGR) - $ | | | | | PRODUCTION TAXES - $ | | | FGR AFTER PRODUCTION |
|---|---|---|---|---|---|---|---|---|---|
| Year | From Oil/Condensate | From Plant Products | From Gas | Other | Total | Oil/ Condensate | EPT | Gas | TAXES - $ |
| **2011** | **289,186,564** | **0** | **0** | **0** | **289,186,564** | **0** | **46,396,946** | **0** | **242,789,619** |
| **2012** | **396,542,999** | **0** | **0** | **0** | **396,542,999** | **0** | **63,391,920** | **0** | **333,151,078** |
| **2013** | **451,353,386** | **0** | **0** | **0** | **451,353,386** | **0** | **71,869,314** | **0** | **379,484,072** |
| **2014** | **481,578,264** | **0** | **0** | **0** | **481,578,264** | **0** | **76,537,569** | **0** | **405,040,695** |
| **2015** | **501,363,816** | **0** | **0** | **0** | **501,363,816** | **0** | **79,546,342** | **0** | **421,817,474** |
| **2016** | **503,125,394** | **0** | **0** | **0** | **503,125,394** | **0** | **79,776,950** | **0** | **423,348,444** |
| **2017** | **438,407,442** | **0** | **0** | **0** | **438,407,442** | **0** | **69,527,577** | **0** | **368,879,865** |
| **2018** | **369,476,840** | **0** | **0** | **0** | **369,476,840** | **0** | **58,686,311** | **0** | **310,790,528** |
| **2019** | **332,444,740** | **0** | **0** | **0** | **332,444,740** | **0** | **52,912,477** | **0** | **279,532,264** |
| **2020** | **302,273,274** | **0** | **0** | **0** | **302,273,274** | **0** | **48,213,312** | **0** | **254,059,962** |
| **2021** | **274,434,541** | **0** | **0** | **0** | **274,434,541** | **0** | **43,865,388** | **0** | **230,569,152** |
| **2022** | **254,152,816** | **0** | **0** | **0** | **254,152,816** | **0** | **40,662,777** | **0** | **213,490,039** |
| **2023** | **235,934,450** | **0** | **0** | **0** | **235,934,450** | **0** | **37,774,719** | **0** | **198,159,731** |
| **2024** | **221,594,249** | **0** | **0** | **0** | **221,594,249** | **0** | **35,500,522** | **0** | **186,093,727** |
| **2025** | **26,775,434** | **0** | **0** | **0** | **26,775,434** | **0** | **4,319,134** | **0** | **22,456,300** |
| **Sub-Total** | **5,078,644,210** | **0** | **0** | **0** | **5,078,644,210** | **0** | **808,981,258** | **0** | **4,269,662,952** |
| **Remainder** | **67,773,600** | **0** | **0** | **0** | **67,773,600** | **0** | **10,932,528** | **0** | **56,841,073** |
| **Total Future** | **5,146,417,811** | **0** | **0** | **0** | **5,146,417,811** | **0** | **819,913,786** | **0** | **4,326,504,024** |

| | DEDUCTIONS - $ | | | | | FUTURE NET INCOME AFTER INCOME TAXES - $ | | |
|---|---|---|---|---|---|---|---|---|
| | Operating | Tariff/ | Development | Federal | | Undiscounted | | Discounted |
| Year | Costs | Other Costs | Costs | Income Tax | Total | Annual | Cumulative | @ 10.00 % |
| **2011** | **41,005,274** | **3,917,708** | **131,936,220** | **42,380,877** | **219,240,079** | **23,549,540** | **23,549,540** | **23,457,641** |
| **2012** | **46,538,951** | **5,372,097** | **169,838,818** | **58,916,300** | **280,666,166** | **52,484,913** | **76,034,453** | **48,017,634** |
| **2013** | **48,869,770** | **6,114,629** | **179,378,728** | **63,910,717** | **298,273,844** | **81,210,228** | **157,244,681** | **66,786,361** |
| **2014** | **51,881,439** | **6,524,096** | **178,455,060** | **63,479,015** | **300,339,610** | **104,701,086** | **261,945,766** | **77,216,512** |
| **2015** | **54,665,126** | **6,792,140** | **175,343,324** | **61,152,418** | **297,953,007** | **123,864,467** | **385,810,233** | **82,104,168** |
| **2016** | **58,456,744** | **6,816,005** | **175,109,684** | **55,106,876** | **295,489,308** | **127,859,135** | **513,669,368** | **76,502,955** |
| **2017** | **53,991,517** | **5,939,251** | **73,923,404** | **40,922,682** | **174,776,853** | **194,103,012** | **707,772,380** | **103,017,328** |
| **2018** | **49,875,287** | **5,005,425** | **389,485** | **28,021,178** | **83,291,376** | **227,499,153** | **935,271,533** | **108,551,968** |
| **2019** | **49,244,657** | **4,503,739** | **19,211** | **25,316,094** | **79,083,701** | **200,448,562** | **1,135,720,095** | **86,591,979** |
| **2020** | **48,799,326** | **4,094,996** | **195,127** | **24,603,067** | **77,692,516** | **176,367,446** | **1,312,087,541** | **68,997,898** |
| **2021** | **46,463,272** | **3,717,856** | **756,888** | **25,071,587** | **76,009,603** | **154,559,549** | **1,466,647,091** | **54,790,788** |
| **2022** | **45,909,437** | **3,443,093** | **737,677** | **26,687,876** | **76,778,082** | **136,711,957** | **1,603,359,048** | **43,937,592** |
| **2023** | **45,593,232** | **3,196,282** | **737,677** | **28,561,112** | **78,088,303** | **120,071,428** | **1,723,430,475** | **35,000,916** |
| **2024** | **45,323,997** | **3,002,011** | **561,761** | **31,225,779** | **80,113,549** | **105,980,179** | **1,829,410,654** | **28,034,657** |
| **2025** | **10,281,789** | **362,735** | **174,956** | **2,849,015** | **13,668,494** | **8,787,806** | **1,838,198,460** | **2,109,328** |
| **Sub-Total** | **696,899,817** | **68,802,062** | **1,087,558,019** | **578,204,594** | **2,431,464,491** | **1,838,198,460** | | **905,117,723** |
| **Remainder** | **29,461,142** | **918,149** | **524,867** | **6,381,046** | **37,285,204** | **19,555,869** | **1,857,754,329** | **3,910,795** |
| **Total Future** | **726,360,959** | **69,720,211** | **1,088,082,886** | **584,585,640** | **2,468,749,695** | **1,857,754,329** | | **909,028,518** |

Life of summary is: 17.92 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

**MIE HOLDINGS CORPORATION**
**ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS**
**CURRENCY: USD PRICE SCENARIO: CONSTANT**
**AS OF DECEMBER 31, 2010**

**GRAND SUMMARY**
**PROVED + PROBABLE**

**PROVED + PROBABLE**
**ALL CATEGORIES**

| | REVENUE INTEREST | | | PRODUCT PRICES | | | DISCOUNTED FUTURE NET INCOME - $ | |
|---|---|---|---|---|---|---|---|---|
| | Expense Interest | Oil/ Condensate | Plant Products | Gas | Oil/Cond ($/bbl) | Plt. Prod. ($/bbl) | Gas ($/Mcf) | COMPOUNDED | MONTHLY |
| **INITIAL** | | | | | | | | **5.00 %** | **993,212,064** |
| **FINAL** | | | | | | | | **8.00 %** | **811,916,635** |
| **REMARKS** | | | | | | | | **10.00 %** | **713,926,570** |
| | | | | | | | | **15.00 %** | **527,935,384** |
| | | | | | | | | **20.00 %** | **401,214,976** |

| | | ESTIMATED 8/8THS PRODUCTION | | | COMPANY NET PRODUCTION | | | AVERAGE PRICES | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Number of Wells | Oil/Cond. (Barrels) | Plant Products (Barrels) | Gas (MMcf) | Oil/Cond. (Barrels) | Plant Products (Barrels) | Sales Gas (MMcf) | Oil/Cond. ($/bbl) | Plt Prod. ($/bbl) | Gas ($/Mcf) |
| **2011** | **1,797** | **7,078,757** | **0** | **0** | **3,555,283** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2012** | **2,137** | **9,298,879** | **0** | **0** | **4,653,700** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2013** | **2,543** | **10,898,271** | **0** | **0** | **5,279,499** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2014** | **2,952** | **11,675,607** | **0** | **0** | **5,483,007** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2015** | **3,349** | **12,057,752** | **0** | **0** | **5,376,691** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2016** | **3,602** | **11,630,713** | **0** | **0** | **4,722,037** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2017** | **3,600** | **10,502,441** | **0** | **0** | **3,960,722** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2018** | **3,597** | **9,436,405** | **0** | **0** | **3,568,020** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2019** | **3,495** | **8,399,768** | **0** | **0** | **3,182,306** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2020** | **3,491** | **7,511,208** | **0** | **0** | **2,850,410** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2021** | **3,490** | **6,766,929** | **0** | **0** | **2,574,337** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2022** | **3,484** | **6,193,338** | **0** | **0** | **2,359,199** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2023** | **3,483** | **5,735,559** | **0** | **0** | **2,187,444** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2024** | **3,481** | **5,375,335** | **0** | **0** | **2,050,595** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2025** | **290** | **537,986** | **0** | **0** | **209,966** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Sub-Total** | | **123,098,950** | **0** | **0** | **52,013,216** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Remainder** | | **1,350,056** | **0** | **0** | **527,813** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Total Future** | | **124,449,006** | **0** | **0** | **52,541,029** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Cumulative** | | **30,093,715** | **0** | **857** | | | | | | |
| **Ultimate** | | **154,542,721** | **0** | **857** | | | | | | |

| | COMPANY FUTURE GROSS REVENUE (FGR) - $ | | | | | PRODUCTION TAXES - $ | | | FGR AFTER PRODUCTION |
|---|---|---|---|---|---|---|---|---|---|
| Year | From Oil/Condensate | From Plant Products | From Gas | Other | Total | Oil/ Condensate | EPT | Gas | TAXES - $ |
| **2011** | **275,555,834** | **0** | **0** | **0** | **275,555,834** | **0** | **44,227,119** | **0** | **231,328,715** |
| **2012** | **360,690,110** | **0** | **0** | **0** | **360,690,110** | **0** | **57,742,346** | **0** | **302,947,764** |
| **2013** | **409,193,487** | **0** | **0** | **0** | **409,193,487** | **0** | **65,308,389** | **0** | **343,885,098** |
| **2014** | **424,966,554** | **0** | **0** | **0** | **424,966,554** | **0** | **67,699,475** | **0** | **357,267,079** |
| **2015** | **416,726,158** | **0** | **0** | **0** | **416,726,158** | **0** | **66,254,527** | **0** | **350,471,631** |
| **2016** | **365,986,429** | **0** | **0** | **0** | **365,986,429** | **0** | **58,179,140** | **0** | **307,807,289** |
| **2017** | **306,979,971** | **0** | **0** | **0** | **306,979,971** | **0** | **48,900,426** | **0** | **258,079,545** |
| **2018** | **276,543,178** | **0** | **0** | **0** | **276,543,178** | **0** | **44,151,546** | **0** | **232,391,632** |
| **2019** | **246,647,979** | **0** | **0** | **0** | **246,647,979** | **0** | **39,454,671** | **0** | **207,193,308** |
| **2020** | **220,924,024** | **0** | **0** | **0** | **220,924,024** | **0** | **35,380,975** | **0** | **185,543,049** |
| **2021** | **199,526,703** | **0** | **0** | **0** | **199,526,703** | **0** | **31,992,367** | **0** | **167,534,336** |
| **2022** | **182,852,216** | **0** | **0** | **0** | **182,852,216** | **0** | **29,350,986** | **0** | **153,501,230** |
| **2023** | **169,540,120** | **0** | **0** | **0** | **169,540,120** | **0** | **27,241,764** | **0** | **142,298,356** |
| **2024** | **158,933,483** | **0** | **0** | **0** | **158,933,483** | **0** | **25,560,452** | **0** | **133,373,031** |
| **2025** | **16,273,696** | **0** | **0** | **0** | **16,273,696** | **0** | **2,625,112** | **0** | **13,648,585** |
| **Sub-Total** | **4,031,339,941** | **0** | **0** | **0** | **4,031,339,941** | **0** | **644,069,294** | **0** | **3,387,270,647** |
| **Remainder** | **40,908,875** | **0** | **0** | **0** | **40,908,875** | **0** | **6,599,011** | **0** | **34,309,864** |
| **Total Future** | **4,072,248,816** | **0** | **0** | **0** | **4,072,248,816** | **0** | **650,668,306** | **0** | **3,421,580,511** |

| | DEDUCTIONS - $ | | | | | FUTURE NET INCOME AFTER INCOME TAXES - $ | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Undiscounted | | Discounted |
| Year | Operating Costs | Tariff/ Other Costs | Development Costs | Federal Income Tax | Total | Annual | Cumulative | @ 10.00 % |
| **2011** | **40,332,216** | **3,733,047** | **123,860,520** | **39,897,335** | **207,823,119** | **23,505,596** | **23,505,596** | **23,470,805** |
| **2012** | **45,614,866** | **4,886,385** | **167,912,098** | **51,742,551** | **270,155,901** | **32,791,863** | **56,297,460** | **30,826,102** |
| **2013** | **49,187,853** | **5,543,474** | **179,378,728** | **55,859,051** | **289,969,105** | **53,915,993** | **110,213,452** | **45,077,236** |
| **2014** | **51,773,125** | **5,757,157** | **178,455,060** | **52,318,210** | **288,303,552** | **68,963,527** | **179,176,979** | **51,549,361** |
| **2015** | **50,768,358** | **5,645,525** | **144,331,304** | **45,608,033** | **246,353,220** | **104,118,411** | **283,295,390** | **68,727,919** |
| **2016** | **47,718,740** | **4,958,138** | **59,333,954** | **32,239,581** | **144,250,413** | **163,556,877** | **446,852,267** | **95,030,509** |
| **2017** | **44,054,317** | **4,158,759** | **23,054** | **22,727,051** | **70,963,180** | **187,116,366** | **633,968,632** | **98,607,430** |
| **2018** | **42,346,875** | **3,746,421** | **23,054** | **18,305,552** | **64,421,902** | **167,969,730** | **801,938,362** | **80,094,160** |
| **2019** | **41,292,714** | **3,341,421** | **0** | **16,907,616** | **61,541,751** | **145,651,556** | **947,589,919** | **62,901,587** |
| **2020** | **40,946,901** | **2,992,930** | **175,916** | **17,008,245** | **61,123,993** | **124,419,056** | **1,072,008,974** | **48,678,172** |
| **2021** | **40,652,448** | **2,703,054** | **671,488** | **18,284,843** | **62,311,833** | **105,222,503** | **1,177,231,477** | **37,329,995** |
| **2022** | **40,379,663** | **2,477,159** | **671,488** | **20,560,169** | **64,088,479** | **89,412,751** | **1,266,644,228** | **28,786,930** |
| **2023** | **40,161,933** | **2,296,816** | **671,488** | **22,435,286** | **65,565,523** | **76,732,833** | **1,343,377,061** | **22,425,934** |
| **2024** | **39,950,454** | **2,153,124** | **495,572** | **22,225,397** | **64,824,548** | **68,548,483** | **1,411,925,544** | **18,161,244** |
| **2025** | **8,464,112** | **220,464** | **109,588** | **1,192,682** | **9,986,845** | **3,661,740** | **1,415,587,283** | **879,913** |
| **Sub-Total** | **623,644,575** | **54,613,877** | **856,113,311** | **437,311,601** | **1,971,683,364** | **1,415,587,283** | | **712,547,298** |
| **Remainder** | **24,362,714** | **554,204** | **328,763** | **2,230,496** | **27,476,177** | **6,833,687** | **1,422,420,970** | **1,379,272** |
| **Total Future** | **648,007,289** | **55,168,080** | **856,442,074** | **439,542,097** | **1,999,159,540** | **1,422,420,970** | | **713,926,570** |

Life of summary is: 17.92 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

**MIE HOLDINGS CORPORATION**
**ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS**
**CURRENCY: USD PRICE SCENARIO: CONSTANT**
**AS OF DECEMBER 31, 2010**

**GRAND SUMMARY**

| | Expense Interest | REVENUE INTEREST Oil/ Condensate | Plant Products | Gas | PRODUCT PRICES Oil/Cond ($/bbl) | Plt. Prod. ($/bbl) | Gas ($/Mcf) | TOTAL PROVED ALL CATEGORIES DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED | MONTHLY |
|---|---|---|---|---|---|---|---|---|---|
| **INITIAL** | | | | | | | | **5.00 %** | **731,555,528** |
| **FINAL** | | | | | | | | **8.00 %** | **618,860,846** |
| **REMARKS** | | | | | | | | **10.00 %** | **556,581,938** |
| | | | | | | | | **15.00 %** | **434,807,405** |
| | | | | | | | | **20.00 %** | **348,096,029** |

| Year | Number of Wells | ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels) | Plant Products (Barrels) | Gas (MMcf) | COMPANY NET PRODUCTION Oil/Cond. (Barrels) | Plant Products (Barrels) | Sales Gas (MMcf) | AVERAGE PRICES Oil/Cond. ($/bbl) | Plt Prod. ($/bbl) | Gas ($/Mcf) |
|---|---|---|---|---|---|---|---|---|---|---|
| **2011** | **1,742** | **6,463,046** | **0** | **0** | **3,225,636** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2012** | **2,018** | **7,515,566** | **0** | **0** | **3,702,016** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2013** | **2,359** | **8,017,259** | **0** | **0** | **3,872,034** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2014** | **2,492** | **7,988,362** | **0** | **0** | **3,406,206** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2015** | **2,584** | **7,448,819** | **0** | **0** | **3,015,996** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2016** | **2,604** | **6,921,561** | **0** | **0** | **2,640,150** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2017** | **2,590** | **6,212,906** | **0** | **0** | **2,361,245** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2018** | **2,581** | **5,528,437** | **0** | **0** | **2,104,289** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2019** | **2,578** | **4,896,661** | **0** | **0** | **1,867,320** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2020** | **2,573** | **4,357,335** | **0** | **0** | **1,666,783** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2021** | **2,572** | **3,886,764** | **0** | **0** | **1,489,675** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2022** | **2,550** | **3,538,553** | **0** | **0** | **1,356,799** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2023** | **2,549** | **3,024,154** | **0** | **0** | **1,158,140** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2024** | **2,410** | **2,799,206** | **0** | **0** | **1,069,939** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **2025** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Sub-Total** | | **78,598,629** | **0** | **0** | **32,936,229** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Remainder** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Total Future** | | **78,598,629** | **0** | **0** | **32,936,229** | **0** | **0** | **77.51** | **0.00** | **0.00** |
| **Cumulative** | | **30,136,501** | **0** | **565** | | | | | | |
| **Ultimate** | | **108,735,130** | **0** | **565** | | | | | | |

| Year | COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate | From Plant Products | From Gas | Other | Total | PRODUCTION TAXES - $ Oil/ Condensate | EPT | Gas | FGR AFTER PRODUCTION TAXES - $ |
|---|---|---|---|---|---|---|---|---|---|
| **2011** | **250,006,158** | **0** | **0** | **0** | **250,006,158** | **0** | **40,158,275** | **0** | **209,847,883** |
| **2012** | **286,928,819** | **0** | **0** | **0** | **286,928,819** | **0** | **45,991,571** | **0** | **240,937,248** |
| **2013** | **300,106,464** | **0** | **0** | **0** | **300,106,464** | **0** | **48,047,801** | **0** | **252,058,663** |
| **2014** | **264,001,879** | **0** | **0** | **0** | **264,001,879** | **0** | **42,248,673** | **0** | **221,753,206** |
| **2015** | **233,758,152** | **0** | **0** | **0** | **233,758,152** | **0** | **37,426,818** | **0** | **196,331,333** |
| **2016** | **204,627,720** | **0** | **0** | **0** | **204,627,720** | **0** | **32,785,468** | **0** | **171,842,252** |
| **2017** | **183,010,900** | **0** | **0** | **0** | **183,010,900** | **0** | **29,358,270** | **0** | **153,652,630** |
| **2018** | **163,095,212** | **0** | **0** | **0** | **163,095,212** | **0** | **26,204,491** | **0** | **136,890,721** |
| **2019** | **144,728,699** | **0** | **0** | **0** | **144,728,699** | **0** | **23,297,244** | **0** | **121,431,454** |
| **2020** | **129,185,845** | **0** | **0** | **0** | **129,185,845** | **0** | **20,837,600** | **0** | **108,348,245** |
| **2021** | **115,458,910** | **0** | **0** | **0** | **115,458,910** | **0** | **18,624,571** | **0** | **96,834,339** |
| **2022** | **105,160,148** | **0** | **0** | **0** | **105,160,148** | **0** | **16,963,287** | **0** | **88,196,861** |
| **2023** | **89,762,782** | **0** | **0** | **0** | **89,762,782** | **0** | **14,479,530** | **0** | **75,283,252** |
| **2024** | **82,926,662** | **0** | **0** | **0** | **82,926,662** | **0** | **13,376,800** | **0** | **69,549,861** |
| **2025** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Sub-Total** | **2,552,758,348** | **0** | **0** | **0** | **2,552,758,348** | **0** | **409,800,399** | **0** | **2,142,957,949** |
| **Remainder** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total Future** | **2,552,758,348** | **0** | **0** | **0** | **2,552,758,348** | **0** | **409,800,399** | **0** | **2,142,957,949** |

| Year | DEDUCTIONS - $ Operating Costs | Tariff/ Other Costs | Development Costs | Federal Income Tax | Total | FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual | Cumulative | Discounted @ 10.00 % |
|---|---|---|---|---|---|---|---|---|
| **2011** | **38,373,014** | **3,386,917** | **96,197,940** | **23,084,757** | **161,042,628** | **48,805,255** | **48,805,255** | **47,499,202** |
| **2012** | **40,845,686** | **3,887,117** | **123,199,558** | **26,989,274** | **194,921,635** | **46,015,613** | **94,820,868** | **41,390,869** |
| **2013** | **41,081,615** | **4,065,636** | **137,667,418** | **25,406,655** | **208,221,324** | **43,837,340** | **138,658,207** | **35,953,937** |
| **2014** | **36,212,993** | **3,576,517** | **63,616,590** | **16,684,152** | **120,090,252** | **101,662,953** | **240,321,161** | **72,395,028** |
| **2015** | **34,801,323** | **3,166,796** | **31,906,170** | **11,128,753** | **81,003,042** | **115,328,291** | **355,649,452** | **74,200,262** |
| **2016** | **32,680,630** | **2,772,157** | **2,083,320** | **9,208,532** | **46,744,640** | **125,097,612** | **480,747,064** | **72,648,989** |
| **2017** | **31,993,346** | **2,479,308** | **0** | **9,548,022** | **44,020,675** | **109,631,955** | **590,379,019** | **57,693,429** |
| **2018** | **31,593,832** | **2,209,503** | **0** | **9,515,392** | **43,318,727** | **93,571,994** | **683,951,013** | **44,612,645** |
| **2019** | **31,337,811** | **1,960,686** | **0** | **10,359,362** | **43,657,859** | **77,773,595** | **761,724,608** | **33,618,759** |
| **2020** | **31,156,205** | **1,750,122** | **175,916** | **11,087,805** | **44,170,048** | **64,178,198** | **825,902,805** | **25,154,533** |
| **2021** | **30,656,761** | **1,564,159** | **551,550** | **12,677,311** | **45,449,781** | **51,384,558** | **877,287,364** | **18,295,874** |
| **2022** | **30,451,724** | **1,424,638** | **551,550** | **12,632,889** | **45,060,801** | **43,136,060** | **920,423,424** | **13,931,615** |
| **2023** | **25,668,758** | **1,216,047** | **551,550** | **11,692,796** | **39,129,150** | **36,154,102** | **956,577,526** | **10,586,126** |
| **2024** | **25,051,144** | **1,123,436** | **375,634** | **10,552,919** | **37,103,133** | **32,446,728** | **989,024,254** | **8,600,670** |
| **2025** | **0** | **0** | **0** | **0** | **0** | **0** | **989,024,254** | **0** |
| **Sub-Total** | **461,904,841** | **34,583,040** | **456,877,195** | **200,568,619** | **1,153,933,695** | **989,024,254** | | **556,581,938** |
| **Remainder** | **0** | **0** | **0** | **0** | **0** | **0** | **989,024,254** | **0** |
| **Total Future** | **461,904,841** | **34,583,040** | **456,877,195** | **200,568,619** | **1,153,933,695** | **989,024,254** | | **556,581,938** |

Life of summary is: 14.00 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

**MIE HOLDINGS CORPORATION**
**ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS**
**CURRENCY: USD PRICE SCENARIO: CONSTANT**
**AS OF DECEMBER 31, 2010**

**GRAND SUMMARY**

| | REVENUE INTEREST | | | PRODUCT PRICES | | | PROVED TAX DISCOUNTED FUTURE NET INCOME - $ | |
|---|---|---|---|---|---|---|---|---|
| | Expense Interest | Oil/ Condensate | Plant Products | Gas | Oil/Cond ($/bbl) | Plt. Prod. ($/bbl) | Gas ($/) | COMPOUNDED MONTHLY |
| **INITIAL** | | | | | | | | **5.00 % -149,814,200** |
| **FINAL** | | | | | | | | **8.00 % -128,320,158** |
| **REMARKS** | | | | | | | | **10.00 % -116,614,165** |
| | | | | | | | | **15.00 % -93,989,899** |
| | | | | | | | | **20.00 % -77,932,768** |

| | | ESTIMATED 8/8THS PRODUCTION | | | COMPANY NET PRODUCTION | | | AVERAGE PRICES | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Number of Wells | Oil/Cond. (Mbbl) | Plant Products (Barrels) | Gas () | Oil/Cond. (Mbbl) | Plant Products (Barrels) | Sales Gas () | Oil/Cond. ($/bbl) | Plt Prod. ($/bbl) | Gas ($/) |
| **2011** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2012** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2013** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2014** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2015** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2016** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2017** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2018** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2019** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2020** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2021** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2022** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2023** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2024** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Sub-Total** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Remainder** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Total Future** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Cumulative** | | **0** | **0** | | | | | | | |
| **Ultimate** | | **0** | **0** | | | | | | | |

| | COMPANY FUTURE GROSS REVENUE (FGR) - $ | | | | | PRODUCTION TAXES - $ | | | FGR AFTER PRODUCTION |
|---|---|---|---|---|---|---|---|---|---|
| Year | From Oil/Condensate | From Plant Products | From Gas | Other | Total | Oil/ Condensate | EPT | Gas | TAXES - $ |
| **2011** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2012** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2013** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2014** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2015** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2016** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2017** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2018** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2019** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2020** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2021** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2022** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2023** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2024** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Sub-Total** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Remainder** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total Future** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

| | DEDUCTIONS - $ | | | | | FUTURE NET INCOME AFTER INCOME TAXES - $ | | |
|---|---|---|---|---|---|---|---|---|
| | Operating | Tariff/ | Development | Federal | | Undiscounted | | Discounted |
| Year | Costs | Other Costs | Costs | Income Tax | Total | Annual | Cumulative | @ 10.00 % |
| **2011** | **0** | **0** | **0** | **23,084,757** | **23,084,757** | **-23,084,757** | **-23,084,757** | **-20,983,676** |
| **2012** | **0** | **0** | **0** | **26,989,274** | **26,989,274** | **-26,989,274** | **-50,074,031** | **-22,202,873** |
| **2013** | **0** | **0** | **0** | **25,406,655** | **25,406,655** | **-25,406,655** | **-75,480,686** | **-18,921,065** |
| **2014** | **0** | **0** | **0** | **16,684,152** | **16,684,152** | **-16,684,152** | **-92,164,838** | **-11,248,182** |
| **2015** | **0** | **0** | **0** | **11,128,753** | **11,128,753** | **-11,128,753** | **-103,293,591** | **-6,792,112** |
| **2016** | **0** | **0** | **0** | **9,208,532** | **9,208,532** | **-9,208,532** | **-112,502,123** | **-5,086,399** |
| **2017** | **0** | **0** | **0** | **9,548,022** | **9,548,022** | **-9,548,022** | **-122,050,145** | **-4,774,342** |
| **2018** | **0** | **0** | **0** | **9,515,392** | **9,515,392** | **-9,515,392** | **-131,565,537** | **-4,307,318** |
| **2019** | **0** | **0** | **0** | **10,359,362** | **10,359,362** | **-10,359,362** | **-141,924,899** | **-4,245,153** |
| **2020** | **0** | **0** | **0** | **11,087,805** | **11,087,805** | **-11,087,805** | **-153,012,704** | **-4,112,137** |
| **2021** | **0** | **0** | **0** | **12,677,311** | **12,677,311** | **-12,677,311** | **-165,690,015** | **-4,256,271** |
| **2022** | **0** | **0** | **0** | **12,632,889** | **12,632,889** | **-12,632,889** | **-178,322,904** | **-3,839,591** |
| **2023** | **0** | **0** | **0** | **11,692,796** | **11,692,796** | **-11,692,796** | **-190,015,700** | **-3,217,220** |
| **2024** | **0** | **0** | **0** | **10,552,919** | **10,552,919** | **-10,552,919** | **-200,568,619** | **-2,627,827** |
| **Sub-Total** | **0** | **0** | **0** | **200,568,619** | **200,568,619** | **-200,568,619** | | **-116,614,165** |
| **Remainder** | **0** | **0** | **0** | **0** | **0** | **0** | **-200,568,619** | **0** |
| **Total Future** | **0** | **0** | **0** | **200,568,619** | **200,568,619** | **-200,568,619** | | **-116,614,165** |

Life of summary is: 14.00 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

**MIE HOLDINGS CORPORATION**
**ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS**
**CURRENCY: USD PRICE SCENARIO: CONSTANT**
**AS OF DECEMBER 31, 2010**

**GRAND SUMMARY**

| | Expense Interest | REVENUE INTEREST Oil/ Condensate | Plant Products | Gas | PRODUCT PRICES Oil/Cond ($/bbl) | Plt. Prod. ($/bbl) | Gas ($/) | PROBABLE TAX DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED | MONTHLY |
|---|---|---|---|---|---|---|---|---|---|
| **INITIAL** | | | | | | | | **5.00 %** | **-181,620,698** |
| **FINAL** | | | | | | | | **8.00 %** | **-156,436,222** |
| **REMARKS** | | | | | | | | **10.00 %** | **-142,406,830** |
| | | | | | | | | **15.00 %** | **-114,503,098** |
| | | | | | | | | **20.00 %** | **-93,947,717** |

| Year | Number of Wells | ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Mbbl) | Plant Products (Barrels) | Gas () | COMPANY NET PRODUCTION Oil/Cond. (Mbbl) | Plant Products (Barrels) | Sales Gas () | AVERAGE PRICES Oil/Cond. ($/bbl) | Plt Prod. ($/bbl) | Gas ($/) |
|---|---|---|---|---|---|---|---|---|---|---|
| **2011** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2012** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2013** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2014** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2015** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2016** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2017** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2018** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2019** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2020** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2021** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2022** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2023** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2024** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2025** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Sub-Total** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Remainder** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Total Future** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Cumulative** | | **0** | **0** | | | | | | | |
| **Ultimate** | | **0** | **0** | | | | | | | |

| Year | COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate | From Plant Products | From Gas | Other | Total | PRODUCTION TAXES - $ Oil/ Condensate | EPT | Gas | FGR AFTER PRODUCTION TAXES - $ |
|---|---|---|---|---|---|---|---|---|---|
| **2011** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2012** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2013** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2014** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2015** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2016** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2017** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2018** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2019** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2020** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2021** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2022** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2023** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2024** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2025** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Sub-Total** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Remainder** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total Future** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

| Year | DEDUCTIONS - $ Operating Costs | Tariff/ Other Costs | Development Costs | Federal Income Tax | Total | FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual | Cumulative | Discounted @ 10.00 % |
|---|---|---|---|---|---|---|---|---|
| **2011** | **0** | **0** | **0** | **16,812,579** | **16,812,579** | **-16,812,579** | **-16,812,579** | **-15,282,366** |
| **2012** | **0** | **0** | **0** | **24,753,277** | **24,753,277** | **-24,753,277** | **-41,565,856** | **-20,363,418** |
| **2013** | **0** | **0** | **0** | **30,452,396** | **30,452,396** | **-30,452,396** | **-72,018,251** | **-22,678,773** |
| **2014** | **0** | **0** | **0** | **35,634,058** | **35,634,058** | **-35,634,058** | **-107,652,309** | **-24,023,898** |
| **2015** | **0** | **0** | **0** | **34,479,280** | **34,479,280** | **-34,479,280** | **-142,131,589** | **-21,043,428** |
| **2016** | **0** | **0** | **0** | **23,031,049** | **23,031,049** | **-23,031,049** | **-165,162,638** | **-12,721,365** |
| **2017** | **0** | **0** | **0** | **13,179,029** | **13,179,029** | **-13,179,029** | **-178,341,667** | **-6,589,971** |
| **2018** | **0** | **0** | **0** | **8,790,160** | **8,790,160** | **-8,790,160** | **-187,131,827** | **-3,979,028** |
| **2019** | **0** | **0** | **0** | **6,548,254** | **6,548,254** | **-6,548,254** | **-193,680,081** | **-2,683,403** |
| **2020** | **0** | **0** | **0** | **5,920,440** | **5,920,440** | **-5,920,440** | **-199,600,521** | **-2,195,715** |
| **2021** | **0** | **0** | **0** | **5,607,532** | **5,607,532** | **-5,607,532** | **-205,208,053** | **-1,882,669** |
| **2022** | **0** | **0** | **0** | **7,927,280** | **7,927,280** | **-7,927,280** | **-213,135,333** | **-2,409,387** |
| **2023** | **0** | **0** | **0** | **10,742,490** | **10,742,490** | **-10,742,490** | **-223,877,823** | **-2,955,747** |
| **2024** | **0** | **0** | **0** | **11,672,478** | **11,672,478** | **-11,672,478** | **-235,550,301** | **-2,906,612** |
| **2025** | **0** | **0** | **0** | **1,192,682** | **1,192,682** | **-1,192,682** | **-236,742,982** | **-268,862** |
| **Sub-Total** | **0** | **0** | **0** | **236,742,982** | **236,742,982** | **-236,742,982** | | **-141,984,643** |
| **Remainder** | **0** | **0** | **0** | **2,230,496** | **2,230,496** | **-2,230,496** | **-238,973,478** | **-422,187** |
| **Total Future** | **0** | **0** | **0** | **238,973,478** | **238,973,478** | **-238,973,478** | | **-142,406,830** |

Life of summary is: 17.92 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

**MIE HOLDINGS CORPORATION**
**ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS**
**CURRENCY: USD PRICE SCENARIO: CONSTANT**
**AS OF DECEMBER 31, 2010**

**GRAND SUMMARY**

| | REVENUE INTEREST | | | PRODUCT PRICES | | | POSSIBLE TAX DISCOUNTED FUTURE NET INCOME - $ | |
|---|---|---|---|---|---|---|---|---|
| | Expense Interest | Oil/ Condensate | Plant Products | Gas | Oil/Cond ($/bbl) | Plt. Prod. ($/bbl) | Gas ($/) | COMPOUNDED | MONTHLY |
| **INITIAL** | | | | | | | | **5.00 %** | **-101,061,103** |
| **FINAL** | | | | | | | | **8.00 %** | **-82,684,921** |
| **REMARKS** | | | | | | | | **10.00 %** | **-72,774,764** |
| | | | | | | | | **15.00 %** | **-53,930,959** |
| | | | | | | | | **20.00 %** | **-40,972,237** |

| | | ESTIMATED 8/8THS PRODUCTION | | | COMPANY NET PRODUCTION | | | AVERAGE PRICES | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Number of Wells | Oil/Cond. (Mbbl) | Plant Products (Barrels) | Gas () | Oil/Cond. (Mbbl) | Plant Products (Barrels) | Sales Gas () | Oil/Cond. ($/bbl) | Plt Prod. ($/bbl) | Gas ($/) |
| **2011** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2012** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2013** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2014** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2015** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2016** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2017** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2018** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2019** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2020** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2021** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2022** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2023** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2024** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **2025** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Sub-Total** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Remainder** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Total Future** | | **0** | **0** | **0** | **0** | **0** | **0** | **0.00** | **0.00** | **0.00** |
| **Cumulative** | | **0** | **0** | | | | | | | |
| **Ultimate** | | **0** | **0** | | | | | | | |

| | COMPANY FUTURE GROSS REVENUE (FGR) - $ | | | | | PRODUCTION TAXES - $ | | | FGR AFTER PRODUCTION |
|---|---|---|---|---|---|---|---|---|---|
| Year | From Oil/Condensate | From Plant Products | From Gas | Other | Total | Oil/ Condensate | EPT | Gas | TAXES - $ |
| **2011** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2012** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2013** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2014** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2015** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2016** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2017** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2018** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2019** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2020** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2021** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2022** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2023** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2024** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2025** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Sub-Total** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Remainder** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total Future** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

| | DEDUCTIONS - $ | | | | | FUTURE NET INCOME AFTER INCOME TAXES - $ | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Undiscounted | | Discounted |
| Year | Operating Costs | Tariff/ Other Costs | Development Costs | Federal Income Tax | Total | Annual | Cumulative | @ 10.00 % |
| **2011** | **0** | **0** | **0** | **2,483,542** | **2,483,542** | **-2,483,542** | **-2,483,542** | **-2,257,500** |
| **2012** | **0** | **0** | **0** | **7,173,749** | **7,173,749** | **-7,173,749** | **-9,657,291** | **-5,901,524** |
| **2013** | **0** | **0** | **0** | **8,051,667** | **8,051,667** | **-8,051,667** | **-17,708,958** | **-5,996,307** |
| **2014** | **0** | **0** | **0** | **11,160,805** | **11,160,805** | **-11,160,805** | **-28,869,763** | **-7,524,432** |
| **2015** | **0** | **0** | **0** | **15,544,385** | **15,544,385** | **-15,544,385** | **-44,414,148** | **-9,487,064** |
| **2016** | **0** | **0** | **0** | **22,867,295** | **22,867,295** | **-22,867,295** | **-67,281,442** | **-12,630,915** |
| **2017** | **0** | **0** | **0** | **18,195,631** | **18,195,631** | **-18,195,631** | **-85,477,073** | **-9,098,446** |
| **2018** | **0** | **0** | **0** | **9,715,626** | **9,715,626** | **-9,715,626** | **-95,192,700** | **-4,397,958** |
| **2019** | **0** | **0** | **0** | **8,408,478** | **8,408,478** | **-8,408,478** | **-103,601,178** | **-3,445,702** |
| **2020** | **0** | **0** | **0** | **7,594,822** | **7,594,822** | **-7,594,822** | **-111,196,000** | **-2,816,694** |
| **2021** | **0** | **0** | **0** | **6,786,744** | **6,786,744** | **-6,786,744** | **-117,982,743** | **-2,278,576** |
| **2022** | **0** | **0** | **0** | **6,127,707** | **6,127,707** | **-6,127,707** | **-124,110,451** | **-1,862,431** |
| **2023** | **0** | **0** | **0** | **6,125,826** | **6,125,826** | **-6,125,826** | **-130,236,277** | **-1,685,493** |
| **2024** | **0** | **0** | **0** | **9,000,382** | **9,000,382** | **-9,000,382** | **-139,236,659** | **-2,241,223** |
| **2025** | **0** | **0** | **0** | **1,656,333** | **1,656,333** | **-1,656,333** | **-140,892,992** | **-373,381** |
| **Sub-Total** | **0** | **0** | **0** | **140,892,992** | **140,892,992** | **-140,892,992** | | **-71,997,646** |
| **Remainder** | **0** | **0** | **0** | **4,150,550** | **4,150,550** | **-4,150,550** | **-145,043,542** | **-777,118** |
| **Total Future** | **0** | **0** | **0** | **145,043,542** | **145,043,542** | **-145,043,542** | | **-72,774,764** |

Life of summary is: 17.92 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

**MIE HOLDINGS CORPORATION**
**As of December 31, 2010**

## DAAN PSC, MIAO-3 PSC AND MOLIQING PSC
### Development Schedule

| TOTAL DAAN PSC | | | | |
|---|---|---|---|---|
| | Gross Wells (PROD & INJ) | | | |
| Year | Proved | Probable | Possible | Total |
| 2011 | 242 | 26 | 2 | 270 |
| 2012 | 305 | 53 | 1 | 359 |
| 2013 | 339 | 45 | 0 | 384 |
| 2014 | 179 | 205 | 0 | 384 |
| 2015 | 90 | 293 | 1 | 384 |
| 2016 | 6 | 159 | 220 | 385 |
| 2017 | 0 | 0 | 207 | 207 |
| Grand Total | 1,161 | 781 | 431 | 2,373 |

| TOTAL MIAO-3 PSC | | | | |
|---|---|---|---|---|
| | Gross Wells (PROD & INJ) | | | |
| Year | Proved | Probable | Possible | Total |
| 2011 | 4 | 3 | 20 | 27 |
| 2012 | 1 | 0 | 5 | 6 |
| Grand Total | 5 | 3 | 25 | 33 |

| TOTAL MOLIQING PSC | | | | |
|---|---|---|---|---|
| | Gross Wells (PROD & INJ) | | | |
| Year | Proved | Probable | Possible | Total |
| 2011 | 8 | 17 | 1 | 26 |
| 2012 | 13 | 23 | 0 | 36 |
| 2013 | 15 | 24 | 0 | 39 |
| 2014 | 0 | 40 | 0 | 40 |
| 2015 | 0 | 10 | 30 | 40 |
| 2016 | 0 | 0 | 36 | 36 |
| Grand Total | 36 | 114 | 67 | 217 |

| TOTAL DAAN PSC, MIAO-3 PSC AND MOLIQING PSC | | | | |
|---|---|---|---|---|
| | Gross Wells (PROD & INJ) | | | |
| Year | Proved | Probable | Possible | Total |
| 2011 | 254 | 46 | 23 | 323 |
| 2012 | 319 | 76 | 6 | 401 |
| 2013 | 354 | 69 | 0 | 423 |
| 2014 | 179 | 245 | 0 | 424 |
| 2015 | 90 | 303 | 31 | 424 |
| 2016 | 6 | 159 | 256 | 421 |
| 2017 | 0 | 0 | 207 | 207 |
| Grand Total | 1,202 | 898 | 523 | 2,623 |

*Minor variance from the cashflow well counts may result as a consequence of the delay between the commencement of drilling and commencement of production for undeveloped wells.

**CONSTANT PARAMETERS (After Income Tax)**
Estimated Reserves
Contains Interests Derived from Production Sharing Agreements
**MIE Holdings Corporation**
As of December 31, 2010

**DAAN PSC**

| | Proved | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Proved |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 41,255,866 | 0 | 29,711,003 | 70,966,869 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 17,302,572 | 0 | 12,032,823 | 29,335,395 |

| | Probable | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Probable |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 14,067,240 | 0 | 20,927,917 | 34,995,157 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 5,880,941 | 0 | 8,733,123 | 14,614,064 |

| | Possible | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Possible |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 10,172,166 | 0 | 14,272,554 | 24,444,720 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 4,016,881 | 0 | 5,848,488 | 9,865,369 |

**CONSTANT PARAMETERS (After Income Tax)**
Estimated Reserves
Contains Interests Derived from Production Sharing Agreements
**MIE Holdings Corporation**
As of December 31, 2010

**MIAO-3 PSC**

| | Proved | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Proved |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 357,156 | 0 | 46,542 | 403,698 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 213,025 | 0 | 27,760 | 240,785 |

| | Probable | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Probable |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 653,535 | 0 | 135,490 | 789,025 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 315,743 | 0 | 66,872 | 382,615 |

| | Possible | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Possible |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 472,725 | 0 | 318,164 | 790,889 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 182,999 | 0 | 148,579 | 331,578 |

**CONSTANT PARAMETERS (After Income Tax)**
Estimated Reserves
Contains Interests Derived from Production Sharing Agreements
**MIE Holdings Corporation**
As of December 31, 2010

**MOLIQING PSC**

| | Proved | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Proved |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 4,731,644 | 1,669,497 | 826,922 | 7,228,063 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 2,232,824 | 752,866 | 374,358 | 3,360,048 |

| | Probable | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Probable |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 2,695,524 | 299,135 | 7,071,537 | 10,066,196 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 1,225,872 | 204,284 | 3,177,965 | 4,608,121 |

| | Possible | | | |
|---|---|---|---|---|
| | Producing | Behind Pipe | Undeveloped | Total Possible |
| ***Gross - Remaning Reserves*** | | | | |
| Oil/Condensate - Barrels | 1,955,600 | 0 | 6,516,573 | 8,472,173 |
| ***Net Remaining Reserves*** | | | | |
| Oil/Condensate - Barrels | 857,722 | -43 | 2,804,547 | 3,662,226 |

# DAAN PSC
# RESERVE DISCUSSION

## GEOLOGY

The Daan Oil Field is located near Daan City in Jilin Province, in the northeastern region of People's Republic of China. Exploration in this area began in the late 50's. MIE now operates over 1,370 wells in the Daan Field which is currently in a development-production phase.

Daan field lies within the central depression of the Songliao Basin, a Mesozoic rift basin. There are two main reservoir sequences in the field, the Lower Cretaceous Fuyu-Yangdachengzi ($K_1q_4$) and the Upper Cretaceous Gaotaizi ($K_2qn_{2+3}$) (*Figure 1*).

The structure map (top of Fuyu horizon, $K_1q_4$) is based on seismic with dense well control. The seismic interpretation was done by MIE (Beijing) and has been reviewed by Ryder Scott. The seismic data is very good quality 3-D in the southern and central portions of the field and good quality 2-D in the north. The 3-D was originally shot in '91/'92 and reprocessed in 2009. The 2-D was shot in '90/'91 and '91/'92 and also reprocessed in 2009. Ryder Scott has reviewed and discussed the mapping techniques with representatives from MIE and has accepted this map as an accurate and reasonable representation of the log and seismic data.

The Daan structure map depicts an elongate NNE-SSW trending anticline with a plunge to the north; the crestal elevation is approximately 1,600 meters subsea in the south and 1,900 meters subsea in the north (*Figure 2*). The structure is slightly asymmetrical with dips on the SE flank of 4° to 6° and on the NW flank of 2° to 4°. The steeper dips on the SE flank are influenced by the Daan fault, a major NNE-SSW trending reverse fault. This fault has exhibited two phases of movement. During the deposition of the field reservoirs the fault exhibited normal movement due to extension in the basin. Later, during a compressional phase, the area was inverted by reverse movement, into the anticline now expressed as the Daan oil field. This reverse movement was coupled with an apparent right-lateral component resulting in a series of NW-SE trending en-echelon normal faults that cut across the anticlinal axis. Some of these larger cross-faults may act as reservoir boundaries and are used to separate the Daan oil field into nine reservoirs or blocks. These faults exhibit steep fault planes on the order of +/- 70 degrees (*Figures 3, 4*).

The Lower Cretaceous Fu Yang (Fuyu-Yangdachengzi) reservoirs are a series of interbedded sands and shales of both lacustrine and fluvial origins. The sequence ranges in thickness from approximately 100m to 300m, gross interval, with individual sand units ranging from 1m to 15+m. These individual sand bodies show great lateral variation based on the dense well control. The Lower Cretaceous Fu-Yang reservoirs are present north to south across the entire Daan Field area. The Upper Cretaceous Gaotaizi sands are developed primarily in the southern Daan area, mainly in blocks DH, DJ, and DK. The boundary between these two sequences is generally thought to be unconformable. Additionally the zone containing Gaotaizi is not logged through most of the field which obscures its true lateral continuity.

The Daan Field reservoirs are calculated using detailed log analysis of the 1,370+ wells in the field area. The log data was loaded in the Geographix Prism log analysis program and the log curves were then normalized to ensure consistency in the analysis. Core data was provided for 4 wells in the Daan area which was utilized to calibrate the log porosity (*Figure 5*) as well as establish porosity and Sw Cutoffs. A porosity/perm relationship was established using a crossplot (*Figure 6*) to determine a 9.5 percent porosity cutoff at 0.01 mD. Using a standard 1 mD permeability cutoff would not generate reliable pay counts for the Daan oil field. With the support of production data Ryder Scott has made a shift in the permeability cutoff to 0.01 mD to produce reasonable pay counts supported by production data. In September 2008, Ryder Scott was presented with a report by John

Schneider describing the inaccuracy of the technique used to conduct measurements on the previous core samples. Shortly after, MIE resumed acquiring core data which have been incorporated into the YE2010 petrophysical model. Ryder Scott was also provided relative permeability data from two wells (D206-10 and DJ2-3) which it utilized to establish the 50 percent water saturation cutoff. This detailed analysis not only helped define the net oil pay thickness but also determine the oil-water contact (OWC) or lowest known occurrence of oil (LKO) within each of the nine blocks. One key finding in this analysis is that for each of the nine blocks, the OWC or LKO falls outside the concession boundaries.

As of the YE2010 study Ryder Scott has reviewed and regenerated the endpoints used to normalize the GR logs due to great influx of new well data since the project was first analyzed. All of the GR data from Daan is now normalized to 1%-80% Cum Frequency using a standard two point normalization equation. This has been redistributed through all of the log data and may skew the comparison of HCPV and Net Pay values previous to this study to data presented from here on.

In general, the reservoir properties as indicated by logs, improve from north to south, probably a direct relationship to the depth of burial being deeper in the north and shallower in the south. These sands are considered “tight” and all wells are hydraulically fractured (frac’d) to improve the flow of oil from the reservoir.

In general, a typical oil well in this field is capable of draining about 15 acres; some will drain larger areas, some smaller, depending upon reservoir conditions and the efficiency of the frac. Nearly all drilled wells to date have had successful economic completions. The reservoir properties in the northern part of the field, specifically blocks DA, DB and DC, are slightly poorer than in the southern part. In this northern area there have been some poor completions, part of which may be related to reservoir quality.

All the wells that have been successfully tested are assigned 15 acres as the Proved reservoir area. Each of these wells is assigned eight direct offsets, also 15 acres each, for a combined Proved (1P) area of 135 acres around each successfully tested/analyzed well. A Proved plus Probable (2P) area of 750 acres is assigned to each successfully tested/analyzed well by assuming a drainage area of 30 acres and 24 direct offsets.

The down-dip reservoir limits for each block, as determined by either OWC or LKO, fall outside the concession boundaries, and as such, the only known reservoir limits for the proved plus probable plus possible (3P) areas are the Daan Fault and the concession boundaries. In addition to the physical reservoir limits, a Hydrocarbon Pore Volume (HCPV) factor has been used to further define the economic limits of the field. Based on a $65 per barrel field price, it was estimated that well locations with an HCPV less than 0.25m are generally not economic. As a result MIE has removed these low HCPV locations from the development plan. Therefore, the possible limit is defined as that portion of the field bounded by the Daan fault and the concession boundaries outside the 2P areas with a HCPV value above 0.25m. The volume below the 0.25m HCPV contour is now considered contingent resources. All reserve areas are also limited to fault blocks that have been successfully penetrated by a well bore in the formation of interest. Areas that do not meet this requirement are also classified as contingent resources, which are not included in this evaluation.

Located in blocks DH, DJ, and DK are three bands designated as probable that are direct offsets to proven wells. These bands are located adjacent to the major block-boundary faults. The only well in the Daan Field abandoned without testing was the DH11-3 drilled in March 2006. The well is technically not a dry hole but MIE considered the reservoir quality such that the completion

would be sub-economic. They reasoned that the loss in reservoir quality was due to its' proximity to the block-boundary fault. Consequently, in the early phase of development, proposed locations near these major faults were removed. Now with more drilling and completion experience MIE has re-introduced locations in these bands. Until wells have been successfully (economically) completed within these bands these locations will remain as probable. As for the northern section of the DH block, MIE does not currently have scheduled locations in this portion and the associated area is deemed to be contingent resource and is not included in this evaluation.

Proved, probable and possible oil-in-place volumes are determined for each block based on the areas as outlined above and the HCPV.

## RESERVE METHODOLOGY

### OIL RESERVES

MIE has a 90 percent interest in the Daan petroleum contract and is the operator. The other 10 percent is owned by Global Oil Corporation. The contract is now in the commercial production phase and has an expiry date of December 31, 2024. Production from the contract area commenced in 1993, prior to the date of implementation of the contract, March 1, 1998. From 1998 to December 20, 2001 when MIE was formally novated into the agreement, only about 28 wells were on production. As of the effective date of this evaluation, there were 1,090 producers and 282 injectors in the contract area. Cumulative production was about 23,753 Mstb and oil production rate was about 14,179 barrels per day with a water cut of 23 percent. Production from the wells is gathered via pipelines or trucked to a central station where the oil, water and gas are separated.

Certain portions of the contract area are under waterflood while others are still producing under primary depletion. MIE plans to waterflood the whole contract area when it is fully developed. For the purpose of this evaluation, waterflood recovery factors were assigned to the well delineated portions of the pool. These areas, are further divided into developed and undeveloped waterflood areas. The developed waterflood areas are those continuous proved areas where water injection has started. The undeveloped waterflood areas are those continuous proved, probable and possible areas where water injection has not yet started. Recovery factors in the probable and possible areas are assigned lower recovery factors than the proved area because Ryder Scott is of the opinion that the reservoir properties in these areas are not sufficiently defined to warrant the assignment of waterflood reserves at this time, and because development of these areas comes relatively later in the drilling schedule, and some production will be realized after the end of MIE's contract.

Average primary recovery factor of 4 - 6 percent, based on decline curve analysis of existing well performance and type curves, was used for the proved areas, while primary recovery factors, average 5.6 percent and 4.0 percent respectively, were also used for the probable and possible areas of the contract. Within the proved area, and considering the future drilling plans, average proved, proved plus probable, and proved plus probable plus possible waterflood recovery factors of 10.5 percent, 12.8 percent, and 14.5 percent, respectively, were used after giving consideration for response to date and in-field analogs. It should be noted that the proved, proved plus probable, and proved plus probable plus possible recovery factors assigned to the northern Blocks A, B & C where the reservoir quality is poorer are more consistent with a primary response than a waterflood response. Waterflood operations in the pilot areas have started in May 2007 for Block A and March 2008 for Block B. The recovery factors used on average were lower than the other blocks in reflection of the poorer reservoir quality in that part of the field.

MIE plans to develop the field on 15 acre spacing and to waterflood using an inverted nine spot pattern. Based on this spacing, the number of future undeveloped locations included in reserves is as shown in the following table.

This table excludes a number of additional activities planned on a smaller well spacing, referred to in this report as "infill wells". These activities will be discussed below.

| | Producer | Injector | Total |
|---|---|---|---|
| Proved | 565 | 146 | 711 |
| Probable | 586 | 190 | 776 |
| Possible | 331 | 100 | 431 |

The undeveloped locations were scheduled as per MIE's drilling plans.

Certain wells in the contract area are completed in the Putaohua, Heidimiao, and Saertu formations. Production from these formations is either commingled with the Fu Yang or produced separately and is relatively minor. For the commingled wells, we have no satisfactory method to determine the relative contributions and the production is included with the Fu Yang reserves. Decline curve analysis was used to determine the producing reserves for the non-commingled wells. Undeveloped reserves were not assigned to these formations as they appear to be not as well developed.

INFILL DRILLNG

MIE drilled several wells in Block J on a spacing of approximately 7 acres to evaluate the potential for infill drilling on a larger scale in the future. As described earlier in the geologic discussion, the Fu Yang reservoir is a series of interbedded sands and shales and is "tight". It has been shown in other reservoirs around the world of a similar geologic nature, there exists a large number of discontinuous pay sands that are not penetrated by adjacent producers and injectors. This results in a poor waterflood response and a corresponding low recovery efficiency. Infill drilling has been shown to be successful in connecting discontinuous sand bodies as spacing between injectors and producers is decreased.

MIE has engaged Ryder Scott to perform simulation study over a portion of the J block, where numerous infill wells have been drilled. An extensive effort was made to history match the performance of the reservoir in this area, further to estimate the potential performance of infill wells drilled in the area.

Based on the results of this study, it has been estimated that infill wells will on average recover approximately 35% of the recovery of surrounding wells drilled on the original 15 acre well spacing. Therefore, Ryder Scott is including proved, probable and possible reserves associated with the "infill drilling" campaign.

In addition to improved recovery and the addition of incremental reserves, a second benefit from an infill program could be the acceleration of reserves. The current contract period expires 12/31/2024. Based on the projected performance, not all of the technical reserves will be produced before the expiration date of the contract. If infill drilling results in a meaningful acceleration of

production, then additional volumes produced prior to the contract expiration date could be booked as reserves.

MIE provided Ryder Scott with a drilling program that, in addition to the drilling program discussed above, featured an additional 455 infill wells. The complete program is described in the table below.

| | Original Spacing Wells | | | Infill Spacing Wells | | | Total Wells | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Injectors | Producers | Total | Injectors | Producers | Total | Injectors | Producers |
| Proved | 711 | 146 | 565 | 450 | 0 | 450 | 1161 | 146 | 1015 |
| Probable | 776 | 190 | 586 | 5 | 0 | 5 | 781 | 190 | 591 |
| Possible | 431 | 100 | 331 | 0 | 0 | 0 | 431 | 100 | 331 |
| Total | 1918 | 436 | 1482 | 455 | 0 | 455 | 2373 | 436 | 1937 |

GAS RESERVES

No revenue is derived from the gas produced from this property. As a result, no gas reserves have been assigned.

SURFACE LOSS AND LIQUID YIELDS

The difference between the reported produced volumes and the sales volume for oil is currently about 7.1 percent. This difference was assumed to remain constant for the remaining life of the property and was taken into consideration in the calculation of the company's net production volumes.

# DAAN PSC
# RESERVE DISCUSSION

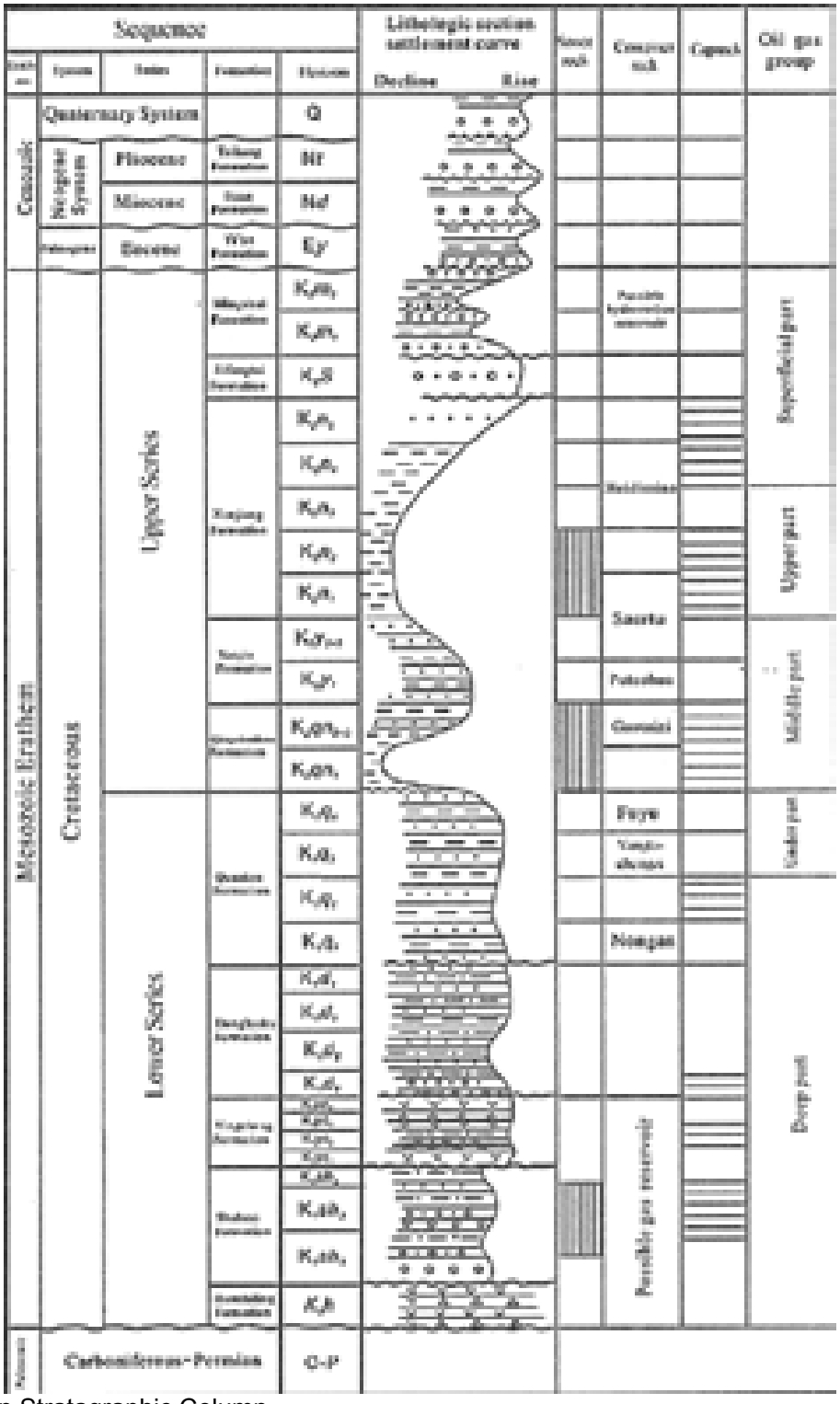



*Figure 1*. Daan Stratagraphic Column

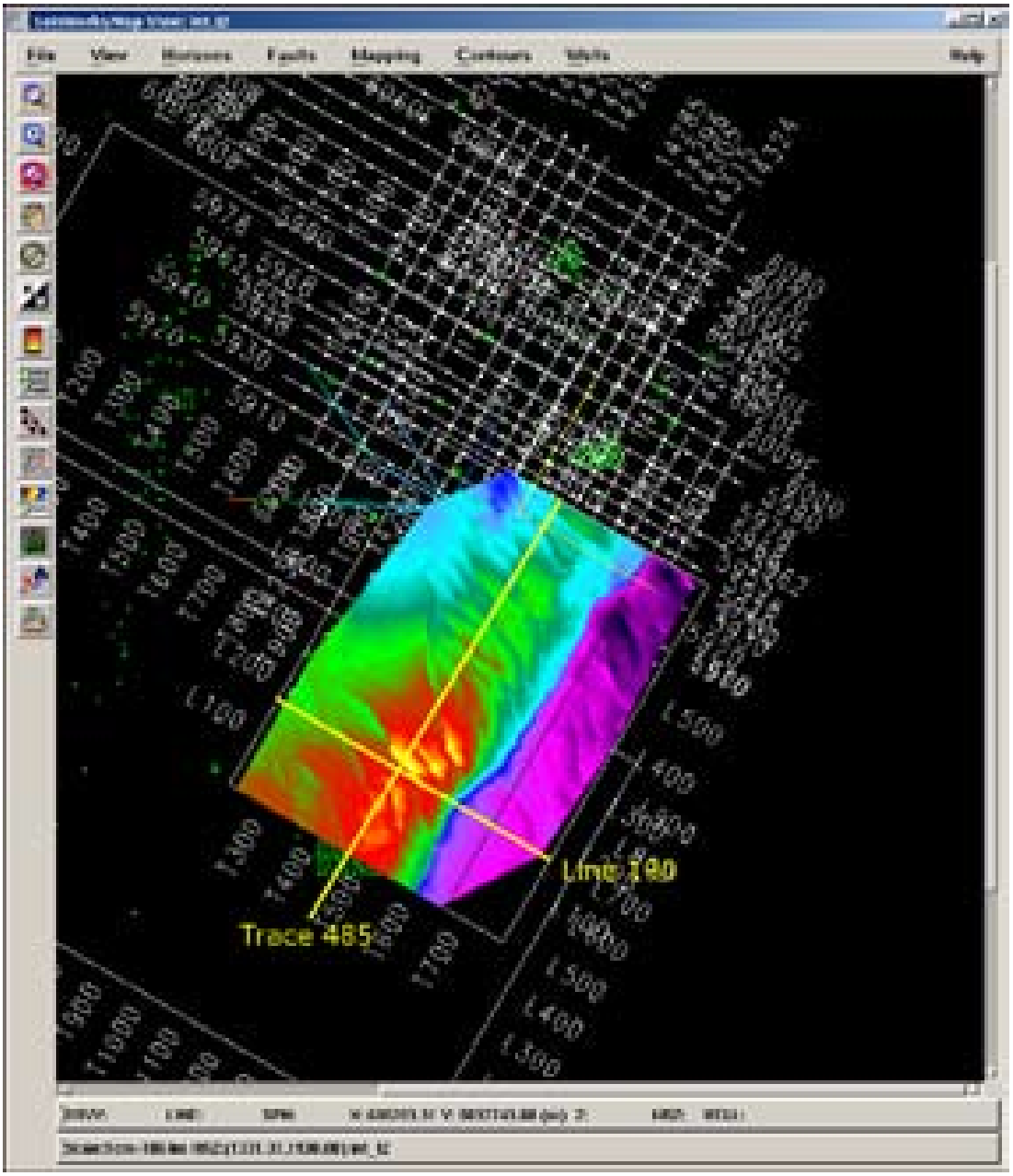



*Figure 2.* Daan Structure Map with seismic line references to Figures 2 and 3

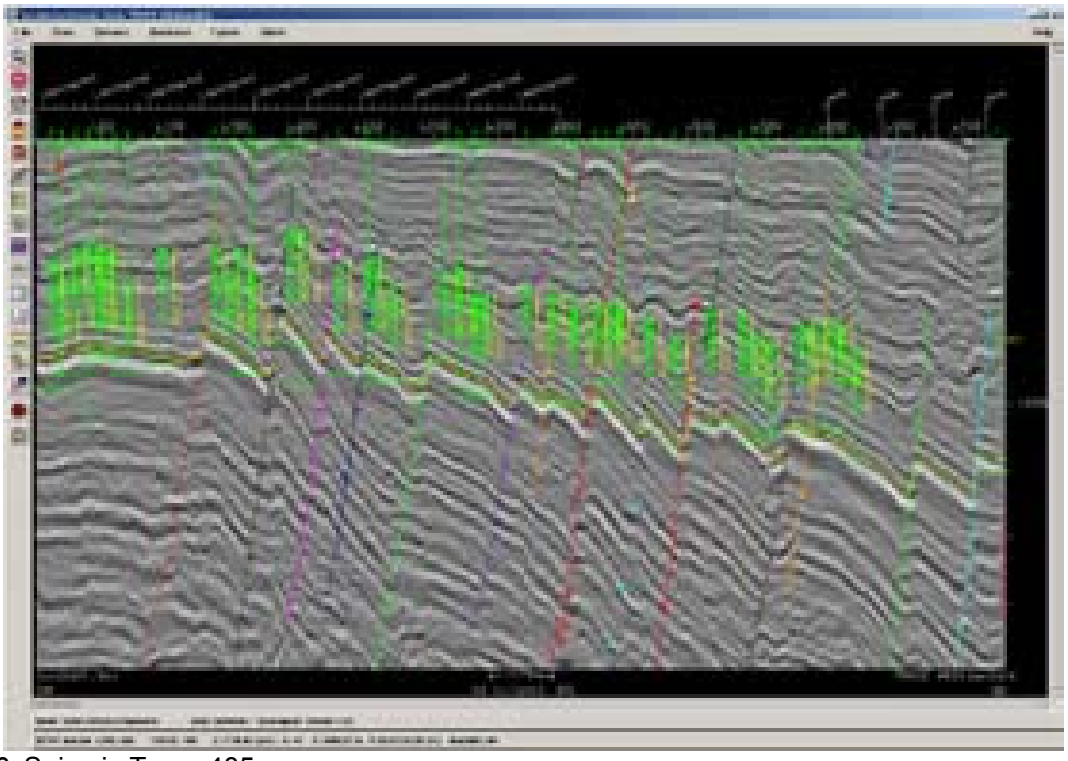


*Figure 3.* Seismic Trace 485

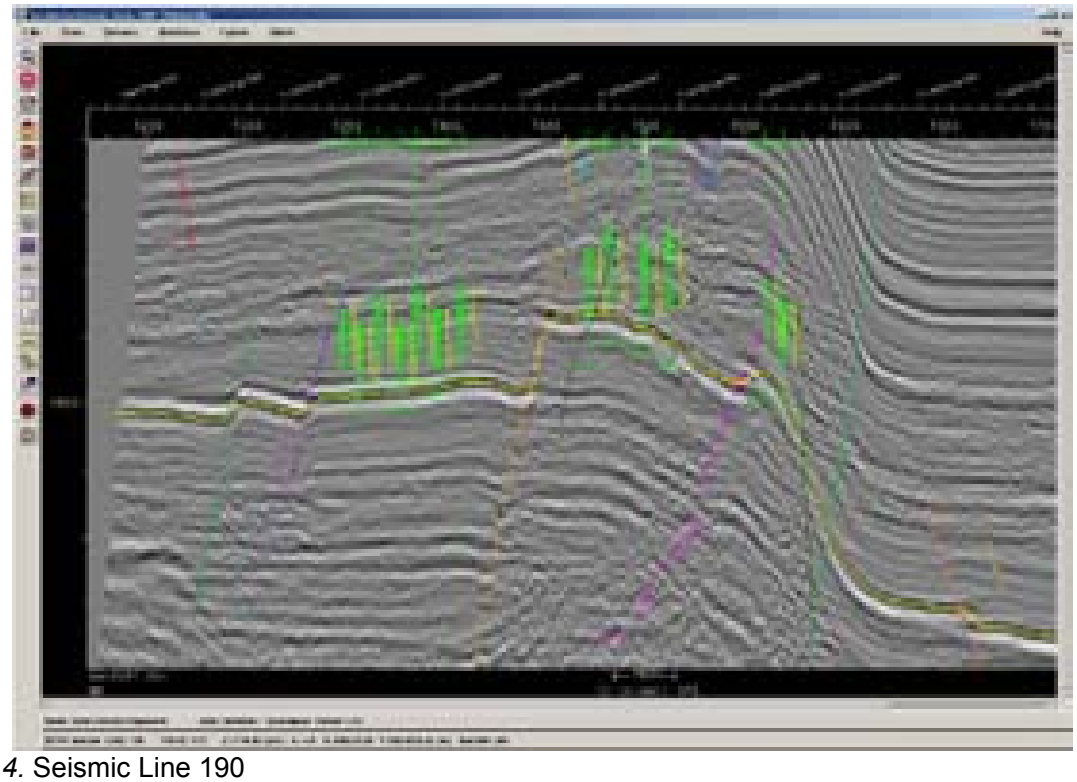


*Figure 4.* Seismic Line 190

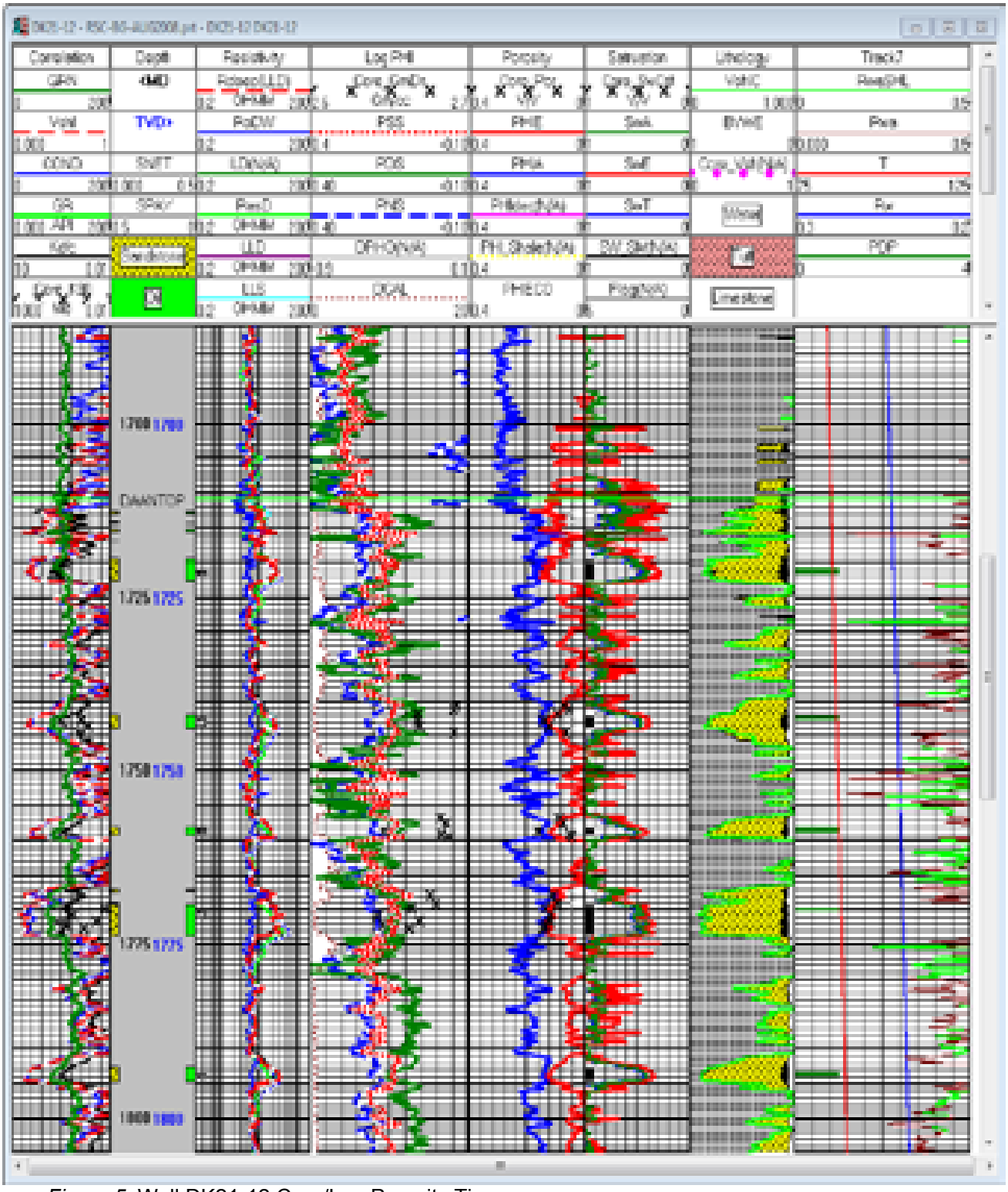



*Figure 5.* Well DK21-12 Core/Log Porosity Tie

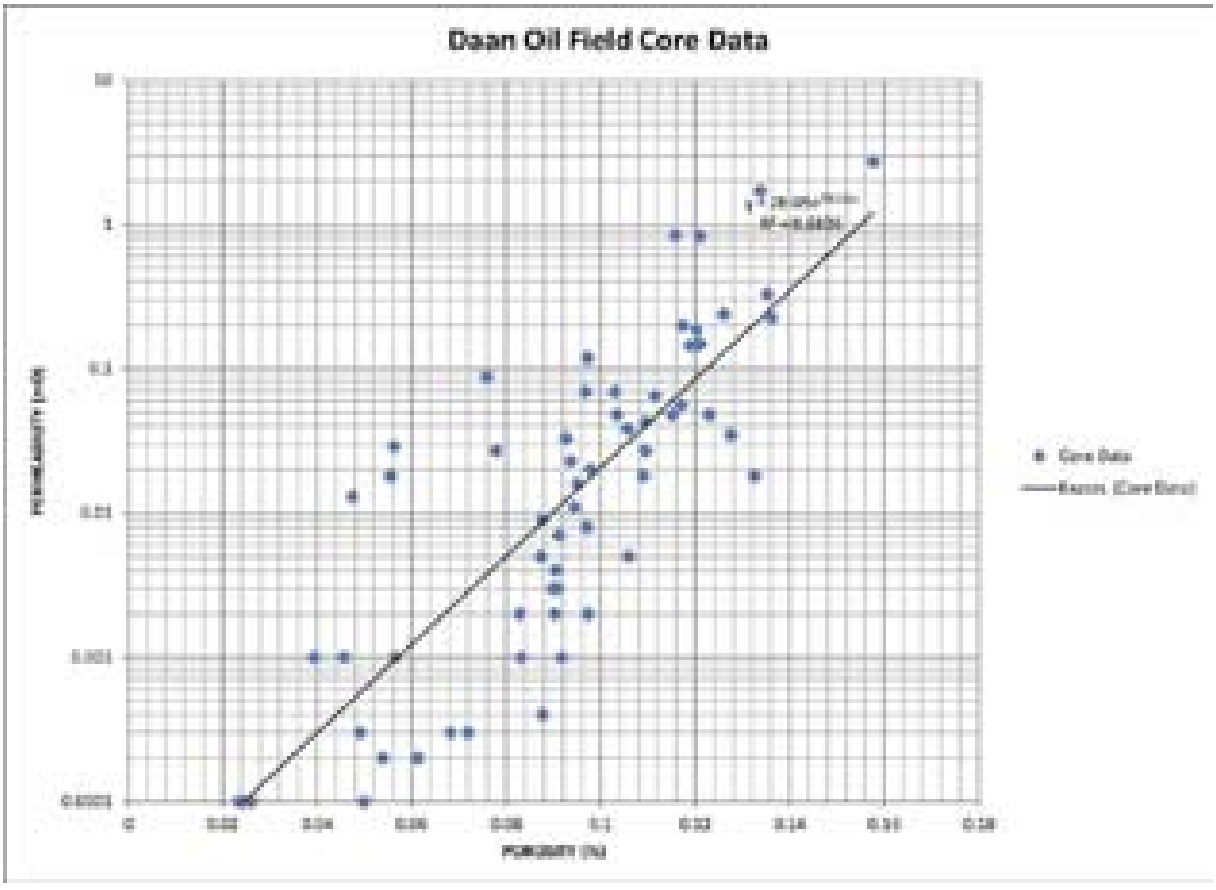



*Figure 6.* Permeability/Porosity Core Crossplot

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580

**MIE HOLDINGS CORPORATION**
**As of December 31, 2010**

**Summary of Gross Lease Oil Reserve Volumes**
**DAAN PSC**

| Block | Description | Mapped Area (Acres) | Net Pay (ac-feet) | Total HCPV (Barrels) | STOOIP (Barrels) | Recovery Factor Developed | | | Recovery Factor Undeveloped, Behind Pipe, Non-Producing | | | Total Recovery Factor | | | EUR (Barrels) | | | Remaining Volumes (Barrels) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1P | 2P | 3P | 1P | 2P | 3P | 1P | 2P | 3P | 1P | 2P | 3P | Proved | Probable | Possible |
| DA | Proved | 2697.2 | 126,484 | 69,986,970 | 63,165,135 | 1.7% | 2.2% | 2.4% | 4.0% | 4.7% | 5.4% | 5.7% | 6.9% | 7.8% | 3,572,996 | 4,389,308 | 4,943,765 | 3,091,896 | 816,312 | 554,457 |
| | Probable | 4867.5 | 238,652 | 134,731,590 | 121,598,908 | 0.0% | 0.0% | 0.0% | 0.0% | 4.6% | 5.8% | 0.0% | 4.6% | 5.8% | 0 | 5,628,096 | 7,028,226 | 0 | 5,628,096 | 1,400,130 |
| | Possible | 1302.4 | 48,652 | 27,803,080 | 25,093,032 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 3.6% | 0.0% | 0.0% | 3.6% | 0 | 0 | 891,442 | 0 | 0 | 891,442 |
| | Contingent | 863.1 | 13,397 | 7,806,398 | 7,045,486 | | | | | | | | | | | | | | | |
| | Prospective | 1015.3 | 44,481 | 25,663,316 | 23,161,837 | | | | | | | | | | | | | | | |
| DB | Proved | 1896.3 | 94,743 | 51,443,914 | 46,429,525 | 1.7% | 2.6% | 2.8% | 2.3% | 2.7% | 3.1% | 4.0% | 5.3% | 5.9% | 1,843,831 | 2,449,039 | 2,727,971 | 1,527,909 | 605,208 | 278,932 |
| | Probable | 897.6 | 36,114 | 20,062,029 | 18,106,524 | 0.0% | 0.0% | 0.0% | 0.0% | 4.8% | 6.0% | 0.0% | 4.8% | 6.0% | 0 | 866,373 | 1,082,966 | 0 | 866,373 | 216,593 |
| | Possible | 2057.5 | 62,912 | 33,829,690 | 30,532,211 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 3.1% | 0.0% | 0.0% | 3.1% | 0 | 0 | 937,107 | 0 | 0 | 937,107 |
| | Contingent | 2065.4 | 34,608 | 20,603,336 | 18,595,068 | | | | | | | | | | | | | | | |
| | Prospective | 3573.7 | 149,433 | 71,989,284 | 64,972,278 | | | | | | | | | | | | | | | |
| DC | Proved | 2636.3 | 156,724 | 87,486,511 | 78,958,945 | 3.0% | 3.4% | 3.5% | 3.0% | 3.6% | 4.2% | 6.0% | 7.0% | 7.7% | 4,768,778 | 5,534,745 | 6,082,269 | 3,789,779 | 765,967 | 547,524 |
| | Probable | 1551.1 | 65,506 | 36,230,291 | 32,698,818 | 0.0% | 0.0% | 0.0% | 0.0% | 4.5% | 5.6% | 0.0% | 4.5% | 5.6% | 0 | 1,476,796 | 1,845,995 | 0 | 1,476,796 | 369,199 |
| | Possible | 2170.7 | 77,492 | 43,390,601 | 39,161,193 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 4.4% | 0.0% | 0.0% | 4.4% | 0 | 0 | 1,727,433 | 0 | 0 | 1,727,433 |
| | Contingent | 221.9 | 3,370 | 2,156,193 | 1,946,023 | | | | | | | | | | | | | | | |
| | Prospective | 0.0 | 0 | 0 | 0 | | | | | | | | | | | | | | | |
| DD | Proved | 1738.5 | 107,186 | 60,855,243 | 54,923,504 | 5.6% | 6.5% | 7.1% | 2.3% | 2.7% | 3.2% | 7.9% | 9.2% | 10.3% | 4,349,715 | 5,060,260 | 5,637,681 | 3,023,292 | 710,545 | 577,420 |
| | Probable | 402.3 | 13,090 | 7,050,877 | 6,363,607 | 0.0% | 0.0% | 0.0% | 0.0% | 5.2% | 6.5% | 0.0% | 5.2% | 6.5% | 0 | 328,795 | 410,993 | 0 | 328,795 | 82,199 |
| | Possible | 1118.9 | 34,448 | 22,266,374 | 20,096,005 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 4.3% | 0.0% | 0.0% | 4.3% | 0 | 0 | 859,388 | 0 | 0 | 859,388 |
| | Contingent | 333.3 | 4,501 | 3,023,334 | 2,728,641 | | | | | | | | | | | | | | | |
| | Prospective | 0.0 | 0 | 0 | 0 | | | | | | | | | | | | | | | |
| DE | Proved | 2143.8 | 152,898 | 85,898,043 | 77,525,310 | 7.1% | 8.2% | 8.6% | 4.2% | 5.1% | 5.9% | 11.3% | 13.3% | 14.4% | 8,736,539 | 10,278,782 | 11,198,607 | 6,468,852 | 1,542,243 | 919,826 |
| | Probable | 617.7 | 18,907 | 9,628,572 | 8,690,047 | 0.0% | 0.0% | 0.0% | 0.0% | 7.8% | 9.8% | 0.0% | 7.8% | 9.8% | 0 | 682,124 | 852,655 | 0 | 682,124 | 170,531 |
| | Possible | 404.4 | 10,582 | 7,188,143 | 6,487,494 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 5.3% | 0.0% | 0.0% | 5.3% | 0 | 0 | 346,501 | 0 | 0 | 346,501 |
| | Contingent | 1268.9 | 28,793 | 21,595,069 | 19,490,134 | | | | | | | | | | | | | | | |
| | Prospective | 0.0 | 0 | 0 | 0 | | | | | | | | | | | | | | | |

*Minor variances from cashflow volumes may result as a consequence of the application of cut-off at the economic limits, cut-off at PSC termination or round off error.

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RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580

**MIE HOLDINGS CORPORATION**
**As of December 31, 2010**

**Summary of Gross Lease Oil Reserve Volumes**
**DAAN PSC**

| Block | Description | Mapped Area (Acres) | Net Pay (ac-feet) | Total HCPV (Barrels) | STOOIP (Barrels) | Recovery Factor Developed | | | Recovery Factor Undeveloped, Behind Pipe, Non-Producing | | | Total Recovery Factor | | | EUR (Barrels) | | | Remaining Volumes (Barrels) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1P | 2P | 3P | 1P | 2P | 3P | 1P | 2P | 3P | 1P | 2P | 3P | Proved | Probable | Possible |
| DFG | Proved | 3507.6 | 222,686 | 130,522,949 | 117,800,495 | 8.2% | 10.6% | 11.8% | 4.2% | 5.1% | 5.9% | 12.4% | 15.7% | 17.7% | 14,627,544 | 18,485,488 | 20,827,438 | 9,725,702 | 3,857,944 | 2,341,950 |
| | Probable | 577.9 | 19,414 | 10,340,878 | 9,332,922 | 0.0% | 0.0% | 0.0% | 0.0% | 8.0% | 10.0% | 0.0% | 8.0% | 10.0% | 0 | 747,152 | 933,940 | 0 | 747,152 | 186,788 |
| | Possible | 62.3 | 1,325 | 647,290 | 584,197 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 4.6% | 0.0% | 0.0% | 4.6% | 0 | 0 | 27,137 | 0 | 0 | 27,137 |
| | Contingent | 1056.9 | 17,192 | 9,123,842 | 8,234,514 | | | | | | | | | | | | | | | |
| | Prospective | 0.0 | 0 | 0 | 0 | | | | | | | | | | | | | | | |
| DHI | Proved | 4936.3 | 279,378 | 166,705,591 | 150,456,309 | 7.9% | 9.5% | 11.0% | 2.8% | 3.4% | 3.9% | 10.7% | 12.9% | 14.9% | 16,115,978 | 19,365,032 | 22,366,666 | 12,058,747 | 3,249,055 | 3,001,634 |
| | Probable | 699.9 | 38,060 | 23,143,012 | 20,887,195 | 0.0% | 0.0% | 0.0% | 0.0% | 5.4% | 6.7% | 0.0% | 5.4% | 6.7% | 0 | 1,118,174 | 1,395,291 | 0 | 1,118,174 | 277,117 |
| | Possible | 0.0 | 0 | 0 | 0 | | | | | | | | | | 0 | 0 | 0 | 0 | 0 | 0 |
| | Contingent | 182.8 | 2,604 | 1,405,035 | 1,268,082 | | | | | | | | | | | | | | | |
| | Prospective | 247.5 | 10,215 | 5,558,605 | 5,016,791 | | | | | | | | | | | | | | | |
| DJ | Proved | 3281.7 | 226,321 | 139,438,123 | 125,846,681 | 7.7% | 9.5% | 11.1% | 2.0% | 2.4% | 2.9% | 9.7% | 11.9% | 14.0% | 12,215,935 | 14,978,213 | 17,573,871 | 9,250,279 | 2,762,278 | 2,595,658 |
| | Probable | 541.2 | 33,367 | 20,511,501 | 18,512,185 | 0.0% | 0.0% | 0.0% | 0.0% | 6.8% | 8.5% | 0.0% | 6.8% | 8.5% | 0 | 1,257,543 | 1,571,923 | 0 | 1,257,543 | 314,380 |
| | Possible | 0.0 | 0 | 0 | 0 | | | | | | | | | | 0 | 0 | 0 | 0 | 0 | 0 |
| | Contingent | 16.5 | 1,233 | 823,154 | 742,918 | | | | | | | | | | | | | | | |
| | Prospective | 0.0 | 0 | 0 | 0 | | | | | | | | | | | | | | | |
| DK | Proved | 6395.5 | 347,354 | 204,339,604 | 184,422,026 | 11.3% | 13.6% | 15.5% | 4.1% | 5.0% | 5.9% | 15.4% | 18.6% | 21.4% | 28,362,035 | 34,319,740 | 39,394,178 | 21,975,767 | 5,957,705 | 5,074,438 |
| | Probable | 872.8 | 39,705 | 27,795,638 | 25,086,316 | 0.0% | 0.0% | 0.0% | 0.0% | 10.5% | 13.1% | 0.0% | 10.5% | 13.1% | 0 | 2,622,846 | 3,278,570 | 0 | 2,622,846 | 655,724 |
| | Possible | 1.5 | 107 | 86,788 | 78,328 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | NA* | 0.0% | 0.0% | NA* | 0 | 0 | NA | 0 | 0 | 91,213 |
| | Contingent | 375.8 | 15,318 | 13,156,474 | 11,874,074 | | | | | | | | | | | | | | | |
| | Prospective | 0.0 | 0 | 0 | 0 | | | | | | | | | | | | | | | |
| | *Recovery for possible location in Block DK estimated by analogy to existing producers and not tied directly to volumetric calculations. | | | | | | | | | | | | | | | | | | | |
| Total | Proved | 29233.3 | 1,713,774 | 996,676,946 | 899,527,930 | | | | | | | | | | | | | | | |
| | Probable | 11027.9 | 502,815 | 289,494,386 | 261,276,522 | | | | | | | | | | | | | | | |
| | Possible | 7117.7 | 235,518 | 135,211,966 | 122,032,460 | | | | | | | | | | | | | | | |
| | Contingent | 6384.5 | 121,017 | 79,692,833 | 71,924,940 | | | | | | | | | | | | | | | |
| | Prospective | 4836.6 | 204,128 | 103,211,204 | 93,150,906 | | | | | | | | | | | | | | | |

*Minor variances from cashflow volumes may result as a consequence of the application of cut-off at the economic limits, cut-off at PSC termination or round off error.

# MIAO-3 PSC
# RESERVE DISCUSSION

## *GEOLOGY*

Miao-3 Oil Field is located near Songyuan City, in Jilin Province, northeastern People's Republic of China. Exploration began in the area in the 1950's and now MIE operates over 130 wells in the Miao-3 oil field. The field is currently in a development-production phase.

Miao-3 in is on the northwestern part of the Fuyu Uplift in the center of the Songliao Basin, a Mesozoic rift basin. The reservoir is the Lower Cretaceous age Fu Yang sequence (Fuyu, Member 4, and Yangdachengzi, Member 3; $K_1q_4$) of the Quantou formation (*Figure 1*).

The structure map (*Figure 2*), on the Fuyu horizon ($K_1q_4$), is based on seismic with well control. The seismic interpretation was made by MIE (Beijing) and has been reviewed by Ryder Scott. The seismic is very good quality 2-D, shot in three phases in '89/'90, '90/'91, and '91/'92; there has been no reprocessing to date. Ryder Scott has reviewed and discussed the techniques and interpretation with representatives of MIE and accepts this map as an accurate and reasonable representation of the log and seismic information.

The structure map shows numerous N-S trending faults extending across a structure with a gentle 2-3 degree NNW dip component. The faults are generally discontinuous and not laterally extensive individually but more continuous as fault swarms.

The target reservoir is the Fu Yang sequence, a series of interbedded sands and shales. The sand bodies are mainly composed of lacustrine sands exhibiting distributary channels, bay mouth bars and delta front sheet sands. These sand units range from laminated overbank deposits to thicker channel sand in terms of thickness. Generally these deposits are laterally continuous only over short distances, as exhibited by well control.

Due to the marginal economic conditions in Miao-3, the field is primarily evaluated on a well by well basis. Reserves are calculated for the Pilot Water Flood areas as well as for individual wells that are determined to be viable based on production. Undeveloped Reserves receive 15 acre assignments based on offset production.

## *RESERVE METHODOLOGY*

### OIL RESERVES

MIE has a 90 percent interest in the Miao-3 contract area and is the operator. The other 10 percent is owned by Global Oil Corporation. The contract is now in the commercial production phase and has an expiration date of February 29, 2028.

Production from the contract area commenced in 2001 from the Cretaceous age Fu Yang sequence of the Quantou formation. As of the effective date of this report, there were 108 active producers and 23 active injectors in the contract area. Cumulative production for the field is 722 Mstb and the December 2010 production rate was 738 barrels of oil per day with a water cut of 41 percent. Recently drilled wells are on pump and produced continuously. The majority of the older wells are produced intermittently by swabbing.

# RESERVE DISCUSSION

A pilot waterflood program was approved for the contract area and injection started in November 2007 in the areas around the M3 well in M114 Block. The second pilot waterflood program started in June 2009 in the northern part of the M118 Block and is referred to as M118 Pilot Waterflood Area 1. Two additional waterflood areas have been added this year. M118 Pilot Waterflood Areas 2 and 3 started injection in April 2010. These areas are to the south where the reservoir is thicker. MIE plans to develop the field on 15 to 20 acre spacing and to ultimately waterflood the developed areas using an inverted nine spot pattern.

Decline curve analysis resulted in proved producing technical recovery factors (prior to economics) of 4.4 percent for the pilot waterflood areas. The recovery factor of the remaining proved areas ranged from 1.5 to 6.6 percent which is tied to well performance associated with local rock quality. Performance from the waterflood areas was forecast based on the available field performance projected into the future.

At this time, waterflood reserves were assigned only to the pilot waterflood areas and only probable and possible waterflood reserves were assigned since the pilot waterflood operation is still in an early stage. The reserves recovered from the non-waterflood proved wells were based on projection of available performance data. Operating costs and economic components, economic factors related to the PSC and termination of production at contract expiration result in recovery factors which are less than the technical recovery factors.

Proved, probable and possible reserves were added for locations that MIE has indicated that they would drill. We have assigned reserves by analog using the application of a type curve generated from data from the M118 waterflood area 2. This area was selected because it generated the most reliable type curve, and because most of the planned activities should be able to benefit from waterflooding operations. The following table summarizes the planned drilling activities.

| | Planned Additional Wells | | |
|---|---|---|---|
| | Total | Injectors | Producers |
| Proved | 5 | 0 | 5 |
| Probable | 3 | 0 | 3 |
| Possible | 25 | 6 | 19 |
| Total | 33 | 6 | 27 |

## GAS RESERVES

No revenue is derived from the gas produced from this property. As a result, no gas reserves have been assigned.

## SURFACE LOSS AND LIQUID YIELDS

The difference between the reported produced volumes and the sales volume for oil is currently about 12.8 percent. This difference was assumed to remain constant for the remaining life of the property and was taken into consideration in the calculation of the company's net production volumes.

# RESERVE DISCUSSION

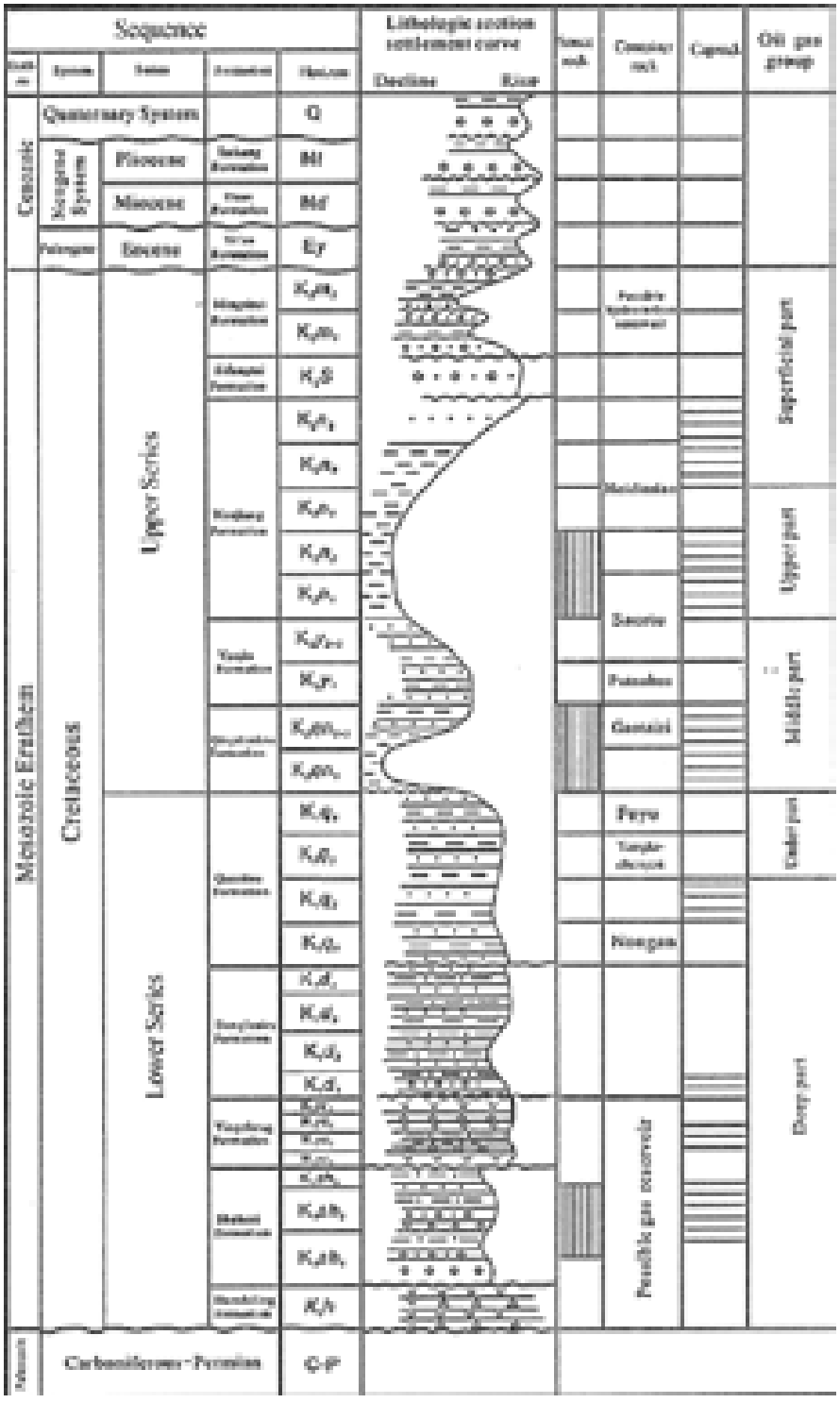



*Figure 1*. Miao3 Stratigraphic Column

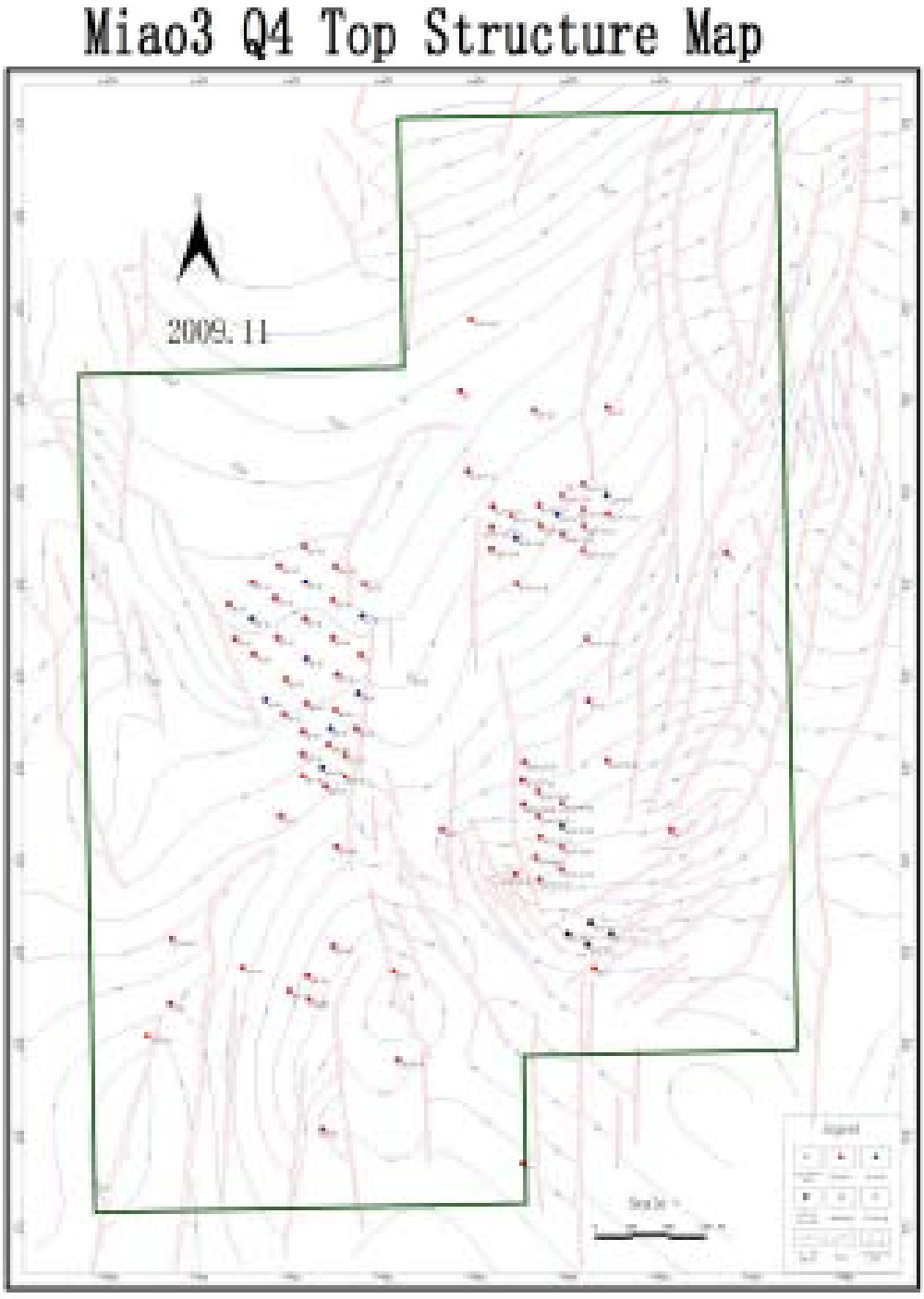



*Figure 2.* Miao 3 Structure Map (Provided by MIE)

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580

**MIE HOLDINGS CORPORATION**
**As of December 31, 2010**

**Summary of Gross Lease Oil Reserve Volumes**
**MIAO-3 PSC**

| Block | Description | Mapped Area (Acres) | Net Pay (ac-feet) | Total HCPV (Barrels) | STOOIP (Barrels) | Recovery Factor Developed | | | Recovery Factor Undeveloped, Behind Pipe, Non-Producing | | | Total Recovery Factor | | | EUR (Barrels) | | | Remaining Volumes (Barrels) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1P | 2P | 3P | 1P | 2P | 3P | 1P | 2P | 3P | 1P | 2P | 3P | Proved | Probable | Possible |
| M114 | Proved - Developed Waterflood | 623.2 | 17,376 | 7,536,885 | 7,004,540 | 4.6% | 5.6% | 6.8% | 0.0% | 0.0% | 0.0% | 4.6% | 5.6% | 6.8% | 318,763 | 393,763 | 475,830 | 52,133 | 75,000 | 82,066 |
| | Remaing Proved | 102.4 | 1,764 | 856,487 | 795,992 | 6.6% | 7.5% | 7.6% | 0.0% | 0.0% | 0.0% | 6.6% | 7.5% | 7.6% | 52,635 | 59,420 | 60,642 | 7,979 | 6,785 | 1,222 |
| | Probable | 0.0 | 0 | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | 0 | 0 |
| | Possible | 37.3 | 887 | 256,730 | 238,596 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 7.8% | 0.0% | 0.0% | 7.8% | 0 | 0 | 18,628 | 0 | 0 | 18,628 |
| | Contingent | 5789.5 | 104,314 | 46,992,450 | 43,673,281 | | | | | | | | | | | | | | | |
| | Prospective | 240.2 | 5,061 | 1,886,057 | 1,752,841 | | | | | | | | | | | | | | | |
| M118 | Proved - Developed Waterflood | 618.1 | 31,691 | 14,166,486 | 13,165,879 | 4.4% | 8.4% | 11.2% | 0.0% | 0.0% | 0.0% | 4.4% | 8.4% | 11.2% | 575,849 | 1,101,267 | 1,479,774 | 244,479 | 525,417 | 378,508 |
| | Remaing Proved | 216.9 | 4,749 | 2,046,920 | 1,902,342 | 6.3% | 8.6% | 9.2% | 2.4% | 5.6% | 7.4% | 8.7% | 14.2% | 16.6% | 165,966 | 270,113 | 316,117 | 97,628 | 104,147 | 46,004 |
| | Probable | 37.0 | 2,698 | 1,212,084 | 1,126,472 | 0.0% | 0.0% | 0.0% | 0.0% | 6.8% | 9.4% | 0.0% | 6.8% | 9.4% | 0 | 76,422 | 105,800 | 0 | 76,422 | 29,378 |
| | Possible | 267.1 | 7,754 | 3,344,456 | 3,108,231 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 7.6% | 0.0% | 0.0% | 7.6% | 0 | 0 | 234,980 | 0 | 0 | 234,980 |
| | Contingent | 5760.1 | 137,905 | 61,097,448 | 56,782,015 | | | | | | | | | | | | | | | |
| | Prospective | 1763.0 | 53,443 | 23,658,095 | 21,987,077 | | | | | | | | | | | | | | | |
| M119 | Proved - Developed Waterflood | 0.0 | 0 | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | 0 | 0 |
| | Remaing Proved | 50.1 | 2,228 | 915,069 | 850,436 | 1.5% | 1.7% | 1.7% | 0.0% | 0.0% | 0.0% | 1.5% | 1.7% | 1.7% | 12,803 | 14,057 | 14,160 | 1,477 | 1,254 | 103 |
| | Probable | 0.0 | 0 | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | 0 | 0 |
| | Possible | 0.0 | 0 | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | 0 | 0 |
| | Contingent | 3313.7 | 104,265 | 44,376,047 | 41,241,679 | | | | | | | | | | | | | | | |
| | Prospective | 0.0 | 0 | 0 | 0 | | | | | | | | | | | | | | | |
| Total | Proved - Developed Waterflood | 1241.4 | 49,067 | 21,703,371 | 20,170,419 | | | | | | | | | | | | | | | |
| | Remaing Proved | 369.4 | 8,741 | 3,818,476 | 3,548,769 | | | | | | | | | | | | | | | |
| | Probable | 37.0 | 2,698 | 1,212,084 | 1,126,472 | | | | | | | | | | | | | | | |
| | Possible | 304.4 | 8,641 | 3,601,186 | 3,346,827 | | | | | | | | | | | | | | | |
| | Contingent | 14863.2 | 346,484 | 152,465,945 | 141,696,975 | | | | | | | | | | | | | | | |
| | Prospective | 2003.2 | 58,504 | 25,544,152 | 23,739,918 | | | | | | | | | | | | | | | |

*Minor variances from cashflow volumes may result as a consequence of the application of cut-off at the economic limits, cut-off at PSC termination or round off error.

# MOLIQING PSC
# RESERVE DISCUSSION

## GEOLOGY

The Moliqing Oil Field is located in Yitong County, Jilin Province, northeastern People's Republic of China. Exploration began in the area in the late '50's and the field now has more than 150 wells drilled and operated by MIE. The field is currently in a development-production phase.

Moliqing Field (MLQ) lies in the Yitong graben, part of the Moliqing depression, on the southeastern margin of the Songliao basin, a Mesozoic rift basin. The primary oil reservoir for the field is the Eocene age Shuangyang Formation, Member 2, ($E_2S_2$) (*Figure 1*).

The Moliqing structure map (*Figure 2*) is based on seismic data and is further refined with well control. The seismic interpretation was provided by MIE (Beijing) and has been reviewed by Ryder Scott. The seismic is 3-D, shot in '90/'91 and reprocessed in 2007. The seismic is a difficult data set to work (*see Figures 3, 4, and 5*) but combined with the well control; Ryder Scott accepts MIE's interpretation as a reasonable representation of the log and seismic information.

The structure map depicts a steeply dipping, northeast plunging field cut by multiple east-west trending extensional (normal) faults as well as major north-west bounding faults. The highest structural elevation (~ 1,500 mss) is found on the southeast edge of the contract area, and the maximum depth (~ 2800 mss) is found on the northeast edge. Two ages of faulting are recognized within the Moliqing Field. The early faulting, which occurred prior to deposition of the reservoir sequence, controlled the deposition to a degree. The second, later stage of faulting, helped create reservoir traps, and may have undergone reactivation at different times up to the recent.

The Moliqing field reservoir is the Eocene-age Shuangyang Formation, Member 2. Which is a series of interbedded dark mudstones, grey muddy siltstones grading to siltstones and fine grained sandstones. Individual oil reservoir units (siltstones and sandstones) vary in thickness and are often discontinuous. Typically, individual units cannot be correlated from well to well with a high degree of certainty, but gross sand packages do appear to have some continuity. This indicates that communication between wells is likely to be poor and drainage areas limited. Most reservoir units are commingled during completion; therefore, this sequence is mapped as one reservoir.

A net pay map was generated for the Shuangyang formation, Member 2. The net oil pay thickness was from a detailed log analysis of more than 150 wells in the contract area. The gamma ray (GR) logs in this analysis are normalized to 1%-80% Cum Frequency using a standard two point normalization. For the YE2010 report RSC has updated the GR endpoints used in the normalization due to the addition of new well data. A comparison of Hydrocarbon Pore Volume (HCPV) and Net pay values from this report with those in prior years may be skewed because of this new value update.

Core data, where available, is used to calibrate the log porosity and establish cutoffs. The core regression analysis (*see Figure 6*) establishes the 6% porosity at a cutoff of 0.1md permeability. Based on a standard 1md permeability cutoff the Moliqing oil field would not be able to produce oil. With the support of production data RSC has

made a one decade shift in the permeability cutoff to 0.1md to produce reasonable pay counts supported by production data. In September 2008, RSC was presented with a report by John Schneider describing the inaccuracy of the technique used to conduct measurements on the previous core samples. Shortly after MIE resumed acquiring core data which is currently being evaluated by independent sources. Additionally a 60% water saturation cutoff was used to define effective pay.

The overall unit average porosity ranges from 13 to 16 percent with associated permeabilities in the range of .1-10md. The average water saturation is in the range of 34 to 45 percent. (Portions of the mapped area classified as Proved, Probable, and Possible are shown on the net pay map.)

Completion practices in MLQ are somewhat different than in Daan. In MLQ perforated intervals are more selective than in Daan where virtually all pay intervals are perf'd and frac'd. Therefore in MLQ there are wells with un-perf'd/frac'd pay intervals that are considered "Behind Pipe." For mapping purposes the total pay interval is included. The BP zones are then evaluated on a well-by-well basis. All of the perforated intervals in MLQ are stimulated or frac'd to improve recovery; these induced fractures are engineered to propagate though the sand bodies, but lack the ability to penetrate more than approximately 3m of shale. Any calculated pay zones that are isolated from a perforated interval or lie outside of the reach of the frac'd interval are counted as Proven pay Behind Pipe.

All the wells that have been successfully tested/analyzed are assigned 20 acres as the Proved reservoir area. Each of these wells is assigned eight direct offsets, also 20 acres each, for a combined Proved area of 180 acres around each well. A Proved plus Probable area of 500 acres is assigned to each successful well by assuming a drainage area of 20 acres and 24 direct offsets. As in Daan an economic limit of .25 HCPV is used in conjunction with a stratigraphic limit to determine reserves. The Possible limit includes the area that is above a .25 HCPV value and contained within a polygon that extends from the tangent of the Probable wells that establish the PB boundary. All reserve areas are also limited to fault blocks that have been successfully penetrated by a well bore in the formation of interest. Areas that do not meet this requirement are classified as Perspective Resource.

## RESERVE METHODOLOGY

### OIL RESERVES

MIE has a 90 percent interest in the MLQ petroleum contract and is the operator. The other 10 percent is owned by Global Oil Corporation. The contract is now in the commercial production phase and has an expiration date of November 30, 2028.

Production in the MLQ contract area commenced in 1993 from the Eocene age Shuangyang formation which is the main producing formation. Three wells (Y6-4, Y8-2, Y8-4) within the contract have the S2 commingled with the shallower Sheling formation which appears to be localized and not as well developed. Additionally, seven wells have the S2 commingled with the S1 or S3 reservoir and one well produces strictly from the

S1 reservoir. As of the effective date of this report, there were 111 total producers and 18 active injectors in the contract area. Cumulative production from the field is 5,661 Mstb, and December 2010 oil production rate was 3,299 barrels of oil per day with a water cut of 14 percent.

Certain portions of the contract area are under waterflood while others are still producing under primary depletion. MIE plans to waterflood the whole contract area when it's fully developed. For the purpose of this evaluation, waterflood recovery factors were assigned only to delineated portions of the pool. These areas, are further divided into developed and undeveloped waterflood areas. The developed waterflood areas are those continuous proved areas where water injection has started. The undeveloped waterflood areas are those continuous proved areas where water injection has not yet started. Isolated portions of the proved and all of the probable and possible areas were assigned primary recovery factors. Ryder Scott is of the opinion that the reservoir properties in these areas are not sufficiently defined to warrant the assignment of waterflood reserves at this time.

Average proved, proved plus probable, and proved plus probable plus possible waterflood technical recovery factors of 10.4 percent, 13.7 percent, and 15.3 percent, respectively, were used after giving consideration for response to date and in-field analogs. An average proved primary technical recovery factor of 4.4 percent, based on decline curve analysis of existing well performance and type curves, was used for the proved areas, while the primary recovery factors used for the mapped probable and possible areas of the contract area were from 5.5 to 8.2 percent for the probable area, and 4.2 percent for the possible area. These recovery factors include the application of economic limitations and the end of the PSC license.

As discussed in the geology section above, not all sand units included as pay were perforated in the wells. Behind pipe reserves were assigned to a portion of the unperforated pay zone for those wells. MIE provided Ryder Scott a schedule for the completion of 44 of these behind pipe activities which Ryder Scott has included in this study.

MIE plans to develop the field on 20 acre spacing and to waterflood using an inverted nine spot pattern. MIE provided Ryder Scott a projection of future drilling activities. Ryder Scott determined which of these activities are considered proved, probable, possible, or non-reserves. Based on this methodology, the number of future undeveloped locations included in reserves is as shown in the following table.

| | Total | Injectors | Producers |
|---|---|---|---|
| Proved | 36 | 8 | 28 |
| Probable | 114 | 36 | 78 |
| Possible | 67 | 13 | 54 |
| Total | 217 | 57 | 160 |

# MOLIQING PSC
# RESERVE DISCUSSION

These undeveloped locations were scheduled according to MIE's latest development schedule.

GAS RESERVES

No revenue is derived from the gas produced from this property. As a result, no gas reserves have been assigned.

SURFACE LOSS AND LIQUID YIELDS

The difference between the reported produced volumes and the sales volume for oil is currently about 6.0 percent. This difference was assumed to remain constant for the remaining life of the property and was taken into consideration in the calculation of the company's net production volumes.

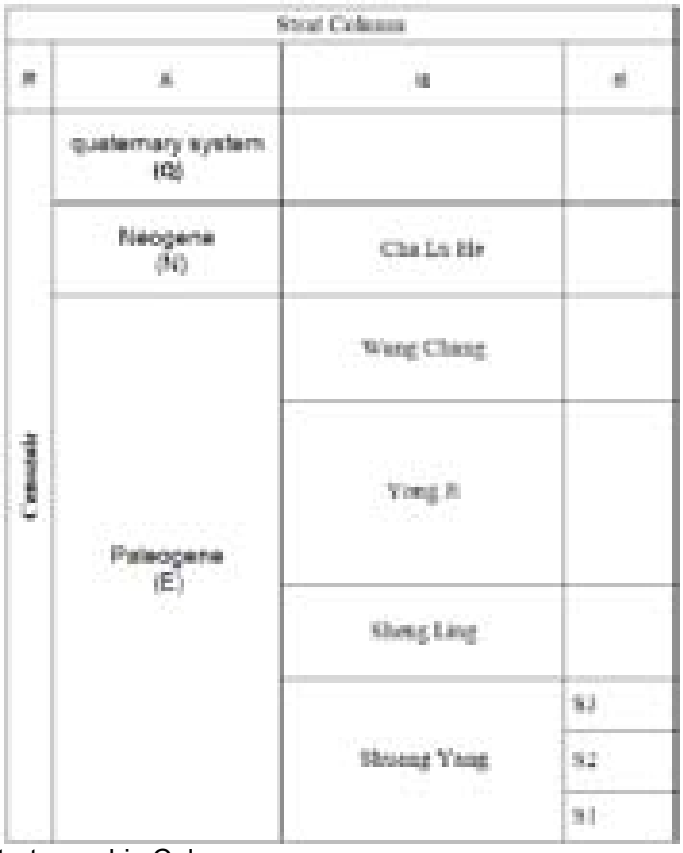



*Figure 1.* MLQ Stratagraphic Column

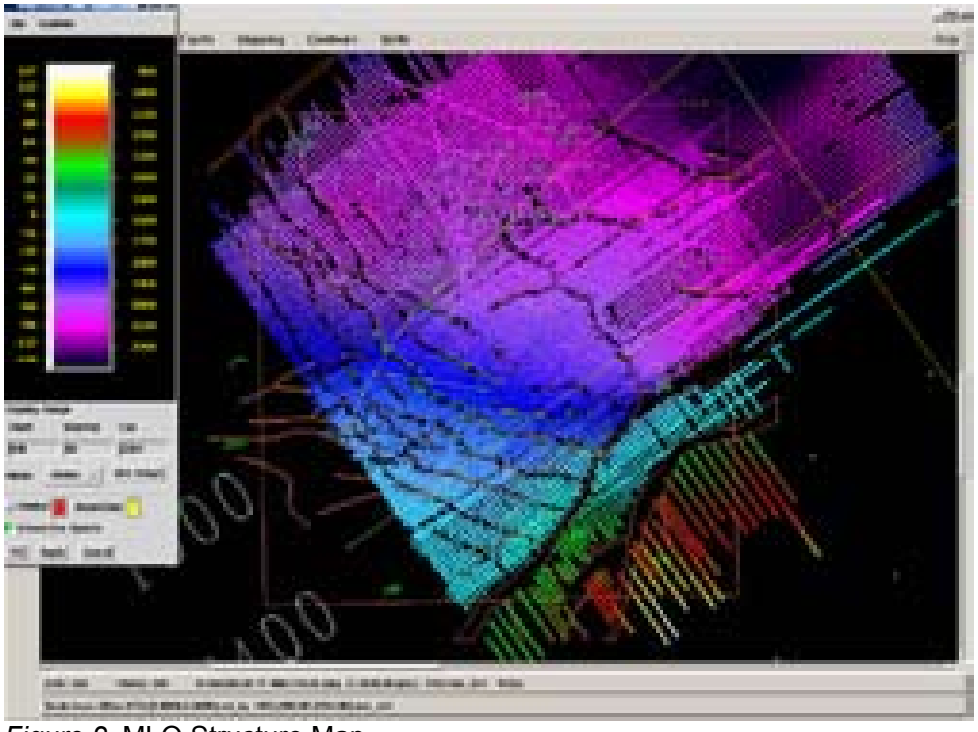


*Figure 2.* MLQ Structure Map

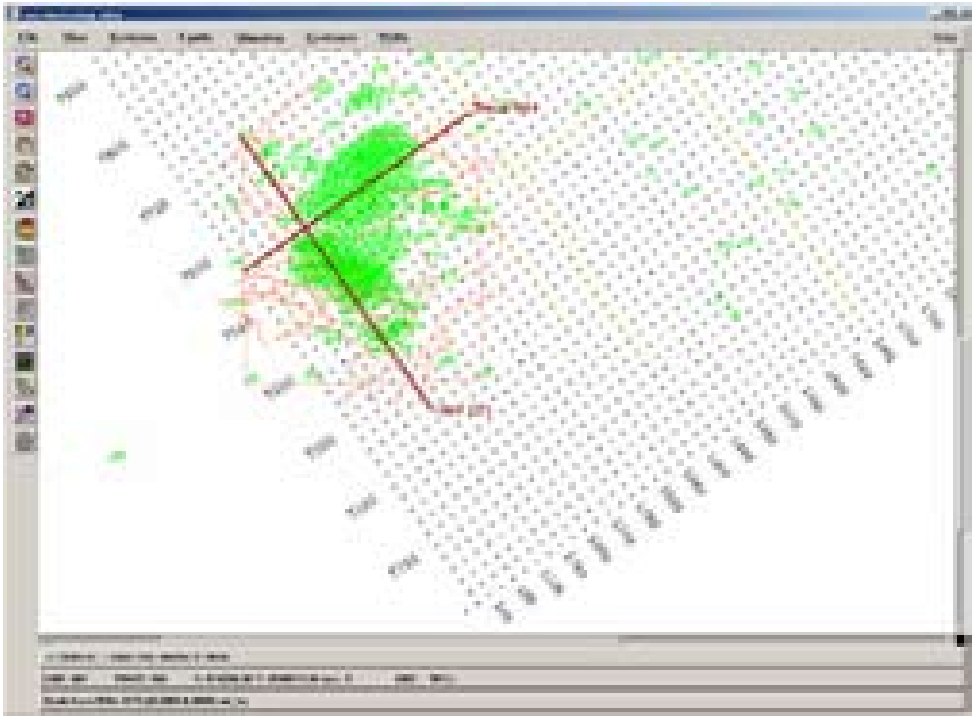


*Figure 3.* MLQ seismic grid with references to Figures 3 and 4

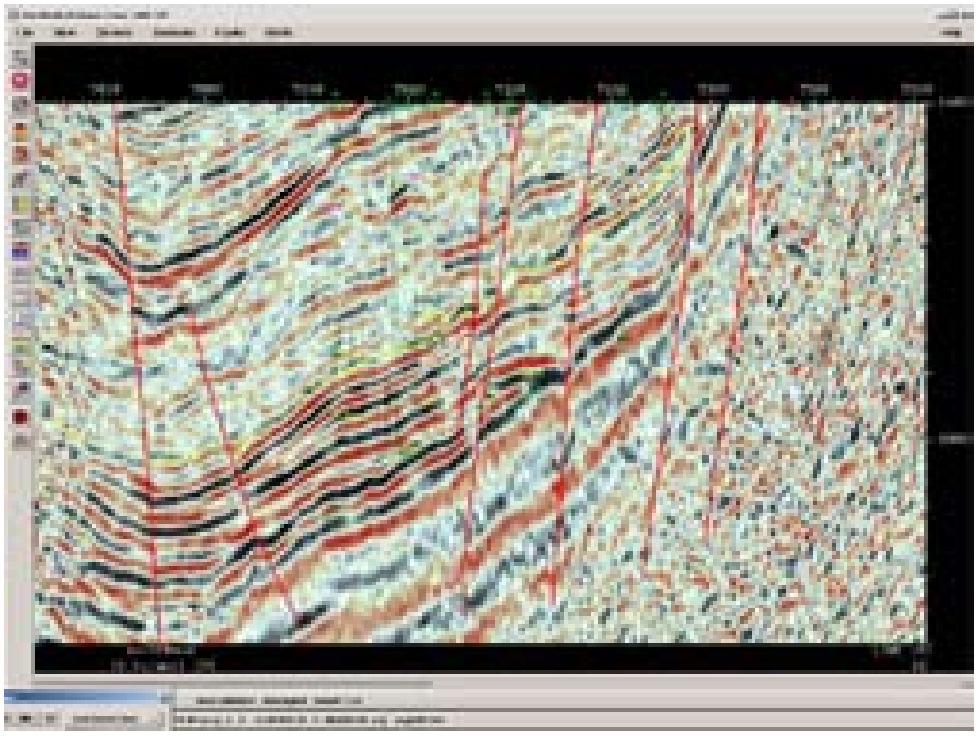


*Figure 4.* Seismic Line 121

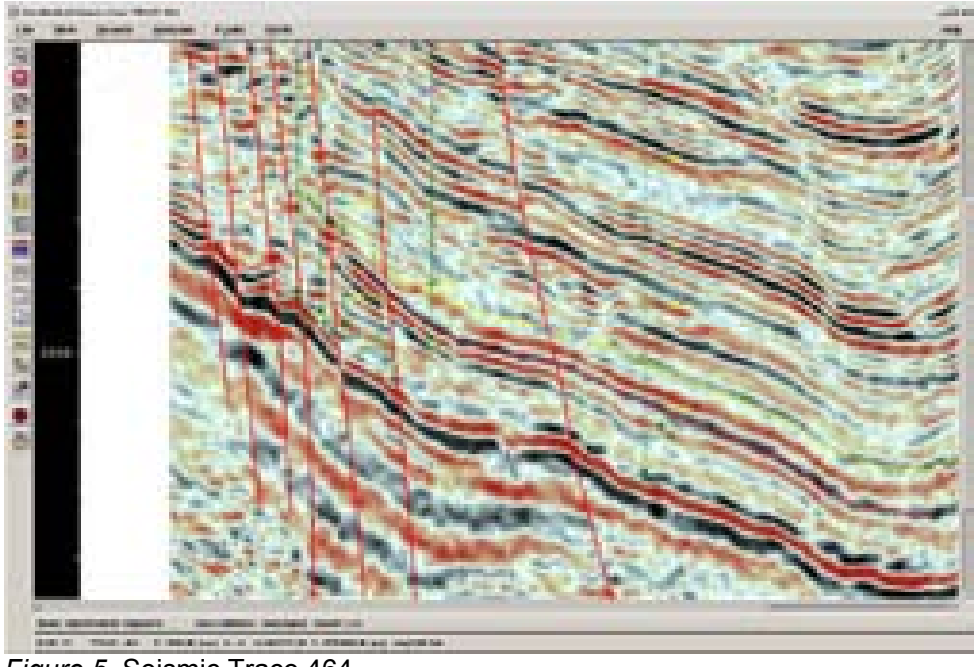


*Figure 5.* Seismic Trace 464

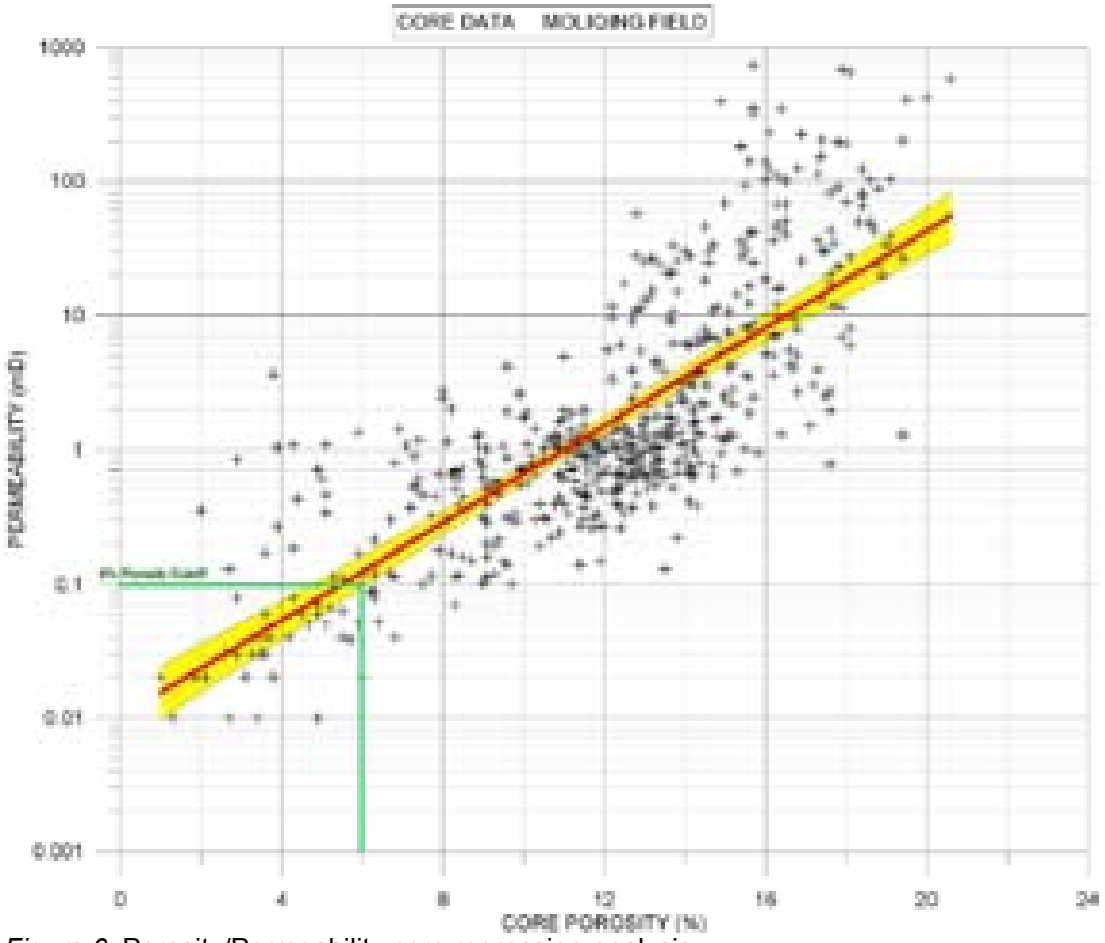



*Figure 6.* Porosity/Permeability core regression analysis

**MIE HOLDINGS CORPORATION**
**As of December 31, 2010**

**Summary of Gross Lease Oil Reserve Volumes**
**MOLIQING PSC**

| Block | Description | Mapped Area (Acres) | Net Pay (ac-feet) | Total HCPV (Barrels) | STOOIP (Barrels) | Recovery Factor Developed | | | Recovery Factor Undeveloped, Behind Pipe, Non-Producing | | | Total Recovery Factor | | | EUR (Barrels) | | | Remaining Volumes (Barrels) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1P | 2P | 3P | 1P | 2P | 3P | 1P | 2P | 3P | 1P | 2P | 3P | Proved | Probable | Possible |
| Y38 | Proved - Developed Waterflood | 0.0 | 0 | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | 0 | 0 |
| | Remaing Proved | 858.1 | 43,740 | 30,775,906 | 26,553,845 | 1.2% | 1.8% | 2.5% | 2.6% | 4.3% | 5.6% | 3.8% | 6.1% | 8.1% | 1,012,515 | 1,625,256 | 2,151,686 | 812,396 | 612,741 | 526,430 |
| | Probable | 1174.6 | 42,645 | 31,527,941 | 27,202,711 | 0.0% | 0.0% | 2.2% | 0 | 4.3% | 4.3% | 0.0% | 4.3% | 6.5% | 0 | 1,172,094 | 1,758,140 | 0 | 1,172,094 | 586,047 |
| | Possible | 598.3 | 29,004 | 20,534,511 | 17,717,438 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 3.5% | 0.0% | 0.0% | 3.5% | 0 | 0 | 616,074 | 0 | 0 | 616,074 |
| | Contingent | 146.6 | 6,713 | 3,559,896 | 3,071,524 | | | | | | | | | | | | | | | |
| | Prospective | 222.5 | 4,149 | 3,974,248 | 3,429,032 | | | | | | | | | | | | | | | |
| Y39 | Proved - Developed Waterflood | 572.9 | 44,645 | 26,856,507 | 23,172,137 | 14.6% | 19.6% | 23.6% | 2.7% | 3.2% | 3.2% | 17.4% | 22.9% | 26.8% | 4,028,882 | 5,301,814 | 6,209,524 | 2,370,903 | 1,272,932 | 907,709 |
| | Remaing Proved | 868.0 | 72,598 | 48,105,529 | 41,506,064 | 4.0% | 4.4% | 4.4% | 1.3% | 1.7% | 1.8% | 5.3% | 6.0% | 6.2% | 2,190,164 | 2,510,632 | 2,577,743 | 1,524,118 | 320,467 | 67,112 |
| | Probable | 1709.4 | 123,979 | 78,819,334 | 68,006,328 | 0.0% | 0.0% | 0.0% | 0 | 6.7% | 10.1% | 0.0% | 6.7% | 10.1% | 0 | 4,566,317 | 6,849,475 | 0 | 4,566,317 | 2,283,158 |
| | Possible | 810.7 | 66,643 | 36,772,836 | 31,728,073 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 5.5% | 0.0% | 0.0% | 5.5% | 0 | 0 | 1,753,710 | 0 | 0 | 1,753,710 |
| | Contingent | 242.3 | 13,565 | 7,765,401 | 6,700,087 | | | | | | | | | | | | | | | |
| | Prospective | 666.0 | 39,339 | 22,194,395 | 19,149,607 | | | | | | | | | | | | | | | |
| Y40 | Proved - Developed Waterflood | 0.0 | 0 | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0 | 0 | 0 | 0 | 0 | 0 |
| | Remaing Proved | 153.4 | 14,831 | 9,422,595 | 8,129,935 | 1.7% | 2.0% | 2.0% | 1.1% | 1.9% | 2.5% | 2.8% | 3.9% | 4.5% | 226,530 | 315,741 | 365,970 | 110,395 | 89,211 | 50,230 |
| | Probable | 83.2 | 9,361 | 5,894,237 | 5,085,623 | 0.0% | 0.0% | 0.0% | 0 | 2.8% | 4.2% | 0.0% | 2.8% | 4.2% | 0 | 143,430 | 215,155 | 0 | 143,430 | 71,725 |
| | Possible | 117.7 | 6,664 | 3,949,178 | 3,407,401 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 3.1% | 0.0% | 0.0% | 3.1% | 0 | 0 | 107,083 | 0 | 0 | 107,083 |
| | Contingent | 0.0 | 0 | 0 | 0 | | | | | | | | | | | | | | | |
| | Prospective | 793.3 | 34,297 | 20,730,329 | 17,886,392 | | | | | | | | | | | | | | | |
| Y41 | Proved - Developed Waterflood | 611.2 | 93,699 | 60,575,971 | 52,265,721 | 6.2% | 8.5% | 9.0% | 1.0% | 1.2% | 1.2% | 7.3% | 9.7% | 10.2% | 3,797,017 | 5,055,736 | 5,339,885 | 2,379,102 | 1,258,719 | 284,148 |
| | Remaing Proved | 93.0 | 8,543 | 5,331,339 | 4,599,948 | 2.0% | 2.2% | 2.2% | 0.0% | 0.0% | 0.0% | 2.0% | 2.2% | 2.2% | 90,406 | 100,639 | 100,639 | 29,973 | 10,233 | 0 |
| | Probable | 344.2 | 33,656 | 21,023,679 | 18,139,499 | 0.0% | 0.0% | 0.0% | 0 | 3.4% | 5.1% | 0.0% | 3.4% | 5.1% | 0 | 618,392 | 927,587 | 0 | 618,392 | 309,196 |
| | Possible | 563.7 | 50,839 | 31,612,013 | 27,275,248 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 3.3% | 0.0% | 0.0% | 3.3% | 0 | 0 | 909,552 | 0 | 0 | 909,552 |
| | Contingent | 217.6 | 4,455 | 3,274,010 | 2,824,857 | | | | | | | | | | | | | | | |
| | Prospective | 577.4 | 27,759 | 15,704,101 | 13,549,699 | | | | | | | | | | | | | | | |
| Total | Proved - Developed Waterflood | 1184.2 | 138,343 | 87,432,477 | 75,437,858 | | | | | | | | | | | | | | | |
| | Remaing Proved | 1972.5 | 139,713 | 93,635,369 | 80,789,792 | | | | | | | | | | | | | | | |
| | Probable | 3311.4 | 209,641 | 137,265,192 | 118,434,160 | | | | | | | | | | | | | | | |
| | Possible | 2090.4 | 153,149 | 92,868,538 | 80,128,160 | | | | | | | | | | | | | | | |
| | Contingent | 606.5 | 24,733 | 14,599,307 | 12,596,468 | | | | | | | | | | | | | | | |
| | Prospective | 2259.2 | 105,544 | 62,603,072 | 54,014,730 | | | | | | | | | | | | | | | |

*Minor variances from cashflow volumes may result as a consequence of the application of cut-off at the economic limits, cut-off at PSC termination or round off error.

*The following is the text of the Competent Person's Report in respect of the estimate of reserves in the Contract Area received from the Competent Person, Chapman Petroleum Engineering, for the purpose of inclusion in this circular.*

The Competent Person confirms that no material changes had occurred since the effective date of the Competent Person's Report (i.e. December 31, 2010) to the Latest Practicable Date.

# RESERVE AND ECONOMIC EVALUATION OIL AND GAS PROPERTIES

# ADEK BLOCK REPUBLIC OF KAZAKHSTAN

**Owned by**
**BMB MUNAI, INC.**

**Prepared For**

## MIE HOLDINGS CORPORATION

**January 1, 2011**
**(December 31, 2010)**

March 18, 2011

**MIE Holdings Corporation**
**MI Energy Corporation**
Suite 905, Block B, Grand Place
5 Hui Zhong Road
Chaoyang District
Beijing, 100101
P.R. China

**Attention: Mr. Forrest Dietrich – Senior VP and Director**

Dear Sir:

**Re: ADEK Block, Republic of Kazakhstan**
**Reserve and Economic Evaluation – January 1, 2011**

In accordance with your authorization we have performed a reserve and economic evaluation of an oil and gas property owned by BMB Munai, Inc. (the "Company") through its subsidiary company Emir Oil LLP, in the ADEK Block (License Area), in Mangistau Oblast, Republic of Kazakhstan for an effective date of January 1, 2011 (as of December 31, 2010). This report has been prepared for MIE Holdings Corporation.

This evaluation has been carried out in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook ("COGEH") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society) and standards of SPE-PRMS (2007). The report has been prepared and/or supervised by a "Qualified Reserves Evaluator" as demonstrated on the accompanying Certificate of Qualification of the author(s), and who are qualified "Competent Persons" under rules 18.21 and 18.22 under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The SCOPE OF REPORT contains the authorization and purpose of the report and describes the methodology and economic parameters used in the preparation of this report.

The EXECUTIVE SUMMARY contains the results of this reserve and economic evaluation presented in a form consistent with the requirements of Form 51-101 F1 Part 2, Item 2.1 (Forecast Prices and Costs). The Forecast Prices of our benchmark products are also presented.

The SUMMARY OF RESERVES AND ECONOMICS complements the Executive Summary, including values at the property level and the consolidated cash flows for each accumulating reserve category. The net present values presented in this report do not necessarily represent the fair market value of the reserves evaluated in this report. ALL MONETARY VALUES PRESENTED IN THIS REPORT ARE EXPRESSED IN TERMS OF US DOLLARS.

The DISCUSSION contains a description of the interests and burdens, reserves and geology, production forecasts, product prices, capital and operating costs and a map of each major property. The economic results and cash flow forecasts (before income tax) are also presented.

The Prospective Resources on the ADEK Block are summarized in Appendix A.

Short site visit report is presented in Appendix B.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be significant. We have no responsibility to update our report for events and circumstances which may have occurred since the date of this report.

Prior to public disclosure of any information contained in this report, or our name as author, our written consent must be obtained, as to the information being disclosed and the manner in which it is presented. This report may not be reproduced, distributed or made available for use by any other party without our written consent and may not be reproduced for distribution at any time without the complete context of the report, unless otherwise reviewed and approved by us.

We consent to the submission of this report, in its entirety, to securities regulatory agencies and stock exchanges, by the Companies, including by MIE Holdings Corporation to the Hong Kong Stock Exchange in accordance with its regulations and also for MIE Holdings Corporation in support of current and new financing activities.

We have given and have not withdrawn our written consent to the inclusion of our firm name and our report and references thereto in the circular of MIE Holding Corporation (the "Circular").

It has been a pleasure to prepare this report and the opportunity to have been of service is appreciated.

Yours very truly,
**Chapman Petroleum Engineering Ltd.**

Original Signed By:

*C.W. Chapman*
C.W. Chapman, P. Eng.,
President

The Report original is endorsed with
APEGGA "PERMIT TO PRACTICE" STAMP
signed by Mr. C.W. Chapman,
dated April 5, 2011

Original Signed By:

*Konstantin Zaitsev*
Konstantin Zaitsev, T.T.
Technologist

kvz/lml/5323

## CERTIFICATE OF QUALIFICATION

I, C. W. CHAPMAN, P. Eng., Professional Engineer of the City of Calgary, Alberta, Canada, officing at Suite 445, 708 – 11th Avenue S.W., hereby certify:

1. THAT I am a registered Professional Engineer in the Province of Alberta and a member of the Australasian Institute of Mining and Metallurgy.

2. THAT I graduated from the University of Alberta with a Bachelor of Science degree in Mechanical Engineering in 1971.

3. THAT I have been employed in the petroleum industry since graduation by various companies and have been directly involved in reservoir engineering, petrophysics, operations, and evaluations during that time.

4. THAT I have in excess of 25 years in the conduct of evaluation and engineering studies relating to oil & gas fields in Canada and around the world.

5. THAT I participated directly in the evaluation of these assets and properties and preparation of this report for MIE Holdings Corporation, dated March 18, 2011 and the parameters and conditions employed in this evaluation were examined by me and adopted as representative and appropriate in establishing the value of these oil and gas properties according to the information available to date. I am the "responsible member" for this report under our APEGGA Permit to Practice #P4201.

6. THAT I have not, nor do I expect to receive, any direct or indirect interest in the properties or securities of MIE Holdings Corporation or BMB Munai Inc., its participants or any affiliate thereof. I am independent of MIE Holdings Corporation or BMB Munai Inc. directors, senior management and advisers. Our fees are not contingent on the findings of this report.

7. THAT I have not examined all of the documents pertaining to the ownership and agreements referred to in this report, or the chain of Title for the oil and gas properties discussed.

8. A personal field examination of these properties was considered to be unnecessary because the data available from the Company's records and public sources was satisfactory for our purposes.

Original Signed By:

*C.W. Chapman*

C. W. Chapman, P.Eng.
President

The Report original is endorsed with
APEGGA "PERMIT TO PRACTICE" STAMP
signed by Mr. C.W. Chapman,
dated April 5, 2011

## CERTIFICATE OF QUALIFICATION

I, KONSTANTIN ZAITSEV, of the City of Calgary, Alberta, Canada, officing at Suite 445, 708 – 11th Avenue S.W., hereby certify:

1. THAT I am a registered Technologist-In-Training in the Province of Alberta.

2. THAT I graduated from the Kazak National Technical University, Kazakhstan, Almaty with a Bachelor of Science degree in Mechanical Engineering in 1996.

3. THAT I participated directly in the evaluation of these assets and properties and preparation of this report for MIE Holdings Corporation, dated March 18, 2011 and the parameters and conditions employed in this evaluation were examined by me and adopted as representative and appropriate in establishing the value of these oil and gas properties according to the information available to date.

4. THAT I have not, nor do I expect to receive, any direct or indirect interest in the properties or securities of MIE Holdings Corporation, its participants or any affiliate thereof. I am independent of MIE Holdings Corporation or BMB Munai Inc. directors, senior management and advisers. My fees are not contingent on the findings of this report.

5. THAT I have not examined all of the documents pertaining to the ownership and agreements referred to in this report, or the chain of Title for the oil and gas properties discussed.

6. A personal field examination of these properties was considered to be unnecessary because the data available from the Company's records and public sources was satisfactory for our purposes.

Original Signed By:

*Konstantin Zaitsev*

Konstantin Zaitsev, T.T.
Technologist

## CERTIFICATE OF QUALIFICATION

I, D. J. BRIERE, P. Eng., Professional Engineer of the City of Calgary, Alberta, Canada, officing at Suite 445, 708 – 11th Avenue S.W., hereby certify:

1. THAT I am a registered Professional Engineer in the Province of Alberta.

2. THAT I graduated from the University of Calgary with a Bachelor of Science degree in Electrical Engineering in 1978.

3. THAT I have been employed in the petroleum industry since graduation by various companies and have been directly involved in reservoir engineering, petrophysics, operations, and evaluations during that time.

4. THAT I have in excess of 30 years experience in engineering studies relating to oil & gas fields in Canada and around the world.

5. THAT I participated directly in the evaluation of these assets and properties and preparation of this report for MIE Holdings Corp., dated March 18, 2011 and the parameters and conditions employed in this evaluation were examined by me and adopted as representative and appropriate in establishing the value of these oil and gas properties according to the information available to date.

6. THAT I have not, nor do I expect to receive, any direct or indirect interest in the properties or securities of MIE Holdings Corp., its participants or any affiliate thereof. I am independent of MIE Holdings Corporation or BMB Munai Inc. directors, senior management and advisers. My fees are not contingent on the findings of this report.

7. THAT I have not examined all of the documents pertaining to the ownership and agreements referred to in this report, or the chain of Title for the oil and gas properties discussed.

8. A personal field examination of these properties was considered to be unnecessary because the data available from the Company's records and public sources was satisfactory for our purposes.

Original Signed By:

*D.J. Brière*

D. J. Brière, P.Eng.
General Manager International

# RESERVE AND ECONOMIC EVALUATION
# OIL AND GAS PROPERTIES

## ADEK BLOCK
## REPUBLIC OF KAZAKHSTAN

**Owned by**
**BMB MUNAI, INC.**

**Prepared For**

## MIE HOLDINGS CORPORATION

**January 1, 2011**
**(December 31, 2010)**

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## SCOPE OF REPORT

### AUTHORIZATION

This evaluation has been authorized by Mr. Forrest Dietrich, on behalf of MIE Holdings Corporation. The engineering analysis has been performed over the months of February and March 2011.

### PURPOSE

The purpose of this report was to prepare a third party independent appraisal of the oil and gas reserves owned by BMB Munai, Inc. through its subsidiary company Emir Oil LLP. in the ADEK Block for MIE Holdings Corporation in support of its filing on the Hong Kong Stock exchange as a major acquisition and inclusion in the Circular.

The values in this report do not include the value of the Company's undeveloped land holdings nor the tangible value of their interest in associated plant and well site facilities they may own.

### RESERVE DEFINITIONS

The following definitions, extracted from Sections 5.4 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1) published by the Petroleum Society of CIM and the Calgary Chapter of the Society of Petroleum Evaluation Engineers (SPEE) as specified by NI 51-101 have been used in preparing this report. These definitions are compliant with the PRMS. Reserves, as presented in this report, have been prepared using a deterministic method.

### 5.4 Definitions of Reserves

The following definitions and guidelines are designed to assist evaluators in making reserves estimates on a reasonably consistent basis, and assist users of evaluation reports in understanding what such reports contain and, if necessary, in judging whether evaluators have followed generally accepted standards.

The guidelines outline

- General criteria for classifying reserves,
- Procedures and methods for estimating reserves,
- Confidence levels of individual entity and aggregate reserves estimates,
- Verification and testing of reserves estimates.

The determination of oil and gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved, probable, and possible

reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery.

The estimation and classification of reserves requires the application of professional judgement combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions. The concepts are presented and discussed in greater detail within the guidelines of Section 5.5 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1).

The following definitions apply to both estimates of individual Reserves Entities and the aggregate of reserves for multiple entities.

***5.4.1 Reserves Categories***

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on

- Analysis of drilling, geological, geophysical, and engineering data;
- The use of established technology;
- Specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

a. Proved Reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

b. Probable Reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves.

c. Possible Reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved + probable + possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in Section 5.5.4 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1).

### *5.4.2 Development and Production Status*

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories.

a. Developed Reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

   Developed Producing Reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

   Developed Non-Producing Reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in and the date of resumption of production is unknown.

b. Undeveloped Reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

   In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to sub-divide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

### *5.4.3 Levels of Certainty for Reported Reserves*

The qualitative certainty levels contained in the definitions in Section 5.4.1 are applicable to "individual reserves entities," which refers to the lowest level at which reserves calculations are performed, and to "reported reserves," which refers to the highest level sum of individual entity estimates for which reserves estimates are presented. Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- At least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves,

- At least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved + probable reserves,

- At least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved + probable + possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates are prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in Section 5.5.3 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1).

**RESOURCE DEFINITIONS**

The following definitions, extracted from Section 5.2 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1) published by the Petroleum Society of CIM, and the Calgary chapter of the Society of Petroleum Evaluation Engineers (SPEE), as specified by Canadian Securities Regulations NI 51-101. These definitions relate to the subdivisions in the resources classification framework of Figure 1 which follows and use the primary nomenclature and concepts contained in the 2007 SPE-PRMS.

Total Petroleum Initially-In-Place (PIIP) is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered (equivalent to "total resources").

Discovered Petroleum Initially-In-Place (equivalent to "discovered resources") is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially in place includes production, reserves, and contingent resources; the remainder is unrecoverable.

**a) Production**

Production is the cumulative quantity of petroleum that has been recovered at a given date.

**b) Reserves**

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are further classified according to the level of certainty associated with the estimates and may be subclassified based on development and production status.

**c) Contingent Resources**

Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent Resources are further classified in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

**d) Unrecoverable**

Unrecoverable is that portion of Discovered or Undiscovered PIIP quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to the physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

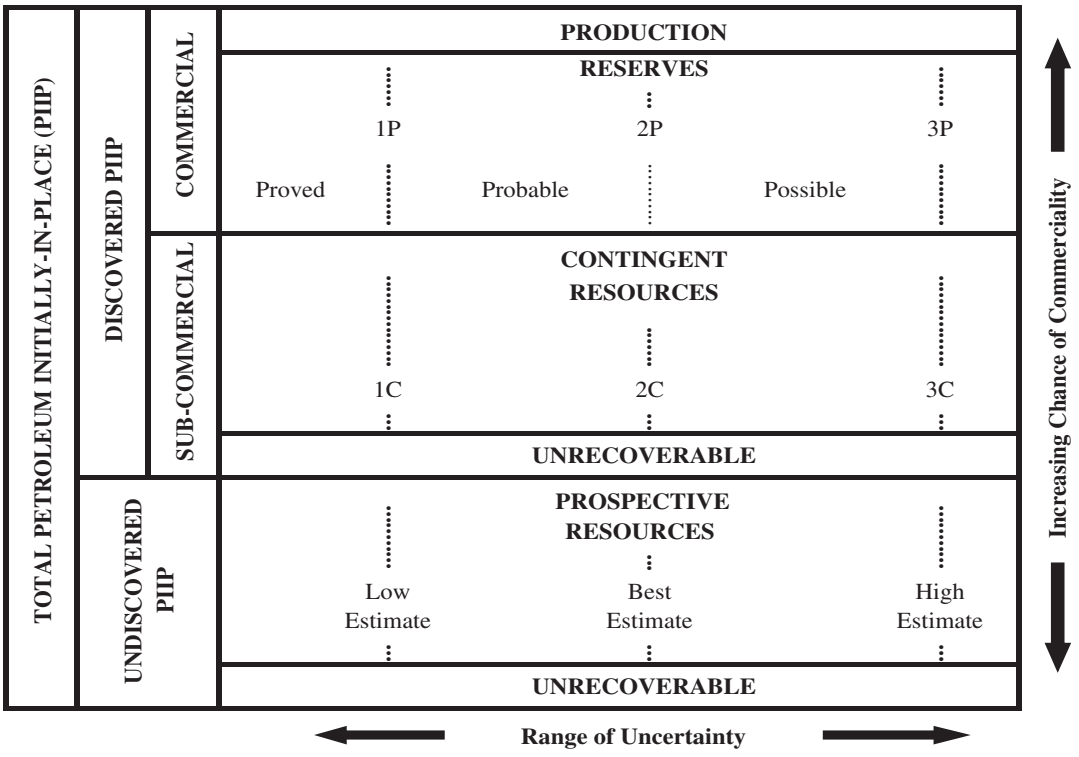
Undiscovered Petroleum Initially In Place (equivalent to "undiscovered resources") is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is referred to as "prospective resources", the remainder as "unrecoverable".

**a) Prospective Resources**

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be subclassified based on project maturity.

There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

**Figure 1 – Resources classification framework (SPE-PRMS, Figure 1.1).**




## BARRELS OF OIL EQUIVALENT

If at any time in this report reference is made to "Barrels of Oil Equivalent" (BOE), the conversion used is 6 Mscf: 1 STB (6 Mcf: 1 bbl).

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalency at the well head.

## SOURCES OF INFORMATION

Source of the data used in the preparation of this report are as follows:

i) Ownership and Burdens have been derived from information from the Company's records and our correspondence with the Company;

ii) Production data is acquired from he Company's files directly;

iii) Well data is accessed from the Company's well files;

iv) Operating Costs are based on discussions with the Company and our experience in the area for new properties;

v) Price differentials are derived by the Company regarding transportation tariffs, point of sales and domestic requirements;

vi) Timing of Development Plans and Capital estimates are determined by discussions with the Company together with our experience and judgment.

**PRODUCT PRICES**

Forecast oil prices utilized for this report, to meet NI 51-101 and PRMS criteria are based on the following:

i) The export price is established using the forecasted Brent price less a transportation discount of $16.37/STB, export duty of $5.20/STB and the corresponding Export Rent Tax (ERT);

ii) The domestic price is legislated by the government to be $26.72/STB, reduced by the Value Added Tax (VAT) of 12%, resulting in $23.45/STB;

iii) A gas price of $1.16/Mscf (after VAT) has been used in this report;

iv) We have assumed an export/domestic sales split of 90/10 for the first three years and 80/20 thereafter.

The price forecast and basic criteria are presented in Table 5 of the Executive Summary.

**ROYALTIES**

The royalty scheme of Kazakhstan has been incorporated into this evaluation as discussed in the body of this report.

**CAPITAL EXPENDITURES AND OPERATING COSTS**

Operating costs and capital expenditures have been based on historical experience and analogy where necessary and are expressed in current year dollars and escalated as follows:

2011 – No Escalation
2012-2026 – 2.0% per year
Thereafter – No Escalation

## INCOME TAX PARAMETERS

We have prepared an "after tax" analysis of the cash flows in this report based on information from the Company and a review of the Tax Code for the Republic of Kazakhstan.

The corporate income tax rate for Kazakhstan is 20% until January 1, 2013m 17.5% for 2013 and 15% from January 1, 2014 and thereafter.

Capital expenditures for oil and gas wells, facilities and plants are depreciated straight line, over four years.

Excess profit taxes have also been accounted for, based on calculation methods from a bulletin published by a worldwide accounting firm.

## ABANDONMENT AND RESTORATION

Abandonment and restoration costs, net of salvage, have been included in the cash flows for the final event of any particular well. The abandonment cost does not impact the economic limit and is included in the final year of production automatically by ERGO.

## ENVIRONMENTAL LIABILITIES

We have been advised by the Company that they are in material compliance with all Environmental Laws and do not have any Environmental Claims pending, as demonstrated in the Representation Letter attached.

## ECONOMICS

The results of the before tax economic analysis, which are presented for each entity and property summary, are in a condensed form presented on one page for simplicity in analyzing the cash flows, however, if for any reason more extensive breakdown of the cash flow is required, a separate schedule can be provided showing the full derivation and breakdown of any or all of the columns on the summary page.

The economic presentation shows the gross property and company gross and net (before and after royalty) production of oil, gas and each NGL product along with the product prices adjusted for oil quality and heating value of gas. Oil prices also include the deduction for trucking costs where applicable for royalty deductions.

The second level includes the revenues, royalties, operating costs, processing income, abandonment costs, capital and cash flow of the property. Operating costs are presented for the gross property and the company share, split between variable and fixed costs, and the effective cost per BOE.

Net revenues are presented annually and as a net back in $/BOE. Revenue from custom processing of oil or gas is presented separately.

The third level of data presents the cumulative cash flow values (present worth) for various discount rates. Also, the net cash flow breakdown is presented. The project profitability criteria are summarized on the bottom right of the page. These data are not relevant in the case of corporate evaluations but are useful in assessing individual capital projects.

The income tax and excess profits tax calculations are presented on a second page.

In this report, no economic values have been assigned for Possible Reserves or Prospective Resources.

## EXECUTIVE SUMMARY
## INDEX

**Forecast Prices and Costs**


Introduction

Orientation Map

Table 1: Summary of Oil & Gas Reserves

Table 2: Summary of Net Present Values

Table 3: Total Future Net Revenue (Undiscounted)

Table 4: Future Net Revenue – By Production Group

Table 4A: Reserves and Net Present Values – By Production Group

Table 5: Product Price Forecasts

**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**ADEK BLOCK**
**EXECUTIVE SUMMARY**

## INTRODUCTION

The Company owns a 100 percent working interest in a "License" and "Exploration Contract" referred to as the ADEK Block which is located onshore in Kazakhstan in the Mangistau Oblast, approximately 50 kilometers from Aktau in the Republic of Kazakhstan (ROK).

Initially, the exploration contract granted us the right to engage in exploration and development activities in an area of approximately 200 square kilometers referred to herein as the "ADE Block."

The ADE Block is comprised of three fields, the Aksaz, Dolinnoe and Emir fields. During the 2006 fiscal year the exploration contract was expanded to include an additional 260 square kilometers of land adjacent to the ADE Block, which we refer to herein as the "Southeast Block", which includes the Kariman oil and gas field and the Borly and Yessen structures.

The following table summarizes the Target Company's gross and net developed and undeveloped land by block as of December 31, 2010:

| | **As at December 31, 2010** | | | | | |
|---|---|---|---|---|---|---|
| | **Developed** | | **Undeveloped** | | **Total** | |
| | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** |
| | *(in Acres)* | | | | | |
| ADE Block | 970 | 970 | 46,785 | 46,785 | 47,755 | 47,755 |
| Southeast Block | 750 | 750 | 65,165 | 65,165 | 65,915 | 65,915 |

To date, there are 24 existing wells, 16 of which are currently producing at total rate of 2,572 STB/day.

The ADEK Block is located at the edge of the Mangistau Ustyrt Central High which contains several producing oilfields in the area. The main producing horizon is the Middle Triassic carbonate.

The Jurassic is a secondary opportunity for hydrocarbon potential as indicated by log analysis. Resource potential has been identified, but reserves have not been assigned or evaluated in this report.

A map of the ADEK block is presented on the next page.









**LEGEND**

- AREA OF INTEREST
- FAULT LINES
- AREA OF ASSIGNED RESERVES

**BMB MUNAI, INC.**

**ADEK BLOCK**
**(LICENSE TERRITORY)**
**MANGISTAU OBLAST, KAZAKHSTAN**
**ORIENTATION MAP**

JAN. 2011 JOB No. 5323

Chapman Petroleum Engineering Ltd.

**Table 1**

**BMB Munai, Inc.**
**Summary of Oil and Gas Reserves**
**January 1, 2011**
**(as of December 31, 2010)**

**Forecast Prices and Costs**

| | Company Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Light and Medium Oil | | Heavy Oil | | Natural Gas 1 | | Natural Gas Liquids | |
| | *Gross* | *Net* | *Gross* | *Net* | *Gross* | *Net* | *Gross* | *Net* |
| **Reserves Category** | *MSTB* | *MSTB* | *MSTB* | *MSTB* | *MMscf* | *MMscf* | *Mbbl* | *Mbbl* |
| **PROVED** | | | | | | | | |
| Developed Producing | 8,030 | 8,030 | 0 | 0 | 6,322 | 6,322 | 0 | 0 |
| Developed Non-Producing | 12,919 | 12,919 | 0 | 0 | 16,526 | 16,526 | 0 | 0 |
| Undeveloped | 2,590 | 2,590 | 0 | 0 | 3,994 | 3,994 | 0 | 0 |
| **TOTAL PROVED** | **23,539** | **23,539** | **0** | **0** | **26,842** | **26,842** | **0** | **0** |
| **PROBABLE** | 61,451 | 61,451 | 0 | 0 | 36,821 | 36,821 | 0 | 0 |
| **TOTAL PROVED PLUS PROBABLE** | **84,990** | **84,990** | **0** | **0** | **63,663** | **63,663** | **0** | **0** |
| **POSSIBLE** | 29,714 | 29,714 | 0 | 0 | 34,155 | 34,155 | 0 | 0 |
| **TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE** | **114,704** | **114,704** | **0** | **0** | **97,818** | **97,818** | **0** | **0** |

Reference: Item 2.1
(1) Form 51-101F1

Columns may not add precisely due to accumulative rounding of values throughout the report.

*Notes:* 1 Includes associated, non-associated and solution gas where applicable.

**Table 2**

**BMB Munai, Inc.**
**Summary of Net Present Values**
**January 1, 2011**
**(as of December 31, 2010)**

**Forecast Prices and Costs**

**Before Income Tax**

| Reserves Category | Net Present Values of Future Net Revenue Discounted at 0%/yr. *M$* | 5%/yr. *M$* | 10%/yr. *M$* | 15%/yr. *M$* | 20%/yr. *M$* |
|---|---|---|---|---|---|
| **PROVED** | | | | | |
| Developed Producing | 386,500 | 271,250 | 210,125 | 172,886 | 147,851 |
| Developed Non-Producing | 624,071 | 414,395 | 303,747 | 237,412 | 193,736 |
| Undeveloped | 96,314 | 70,553 | 52,863 | 40,370 | 31,331 |
| **TOTAL PROVED** | **1,106,885** | **756,198** | **566,735** | **450,668** | **372,918** |
| **PROBABLE** | 2,675,462 | 1,282,065 | 745,750 | 486,584 | 341,172 |
| **TOTAL PROVED PLUS PROBABLE** | **3,782,347** | **2,038,263** | **1,312,485** | **937,252** | **714,090** |

**After Income Tax**

| Reserves Category | Net Present Values of Future Net Revenue Discounted at 0%/yr. *M$* | 5%/yr. *M$* | 10%/yr. *M$* | 15%/yr. *M$* | 20%/yr. *M$* |
|---|---|---|---|---|---|
| **PROVED** | | | | | |
| Developed Producing | 287,967 | 221,343 | 177,114 | 149,175 | 130,098 |
| Developed Non-Producing | 395,997 | 284,518 | 210,939 | 166,225 | 137,063 |
| Undeveloped | 73,876 | 54,786 | 41,474 | 31,921 | 24,907 |
| **TOTAL PROVED** | **757,839** | **560,648** | **429,527** | **347,321** | **292,068** |
| **PROBABLE** | 1,971,887 | 1,116,799 | 667,740 | 435,840 | 304,367 |
| **TOTAL PROVED PLUS PROBABLE** | **2,729,727** | **1,677,447** | **1,097,267** | **783,161** | **596,434** |

Reference: Item 2.1 (2) Form 51-101F1

**M$ means thousands of dollars**

Columns may not add precisely due to accumulative rounding of values throughout the report.

**Table 3**

**BMB Munai, Inc.**
**Total Future Net Revenue (Undiscounted)**
**January 1, 2011**
**(as of December 31, 2010)**

**Forecast Prices and Costs**

| Reserve Category | Revenue | Royalties | Operating Costs | Development Costs | Well Abandonment Costs | Future Net Revenues BIT | Income Taxes Plus EPT | Future Net Revenues AIT |
|---|---|---|---|---|---|---|---|---|
| | *M$* | *M$* | *M$* | *M$* | *M$* | *M$* | *M$* | *M$* |
| Total Proved | 1,425,697 | 92,495 | 185,282 | 39,390 | 1,645 | 1,106,885 | –349,046 | 757,839 |
| Proved Plus Probable | 5,369,176 | 422,317 | 692,620 | 468,271 | 3,622 | 3,782,347 | –1,052,620 | 2,729,727 |

Reference: Item 2.1 (3)(b) NI 51-101F1

**M$ means thousands of dollars**

**Table 4**

**BMB Munai, Inc.**
**Future Net Revenue**
**By Production Group**
**January 1, 2011**
**(as of December 31, 2010)**

**Forecast Prices and Costs**

| Reserve Category | Production Group | Future Net Revenue Before Income Taxes Discounted at 10%/yr. *M$* |
|---|---|---|
| Total Proved | Light and Medium Oil (including solution gas and other by-products) | 566,735 |
| | Heavy Oil (including solution gas and other by-products) | 0 |
| | Natural Gas (including by-products but not solution gas) | 0 |
| Proved Plus Probable | Light and Medium Oil (including solution gas and other by-products) | 1,312,485 |
| | Heavy Oil (including solution gas and other by-products) | 0 |
| | Natural Gas (including by-products but not solution gas) | 0 |

Reference: Item 2.1 (3)(c) NI 51-101F1

**M$ means thousands of dollars**

**Table 4A**

**BMB Munai, Inc.**
**Oil and Gas Reserves and Net Present Values**
**by Production Group**
**January 1, 2011**
**(as of December 31, 2010)**

**Forecast Prices and Costs**

| Reserve Group by Category | Reserves Oil Gross MSTB | Oil Net MSTB | Gas Gross MMscf | Gas Net MMscf | NGL Gross Mbbl | NGL Net Mbbl | Net Present Value (BIT) 10% M$ | Unit Values @ 10%/yr. $/STB |
|---|---|---|---|---|---|---|---|---|
| **Light and Medium Oil 1** | | | | | | | | |
| **Proved** | | | | | | | | |
| Developed Producing | 8,030 | 8,030 | 6,322 | 6,322 | 0 | 0 | 210,125 | 26.17 |
| Developed Non-Producing | 12,919 | 12,919 | 16,526 | 16,526 | 0 | 0 | 303,747 | 23.51 |
| Undeveloped | 2,590 | 2,590 | 3,994 | 3,994 | 0 | 0 | 52,863 | 20.41 |
| **Total Proved** | **23,539** | **23,539** | **26,842** | **26,842** | **0** | **0** | **566,735** | **24.08** |
| Probable | 61,451 | 61,451 | 36,821 | 36,821 | 0 | 0 | 745,750 | 12.14 |
| **Proved Plus Probable** | **84,990** | **84,990** | **63,663** | **63,663** | **0** | **0** | **1,312,485** | **15.44** |

Reference: Item 2.1 (3)(c) NI 51-101F1

**M$ means thousands of dollars**

Columns may not add precisely due to accumulative rounding of values throughout the report.

*Notes:* 1 Includes solution gas.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| TP | 23,539 | 23,539 | 26,842 | 26,842 | 0 | 0 | 566,735 |
| PR | 84,990 | 84,990 | 63,663 | 63,663 | 0 | 0 | 1,312,485 |
| **Total Proved** | 23,539 | 23,539 | 26,842 | 26,842 | 0 | 0 | 566,735 |
| **Proved Plus Probable** | 84,990 | 84,990 | 63,663 | 63,663 | 0 | 0 | 1,312,485 |

**Table 5**

**CHAPMAN PETROLEUM ENGINEERING LTD.**
**CRUDE OIL & NATURAL GAS**
**HISTORICAL, CONSTANT, CURRENT AND FUTURE PRICES**
**January 1, 2011**

| Date | International Brent (Dated) *$US/STB 1* | Kazakhstan Export price *$US/STB 2* | Kazakhstan Domestic sales *$US/STB 3* | Kazakhstan Blended sales price Kaz-Oil *$US/STB 4* | ERT tax rate *%* | Kazakhstan Gas sales price Kaz-Gaz *$US/Mscf 5* |
|---|---|---|---|---|---|---|
| **HISTORICAL PRICES** | | | | | | |
| 2004 | 38.03 | – | – | – | – | – |
| 2005 | 55.28 | – | – | – | – | – |
| 2006 | 66.09 | – | – | – | – | – |
| 2007 | 72.74 | – | – | – | – | – |
| 2008 | 98.33 | – | – | – | – | – |
| 2009 | 62.52 | – | – | – | – | – |
| 2010 | 77.28 | | | | | |
| **CURRENT YEAR FORECAST** | | | | | | |
| 2011 | 89.56 | 67.99 | 26.72 | **53.17** | 17% | 1.16 |
| **FUTURE FORECAST** | | | | | | |
| 2012 | 91.74 | 70.17 | 26.72 | **53.54** | 19% | 1.16 |
| 2013 | 93.92 | 72.35 | 26.72 | **55.13** | 19% | 1.16 |
| 2014 | 96.10 | 74.53 | 26.72 | **53.07** | 19% | 1.16 |
| 2015 | 99.38 | 77.81 | 26.72 | **55.19** | 19% | 1.16 |
| 2016 | 102.65 | 81.08 | 26.72 | **56.01** | 21% | 1.16 |
| 2017 | 104.83 | 83.26 | 26.72 | **57.39** | 21% | 1.16 |
| 2018 | 107.01 | 85.44 | 26.72 | **58.77** | 21% | 1.16 |
| 2019 | 109.20 | 87.63 | 26.72 | **60.15** | 21% | 1.16 |
| 2020 | 111.51 | 89.94 | 26.72 | **60.89** | 22% | 1.16 |
| 2021 | 113.87 | 92.30 | 26.72 | **62.37** | 22% | 1.16 |
| 2022 | 116.27 | 94.70 | 26.72 | **63.87** | 22% | 1.16 |
| 2023 | 118.73 | 97.16 | 26.72 | **65.40** | 22% | 1.16 |
| 2024 | 121.23 | 99.66 | 26.72 | **66.16** | 23% | 1.16 |
| 2025 | 123.79 | 102.22 | 26.72 | **67.74** | 23% | 1.16 |
| 2026 | 126.39 | 104.82 | 26.72 | **69.34** | 23% | 1.16 |

Constant thereafter

*Notes:*

1 The Brent Dated price is estimated based on historical trends.

2 Export price is estimated discount US$16.37 and export duty USD5.20 less than Brent Dated Price

3 Kazakhstan domestic oil price is based on latest posting data

4 Kaz-Oil price=90%*export price*(1-ERT)+10%*domestic price/(1+VAT) up to 2013 (VAT=12%);
Kaz-Oil price=80%*export price*(1-ERT)+20%*domestic price/(1+VAT) from 2014 (VAT=12%);

5 Kazakhstan domestic Gas price is based on latest posting data.

## SUMMARY OF COMPANY RESERVES AND ECONOMICS

## INDEX

**Forecast Prices and Costs**


Table 1: Summary of Company Reserves and Economics (Before Income Tax)
Table 1T: Summary of Company Reserves and Economics (After Income Tax)

Consolidated Cash Flows
Table 2: Total Proved Developed Producing
Table 3: Total Proved Developed
Table 4: Total Proved
Table 5: Total Proved Plus Probable



Chapman Petroleum Engineering Ltd.

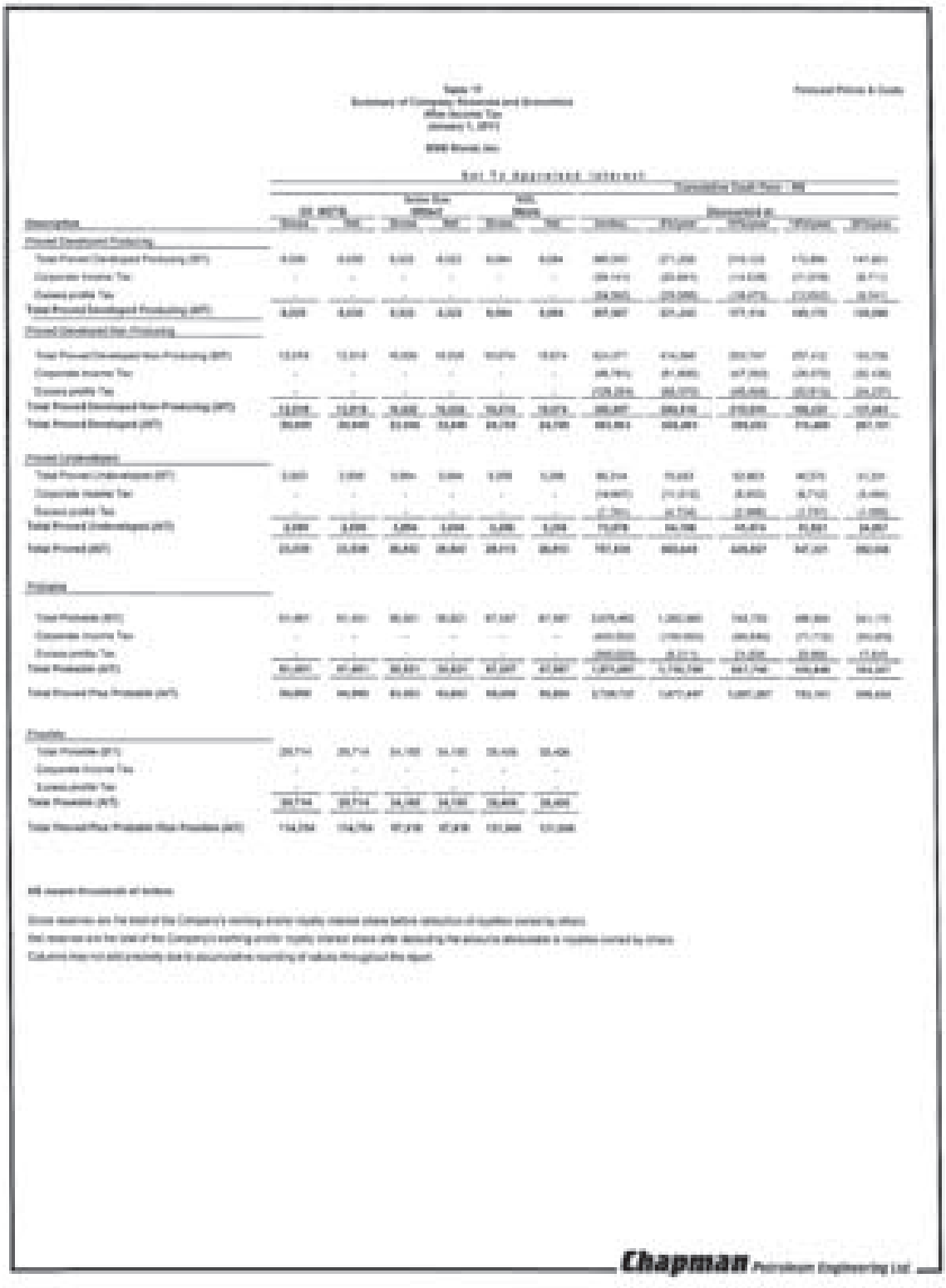


Table 19
Summary of Company Reserves and Economics
After Income Tax
January 1, 2011

BMB Resources Inc.

Net To Appraised Interest

Forecast Prices & Costs

| Description | Gross Reserves | | | | | | Cumulative Cash Flow - PW | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Oil (MSTB) | | Solution Gas (MMscf) | | NGL (Mbbls) | | (Discounted at) | | | | |
| | Gross | Net | Gross | Net | Gross | Net | 0% $000s | 5% $000s | 10% $000s | 15% $000s | 20% $000s |
| Proved Developed Producing | | | | | | | | | | | |
| Total Proved Developed Producing (SP) | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 880,000 | 671,000 | 519,000 | 410,000 | 340,000 |
| Corporate Income Tax | - | - | - | - | - | - | (88,000) | (65,000) | (49,000) | (38,000) | (31,000) |
| Excess profits Tax | - | - | - | - | - | - | (84,000) | (59,000) | (38,000) | (23,000) | (9,000) |
| Total Proved Developed Producing (AP) | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 887,000 | 671,000 | 517,000 | 349,000 | 199,000 |
| Proved Developed Non Producing | | | | | | | | | | | |
| Total Proved Developed Non Producing (BP) | 13,000 | 13,000 | 16,000 | 16,000 | 10,000 | 10,000 | 624,000 | 474,000 | 350,000 | 257,000 | 193,000 |
| Corporate Income Tax | - | - | - | - | - | - | (98,000) | (61,000) | (37,000) | (20,000) | (10,000) |
| Excess profits Tax | - | - | - | - | - | - | (126,000) | (85,000) | (45,000) | (20,000) | (4,000) |
| Total Proved Developed Non Producing (AP) | 13,000 | 13,000 | 16,000 | 16,000 | 10,000 | 10,000 | 380,000 | 328,000 | 268,000 | 198,000 | 129,000 |
| Total Proved Developed (AP) | 20,000 | 20,000 | 23,000 | 23,000 | 18,000 | 18,000 | 883,000 | 699,000 | 559,000 | 416,000 | 261,000 |
| Proved Undeveloped | | | | | | | | | | | |
| Total Proved Undeveloped (BT) | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 96,000 | 75,000 | 52,000 | 40,000 | 31,000 |
| Corporate Income Tax | - | - | - | - | - | - | (19,000) | (11,000) | (6,000) | (3,000) | (2,000) |
| Excess profits Tax | - | - | - | - | - | - | (7,000) | (4,000) | (2,000) | (1,000) | (1,000) |
| Total Proved Undeveloped (AT) | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 70,000 | 60,000 | 45,000 | 35,000 | 28,000 |
| Total Proved (BT) | 23,000 | 23,000 | 26,000 | 26,000 | 28,000 | 28,000 | 783,000 | 669,000 | 469,000 | 347,000 | 260,000 |
| Probable | | | | | | | | | | | |
| Total Probable (BT) | 91,000 | 91,000 | 95,000 | 95,000 | 87,000 | 87,000 | 3,075,000 | 1,260,000 | 765,000 | 499,000 | 341,000 |
| Corporate Income Tax | - | - | - | - | - | - | (600,000) | (199,000) | (99,000) | (71,000) | (50,000) |
| Excess profits Tax | - | - | - | - | - | - | (900,000) | (5,000) | (1,000) | (2,000) | (1,000) |
| Total Probable (AT) | 91,000 | 91,000 | 95,000 | 95,000 | 87,000 | 87,000 | 1,875,000 | 1,756,000 | 667,000 | 426,000 | 290,000 |
| Total Proved Plus Probable (AT) | 114,000 | 114,000 | 121,000 | 121,000 | 115,000 | 115,000 | 2,658,000 | 2,425,000 | 1,136,000 | 773,000 | 550,000 |
| Possible | | | | | | | | | | | |
| Total Possible (BT) | 20,714 | 20,714 | 24,100 | 24,100 | 20,429 | 20,429 | | | | | |
| Corporate Income Tax | - | - | - | - | - | - | | | | | |
| Excess profits Tax | - | - | - | - | - | - | | | | | |
| Total Possible (AT) | 20,714 | 20,714 | 24,100 | 24,100 | 20,429 | 20,429 | | | | | |
| Total Proved Plus Probable Plus Possible (AT) | 134,714 | 134,714 | 97,678 | 97,678 | 151,000 | 151,000 | | | | | |

$M means thousands of dollars

Gross reserves are the total of the Company's working and/or royalty interest shares before deduction of royalties owned by others.
Net reserves are that part of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.
Columns may not add precisely due to accumulative rounding of values throughout the report.

Chapman Petroleum Engineering Ltd.

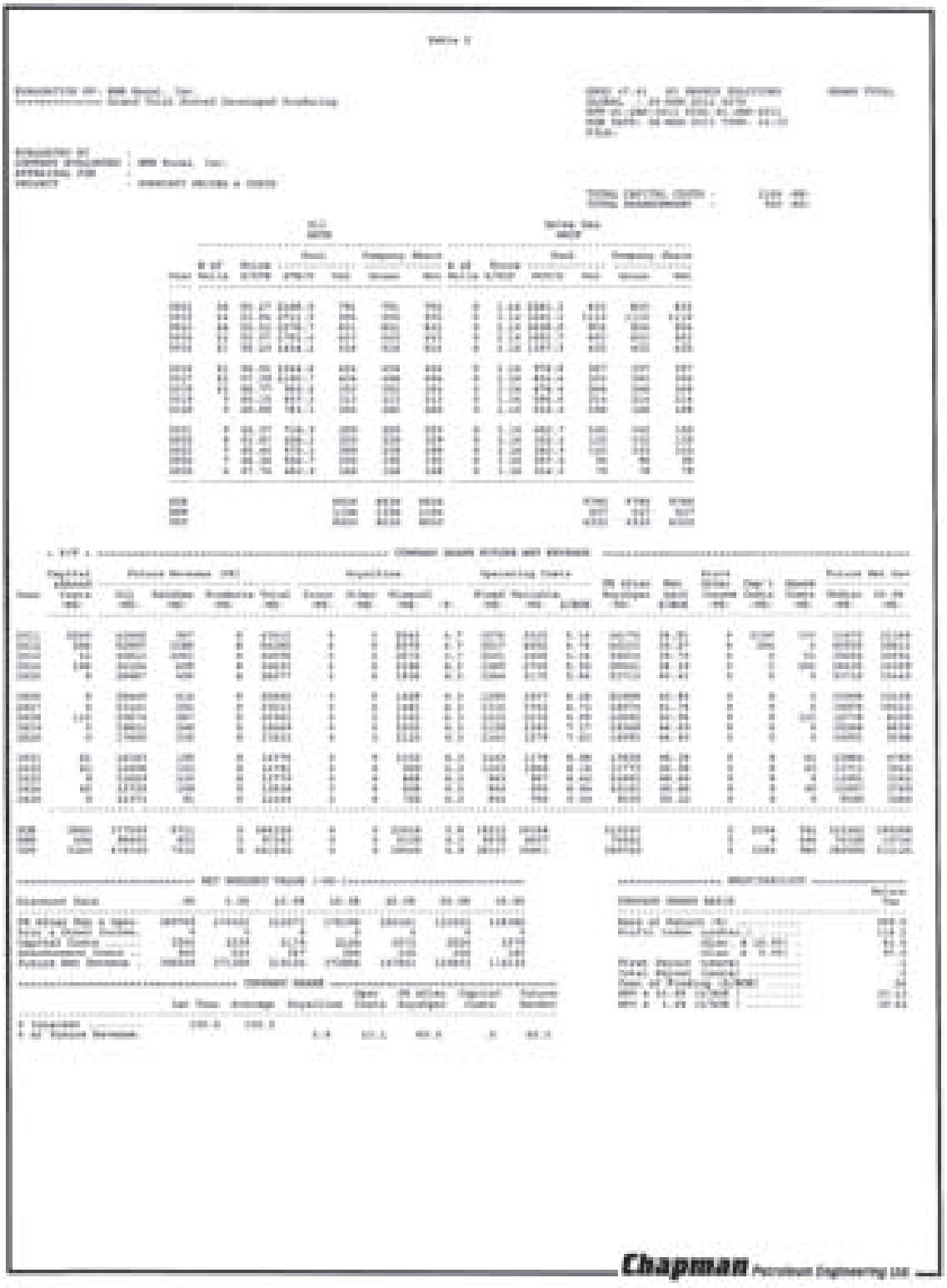


Table 17

[illegible]

Corporate Income Tax (CIT) and Excess Profit Tax (EPT)

[illegible]

[illegible]

[illegible]

Total Petroleum Operations

| Year | Gross Income | Operating Costs | Mineral Extraction Tax | Depreciation Capital | Total Deductions | Taxable Income | Corporate Income Tax |
|---|---|---|---|---|---|---|---|
| | $M | $M | $M | $M | $M | $M | $M |
| 2011 | 45,012 | 4,758 | 2043 | 33,457 | 40,258 | 2,714 | 543 |
| 2012 | 54,280 | 5,173 | 2270 | 32,938 | 41,660 | 12,620 | 2,524 |
| 2013 | 48,449 | 4,666 | 2011 | 33,551 | 41,183 | 7,720 | 1,544 |
| 2014 | 54,823 | 4,859 | 2164 | 85,545 | 94,923 | 0 | 0 |
| 2015 | 38,977 | 5,439 | 1656 | 5,086 | 12,581 | 16,914 | 3,756 |
| 2016 | 35,840 | 5,027 | 1524 | 40 | 4,868 | 30,507 | 6,140 |
| 2017 | 33,513 | 5,058 | 1461 | 27 | 4,858 | 18,648 | 3,648 |
| 2018 | 30,961 | 5,748 | 1321 | 28 | 4,098 | 15,853 | 3,079 |
| 2019 | 19,056 | 5,500 | 1351 | 39 | 3,770 | 15,209 | 3,051 |
| 2020 | 17,403 | 5,401 | 1116 | 24 | 3,660 | 14,282 | 2,708 |
| 2021 | 16,376 | 2,374 | 1032 | 44 | 3,508 | 12,689 | 1,967 |
| 2022 | 14,701 | 2,348 | 929 | 31 | 3,608 | 11,792 | 1,791 |
| 2023 | 13,779 | 1,970 | 868 | 31 | 3,868 | 10,979 | 1,648 |
| 2024 | 12,938 | 1,858 | 808 | 47 | 2,714 | 10,114 | 1,517 |
| 2025 | 11,999 | 1,917 | 772 | 50 | 2,991 | 9,073 | 1,361 |
| Sub-total | 384,223 | 48,097 | 22,418 | 134,461 | 303,472 | 180,744 | 36,032 |
| Remainder | 97,263 | 15,052 | 5,720 | 427 | 21,179 | 76,126 | 11,119 |
| Total | 481,533 | 63,150 | 28,140 | 134,888 | 324,650 | 256,871 | 38,141 |

| Year | Net Income | Total Deductions | Ratio | EPT Amount |
|---|---|---|---|---|
| | $M | $M | | $M |
| 2011 | 2,71 | 40,258 | 0.00 | 0 |
| 2012 | 10,436 | 41,660 | 0.24 | 0 |
| 2013 | 6,720 | 41,183 | 0.11 | 0 |
| 2014 | 0 | 94,923 | 0.00 | 0 |
| 2015 | 15,833 | 16,914 | 1.93 | 981 |
| 2016 | 17,322 | 4,868 | 3.84 | 6,649 |
| 2017 | 16,436 | 4,858 | 3.83 | 5,866 |
| 2018 | 14,204 | 4,098 | 3.83 | 5,213 |
| 2019 | 13,038 | 3,770 | 3.83 | 4,994 |
| 2020 | 11,854 | 3,660 | 3.38 | 4,287 |
| 2021 | 11,233 | 3,508 | 3.20 | 3,844 |
| 2022 | 9,961 | 3,608 | 3.32 | 3,858 |
| 2023 | 9,203 | 3,868 | 3.32 | 3,157 |
| 2024 | 8,997 | 2,714 | 3.17 | 2,783 |
| 2025 | 7,712 | 2,991 | 3.83 | 2,838 |
| Sub-total | 159,734 | 303,472 | | 41,851 |
| Remainder | 83,007 | 21,179 | 3.73 | 17,243 |
| Total | 242,740 | 324,650 | | 59,094 |

Net Present Values

| | Discount Factors - Total | | | | |
|---|---|---|---|---|---|
| | 0 | 5 | 10 | 12 | 15 |
| Corporate Income Tax | 38,141 | 22,541 | 14,536 | 11,939 | 8,711 |
| Excess Profits Tax | 59,092 | 35,949 | 24,213 | 21,092 | 16,941 |

Chapman Petroleum Engineering Ltd.

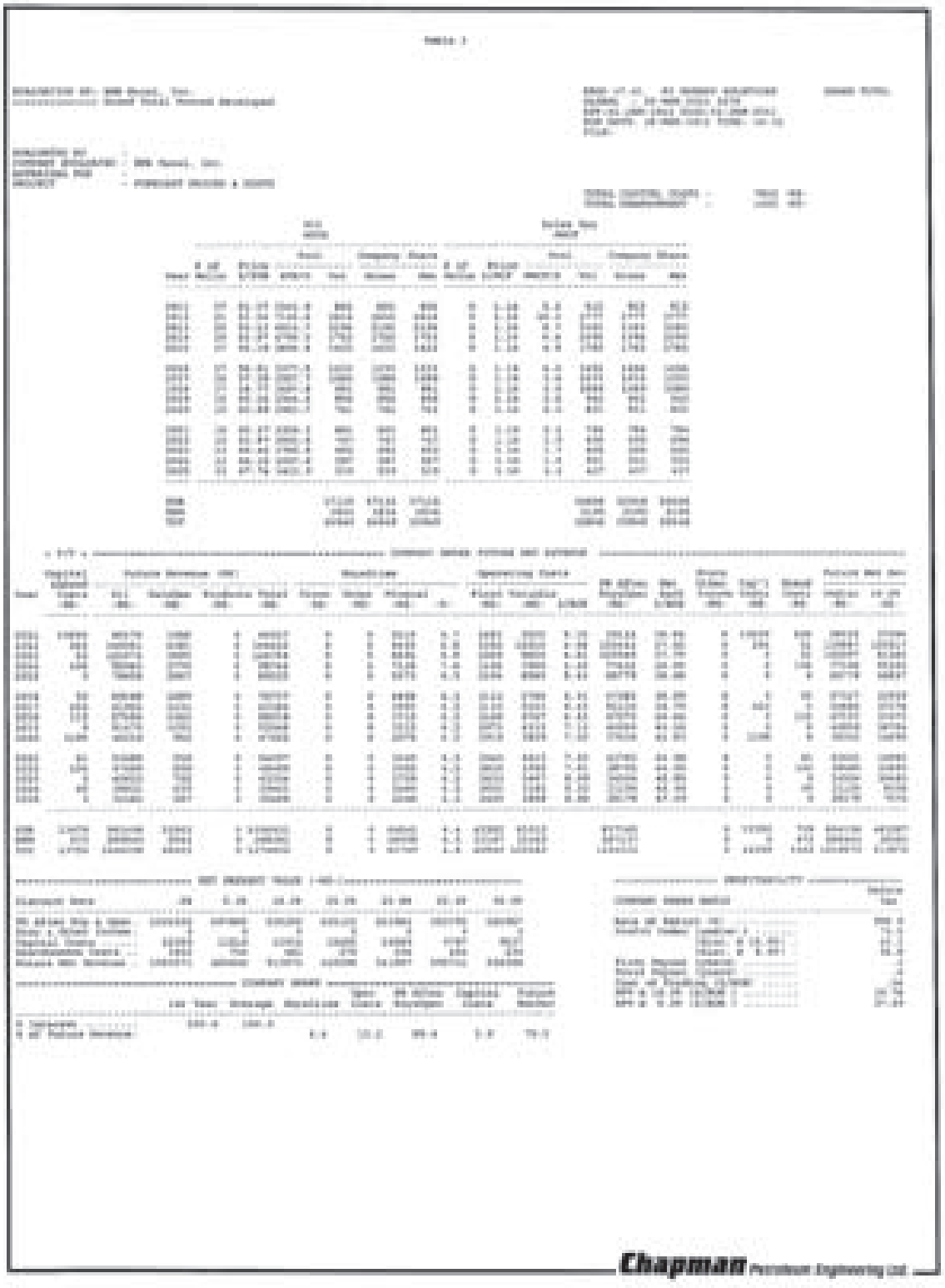


Table 07

[illegible]

Corporate Income Tax (CIT) and Excess Profit Tax (EPT)

January 1, 2011

(As of December 31, 2010)

[illegible] Block and Adjacent Territory, Republic of Kazakhstan

Total Proved Developed

| Year | Gross Income $M | Deductible Costs: Operating Costs $M | Mineral Extraction Tax $M | Depreciable Capital $M | Total Deductions $M | Taxable Income $M | Corporate Income Tax $M |
|---|---|---|---|---|---|---|---|
| 2011 | 46,537 | 8,169 | 3,210 | 33,551 | 42,952 | 3,585 | 716 |
| 2012 | 144,432 | 14,883 | 9,430 | 33,551 | 56,911 | 84,521 | 16,904 |
| 2013 | 134,704 | 13,129 | 8,691 | 35,534 | 57,348 | 61,416 | 11,798 |
| 2014 | 85,742 | 11,181 | 7,108 | 35,440 | 53,729 | 41,773 | 8,255 |
| 2015 | 80,935 | 9,975 | 6,672 | 155 | 16,849 | 63,976 | 8,651 |
| 2016 | 70,737 | 8,998 | 4,609 | 83 | 13,607 | 57,330 | 8,599 |
| 2017 | 63,266 | 8,255 | 3,643 | 153 | 12,409 | 50,857 | 7,647 |
| 2018 | 56,819 | 7,305 | 3,712 | 153 | 11,902 | 44,917 | 7,068 |
| 2019 | 52,560 | 7,306 | 3,512 | 155 | 10,973 | 41,588 | 6,284 |
| 2020 | 47,282 | 6,748 | 2,978 | 440 | 10,166 | 37,096 | 5,568 |
| 2021 | 54,547 | 7,457 | 3,462 | 323 | 11,240 | 43,307 | 6,504 |
| 2022 | 48,969 | 6,720 | 3,035 | 366 | 10,120 | 38,899 | 5,776 |
| 2023 | 43,224 | 6,055 | 2,725 | 340 | 9,164 | 34,160 | 5,124 |
| 2024 | 39,491 | 5,764 | 2,484 | 93 | 8,340 | 31,130 | 4,668 |
| 2025 | 37,946 | 5,552 | 2,344 | 47 | 7,943 | 30,103 | 4,515 |
| Sub-total | 1,035,451 | 124,398 | 64,641 | 144,874 | 333,939 | 672,912 | 100,907 |
| Remainder | 238,551 | 44,035 | 16,508 | 709 | 61,252 | 205,439 | 30,816 |
| Total | 1,274,002 | 168,733 | 81,149 | 145,581 | 395,859 | 878,643 | 131,723 |

| Year | Net Income $M | Total Deductions $M | Ratio | EPT Amount $M |
|---|---|---|---|---|
| 2011 | 3,585 | 42,952 | 0.07 | 0 |
| 2012 | 67,917 | 56,911 | 1.13 | 0 |
| 2013 | 55,616 | 57,348 | 0.87 | 0 |
| 2014 | 35,827 | 53,729 | 0.56 | 0 |
| 2015 | 54,834 | 14,849 | 3.76 | 33,909 |
| 2016 | 48,728 | 13,607 | 3.53 | 31,997 |
| 2017 | 43,551 | 12,409 | 3.48 | 30,744 |
| 2018 | 36,849 | 11,902 | 2.99 | 25,763 |
| 2019 | 35,411 | 10,973 | 2.84 | 24,288 |
| 2020 | 31,830 | 10,166 | 2.65 | 21,554 |
| 2021 | 39,854 | 11,240 | 3.28 | 27,277 |
| 2022 | 32,909 | 10,120 | 2.63 | 22,649 |
| 2023 | 28,936 | 9,164 | 2.17 | 19,452 |
| 2024 | 26,439 | 8,340 | 2.59 | 17,909 |
| 2025 | 25,611 | 7,937 | 2.76 | 17,574 |
| Sub-total | 566,940 | 333,939 | | 327,902 |
| Remainder | 175,407 | 61,252 | 2.83 | 51,274 |
| Total | 742,313 | 395,859 | | 379,176 |

Net Present Values

| | Discount Factors - Year | | | | |
|---|---|---|---|---|---|
| | 0 | 5 | 10 | 15 | 20 |
| Corporate Income Tax | 131,907 | 92,947 | 61,908 | 40,591 | 27,147 |
| Excess Profits Tax | 109,676 | 67,126 | 33,951 | 17,207 | 10,276 |

Chapman Petroleum Engineering Ltd.

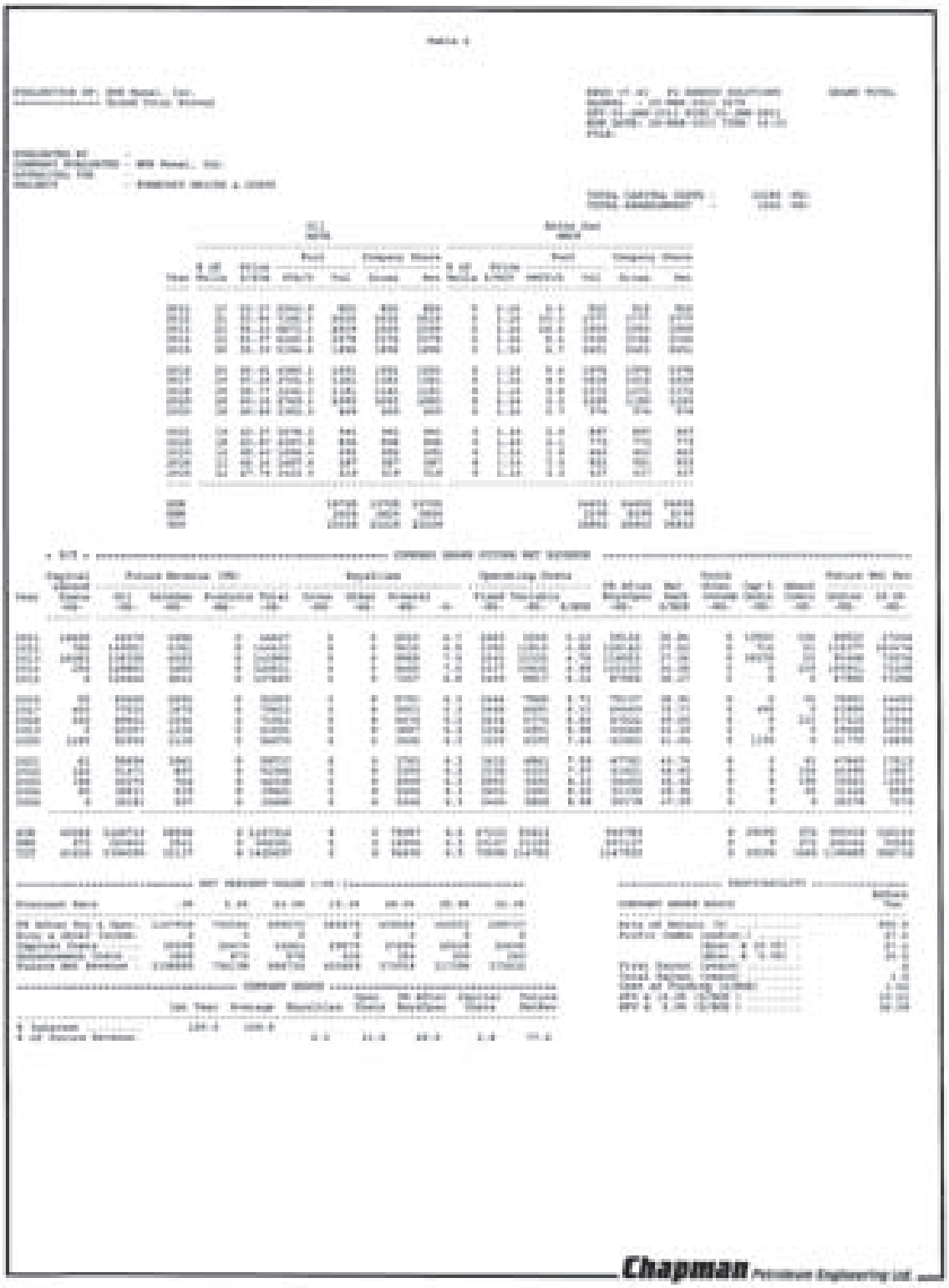


Table 47

[illegible] Inc.

Corporate Income Tax (CIT) and Excess Profit Tax (EPT)

January 1, 2011

(As of December 31, 2010)

ADR Block and Extended Territory, Republic of Freedonia

Total Project

| | | Deductible Costs | | | | | |
|---|---|---|---|---|---|---|---|
| Year | Gross Income ($k) | Operating Costs ($k) | Mineral Extraction Tax ($k) | Deductible Capital ($k) | Total Deductions ($k) | Taxable Income ($k) | Corporate Income Tax ($k) |
| 2011 | 48,827 | 5,165 | 2010 | 33,357 | 42,952 | 3,315 | 716 |
| 2012 | 144,452 | 14,880 | 9430 | 26,768 | 80,038 | 64,394 | 16,878 |
| 2013 | 182,358 | 14,880 | 9909 | 62,284 | 87,282 | 75,057 | 13,846 |
| 2014 | 184,031 | 13,873 | 9490 | 97,434 | 85,806 | 90,905 | 8,905 |
| 2015 | 157,446 | 13,206 | 7937 | 6,477 | 26,405 | 91,259 | 12,193 |
| 2016 | 91,886 | 11,028 | 5783 | 5,888 | 22,921 | 68,408 | 16,370 |
| 2017 | 79,411 | 8,850 | 5003 | 160 | 15,138 | 64,283 | 5,642 |
| 2018 | 71,913 | 8,508 | 4474 | 155 | 13,837 | 57,376 | 5,891 |
| 2019 | 61,991 | 8,007 | 3887 | 153 | 12,076 | 49,915 | 7,087 |
| 2020 | 54,870 | 7,695 | 3438 | 445 | 11,996 | 43,008 | 6,279 |
| 2021 | 50,757 | 8,275 | 3763 | 843 | 12,879 | 47,088 | 7,154 |
| 2022 | 52,366 | 7,446 | 3239 | 345 | 11,030 | 41,278 | 6,131 |
| 2023 | 46,096 | 6,994 | 2902 | 580 | 9,977 | 36,955 | 5,469 |
| 2024 | 39,461 | 5,764 | 2464 | 110 | 8,338 | 31,281 | 4,955 |
| 2025 | 35,995 | 5,352 | 2246 | 95 | 7,693 | 28,591 | 4,213 |
| Sub-total | 1,107,514 | 140,947 | 75,287 | 171,910 | 388,640 | 708,870 | 131,831 |
| Remainder | 398,951 | 44,578 | 16,806 | 763 | 61,987 | 336,964 | 50,856 |
| Total | 1,429,697 | 185,283 | 92,499 | 172,994 | 455,437 | 975,259 | 182,378 |

| Year | Net Income ($k) | Total Deductions ($k) | Ratio | EPT Amount ($k) |
|---|---|---|---|---|
| 2011 | 3,897 | 42,952 | 0.07 | 0 |
| 2012 | 67,516 | 80,038 | 1.13 | 0 |
| 2013 | 82,417 | 87,282 | 0.93 | 0 |
| 2014 | 85,855 | 85,806 | 0.78 | 0 |
| 2015 | 90,559 | 26,405 | 3.91 | 16,256 |
| 2016 | 90,173 | 22,921 | 3.47 | 14,323 |
| 2017 | 79,891 | 15,138 | 5.81 | 19,897 |
| 2018 | 70,515 | 13,837 | 5.49 | 19,914 |
| 2019 | 61,915 | 12,076 | 5.39 | 19,917 |
| 2020 | 55,148 | 11,996 | 5.13 | 19,899 |
| 2021 | 60,259 | 12,879 | 5.23 | 19,921 |
| 2022 | 53,269 | 11,030 | 5.14 | 19,248 |
| 2023 | 50,932 | 9,977 | 5.37 | 5,952 |
| 2024 | 39,419 | 8,368 | 5.13 | 5,219 |
| 2025 | 33,971 | 7,808 | 5.14 | 1,698 |
| Sub-total | 947,254 | 388,648 | | 189,488 |
| Remainder | 170,426 | 61,987 | 3.80 | 31,566 |
| Total | 922,681 | 450,637 | | 190,457 |

Net Present Values

| | Discount Factors - %pa | | | | |
|---|---|---|---|---|---|
| | 8 | 9 | 10 | 11 | 12 |
| Corporate Income Tax | 152,379 | 62,990 | 77,289 | 56,332 | 46,551 |
| Excess Profits Tax | 190,457 | 161,891 | 90,619 | 47,044 | 24,290 |

Chapman Petroleum Engineering Ltd.

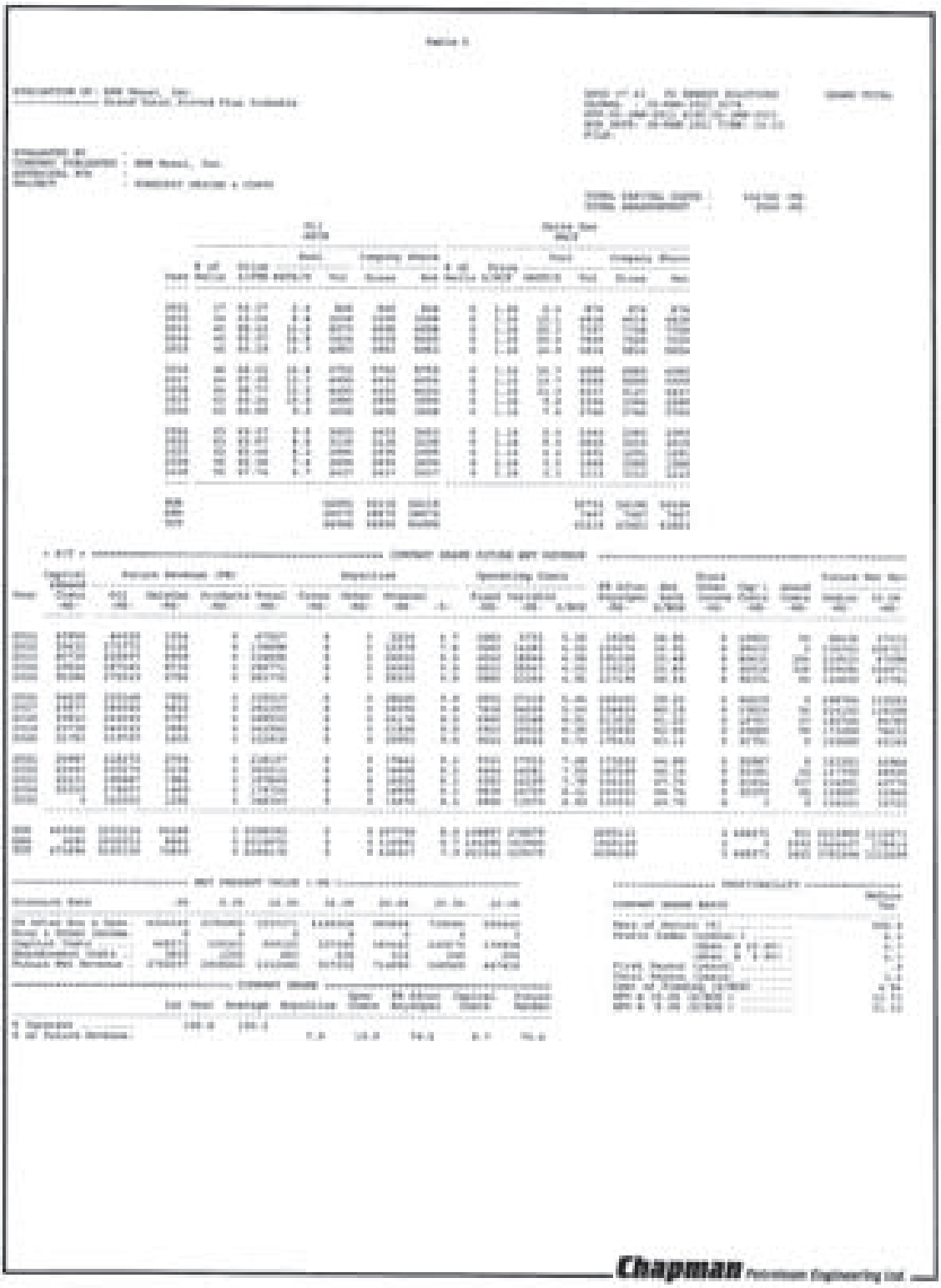


Table 27

[redacted]

Corporate Income Tax (CIT) and Excess Profit Tax (EPT)

January 1, 2011

(As of December 31, 2010)

[redacted] Block and Extended Territory, Republic of Kazakhstan

Total Proved Plus Probable

| | | Deductible Costs | | | | | |
|---|---|---|---|---|---|---|---|
| Year | Gross Income ($k) | Operating Costs ($k) | Mineral Extraction Tax ($k) | Deductible Capital ($k) | Total Deductions ($k) | Taxable Income ($k) | Corporate Income Tax ($k) |
| 2011 | 47,057 | 3,416 | 2234 | 33,545 | 43,205 | 3,752 | 795 |
| 2012 | 170,699 | 17,644 | 10,235 | 50,555 | 78,329 | 102,372 | 20,504 |
| 2013 | 224,490 | 23,586 | 20032 | 53,198 | 100,814 | 123,676 | 22,414 |
| 2014 | 268,771 | 30,670 | 25563 | 70,442 | 127,695 | 140,979 | 25,211 |
| 2015 | 281,779 | 35,261 | 29,034 | 51,594 | 115,470 | 166,309 | 31,556 |
| 2016 | 329,219 | 34,211 | 30630 | 56,696 | 120,912 | 208,707 | 39,105 |
| 2017 | 282,396 | 33,996 | 26,035 | 49,483 | 107,840 | 174,556 | 31,852 |
| 2018 | 268,930 | 31,113 | 24,176 | 47,179 | 102,470 | 166,460 | 24,954 |
| 2019 | 243,859 | 28,847 | 21,939 | 28,287 | 83,196 | 160,663 | 28,559 |
| 2020 | 223,918 | 27,419 | 20,061 | 26,095 | 69,009 | 154,897 | 23,233 |
| 2021 | 216,151 | 27,254 | 17,863 | 20,916 | 65,733 | 150,432 | 22,564 |
| 2022 | 212,011 | 25,009 | 16,908 | 21,479 | 63,819 | 148,192 | 22,229 |
| 2023 | 197,248 | 25,452 | 15,024 | 21,203 | 61,541 | 135,708 | 20,176 |
| 2024 | 176,784 | 23,007 | 14,038 | 21,384 | 60,084 | 116,697 | 17,940 |
| 2025 | 166,243 | 22,997 | 13,079 | 16,722 | 52,743 | 113,499 | 17,040 |
| Sub-total | 3,209,802 | 365,434 | 287,798 | 564,140 | 1,207,301 | 2,150,572 | 323,499 |
| Remainder | 3,213,676 | 327,195 | 134,551 | 19,202 | 481,328 | 1,345,747 | 208,453 |
| Total | 6,366,118 | 692,631 | 422,317 | 603,533 | 1,716,459 | 3,650,719 | 556,130 |

| Year | Net Income ($k) | Total Deductions ($k) | Ratio | EPT Amount ($k) |
|---|---|---|---|---|
| 2011 | 2,964 | 43,205 | 0.07 | 0 |
| 2012 | 92,108 | 78,329 | 1.11 | 0 |
| 2013 | 105,857 | 100,814 | 0.96 | 0 |
| 2014 | 140,994 | 127,695 | 1.12 | 0 |
| 2015 | 143,909 | 115,470 | 1.25 | 631 |
| 2016 | 170,201 | 120,912 | 1.53 | 1,550 |
| 2017 | 156,895 | 107,844 | 1.48 | 4,462 |
| 2018 | 141,409 | 102,470 | 1.38 | 2,151 |
| 2019 | 156,165 | 83,196 | 1.74 | 13,369 |
| 2020 | 151,854 | 69,009 | 1.94 | 16,467 |
| 2021 | 129,542 | 65,733 | 1.97 | 15,547 |
| 2022 | 117,989 | 63,819 | 1.84 | 14,958 |
| 2023 | 114,532 | 61,541 | 1.81 | 13,176 |
| 2024 | 101,691 | 60,084 | 1.69 | 8,451 |
| 2025 | 96,590 | 52,743 | 1.80 | 11,596 |
| Sub-total | 1,777,304 | 1,207,301 | | 109,908 |
| Remainder | 1,217,983 | 481,328 | 2.26 | 280,904 |
| Total | 2,944,594 | 1,716,459 | | 406,403 |

Net Present Value

| | Discount Factor, %/yr | | | | |
|---|---|---|---|---|---|
| | 0 | 5 | 10 | 15 | 20 |
| Corporate Income Tax | 556,130 | 352,715 | 164,934 | 138,516 | 101,041 |
| Excess Profits Tax | 406,403 | 308,191 | 83,784 | 39,377 | 19,554 |

Chapman Petroleum Engineering Ltd.

**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**AKSAZ FIELD**

**INDEX**

**Discussion**


Ownership
Geology
Petrophysical Data and Analysis
Reserves
Production
Product Prices
Capital Expenditures
Operating Costs
Economics


**Attachments**


Table 1: Schedule of Lands, Interests and Royalty Burdens

Figure 1: Field Map and Structure Top-Middle Triassic

Figure 2: Log Analysis Presentation
a) Aksaz-1
b) Aksaz-2
c) Aksaz-3
d) Aksaz-4
e) Aksaz-6

Table 2: Summary of Gross Reserves

Figure 3: Production History Graphs
a) Aksaz-1, Triassic
b) Aksaz-2, Triassic
c) Aksaz-3, Triassic
d) Aksaz-4, Triassic
e) Aksaz-6, Triassic
f) Group Production Plot, Triassic

Table 3: Summary of Anticipated Capital Expenditures
a) Development
b) Abandonment and Restoration

Table 4: Summary of Company Reserves and Economics

Consolidated Cash Flows
a) Total Proved Developed Producing
b) Total Proved Developed
c) Total Proved
d) Total Proved Plus Probable
e) Total Proved Plus Probable Plus Possible

**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**AKSAZ FIELD**

**DISCUSSION**

## OWNERSHIP

The Company owns a 100 percent working interest in a "License" and "Exploration Contract" referred to as the ADEK Block which is located onshore in Kazakhstan in the Mangistau Oblast, approximately 50 kilometers from Aktau in the Republic of Kazakhstan (ROK).

The License originated in 1999 and the Exploration Contract was entered into on June 9, 2000 by a preceding company. The License and Contract Area were assigned to the Company on September 23, 2002.

The License and Exploration Contract granted the right to engage in exploration and development activities on the block. Originally the Exploration contract had a five year term but it has since been extended and now expires on January 9, 2013.

The terms of the extension require minimum capital expenditures of $7,000,000 in 2004, $9,300,000 in 2005 and $5,000,000 in 2006, $6,790,000 from July 9, 2009 to December 31, 2009, $12,690,000 in 2010, all of which have been satisfied or even exceeded. And in addition, a minimum work program requires $27,240,000 in 2011 and $14,840,000 in 2012.

Once commercial production is established within the ADEK Block, the Company can make application for an "Exploration and Production Contract", the terms of which would be negotiated. The Company has the right to produce and sell oil under the Law of Petroleum for the term of the existing Exploration Contract at a royalty rates presented on Table 1. Provided that the Company can show evidence of a commercial discovery, has fulfilled its minimum work commitments and presents a development plan acceptable to the MEMR, there is no reason to believe the Exploration and Production Contract would not be granted.

Under the Production and Exploration contract royalty rates are negotiated and vary depending on the reserves and production rates. It is estimated that a royalty (Mineral Extraction Tax) rate of 9.9 percent would not be exceeded for this Block, with the anticipated reserves and production rates.

There are two general forms of production contracts in Kazakhstan, production-sharing contracts and tax and royalty based contracts. We have utilized a royalty based contract as mentioned.

The Aksaz field is one of four known fields already discovered on the ADEK Block. Aksaz is a gas-condensate field, but for the purposes of this report is treated as an oil field with a high gas-oil ratio. The Company has re-entered Aksaz-1, placed it on production and is

currently producing from one zone. Well Aksaz-4 has also been re-entered and placed on production from two zones. Well Aksaz-3 has been drilled, tested and placed on production from three zones, but currently producing from only one. Well Aksaz-2 has been drilled, tested and placed on production from two zones. Also, well Aksaz-6 has been drilled, tested and placed on production from two zones.

A map of the field, showing the well location and reservoir structure is presented on Figure 1 and a brief description of the ownership is presented in Table 1.

## GEOLOGY

The ADEK Block is located at the edge of the Mangistau Ustyrt Central High which contains several producing oilfields in the area. The main producing horizon is the Middle Triassic carbonate. The Aksaz structure lies in the articulation zone where the Beke-Bashkudsky high and Karagiin saddle transits into the Zhetbay-Uzen tectonic zone. In the north the structure aligns with the line of a regional fault, interpreted as a thrust. The productive Middle Triassic consists of mostly limestone in this structure.

The ADE Block is covered by several vintages of 2D seismic plus a recent 3-D survey. The Middle Triassic structure top is represented by the reflection horizon V2 $^{IV}$, which is presented on Figure 1.

The Jurassic, a clastic sand shale sequence with some carbonate, lies about 950m above the Triassic throughout the block. The Jurassic is a secondary opportunity for hydrocarbon potential as indicated by log analysis. Resource potential has been identified, but reserves have not been assigned or evaluated in this report.

## PETROPHYSICAL DATA AND ANALYSIS

Russian GIS logs were run in the shallow formations and Baker Atlas logs over the Triassic.

The Chapman digital log analysis was made using HDS software over the Triassic reservoir.

The Gamma Ray was used as a shale indicator in the Modified Simandoux water saturation equation with a carbonate selection for a, m and n.

Sw cutoff was 40% along with a shale volume cutoff of 30%.

Net pay was identified in the Triassic as shown in the interpreted log.

**RESERVES**

Proved developed producing oil reserves of 289 MSTB and marketable solution gas reserves of 2,351 MMscf have been estimated for the Triassic zone (completed intervals that are currently producing) in wells Aksaz-1, Aksaz-3, Aksaz-4 and Aksaz-6 based on reservoir parameters determined from digital log analysis and production data from the wells, with assigned drainage areas and recovery factors which are different for every well: Aksaz-1 and Aksaz-6 – recovery factor of 10 percent and drainage area of 60 acres; Aksaz-3 and Aksaz-4 – recovery factor of 35 percent and drainage area of 80 acres. These assumptions are based on the well performance.

Additional proved developed non-producing oil reserves of 681 MSTB and marketable solution gas reserves of 5,363 MMscf have been estimated for wells Aksaz-1, Aksaz-2 (Sidetrack A), Aksaz-3 and Aksaz-4, of which 126 MSTB are incremental reserves assigned to the same completed intervals based on the increased recovery factor: Aksaz-1 – recovery factor is increased to 15 percent.

Also, proved developed non-producing oil reserves of 583 MSTB and marketable solution gas reserves of 2,840 MMscf have been assigned for two intervals in well Aksaz-3. These intervals have been on production for six months, but are currently not producing.

Proved undeveloped oil reserves of 19 MSTB and marketable solution gas reserves of 370 MMscf have been assigned for one zone in well Aksaz-2 which is currently abandoned because of the nearby drilled Sidetrack 2A.

Probable developed oil reserves of 739 MSTB and marketable solution gas reserves of 6,824 MMscf have been assigned for the additional intervals in the existing wells Aksaz-1, 2A, 3, 4 and 6 based on the reservoir parameters determined from well log analysis and assuming recovery factor and drainage area: 15 percent and 60 acres for wells Aksaz-1, 2 and 6, and 20 percent and 80 acres for wells Aksaz-3 and 4, and actual gas-oil ratio for each well.

Additional Probable Undeveloped oil reserves of 837 MSTB and marketable solution gas reserves of 5,400 MMscf have been estimated for one interval in well Aksaz-2 and two locations based on analogy of the reservoir parameters to the existing wells assuming a recovery factor of 15 present and drainage area of 60 acres for one and 20 percent and 80 acres for the second location.

Possible oil reserves of 1,350 MSTB and marketable solution gas reserves of 10,221 MMscf have been estimated for five locations based on analogy to the existing wells.

Reserves assigned in this report have been restricted to the fault blocks which have been encountered by wells Aksaz-1, 2, 3, 4 and 6. Additional resource potential may exist on the surrounding fault block (Figure 1), which have not yet been drilled. This has not been accounted for in this report.

Also, the Jurassic has indicated significant possible reserves potential, based on log analysis, which has not been evaluated herein, but will be tested with the next well drilled.

There is insufficient data at present to accurately quantify reserves, however log analysis on Aksaz-1 demonstrates potential hydrocarbon as discussed above.

A summary of the reserves for this area is presented in Table 2.

**PRODUCTION**

Well Aksaz-1 commenced production in 2005 at an initial rate of 180 STB/d but was shut off in the middle of 2005 and after workovers and stimulation, came on production in December of 2007 at a rate of 205 STB/d. The well Aksaz-1 is currently producing at a rate of 33 STB/d with a gas-oil ratio of 8,818 scf/STB.

Well Aksaz-2 commenced production in the beginning of 2009 at a rate of 9 STB/d and is currently abandoned. A new sidetrack well, Aksaz-2A, was drilled in 2010 and expected to be placed on production in 2011 at an initial production rate of 50 STB/d from one zone.

Well Aksaz-3 commenced production in October 2007 at a rate of 360 STB/d and is currently producing at a rate of 328 STB/d with a gas-oil ratio of 5,242 scf/STB.

Well Aksaz-4 commenced production during late 2005 at an initial rate of up to about 100 STB/d and is currently producing at a rate of about 53 STB/d with a gas-oil ratio of 4,500 scf/STB.

Well Aksaz-6 commenced production in the beginning of 2009 at a rate of 40 STB/d, and currently producing at the rate of 26 STB/d and a gas-oil ratio of 12,466 scf/STB.

The two offset probable locations have been anticipated to commence production by January 2013 at a rate averaging 250 STB/d each with a gas-oil ratio of 4,785 scf/STB.

Four possible locations are expected to be drilled and commence production by June 2014 at an average initial rate of 100 STB/d per zone and a gas-oil ratio as presented in Table 2.

Initial rates for proved undeveloped, probable and possible locations are based on earlier tests in well Aksaz-1 where rates as high as 300 STB/d were achieved flowing against a back pressure of 800 psi. These wells will be drilled and completed with modern technology as opposed to the Aksaz -1 and 4 wells which are reentries of older wells.

The offset wells for the probable plus possible category have been scheduled to commence production at rates from 100 to 400 STB/d per well.

Production history graphs for individual wells and a Group Production Plot are presented on Figures 3a through 3e.

## PRODUCT PRICES

The Company has secured an export permit for oil sales which allows all of the Company's production to be exported. During the exploration stage exports are subject to "export rent tax" (ERT), which would be until January 9, 2013 with the expected extension in the exploration license. During this period the ERT is based on the New Tax Low of ROK and its values are presents in the Attachment 1. Exported oil is exempt from VAT.

A forecast price used for this project is based on the Chapman's forecast utilizing Forecast Brent crude price less $16.37/STB (transportation discount), export duty of $5.20/STB, ERT (values are presented in the Attachment 1), domestic price of $26.72/STB (before VAT), VAT (12 percent) and an export/domestic sales split of 90/10 percent for the first three years and 80/20 percent thereafter.

A natural gas price of $1.16/Mscf has been utilized for solution gas sales and assumed to be constant throughout the report.

## CAPITAL EXPENDITURES

Total capital expenditures of $64,400,000 have been estimated for the development of the proved, probable and possible reserves in this field.

Detailed brake down of the capital expenses required for full development of the assigned reserves is presented in Table 3a.

Abandonment and lease restoration costs of $600,000 ($50,000 per well) net of salvage have been included after the depletion of the reserves, as presented in Table 3b.

## OPERATING COSTS

Field operating costs of $8,850/well/month (fixed), $4.15/STB, and $0.15/Mscf have been estimated for this project, based on field estimates provided by the Company, which we consider to be reasonable.

## ECONOMICS

The economic analysis performed for this evaluation, presented here, reflects future cash flows from this property before consideration of income taxes and other taxes which apply under the "royalty and tax contract".

The cash flow forecasts have been prepared under a "forecast prices and costs" assumption based on Chapman Petroleum Engineering price forecast.

A summary of the economic results are presented in Table 4 and the consolidated cash flows forecasts are presented in Tables 4a through 4e.

## Table 1

## Schedule of Lands, Interests and Royalty Burdens
## January 1, 2011

## BMB Munai, Inc.

## Aksaz, Republic of Kazakhstan

| Description | Rights Owned | Gross Acres | Appraised Interest | | Royalty Burdens | |
|---|---|---|---|---|---|---|
| | | | Working | Royalty | Basic | Overriding |
| | | | % | % | % | % |
| License AI No.1552 & Contract No.482 | A | N/A | 100.0000 | – | 1 | – |

*General Notes:* 1 According to the New Tax Law of ROK:

| Annual Production | | Royalty (Mineral Extraction Tax) for OIL, % | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011-2012 | | | 2013 | | | 2014 and after | | |
| tons | MSTB | Export | Domestic | Blend | Export | Domestic | Blend | Export | Domestic | Blend |
| up to 250,000 | up to 1,964 | 5.00 | 2.50 | **4.75** | 6.00 | 3.00 | **5.70** | 7.00 | 3.50 | **6.30** |
| up to 500,000 | up to 3,928 | 7.00 | 3.50 | **6.65** | 8.00 | 4.00 | **7.60** | 9.00 | 4.50 | **8.10** |
| up to 1,000,000 | up to 7,856 | 8.00 | 4.00 | **7.60** | 9.00 | 4.50 | **8.55** | 10.00 | 5.00 | **9.00** |
| up to 2,000,000 | up to 15,711 | 9.00 | 4.50 | **8.55** | 10.00 | 5.00 | **9.50** | 11.00 | 5.50 | **9.90** |
| up to 3,000,000 | up to 23,567 | 10.00 | 5.00 | **9.50** | 11.00 | 5.50 | **10.45** | 12.00 | 6.00 | **10.80** |
| up to 4,000,000 | up to 31,423 | 11.00 | 5.50 | **10.45** | 12.00 | 6.00 | **11.40** | 13.00 | 6.50 | **11.70** |
| up to 5,000,000 | up to 39,278 | 12.00 | 6.00 | **11.40** | 13.00 | 6.50 | **12.35** | 14.00 | 7.00 | **12.60** |
| up to 7,000,000 | up to 54,990 | 13.00 | 6.50 | **12.35** | 14.00 | 7.00 | **13.30** | 15.00 | 7.50 | **13.50** |
| up to 10,000,000 | up to 78,557 | 15.00 | 7.50 | **14.25** | 16.00 | 8.00 | **15.20** | 17.00 | 8.50 | **15.30** |
| over 10,000,000 | over 78,558 | 18.00 | 9.00 | **17.10** | 19.00 | 9.50 | **18.05** | 20.00 | 10.00 | **18.00** |

2011-2013 – production split will be 90/10 (90 percent of production – for export and 10 percent for domestic sales)

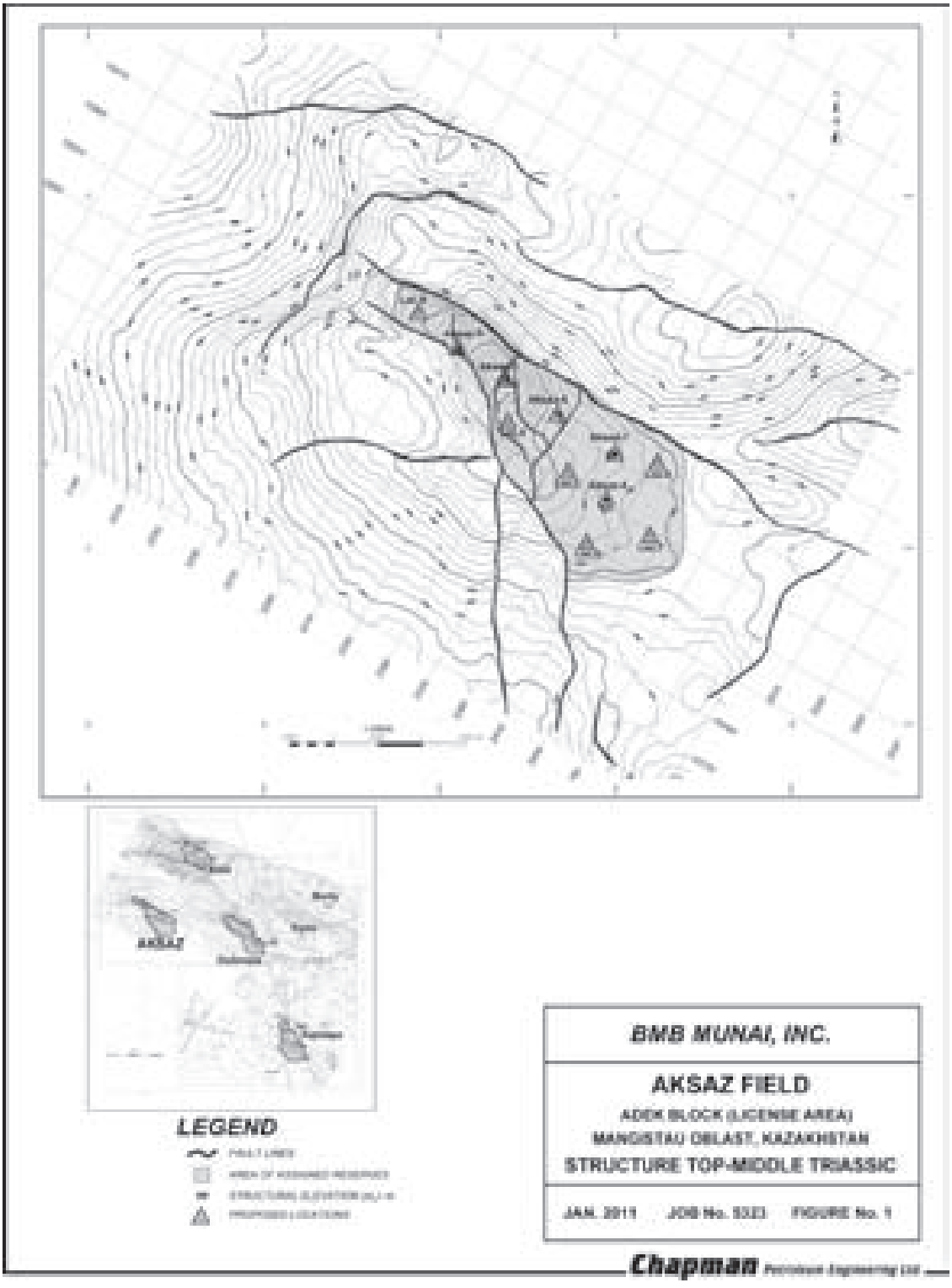
after 2013 – production split will be 80/20 (80 percent of production – for export and 20 percent for domestic sales)

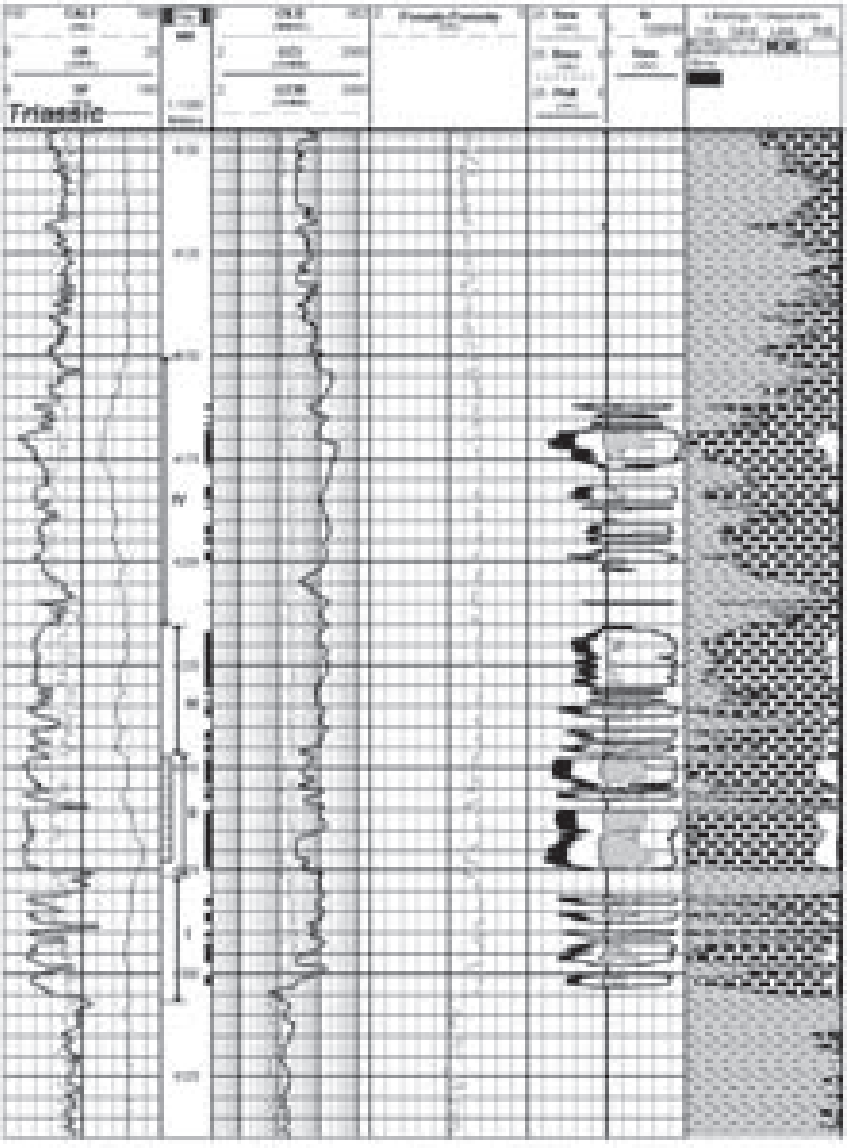
| Annual Production | | Royalty (Mineral Extraction Tax) for GAS, % | |
|---|---|---|---|
| $10^6$ $m^3$ | MMscf | Export | Domestic |
| up to 1000 | up to 35,490 | 10.00 | 0.50 |
| up to 2000 | up to 70,980 | 10.00 | 1.00 |
| over 2000 | over 70,980 | 10.00 | 1.50 |

| Corporate Income Tax | |
|---|---|
| Year | Rate, % |
| 2011-2012 | 20.00 |
| 2013 | 17.50 |
| 2014 and after | 15.00 |

*Rights Owned:*

A Aksaz Field located in blocks XXXVI-10-C(partially), F(partially), XXXVI-11-A(partially).


AKSAZ
LEGEND
BMB MUNAI, INC.
AKSAZ FIELD
ADEK BLOCK (LICENSE AREA)
MANGISTAU OBLAST, KAZAKHSTAN
STRUCTURE TOP-MIDDLE TRIASSIC
JAN. 2011 JOB No. 533 FIGURE No. 1
Chapman Petroleum Engineering Ltd.

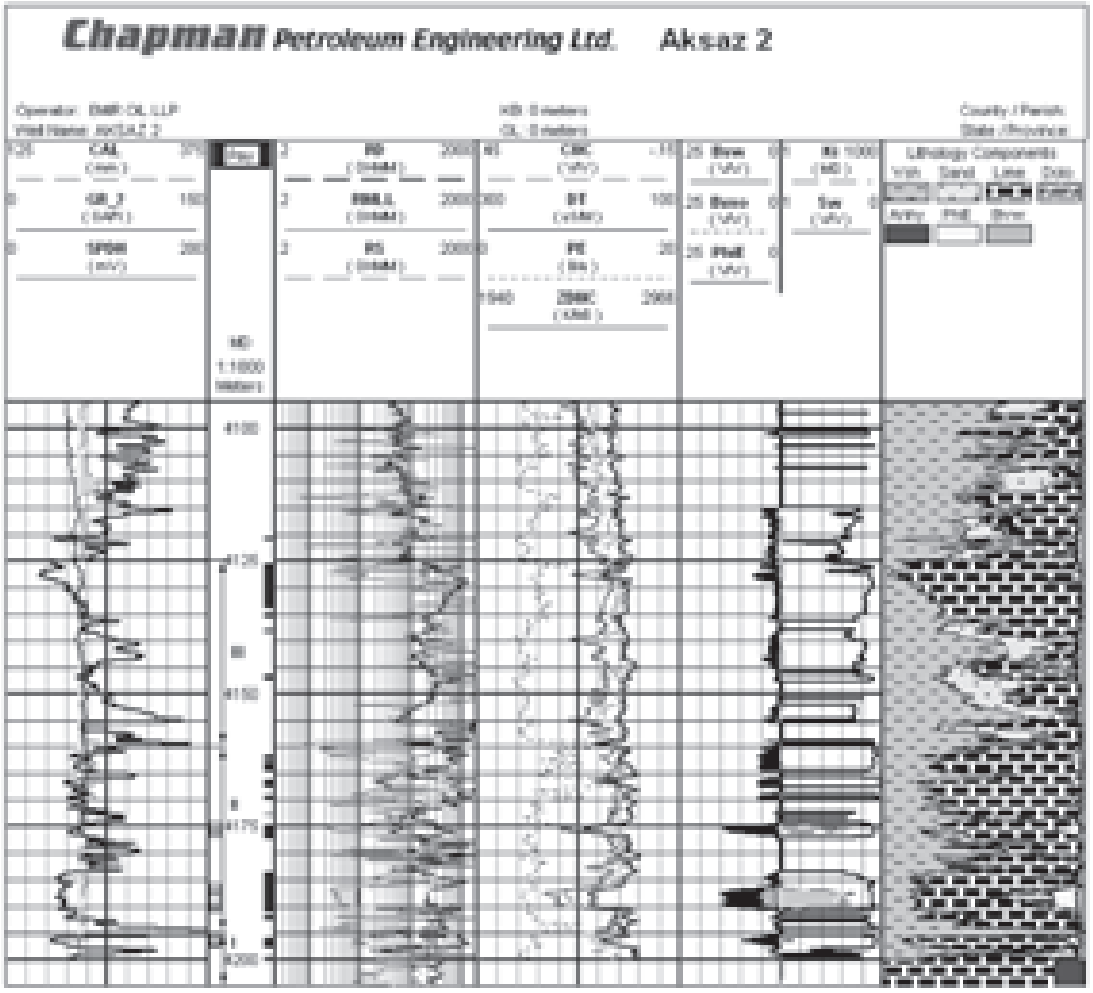



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**AKSAZ 1**
TRIASSIC

JAN. 2011 JOB No. 5323 FIGURE No. 2a

Chapman Petroleum Engineering Ltd.

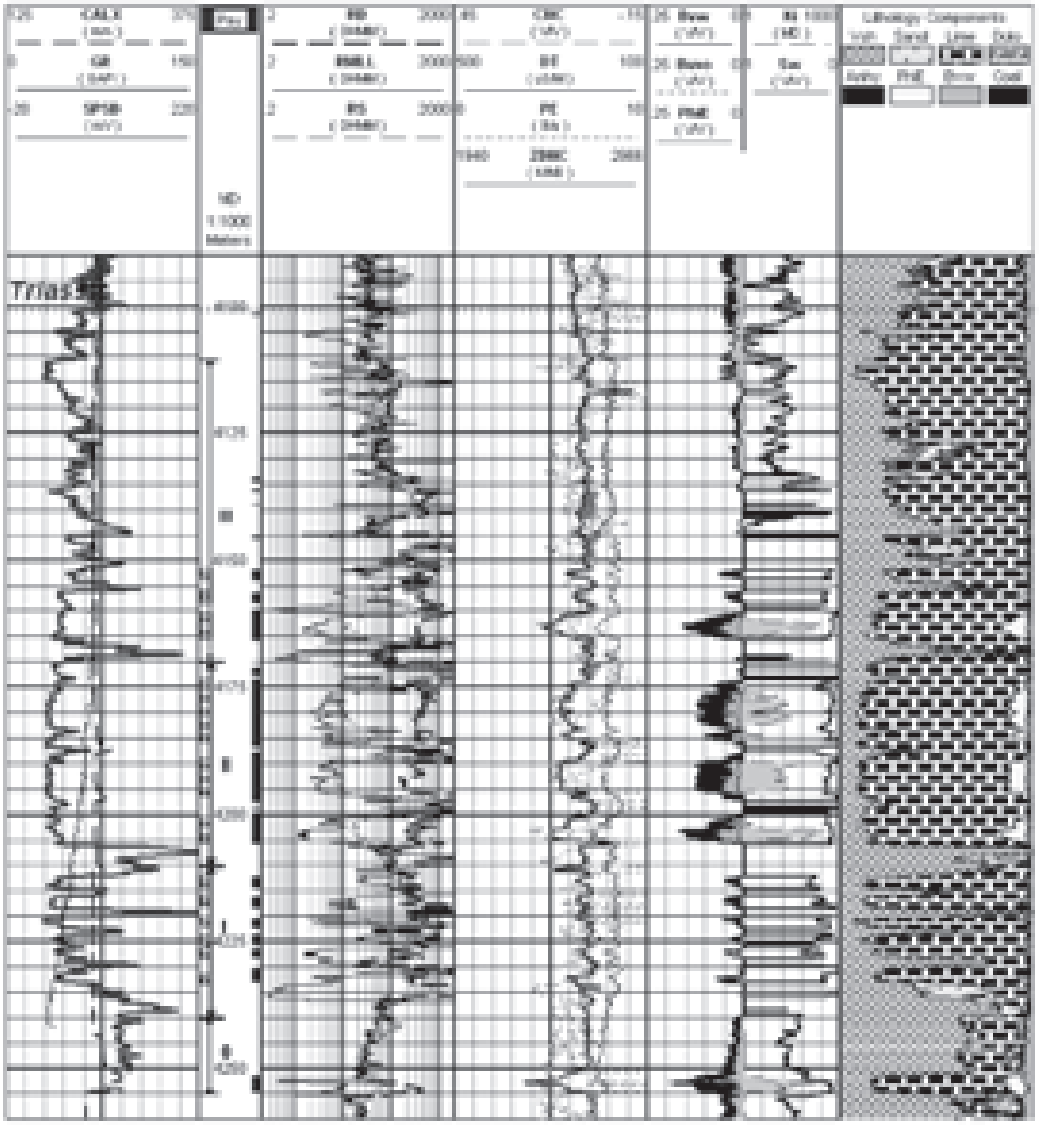



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**AKSAZ 2**
TRIASSIC

JAN. 2011 JOB No. 5323 FIGURE No. 3b

Chapman Petroleum Engineering Ltd.

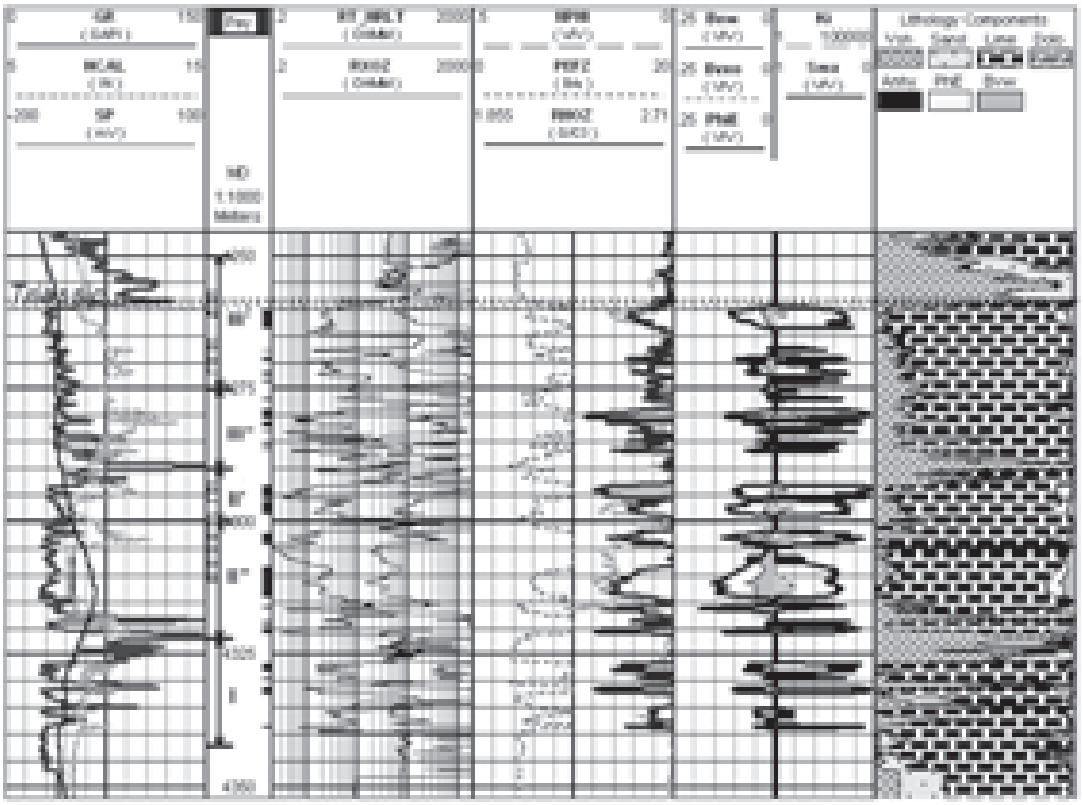



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**AKSAZ 3**
TRIASSIC

JAN. 2011 JOB No. 5323 FIGURE No. 2c

Chapman Petroleum Engineering Ltd.

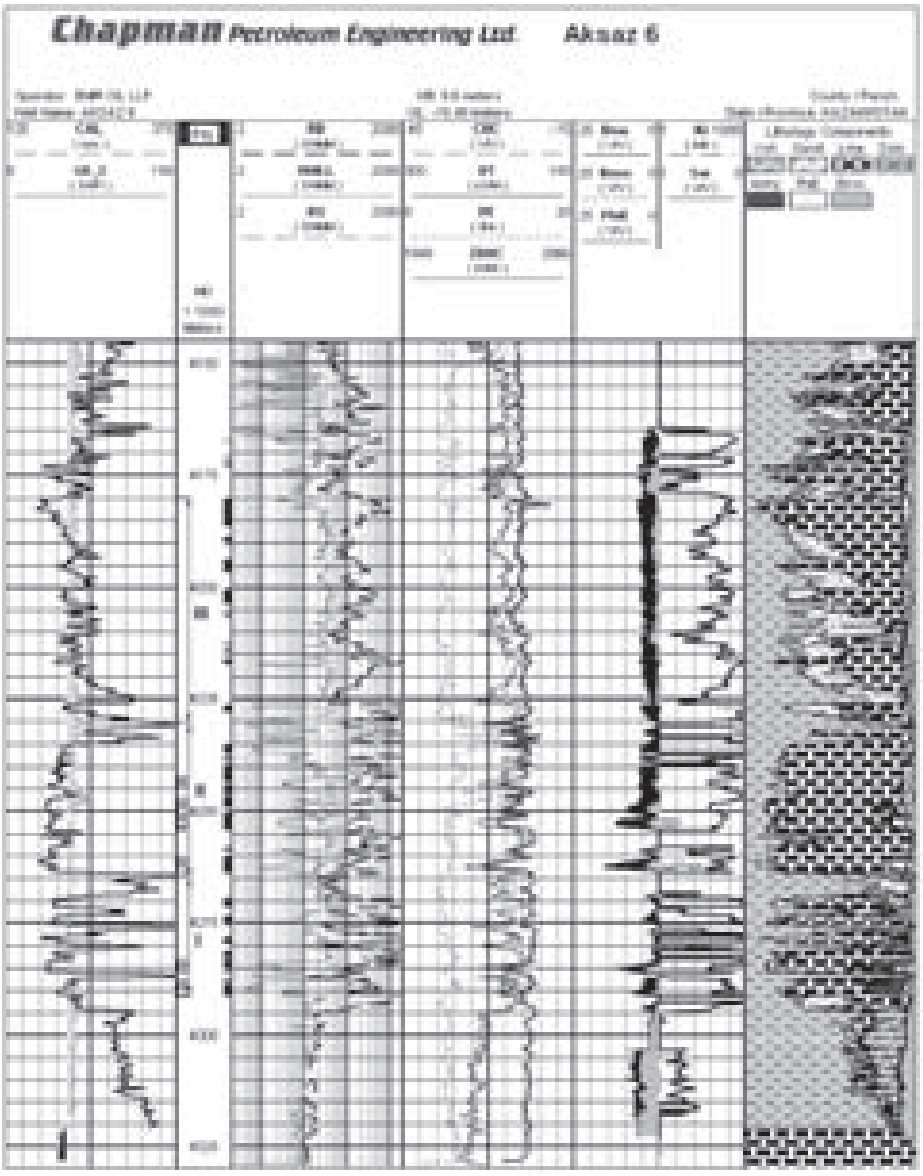


**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**AKSAZ 4**
TRIASSIC

JAN. 2011 JOB No. 5323 FIGURE No. 2d

Chapman Petroleum Engineering Ltd.




BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
AKSAZ 6
TRIASSIC

JAN. 2011 JOB No. 5323 FIGURE No. 2e

Chapman Petroleum Engineering Ltd.

## Table 2

## Summary of Gross Reserves
## January 1, 2011

## BMB Munai, Inc.

## Aksaz, Republic of Kazakhstan

| Description | | | Current or Initial Rate *STB/d* | API Gravity *(Deg)* | Ultimate ROIP *(MSTB)* | Cumulative Production *(MSTB)* | Remaining ROIP *(MSTB)* |
|---|---|---|---|---|---|---|---|
| **LIGHT & MEDIUM OIL** | | | | | | | |
| **Proved Developed Producing** | | | | | | | |
| Aksaz-1 | Triassic (Zone II) | | 33 | 55 | 251 | 92 | 159 |
| Aksaz-3 | Triassic (Zone III) | | 328 | 55 | 313 | 271 | 42 |
| Aksaz-4 | Triassic (Zones III') | | 53 | 55 | 98 | 73 | 24 |
| Aksaz-6 | Triassic (Zones II & I) | | 26 | 55 | 87 | 23 | 64 |
| | **Total Proved Developed Producing** | | **439** | | **749** | **460** | **289** |
| **Proved Developed Non-producing** | | | | | | | |
| Aksaz-1 | Triassic (Zone III) | | 50 | 55 | 156 | 0 | 156 |
| Aksaz-1 | Triassic (Zone II) | (incr.) | 50 | 55 | 126 | 0 | 126 |
| Aksaz-2A | Triassic (Zone II) | | 100 | 55 | 93 | 3 | 89 |
| Aksaz-3 | Triassic (Zones II & I) | | 200 | 55 | 628 | 45 | 583 |
| Aksaz-4 | Triassic (Zones III"& II") | | 100 | 55 | 225 | 0 | 225 |
| Aksaz-4 | Triassic (Zone II') | | 40 | 55 | 128 | 42 | 86 |
| | **Total Proved Developed Non-producing** | | **540** | | **1,355** | **91** | **1,264** |
| | **Total Proved Developed** | | **979** | | **2,104** | **550** | **1,553** |
| **Proved Undeveloped** | | | | | | | |
| Aksaz-2 | Triassic (Zone I) | | 50 | 55 | 21 | 1 | 19 |
| | **Total Proved Undeveloped** | | **50** | | **21** | **1** | **19** |
| | **Total Proved** | | **1,029** | | **2,123** | **551** | **1,572** |
| **Probable** | | | | | | | |
| **Probable Developed Producing** | | | | | | | |
| Aksaz-6 | Triassic (Zone III) | | 100 | 55 | 81 | 0 | 81 |
| Aksaz-6 | Triassic (Zones II & I) | (incr.) | 50 | 55 | 101 | 0 | 101 |
| | **Total Probable Developed Producing** | | **150** | | **182** | **0** | **182** |
| **Probable Developed Non-Producing** | | | | | | | |
| Aksaz-1 | Triassic (Zones IV & I) | | 200 | 55 | 384 | 0 | 384 |
| Aksaz-2A | Triassic (Zones III) | | 50 | 55 | 34 | 0 | 34 |
| Aksaz-2A | Triassic (Zone II) | (incr.) | 50 | 55 | 16 | 0 | 16 |
| Aksaz-3 | Triassic (Zones 0) | | 50 | 55 | 89 | 0 | 89 |
| Aksaz-4 | Triassic (Zone I) | | 50 | 55 | 34 | 0 | 34 |
| | **Total Probable Developed Non-Producing** | | **400** | | **557** | **0** | **557** |
| | **Total Probable Developed** | | **550** | | **739** | **0** | **739** |

| Description | | | Current or Initial Rate *STB/d* | API Gravity *(Deg)* | Ultimate ROIP *(MSTB)* | Cumulative Production *(MSTB)* | Remaining ROIP *(MSTB)* |
|---|---|---|---|---|---|---|---|
| **Probable Undeveloped** | | | | | | | |
| Aksaz-2 | Triassic (Zone I) | (incr.) | 50 | 55 | 5 | 0 | 4 |
| Location 3 | Triassic (Zones II & I) | | 200 | 55 | 188 | 0 | 188 |
| Location 4 | Triassic (Zones III, II & I) | | 300 | 55 | 645 | 0 | 645 |
| | **Total Probable Undeveloped** | | **550** | | **838** | **0** | **837** |
| | **Total Probable** | | **950** | | **1,577** | **0** | **1,576** |
| | **Total Proved Plus Probable** | | **1,979** | | **3,699** | **551** | **3,148** |
| **Possible** | | | | | | | |
| Location 3 | Triassic (Zone III) | | 100 | 55 | 81 | 0 | 81 |
| Location 5 | Triassic (Zones III, II & I) | | 100 | 55 | 162 | 0 | 162 |
| Location 6 | Triassic (Zones III', III", II' & II") | | 400 | 55 | 373 | 0 | 373 |
| Location 7 | Triassic (Zones III', III", II' & II") | | 400 | 55 | 373 | 0 | 373 |
| Location 8 | Triassic (Zones III & II) | | 250 | 55 | 361 | 0 | 361 |
| | **Total Possible** | | **1,250** | | **1,349** | **0** | **1,350** |
| | **Total Proved Plus Probable Plus Possible** | | **3,229** | | **5,048** | **551** | **4,497** |

## Table 2

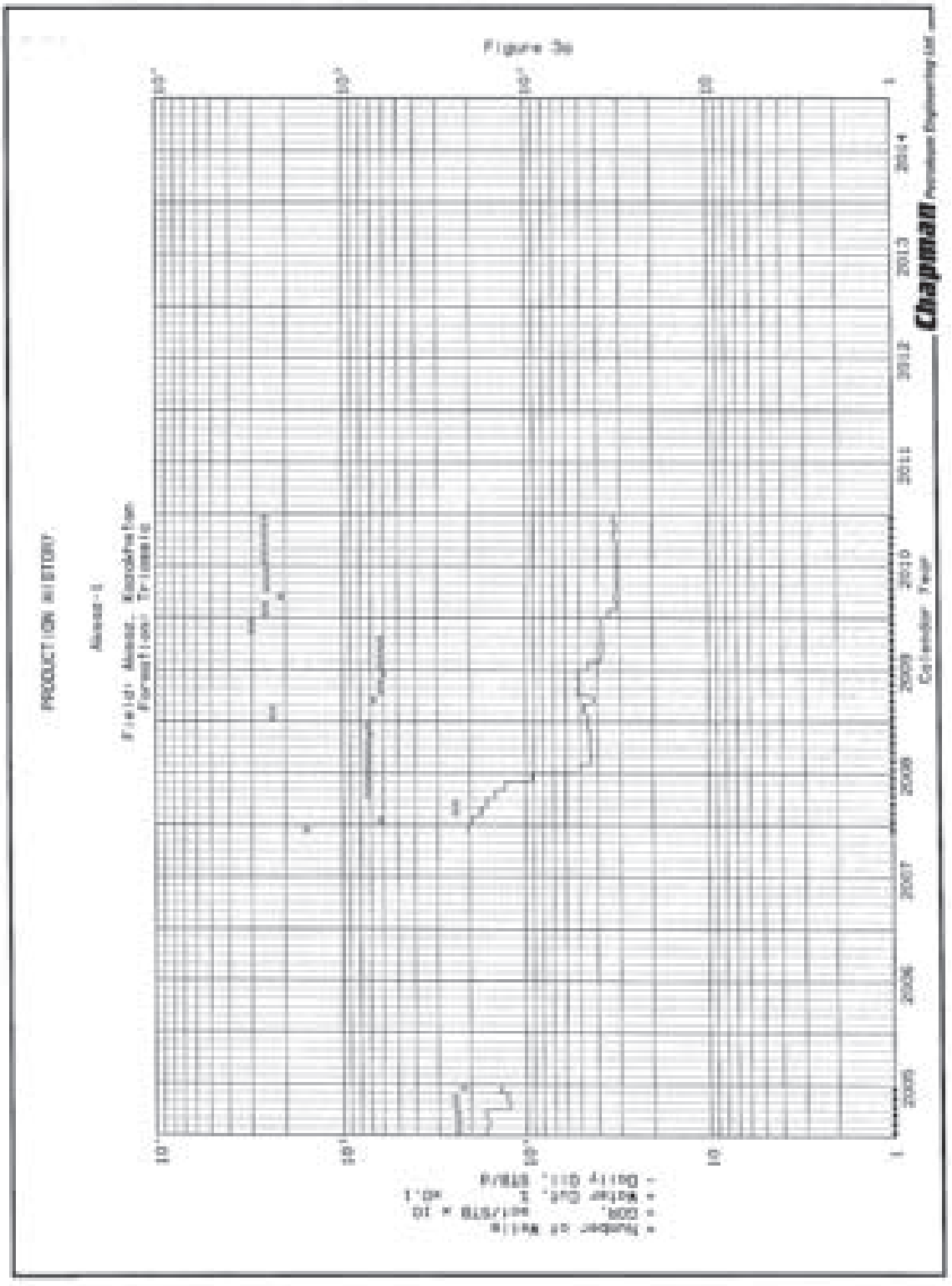
## Summary of Gross Proved Reserves
## January 1, 2011

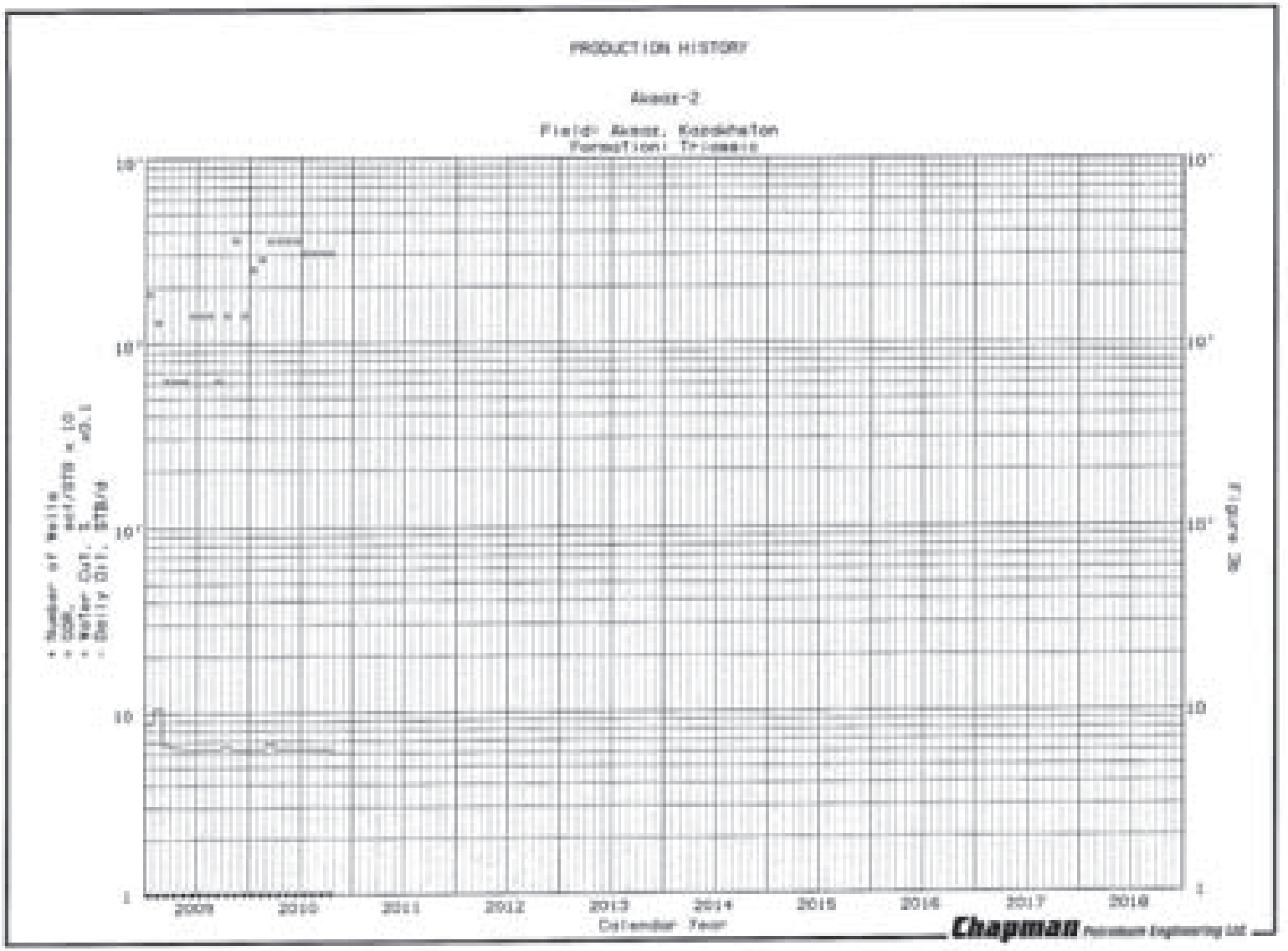
## BMB Munai, Inc.

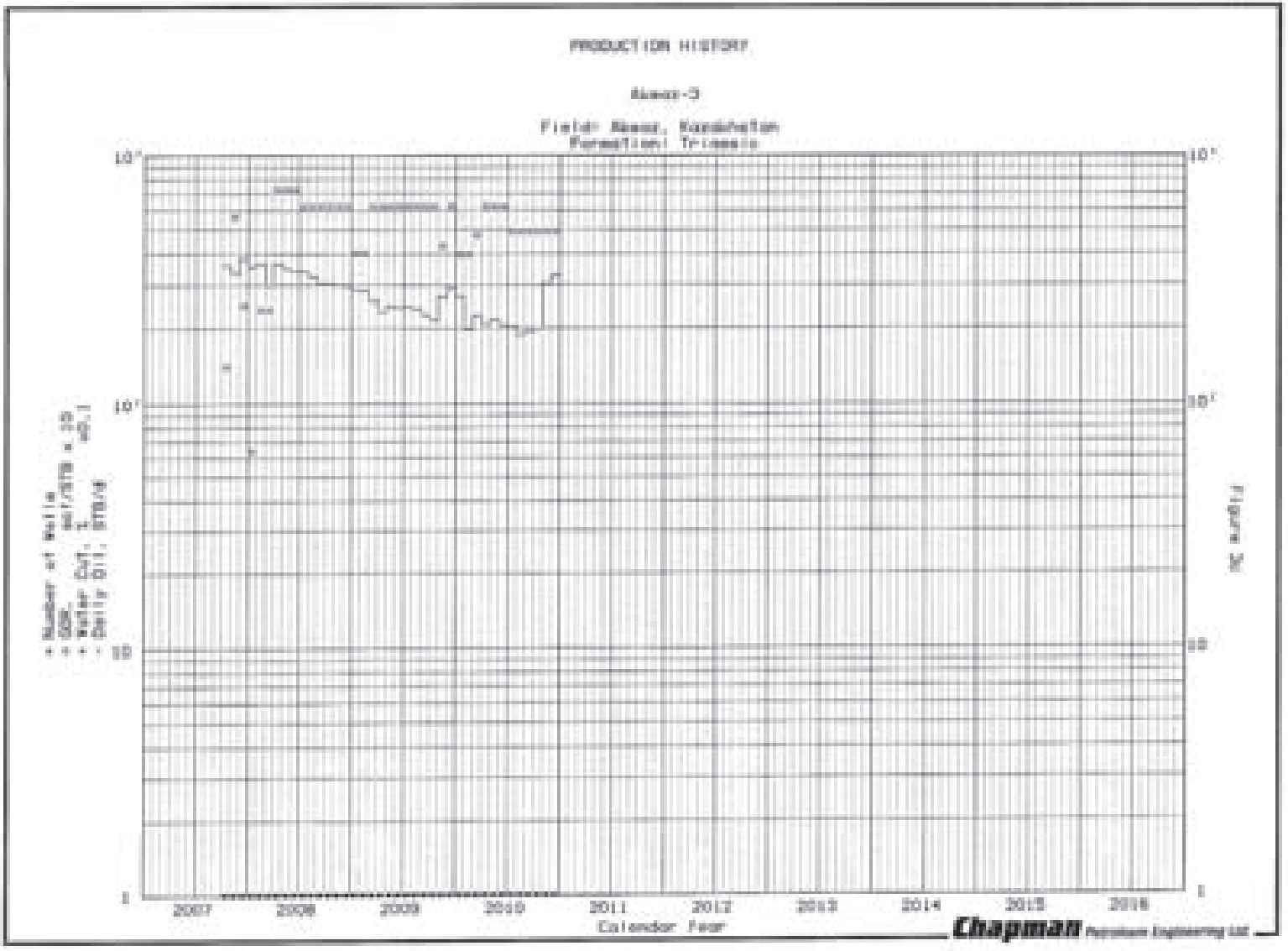
## Aksaz, Republic of Kazakhstan

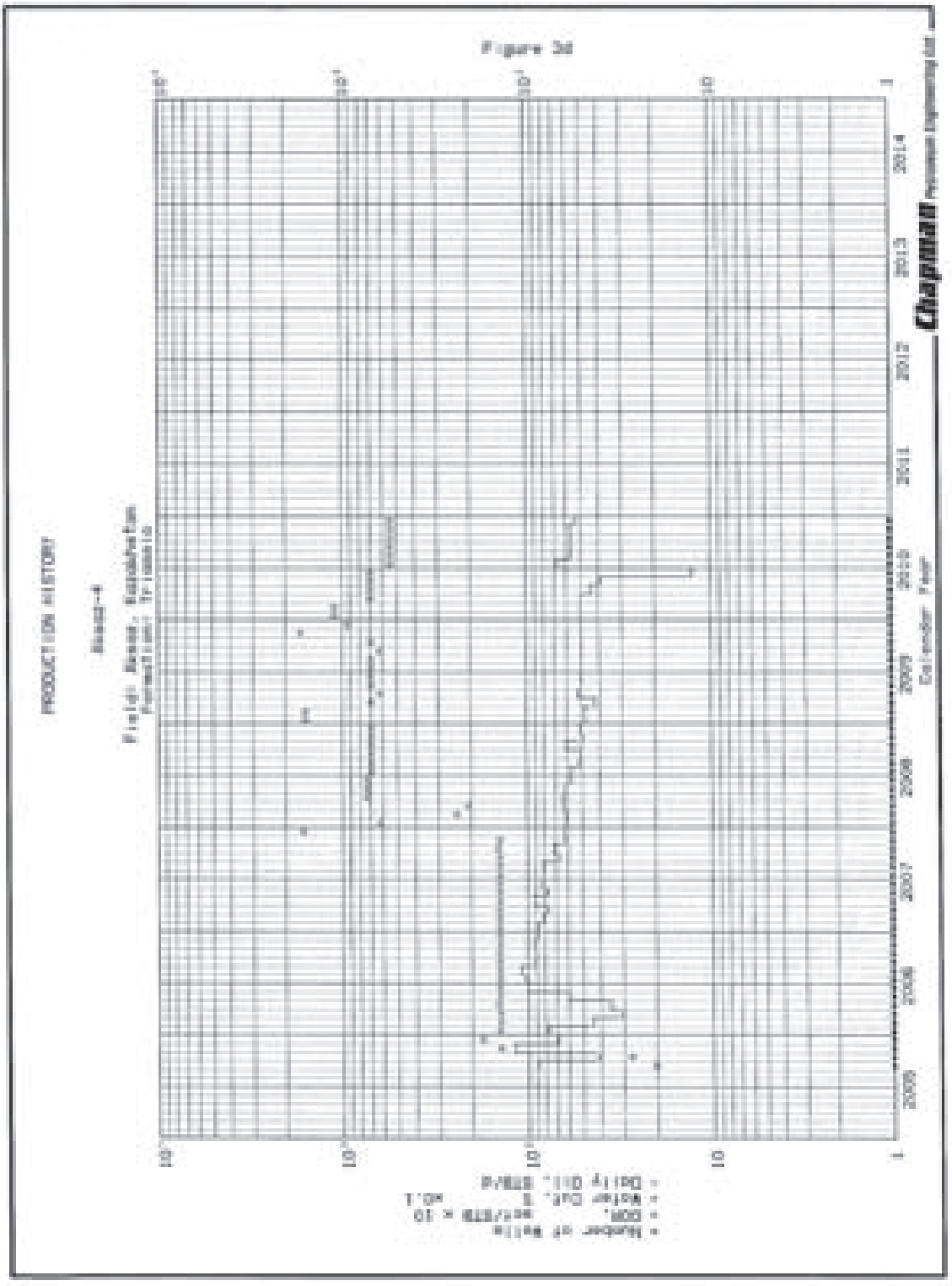
| Description | | Ultimate RGIP (MMscf) | Cumulative Production (MMscf) | Remaining RGIP (raw) (MMscf) | Remaining RGIP (sales) (MMscf) | Reference | sloss % | NGL Ratio Bbls/MMscf | Sulphur Ratio LT/MMscf | GOR Scf/STB |
|---|---|---|---|---|---|---|---|---|---|---|
| **SOLUTION GAS** | | | | | | | | | | |
| **Proved Developed Producing** | | | | | | | | | | |
| Aksaz-1 | Triassic (Zone II) | 2,216 | 814 | 1,402 | 1,304 | GOR: 8,818 scf/STB | **7** | 0 | 0 | 8,818 |
| Aksaz-3 | Triassic (Zone III) | 1,640 | 1,419 | 220 | 205 | GOR: 5,242 scf/STB | **7** | 0 | 0 | 5,242 |
| Aksaz-4 | Triassic (Zones III') | 440 | 330 | 110 | 102 | GOR: 4,500 scf/STB | **7** | 0 | 0 | 4,500 |
| Aksaz-6 | Triassic (Zones II & I) | 1,083 | 287 | 797 | 741 | GOR: 12,466 scf/STB | **7** | 0 | 0 | 12,466 |
| | **Total Proved Developed Producing** | **5,379** | **2,851** | **2,528** | **2,351** | | | | | |
| **Proved Developed Non-producing** | | | | | | | | | | |
| Aksaz-1 | Triassic (Zone III) | 1,371 | 0 | 1,371 | 1,275 | GOR: 8,818 scf/STB | **7** | 0 | 0 | 8,818 |
| Aksaz-1 | Triassic (Zone II) | 1,108 | 0 | 1,108 | 1,030 | GOR: 8,818 scf/STB | **7** | 0 | 0 | 8,818 |
| Aksaz-2A | Triassic (Zone II) | 1,956 | 70 | 1,887 | 1,755 | GOR: 21,230 scf/STB | **7** | 0 | 0 | 21,230 |
| Aksaz-3 | Triassic (Zones II & I) | 3,291 | 237 | 3,054 | 2,840 | GOR: 5,242 scf/STB | **7** | 0 | 0 | 5,242 |
| Aksaz-4 | Triassic (Zones III"& II") | 1,013 | 0 | 1,013 | 943 | GOR: 4,500 scf/STB | **7** | 0 | 0 | 4,500 |
| Aksaz-4 | Triassic (Zone II') | 578 | 190 | 387 | 360 | GOR: 4,500 scf/STB | **7** | 0 | 0 | 4,500 |
| | **Total Proved Developed Non-producing** | **9,318** | **498** | **8,820** | **8,203** | | | | | |
| | **Total Proved Developed** | **14,697** | **3,348** | **11,349** | **10,554** | | | | | |
| **Proved Undeveloped** | | | | | | | | | | |
| Aksaz-2 | Triassic (Zone I) | 418 | 20 | 398 | 370 | GOR: 21,230 scf/STB | **7** | 0 | 0 | 21,230 |
| | **Total Proved Undeveloped** | **418** | **20** | **398** | **370** | | | | | |
| | **Total Proved** | **15,115** | **3,369** | **11,746** | **10,924** | | | | | |
| **Probable** | | | | | | | | | | |
| **Probable Developed Producing** | | | | | | | | | | |
| Aksaz-6 | Triassic (Zone III) | 1,005 | 0 | 1,005 | 935 | GOR: 12,466 scf/STB | **7** | 0 | 0 | 12,466 |
| Aksaz-6 | Triassic (Zones II & I) | 1,260 | 0 | 1,260 | 1,171 | GOR: 12,466 scf/STB | **7** | 0 | 0 | 12,466 |
| | **Total Probable Developed Producing** | **2,265** | **0** | **2,265** | **2,106** | | | | | |

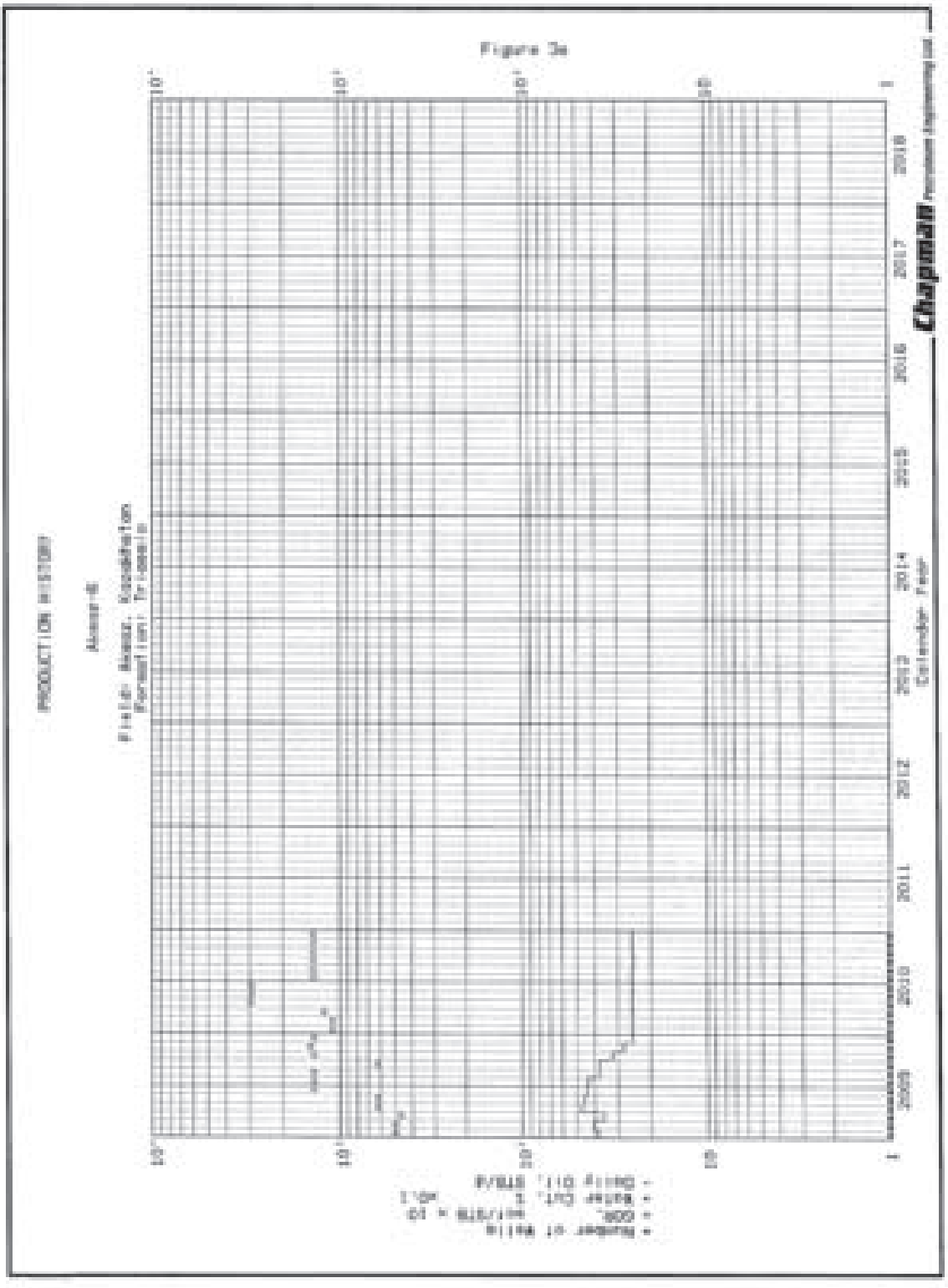
| Description | | Ultimate RGIP (MMscf) | Cumulative Production (MMscf) | Remaining RGIP (raw) (MMscf) | Remaining RGIP (sales) (MMscf) | Reference | sloss % | NGL Ratio Bbls/MMscf | Sulphur Ratio LT/MMscf | GOR Scf/STB |
|---|---|---|---|---|---|---|---|---|---|---|
| **Probable Developed Non-Producing** | | | | | | | | | | |
| Aksaz-1 | Triassic (Zones IV & I) | 3,384 | 0 | 3,384 | 3,147 | GOR: 8,818 scf/STB | **7** | 0 | 0 | 8,818 |
| Aksaz-2A | Triassic (Zones III) | 728 | 0 | 728 | 677 | GOR: 21,230 scf/STB | **7** | 0 | 0 | 21,230 |
| Aksaz-2A | Triassic (Zone II) | 343 | 0 | 343 | 319 | GOR: 21,230 scf/STB | **7** | 0 | 0 | 21,230 |
| Aksaz-3 | Triassic (Zones 0) | 465 | 0 | 465 | 433 | GOR: 5,242 scf/STB | **7** | 0 | 0 | 5,242 |
| Aksaz-4 | Triassic (Zone I) | 153 | 0 | 153 | 142 | GOR: 4,500 scf/STB | **7** | 0 | 0 | 4,500 |
| | **Total Probable Developed Non-Producing** | **5,074** | **0** | **5,074** | **4,718** | | | | | |
| | **Total Probable Developed** | **7,339** | **0** | **7,339** | **6,824** | | | | | |
| **Probable Undeveloped** | | | | | | | | | | |
| Aksaz-2 | Triassic (Zone I) | 82 | 0 | 82 | 76 | GOR: 21,230 scf/STB | **7** | 0 | 0 | 21,230 |
| Location 3 | Triassic (Zones II & I) | 2,343 | 0 | 2,343 | 2,178 | GOR: 12,466 scf/STB | **7** | 0 | 0 | 12,466 |
| Location 4 | Triassic (Zones III, II & I) | 3,382 | 0 | 3,382 | 3,146 | GOR: 5,242 scf/STB | **7** | 0 | 0 | 5,242 |
| | **Total Probable Undeveloped** | **5,807** | **0** | **5,807** | **5,400** | | | | | |
| | **Total Probable** | **13,146** | **0** | **13,146** | **12,225** | | | | | |
| | **Total Proved Plus Probable** | **28,261** | **3,369** | **24,892** | **23,149** | | | | | |
| **Possible** | | | | | | | | | | |
| Location 3 | Triassic (Zone III) | 1,005 | 0 | 1,005 | 935 | GOR: 12,466 scf/STB | **7** | 0 | 0 | 12,466 |
| Location 5 | Triassic (Zones III, II & I) | 3,446 | 0 | 3,446 | 3,205 | GOR: 21,230 scf/STB | **7** | 0 | 0 | 21,230 |
| Location 6 | Triassic (Zones III', III", II' & II") | 1,677 | 0 | 1,677 | 1,559 | GOR: 4,500 scf/STB | **7** | 0 | 0 | 4,500 |
| Location 7 | Triassic (Zones III', III", II' & II") | 1,677 | 0 | 1,677 | 1,559 | GOR: 4,500 scf/STB | **7** | 0 | 0 | 4,500 |
| Location 8 | Triassic (Zones III & II) | 3,186 | 0 | 3,186 | 2,963 | GOR: 8,818 scf/STB | **7** | 0 | 0 | 8,818 |
| | **Total Possible** | **10,990** | **0** | **10,990** | **10,221** | | | | | |
| | **Total Proved Plus Probable Plus Possible** | **39,251** | **3,369** | **35,882** | **33,370** | | | | | |

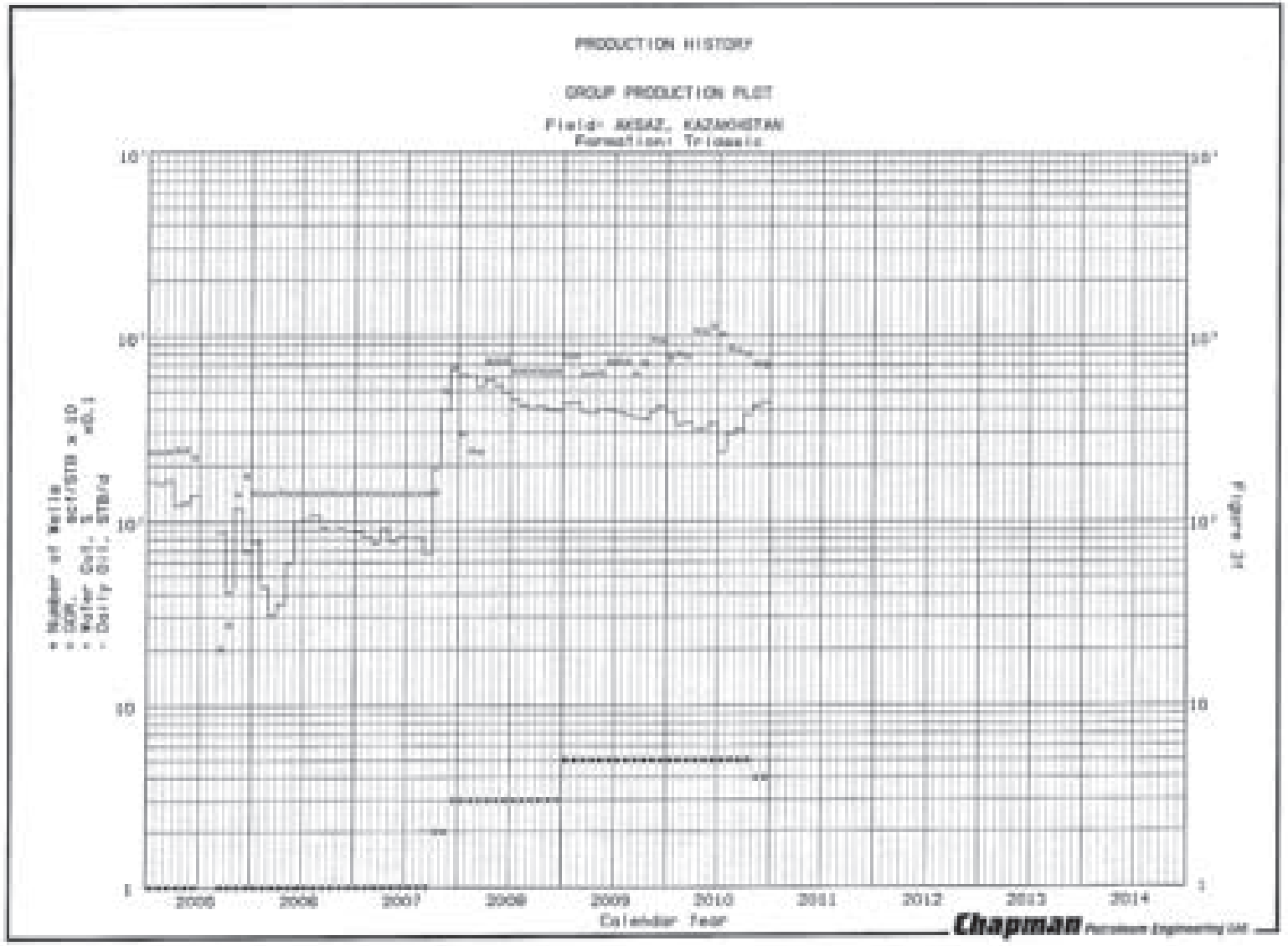

Figure 3a
PRODUCTION HISTORY
Chapman Petroleum Engineering Ltd.
Cumulative Time


PRODUCTION HISTORY
Akwaaba-2
Field: Akwaaba, Kapodehaton
Formation: Tr-Jmmain
Number of Wells
Cum. Water, mstb
Cum. Oil, mstb
Daily Oil, stb/d
Rate, Mscf/d
Calendar Year
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Chapman Petroleum Engineering Ltd.


PRODUCTION HISTORY
Awaz-3
Field: Awaz, Kazakhstan
Formation: Triassic
Number of Wells
Gas, MMcf/STB x 10
Water Cut, %
Daily Oil, STB/d
Rate, STB/d
Calendar Year
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Chapman Petroleum Engineering Ltd.


Figure 3d
PRODUCTION HISTORY
Basin-4
Field: Basin - Statistical Run
Formation: Tri-Model
Chapman Petroleum Engineering Ltd.
Calendar Year
2014
2013
2012
2011
2010
2009
2008
2007
2006
2005
Daily Oil, STB/d
Water Cut, %
GOR, scf/STB x 10
Number of Wells


Figure 3a
PRODUCTION WELL TEST
Chapman


PRODUCTION HISTORY
GROUP PRODUCTION PLOT
Field: AKSAZ, KAZAKHSTAN
Formation: Triassic
Number of Wells
GOR, scf/STB x 10
Water Cut, %
Oil Rate, STB/d
Pressure, psi
Calendar Year
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Chapman Petroleum Engineering Ltd.

## Table 3a

## Summary of Anticipated Capital Expenditures
## Development
## January 1, 2011

## BMB Munai, Inc.

## Aksaz, Republic of Kazakhstan

| Description | Date | Operation | Capital Interest % | Gross Capital M$ | Net Capital M$ |
|---|---|---|---|---|---|
| **Proved Developed Producing** | | | | | |
| Aksaz-1 | 2011 | Stimulate Producing Intervals | 100.0000 | 200 | 200 |
| Aksaz-6 | 2011 | Stimulate Producing Intervals | 100.0000 | 200 | 200 |
| | | **Total Proved Developed Producing** | | **400** | **400** |
| **Proved Developed Non-producing** | | | | | |
| Aksaz-1 | 2011 | Recomplete and tie-in additional intervals | 100.0000 | 600 | 600 |
| Aksaz-2A | 2011 | Recomplete and tie-in additional intervals | 100.0000 | 600 | 600 |
| Aksaz-3 | 2011 | Recomplete and tie-in additional intervals | 100.0000 | 600 | 600 |
| Aksaz-4 | 2011 | Recomplete and tie-in additional intervals | 100.0000 | 600 | 600 |
| | | **Total Proved Developed Non-Producing** | | **2,400** | **2,400** |
| **Proved Undeveloped** | | | | | |
| Aksaz-2 | 2012 | Recomplete and tie-in additional intervals | 100.0000 | 500 | 500 |
| | | **Total Proved Undeveloped** | | **500** | **500** |
| | | **Total Proved** | | **3,300** | **3,300** |
| **Probable Developed** | | | | | |
| Aksaz-1 | 2012 | Complete and tie-in additional intervals | 100.0000 | 600 | 600 |
| Aksaz-2A | 2012 | Complete and tie-in additional intervals | 100.0000 | 300 | 300 |
| Aksaz-3 | 2012 | Complete and tie-in additional intervals | 100.0000 | 300 | 300 |
| Aksaz-4 | 2012 | Complete and tie-in additional intervals | 100.0000 | 300 | 300 |
| Aksaz-6 | 2012 | Complete and tie-in additional intervals | 100.0000 | 600 | 600 |
| | | **Total Probable Developed** | | **2,100** | **2,100** |
| **Probable Undeveloped** | | | | | |
| Aksaz-2 | 2012 | Complete and tie-in additional intervals | 100.0000 | 100 | 100 |
| Gas Gathering Facilities | 2012 | Build and Tie-in Gas Gathering Facilities | 100.0000 | 7,500 | 7,500 |
| Two Locations | 2013 | Drill, Complete and Tie-in for Production | 100.0000 | 17,000 | 17,000 |
| | | **Total Probable Undeveloped** | | **24,600** | **24,600** |
| | | **Total Probable** | | **26,700** | **26,700** |
| | | **Total Proved Plus Probable** | | **30,000** | **30,000** |
| **Possible** | | | | | |
| One Location | 2013 | Complete and tie-in additional intervals | 100.0000 | 400 | 400 |
| Four Locations | 2014/2015 | Drill, Complete and Tie-in for Production | 100.0000 | 34,000 | 34,000 |
| | | **Total Possible** | | **34,400** | **34,400** |
| | | **Total Proved Plus Probable Plus Possible** | | **64,400** | **64,400** |

*Note:* The above capital values are expressed in terms of current dollar without escalation.

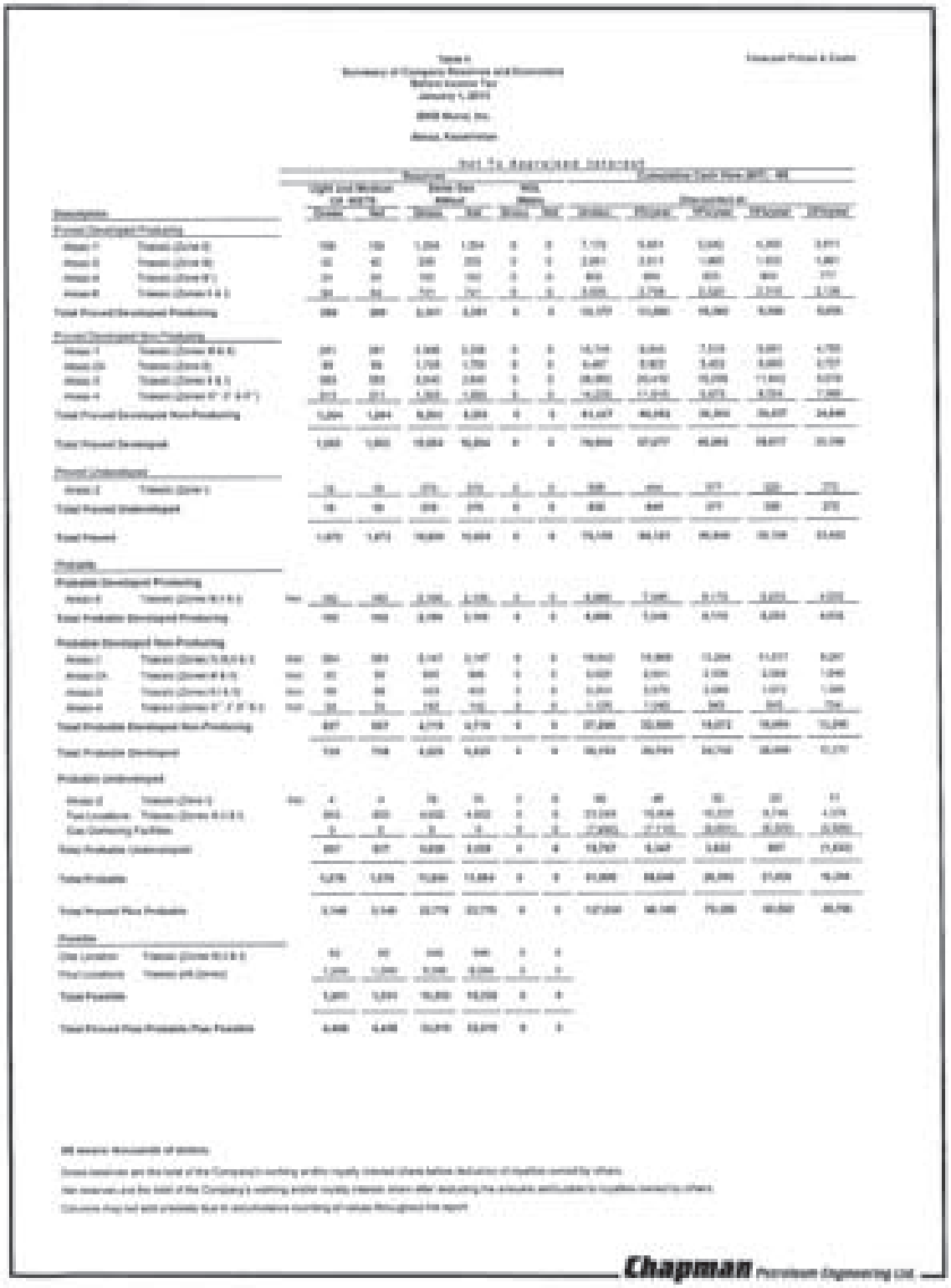
## Table 3b

## Summary of Anticipated Capital Expenditures
## Abandonment and Restoration
## January 1, 2011

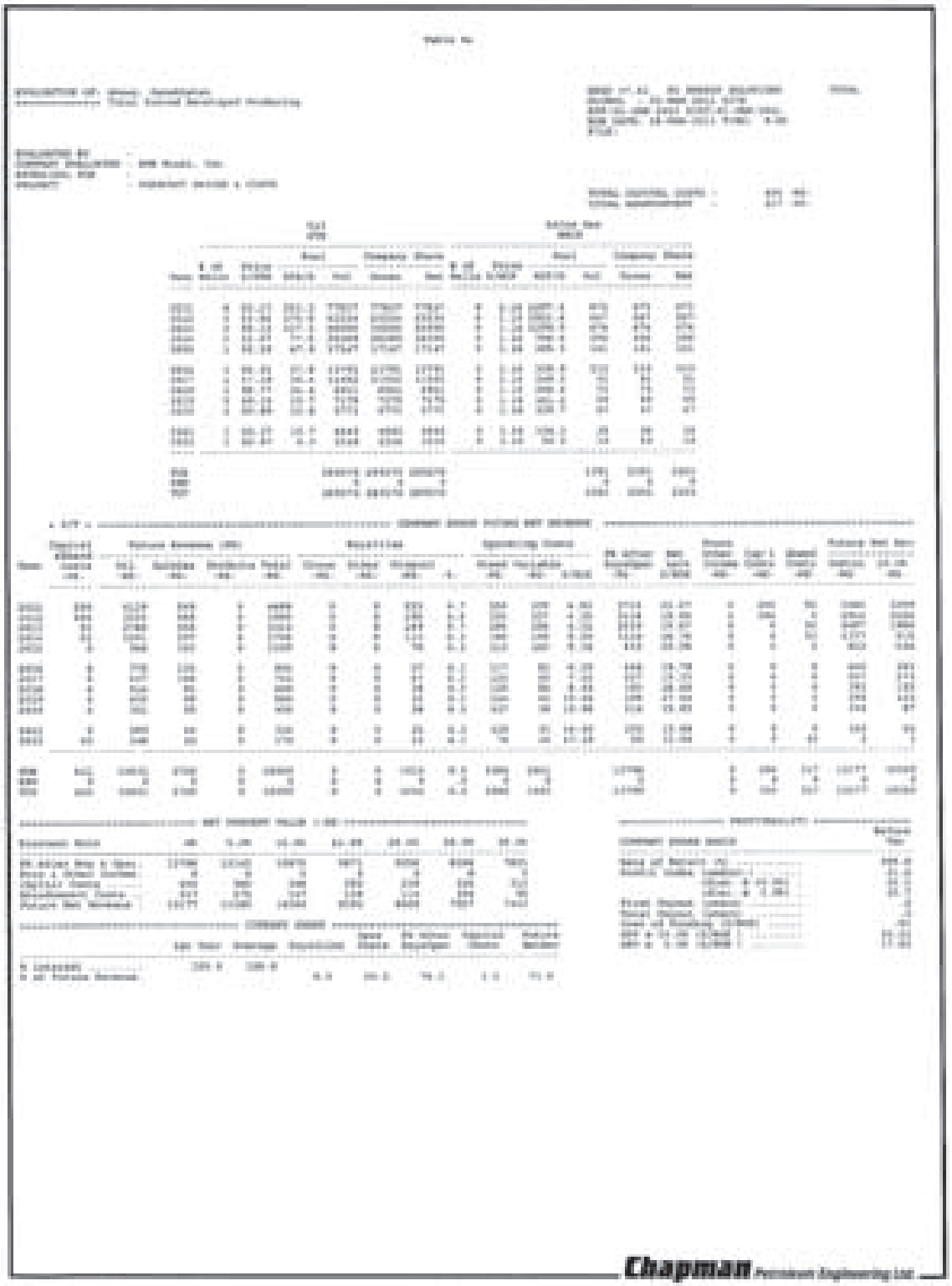
## BMB Munai, Inc.

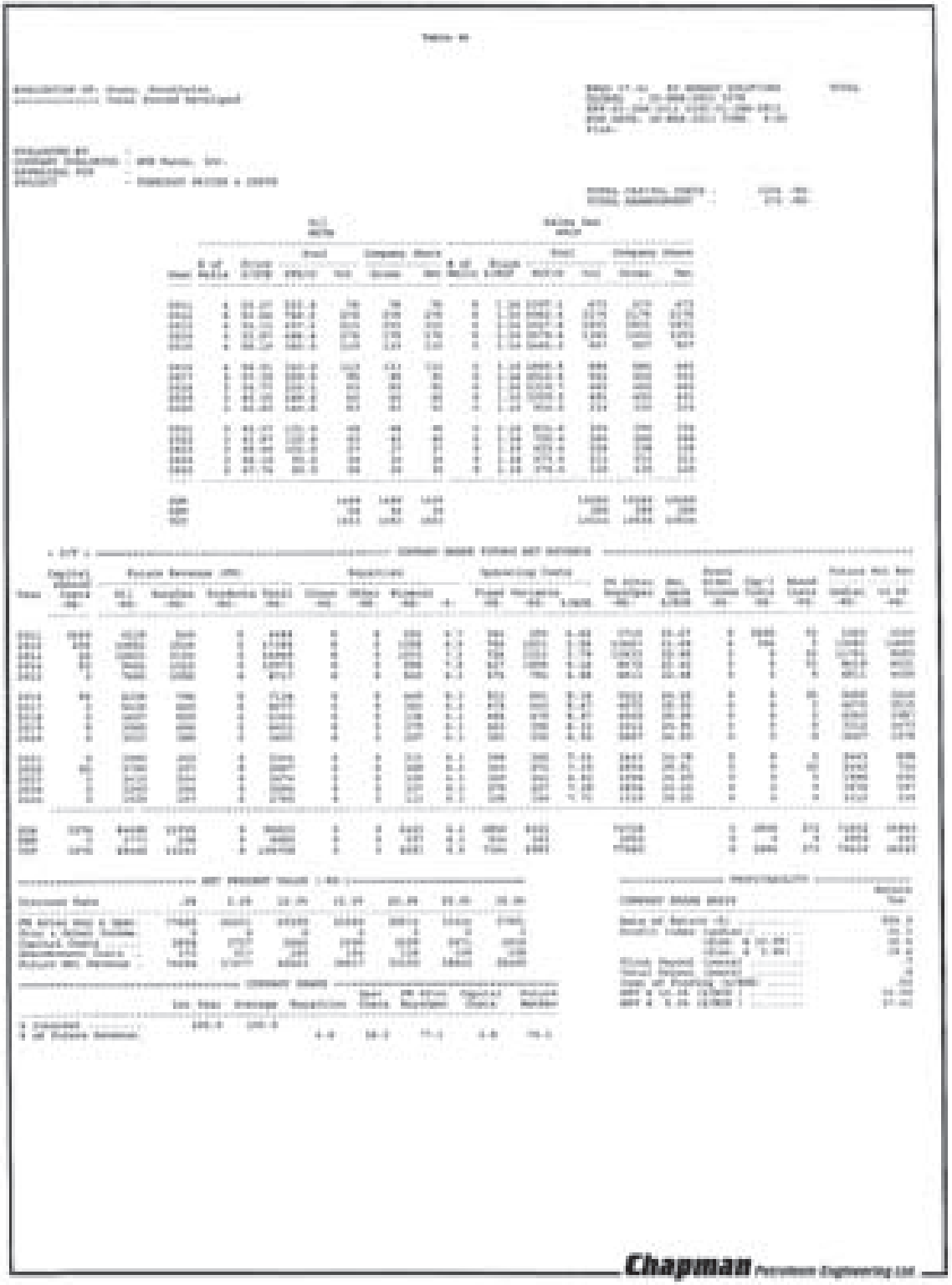
## Aksaz, Republic of Kazakhstan

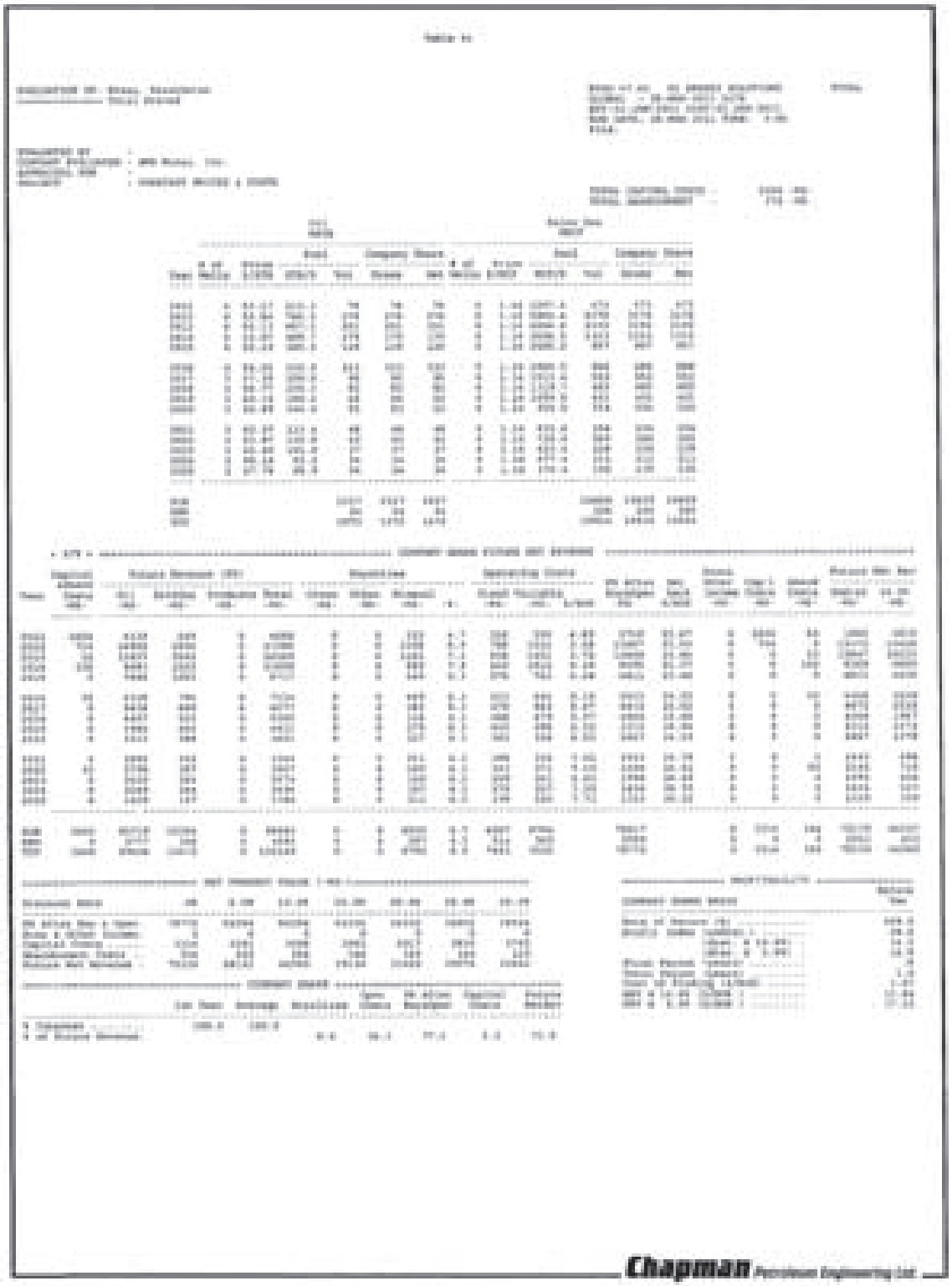
| Description | Year | Well Parameters | Capital Interest<br>*%* | Gross Capital<br>*M$* | Net Capital<br>*M$* |
|---|---|---|---|---|---|
| Aksaz-1 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Aksaz-2 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Aksaz-2A | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Aksaz-3 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Aksaz-4 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Aksaz-6 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Six Locations | | Multiple zone oil producing wells | 100.0000 | 300 | 300 |
| | | **Total Abandonment and Restoration** | | **600** | **600** |

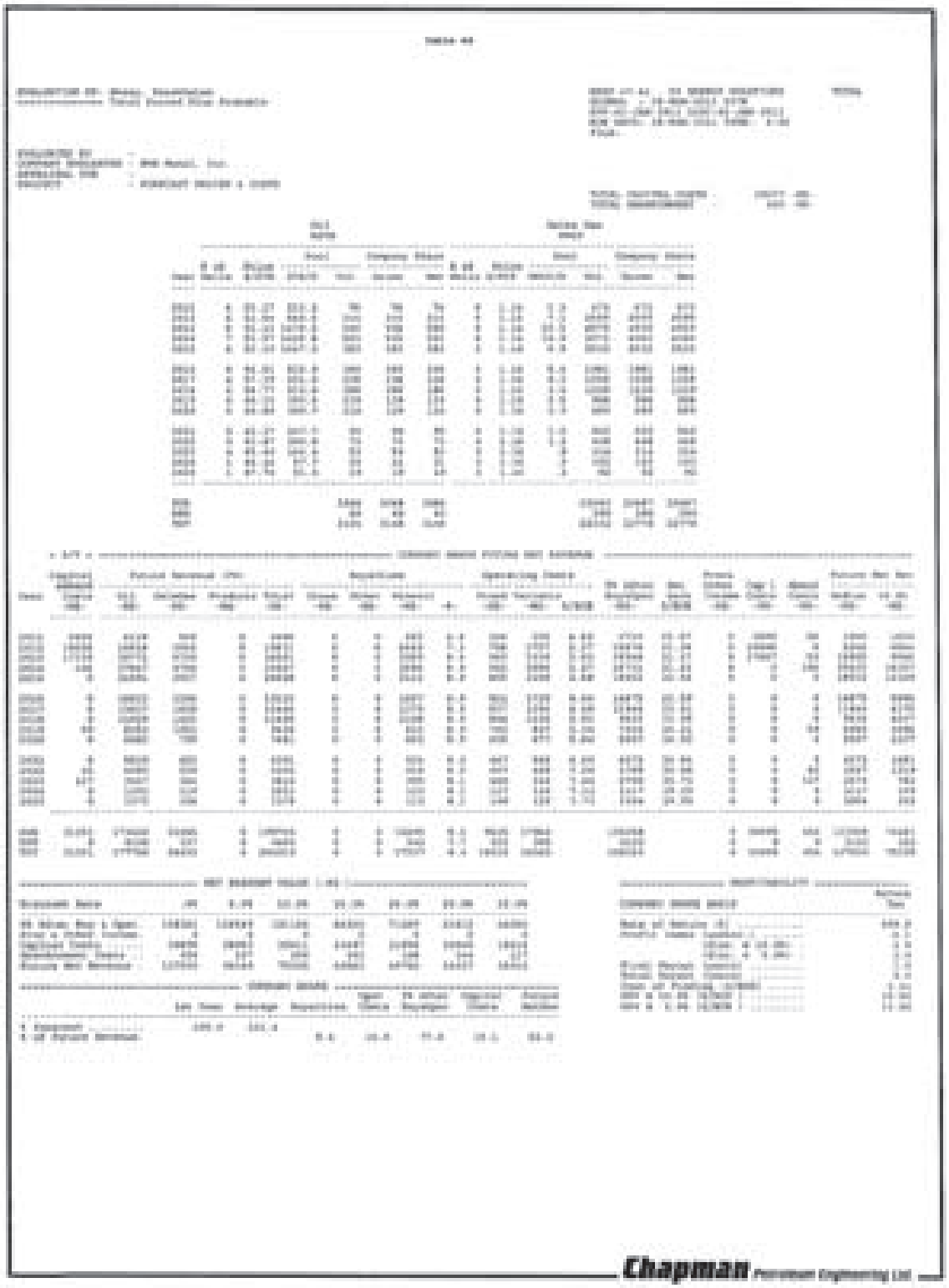


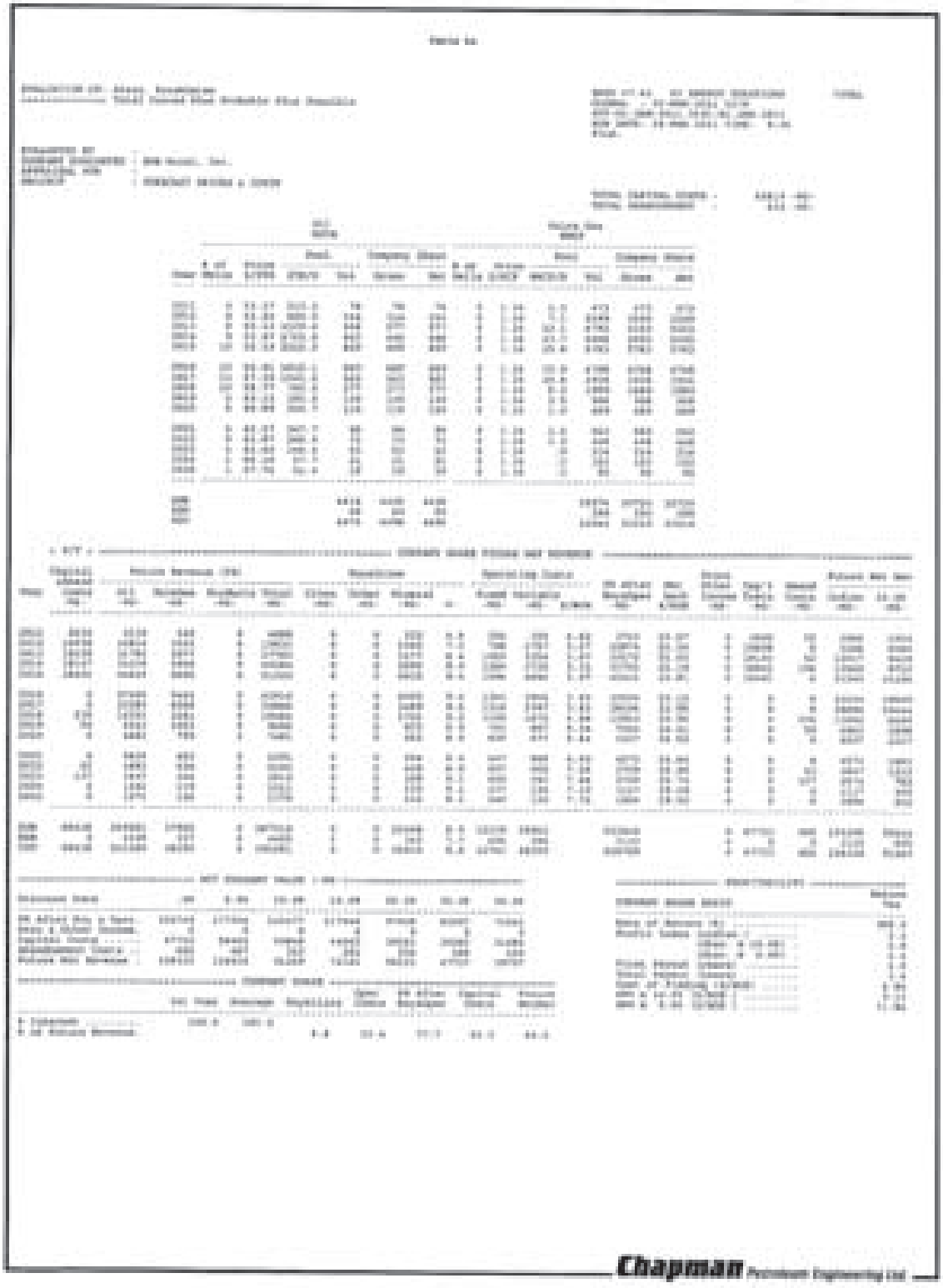
Chapman Petroleum Engineering Ltd.











**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**DOLINNOE FIELD**

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**Discussion**


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Economics


**Attachments**


Table 1: Schedule of Lands, Interests and Royalty Burdens

Figure 1: Field Map and Structure Top-Middle Triassic

Figure 2: Log Analysis Presentation
- a) Dolinnoe-1
- b) Dolinnoe-2
- c) Dolinnoe-3
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Table 2: Summary of Gross Reserves

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Table 3: Summary of Anticipated Capital Expenditures

a) Development

b) Abandonment and Restoration

Table 4: Summary of Company Reserves and Economics

Consolidated Cash Flows

a) Total Proved Developed Producing

b) Total Proved Developed

c) Total Proved

d) Total Proved Plus Probable

e) Total Proved Plus Probable Plus Possible

**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**DOLINNOE FIELD**
**DISCUSSION**

**Ownership**

The Company owns a 100 percent working interest in a "License" and "Exploration Contract" referred to as the ADEK Block which is located onshore in Kazakhstan in the Mangistau Oblast, approximately 50 kilometers from Aktau in the Republic of Kazakhstan (ROK).

The License originated in 1999 and the Exploration Contract was entered into on June 9, 2000 by a preceding company. The License and Contract Area were assigned to the Company on September 23, 2002.

The License and Exploration Contract granted the right to engage in exploration and development activities on the block. Originally the Exploration contract had a five year term but it has since been extended and now expires on January 9, 2013.

The terms of the extension require minimum capital expenditures of $7,000,000 in 2004, $9,300,000 in 2005 and $5,000,000 in 2006, $6,790,000 from July 9, 2009 to December 31, 2009, $12,690,000 in 2010, all of which have been satisfied or even exceeded. And in addition, a minimum work program requires $27,240,000 in 2011 and $14,840,000 in 2012.

Once commercial production is established within the ADEK Block, the Company can make application for an "Exploration and Production Contract", the terms of which would be negotiated. The Company has the right to produce and sell oil under the Law of Petroleum for the term of the existing Exploration Contract at a royalty rates presented on Table 1. Provided that the Company can show evidence of a commercial discovery, has fulfilled its minimum work commitments and presents a development plan acceptable to the MEMR, there is no reason to believe the Exploration and Production Contract would not be granted.

Under the Production and Exploration contract royalty rates are negotiated and vary depending on the reserves and production rates. It is estimated that a royalty (Mineral Extraction Tax) rate of 9.9 percent would not be exceeded for this Block, with the anticipated reserves and production rates.

There are two general forms of production contracts in Kazakhstan, production-sharing contracts and tax and royalty based contracts. We have utilized a royalty based contract as mentioned.

The Dolinnoe field is one of four known fields already discovered on the ADEK Block. The Company has re-entered well Dolinnoe-1, and has drilled Dolinnoe-2, Dolinnoe-3, Dolinnoe-5, Dolinnoe-6 and Dolinnoe-7. Dolinnoe-1 and 2 have been thoroughly tested and

placed on production from two and one zones respectively. Wells Dolinnoe-3 and Dolinnoe-6 are on production from two zones. Well Dolinnoe-5 was on production for a few months, but was shut-in for further stimulation, than placed on production and shut-in again. Well Dolinnoe-7 have been drilled, tested and placed on production from two zones.

A map of the field, showing the well location and reservoir structure is presented on Figure 1 and a brief description of the ownership is presented in Table 1.

**Geology**

The ADEK Block is located at the edge of the Mangistau Ustyrt Central High which contains several producing oilfields in the area. The Dolinnoe field is a faulted anticline comprising several faulted blocks. The main producing horizon is the Middle Triassic carbonate.

Hydrocarbon traps are formed within the transition zone of the Beke-Bashkudsky high and Karagiin saddle. Dolinnoe borders upon regional fault which separates these two large tectonic elements.

The productive Middle Triassic consists of limestone in the upper portion and dolomite in the lower portion. We have referred to these intervals as Upper Triassic and Lower Triassic for the purposes of this report.

The ADE Block is covered by several vintages of 2D seismic plus a recent 3-D survey. The middle Triassic structure top is represented by the reflection horizon V2 $^{IV}$, which is presented on Figure 1.

The Jurassic, a clastic sand shale sequence with some carbonate, lies about 950m above the Triassic throughout the block. The Jurassic is a secondary opportunity for hydrocarbon potential as indicated by log analysis in Dolinnoe – 1 well. Resource potential has been identified but reserves have not been assigned or evaluated in this report.

**Petrophysical Data and Analysis**

Russian GIS logs were run in the shallow formations and Baker Atlas logs over the Triassic.

The Chapman digital log analysis was made using HDS software over the Upper and Lower Triassic reservoirs.

The Gamma Ray was used as a shale indicator in the Dual water saturation equation with a carbonate selection for a, m, and n.

Sw cutoff was 40% along with a shale volume cutoff of 30%.

Net pay was identified in the Upper and Lower Triassic reservoirs as shown in the interpreted log.

**Reserves**

Proved developed producing reserves of 1,715 MSTB of oil and 1,960 MMscf of solution gas have been estimated for producing intervals in the Middle Triassic T2 zones in wells Dolinnoe-1, 2, 3 and 7, based on reservoir parameters determined from digital log analysis, assuming 60 acre drainage area and a recovery factor of 30 percent for wells: Dolinnoe-1 and 2; 50 acres drainage area and recovery factor of 30 percent for wells Dolinnoe-3 and 7, and actual gas-oil ratio, as shown in Table 2. We have been advised that recovery factors in the 30 to 45 percent range are being achieved in surrounding pools. This is a good quality reservoir that is highly over-pressured and contains light oil (45-56° API). The likely depletion will be by edge water drive, based on the typical Triassic reservoirs in the area.

Fluid property correlations have been utilized to determine the oil formation volume factor and solution gas oil ratio based on known oil density and reservoir pressure and temperature along with early production performance of the well.

Additional proved developed non-producing oil reserves of 3,227 MSTB and marketable solution gas reserves of 5,262 MMscf have been estimated for additional Triassic intervals in wells Dolinnoe-1, 3, 6 and 7.

Reservoir parameters have been determined on the basis of detailed digital log analysis from each well as discussed earlier.

Proved undeveloped oil reserves of 2,571 MSTB and 3,625 MMscf of marketable solution gas have been assigned to three direct offset locations to be drilled directly adjacent to wells Dolinnoe-1 and 2, based on the same well bore parameters as wells 1 and 2, assuming a recovery factor of 20 percent and a drainage area of 60 acres.

Incremental probable developed oil reserves of 1,592 MSTB and marketable solution gas reserves of 2,157 MMscf have been assigned predominantly for producing and non-producing intervals in the existing wells Dolinnoe-1, 2, 3, 6 and 7 assuming a higher recovery factor than for the Proved case (35 percent).

Additional probable developed oil reserves of 315 MSTB and marketable solution gas reserves of 877 MMscf have been assigned to the Middle Triassic T2 zones II and III in the well Dolinnoe-5. This well commenced production in March 2008; produced for five days and was shut in for future workover. These reserves are based on the reservoir parameters derived from independent log analysis assuming a recovery factor of 30 percent and a drainage area of 60 acres.

Also, additional probable developed oil reserves of 32 MSTB and marketable solution gas reserves of 39 MMscf have been assigned to the Middle Triassic T2 zone I in the well Dolinnoe-3, based on the reservoir parameters derived from independent log analysis assuming a recovery factor of 30 percent and a drainage area of 60 acres.

Incremental probable undeveloped oil reserves of 1,285 MSTB and marketable solution gas reserves of 1,812 MMscf have been assigned to three direct locations assuming a higher recovery factor than for the proved undeveloped case (30 percent).

Additional probable undeveloped oil reserves of 5,140 MSTB and marketable solution gas reserves of 7,247 MMscf have been estimated for six additional locations to be drilled on the same accumulation as encountered by Dolinnoe-1, 2, 3, 5, 6 and 6 based on 3D seismic mapping as shown on Figure 1. These reserves have been based on the analogy to the proved undeveloped locations with the assumption of a 20 percent recovery factor and 60 acres of drainage area.

Incremental possible oil reserves of 696 MSTB and marketable solution gas reserves of 1,054 MMscf have been assigned to the existing well number 5 and three locations reflecting an increase in recovery factor.

Additional possible oil reserves of 12,915 MSTB and marketable solution gas reserves of 18,291 MMscf have been assigned to one interval in the well number 5 and additional eighteen locations that have to be drilled outside of the proved and probable area, but within the defined accumulation.

Reserves assigned to the eighteen additional locations are based on analogy to the proved undeveloped location, assuming equal drainage area and recovery factor.

Reserves in this report have been assigned to the accumulation which has been encountered by wells Dolinnoe-1, 2, 3, 5, 6 and 7 as presented by the geological and geophysical consultants responsible for the 3-D seismic interpretation as shown on Figure 1. Additional resource potential may exist on the surrounding fault blocks which have not yet been drilled.

Also, the Jurassic has indicated significant possible reserves potential, based on log analysis, which has not been evaluated herein. There is insufficient data at present to accurately quantify reserves however log analysis demonstrates hydrocarbon potential as discussed above.

A summary of the reserves for this area is presented in Table 2.

**Production**

Well Dolinnoe-1 is currently producing 159 STB/d from the Triassic I and II zones. Well Dolinnoe-2 is currently producing 75 STB/d from all four Triassic T2 zones (IV, III, II & I). Well Dolinnoe-3 is currently producing 121 STB/d from the Triassic IV zone. Well Dolinnoe-6 is not on production due to preparation for re-entry. Well Dolinnoe-7 is on production since September 2008 and the current rate is 82 STB/d.

All four wells have been produced from isolated intervals during the testing phase. They are expected to eventually be produced from combined zones.

We have made the assumption that gas conservation and sales would be implemented by January 1, 2012. An average producing gas-oil ratio of 1,334 scf/STB has been predicted based on production to date.

Production history graphs for individual wells and a Group Production Plot are presented in Figures 3a through 3f. Initial rates for the non-producing wells are shown on Table 2.

**Product Prices**

The Company has secured an export permit for oil sales which allows all of the Company's production to be exported. During the exploration stage exports are subject to "export rent tax" (ERT), which would be until January 9, 2013 with the expected extension in the exploration license. During this period the ERT is based on the current Tax Low of ROK and its values are presents in the Attachment 1. Exported oil is exempt from VAT.

A forecast price used for this project is based on the Chapman's forecast utilizing Forecast Brent crude price less $16.37/STB (transportation discount), export duty of $5.20/STB, ERT (values are presented in the Attachment 1), domestic price of $26.72/STB (before VAT), VAT (12 percent) and an export/domestic sales split of 90/10 for the first three years and 80/20 percent thereafter.

A natural gas price of $1.16/Mscf has been utilized for solution gas sales and assumed to be constant throughout the report.

**Capital Expenditures**

Total capital expenditures of $201,200,000 have been estimated for the development of the proved, probable and possible reserves in this field.

Detailed brake down of the capital expenses required for full development of the assigned reserves is presented in Table 3a.

Abandonment and lease restoration costs of $1,350,000 ($50,000 per well) net of salvage have been included after the depletion of the reserves, as presented in Table 3b.

**Operating Costs**

Field operating costs of $8,850/well/month (fixed), $4.15/STB, and $0.15/Mscf have been estimated for this project, based on field estimates provided by the Company, which we consider to be reasonable.

**Economics**

The economic analysis performed for this evaluation, presented here, reflects future cash flows from this property before consideration of income taxes and other taxes which apply under the "royalty and tax contract".

The cash flow forecasts have been prepared under a "forecast prices and costs" assumption based on Chapman Petroleum Engineering price forecast.

A summary of the economic results are presented in Table 4 and the consolidated cash flows forecasts are presented in Tables 4a through 4e.

## Table 1

## Schedule of Lands, Interests and Royalty Burdens
## January 1, 2011

## BMB Munai, Inc.

## Dolinnoe, Republic of Kazakhstan

| Description | Rights Owned | Gross Acres | Appraised Interest | | Royalty Burdens | |
|---|---|---|---|---|---|---|
| | | | Working % | Royalty % | Basic % | Overriding % |
| License AI No.1552 & Contract No.482 | A | N/A | 100.0000 | – | 1 | – |

*General Notes:* 1 According to the New Tax Law of ROK:

| Annual Production | | Royalty (Mineral Extraction Tax) for OIL, % | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011-2012 | | | 2013 | | | 2014 and after | | |
| tons | MSTB | Export | Domestic | Blend | Export | Domestic | Blend | Export | Domestic | Blend |
| up to 250,000 | up to 1,964 | 5.00 | 2.50 | **4.75** | 6.00 | 3.00 | **5.70** | 7.00 | 3.50 | **6.30** |
| up to 500,000 | up to 3,928 | 7.00 | 3.50 | **6.65** | 8.00 | 4.00 | **7.60** | 9.00 | 4.50 | **8.10** |
| up to 1,000,000 | up to 7,856 | 8.00 | 4.00 | **7.60** | 9.00 | 4.50 | **8.55** | 10.00 | 5.00 | **9.00** |
| up to 2,000,000 | up to 15,711 | 9.00 | 4.50 | **8.55** | 10.00 | 5.00 | **9.50** | 11.00 | 5.50 | **9.90** |
| up to 3,000,000 | up to 23,567 | 10.00 | 5.00 | **9.50** | 11.00 | 5.50 | **10.45** | 12.00 | 6.00 | **10.80** |
| up to 4,000,000 | up to 31,423 | 11.00 | 5.50 | **10.45** | 12.00 | 6.00 | **11.40** | 13.00 | 6.50 | **11.70** |
| up to 5,000,000 | up to 39,278 | 12.00 | 6.00 | **11.40** | 13.00 | 6.50 | **12.35** | 14.00 | 7.00 | **12.60** |
| up to 7,000,000 | up to 54,990 | 13.00 | 6.50 | **12.35** | 14.00 | 7.00 | **13.30** | 15.00 | 7.50 | **13.50** |
| up to 10,000,000 | up to 78,557 | 15.00 | 7.50 | **14.25** | 16.00 | 8.00 | **15.20** | 17.00 | 8.50 | **15.30** |
| over 10,000,000 | over 78,558 | 18.00 | 9.00 | **17.10** | 19.00 | 9.50 | **18.05** | 20.00 | 10.00 | **18.00** |

2011-2013 – production split will be 90/10 (90 percent of production – for export and 10 percent – for domestic sales)

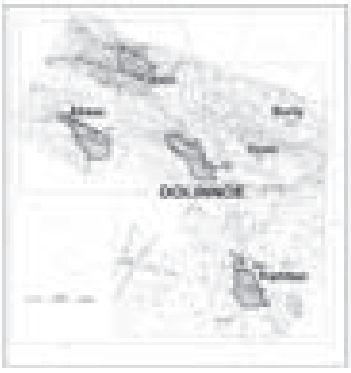
after 2013 – production split will be 80/20 (80 percent of production – for export and 20 percent – for domestic sales)

| Annual Production | | Royalty (Mineral Extraction Tax) for GAS, % | |
|---|---|---|---|
| $10^6$ $m^3$ | MMscf | Export | Domestic |
| up to 1000 | up to 35,490 | 10.00 | 0.50 |
| up to 2000 | up to 70,980 | 10.00 | 1.00 |
| over 2000 | over 70,980 | 10.00 | 1.50 |

| Corporate Income Tax | |
|---|---|
| Year | Rate, % |
| 2011-2012 | 20.00 |
| 2013 | 17.50 |
| 2014 and after | 15.00 |

*Rights Owned:* A Dolinnoe Field located in blocks XXXVI-10-C(partially), D(partially).






**LEGEND**

- OIL WELL
- FAULT LINES
- AREA OF ASSIGNED RESERVES
- STRUCTURAL ELEVATION (SL) -m
- PROPOSED LOCATIONS

**BMB MUNAI, INC.**

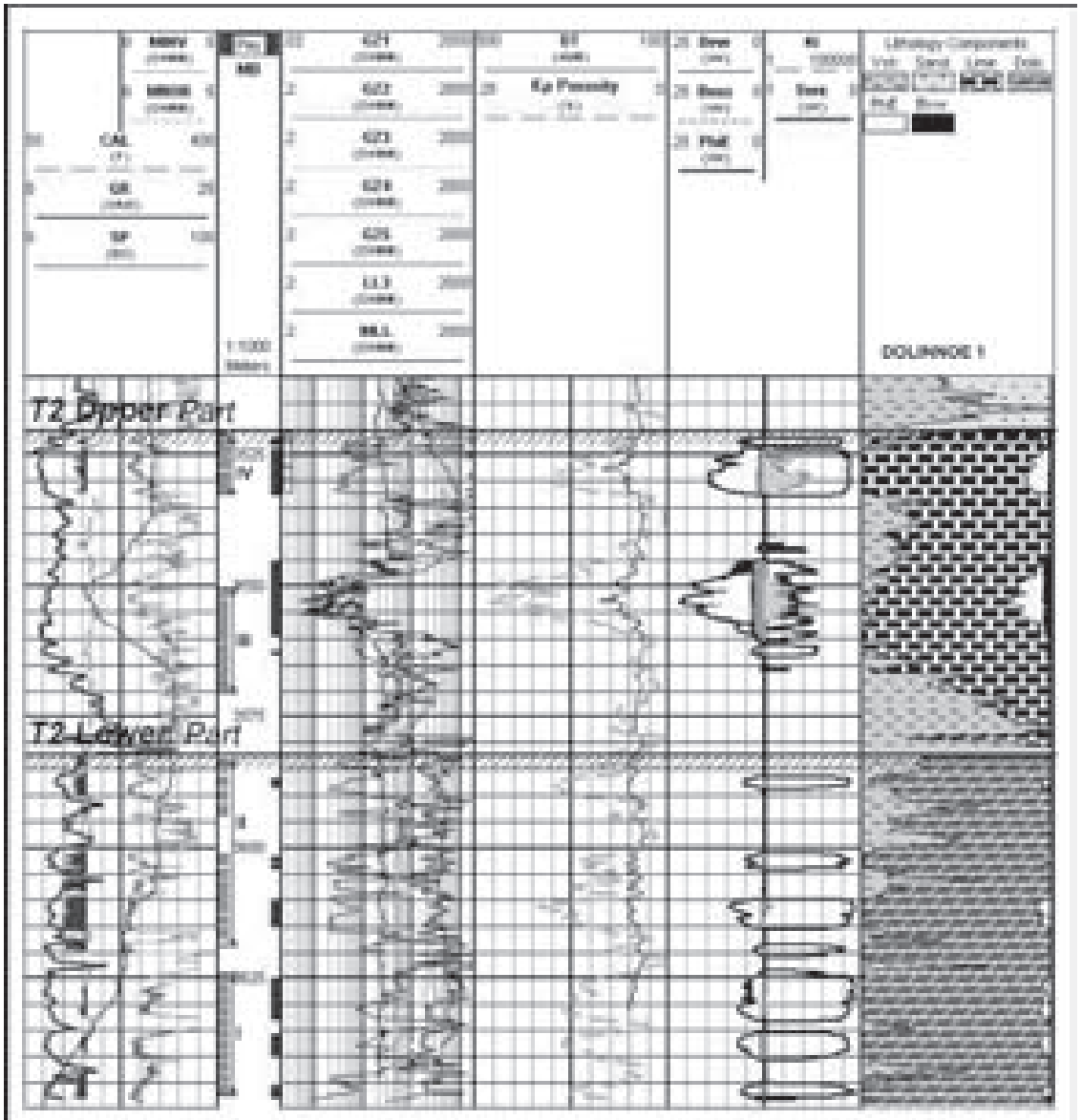
**DOLINNOE FIELD**

ADEK BLOCK (LICENSE AREA)
MANGISTAU OBLAST, KAZAKHSTAN

**STRUCTURE TOP-MIDDLE TRIASSIC**

JAN. 2011 JOB No. 5323 FIGURE No. 1

Chapman Petroleum Engineering Ltd.

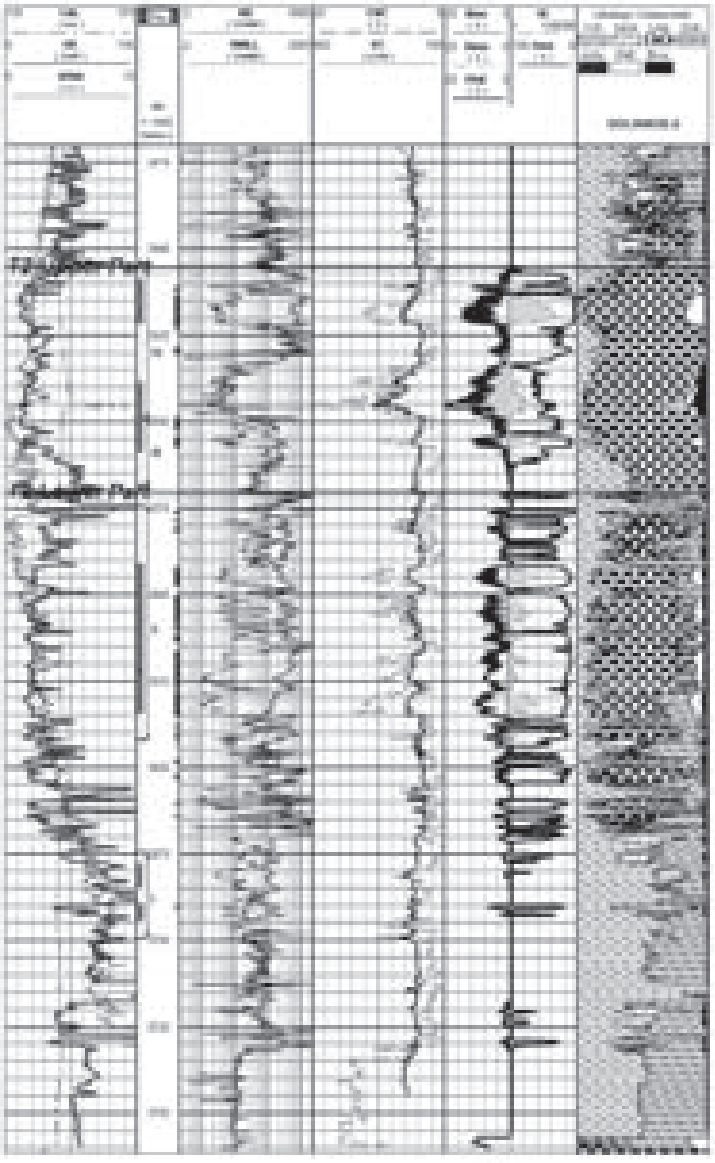



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**DOLINNOE 1**
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2a

Chapman Petroleum Engineering Ltd.

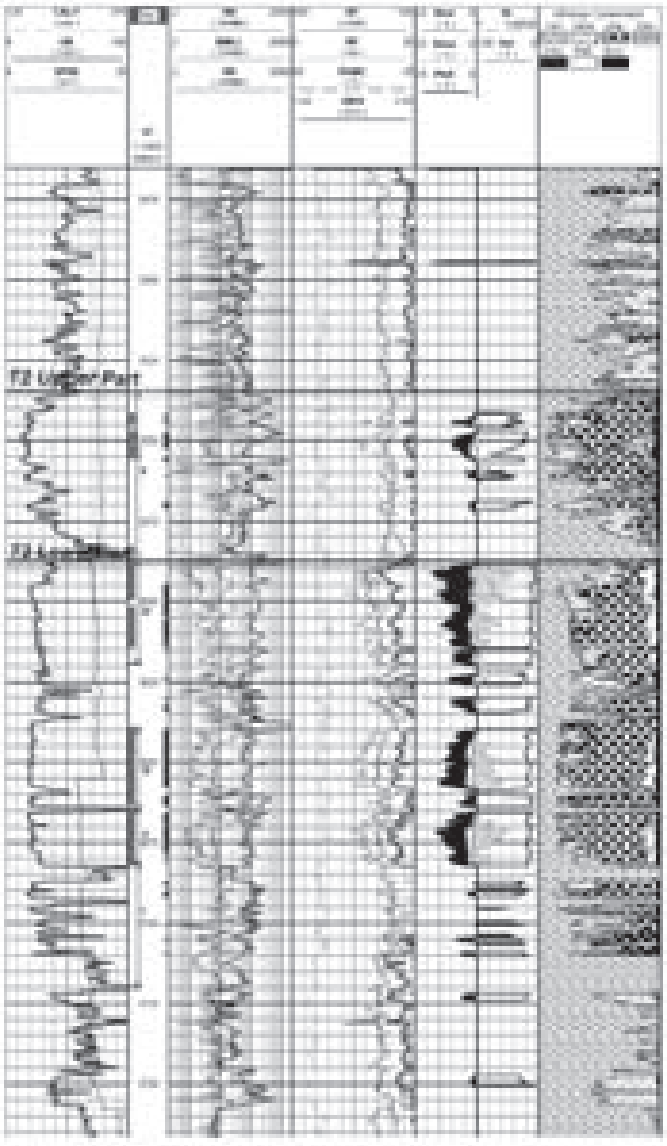


BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
DOLINNOE 2
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2b

Chapman Petroleum Engineering Ltd.

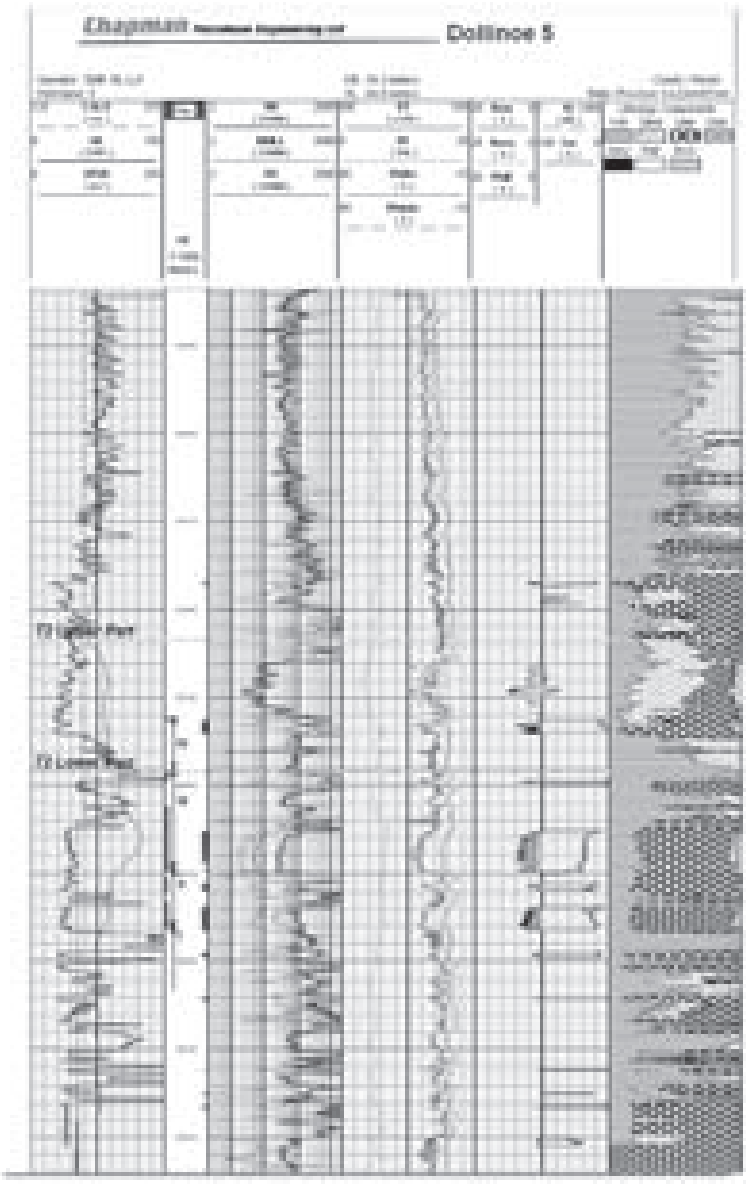



BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
DOLINNOE 3
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2c

Chapman Petroleum Engineering Ltd.

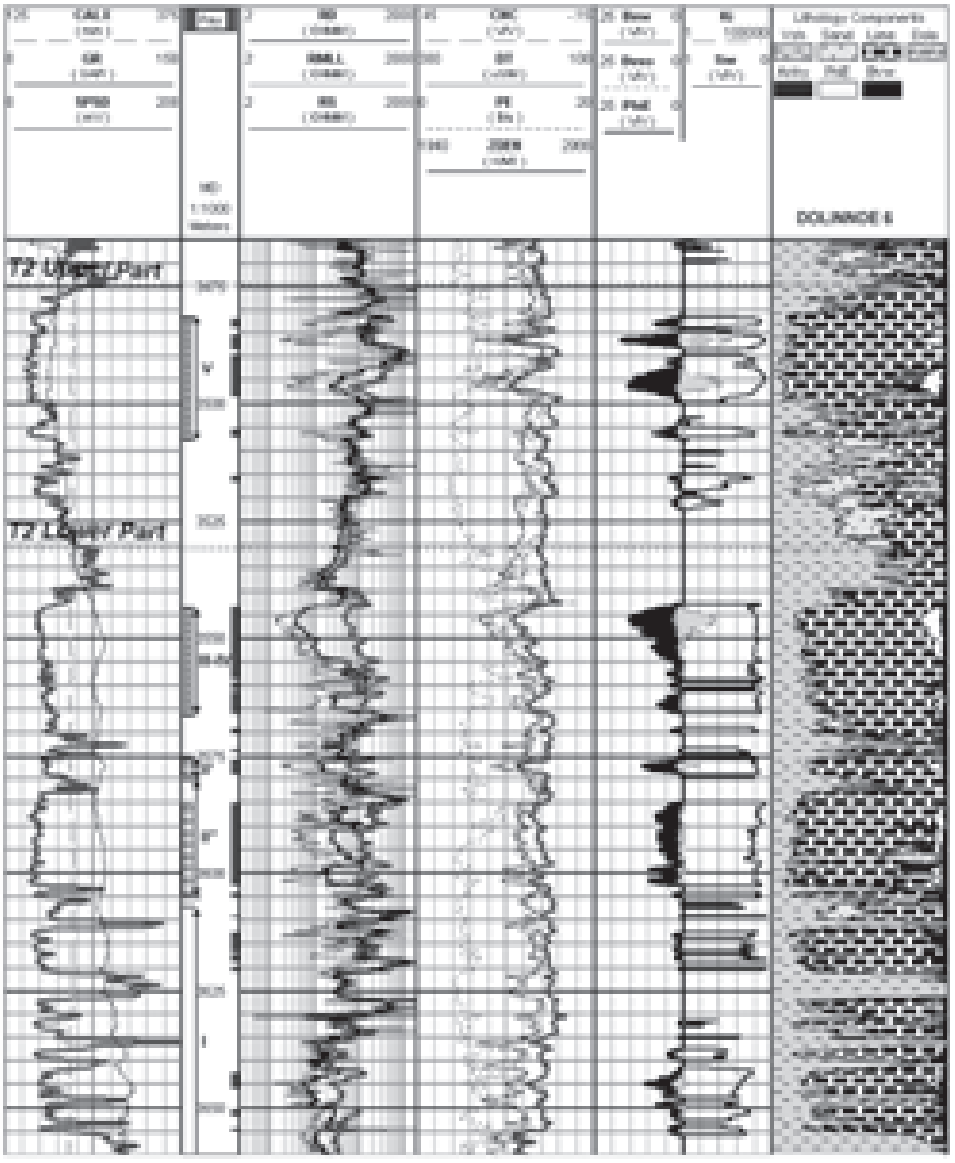



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**DOLINNOE 5**
MIDDLE TRIASSIC TJ

JAN. 2011 JOB No. 5323 FIGURE No. 2d

Chapman Petroleum Engineering Ltd.

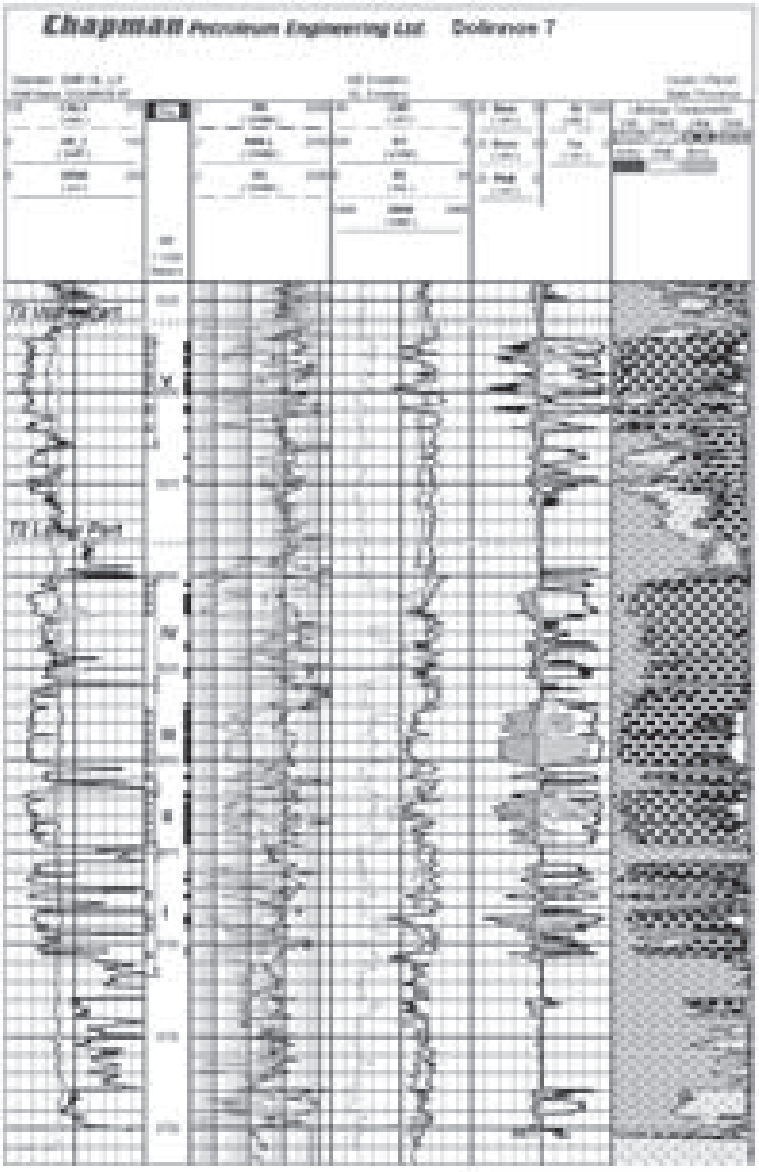



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**DOLINNOE 6**
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2e

Chapman Petroleum Engineering Ltd.




BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
DOLINNOE 7
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2f

Chapman Petroleum Engineering Ltd.

## Table 2

## Summary of Gross Reserves
## January 1, 2011

## BMB Munai, Inc.

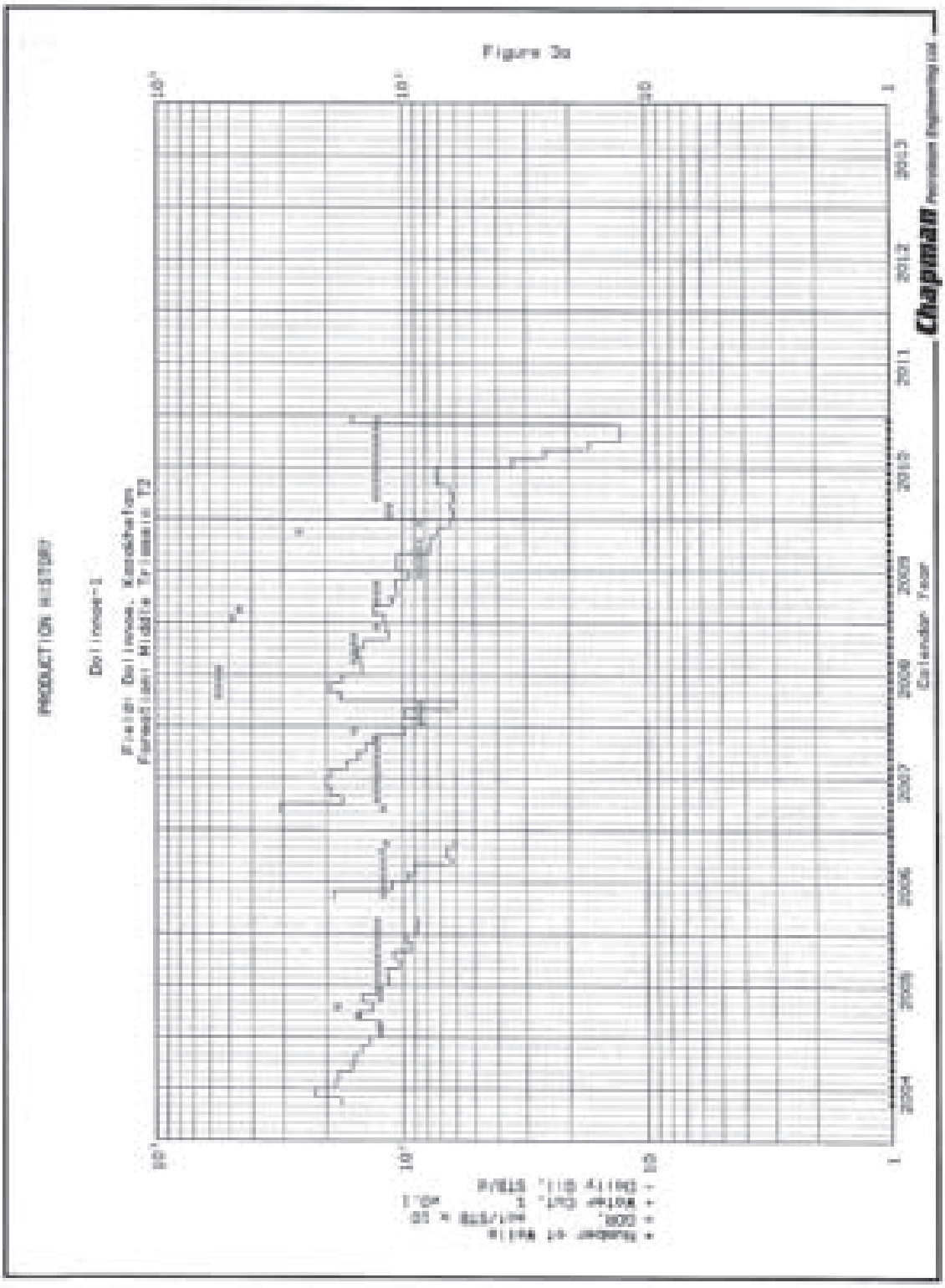
## Dolinnoe, Republic of Kazakhstan

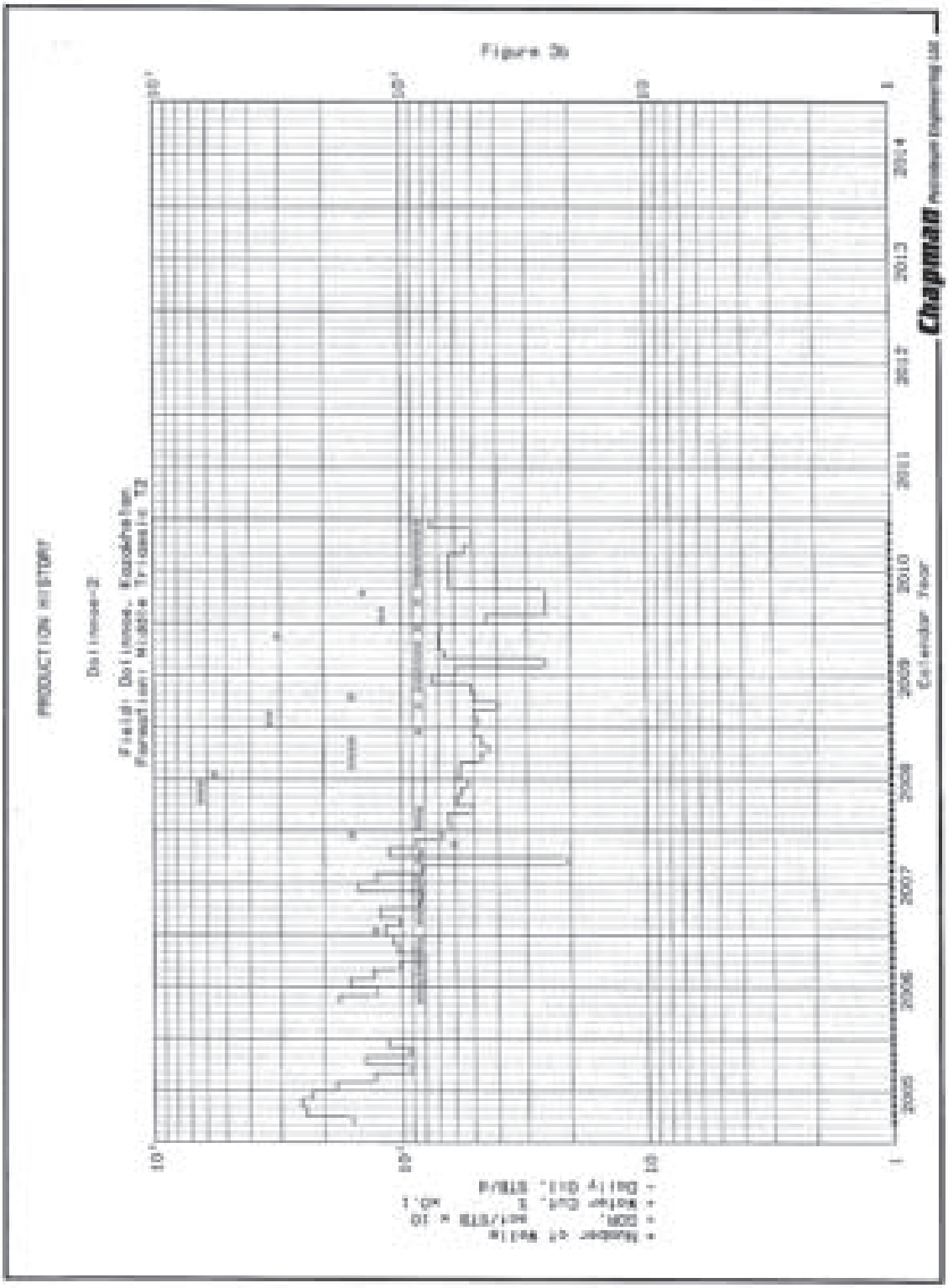
| Description | | Current or Initial Rate *STB/d* | API Gravity *(Deg)* | Ultimate ROIP *(MSTB)* | Cumulative Production *(MSTB)* | Remaining ROIP *(MSTB)* |
|---|---|---|---|---|---|---|
| **LIGHT & MEDIUM OIL** | | | | | | |
| **Proved Developed Producing** | | | | | | |
| Dolinnoe-1 | Middle Triassic T2 (Zones II & I) | 159 | 55 | 451 | 155 | 296 |
| Dolinnoe-2 | Middle Triassic T2 (Zones IV, III, II & I) | 75 | 45 | 1,105 | 149 | 955 |
| Dolinnoe-3 | Middle Triassic T2 (Zone IV) | 121 | 56 | 402 | 380 | 22 |
| Dolinnoe-7 | Middle Triassic T2 (Zone IV) | 82 | 56 | 470 | 28 | 442 |
| | **Total Proved Developed Producing** | **437** | | **2,428** | **713** | **1,715** |
| **Proved Developed Non-Producing** | | | | | | |
| Dolinnoe-1 | Middle Triassic T2 (Zones IV & III) | 150 | 55 | 653 | 102 | 551 |
| Dolinnoe-3 | Middle Triassic T2 (Zones V, III & II) | 300 | 56 | 822 | 50 | 772 |
| Dolinnoe-6 | Middle Triassic T2 (Zones V, IV, III, II', II" & I) | 400 | 45 | 1,239 | 95 | 1,144 |
| Dolinnoe-7 | Middle Triassic T2 (Zones V, III, II & I) | 300 | 56 | 835 | 74 | 761 |
| | **Total Proved Developed Non-Producing** | **1,150** | | **3,548** | **322** | **3,227** |
| | **Total Proved Developed** | **1,587** | | **5,977** | **1,035** | **4,942** |
| **Proved Undeveloped** | | | | | | |
| Locations 1, 2 & 3 | Middle Triassic T2 (Upper Part) | 800 | 45 | 1,036 | 0 | 1,036 |
| Locations 1, 2 & 3 | Middle Triassic T2 (Lower Part) | 800 | 45 | 1,535 | 0 | 1,535 |
| | **Total Proved Undeveloped** | **1,600** | | **2,571** | **0** | **2,571** |
| | **Total Proved** | **3,187** | | **8,547** | **1,035** | **7,513** |

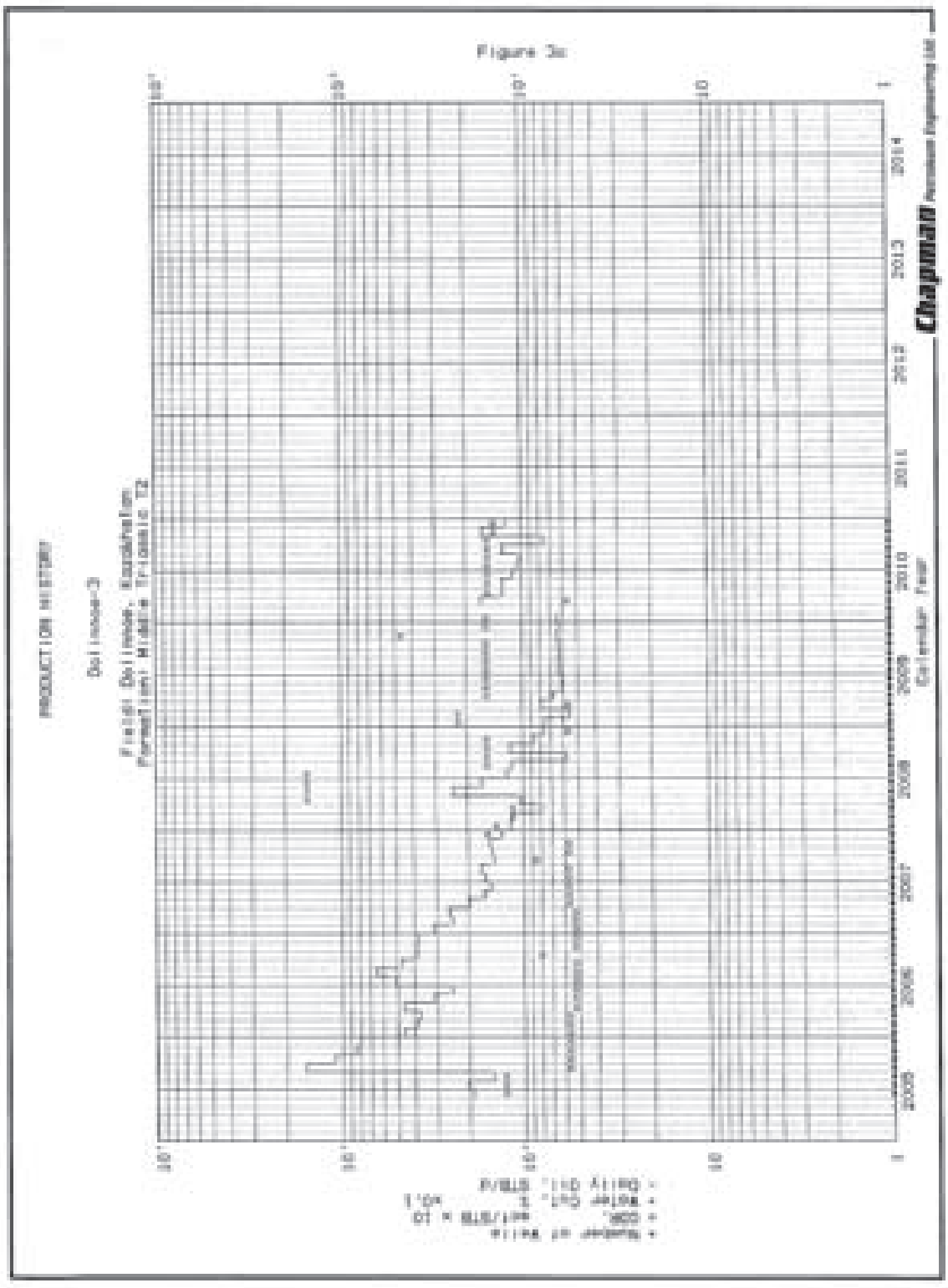
| Description | | | Current or Initial Rate *STB/d* | API Gravity *(Deg)* | Ultimate ROIP *(MSTB)* | Cumulative Production *(MSTB)* | Remaining ROIP *(MSTB)* |
|---|---|---|---|---|---|---|---|
| **Probable** | | | | | | | |
| **Probable Developed Producing** | | | | | | | |
| Dolinnoe-1 | Middle Triassic T2 (Zones II & I) | (incr.) | 100 | 55 | 75 | 0 | 75 |
| Dolinnoe-2 | Middle Triassic T2 (Zones IV, III, II & I) | (incr.) | 100 | 45 | 317 | 0 | 317 |
| Dolinnoe-3 | Middle Triassic T2 (Zone IV) | (incr.) | 100 | 56 | 161 | 0 | 161 |
| Dolinnoe-7 | Middle Triassic T2 (Zone IV) | (incr.) | 100 | 56 | 188 | 0 | 188 |
| | **Total Probable Developed Producing** | | **400** | | **742** | **0** | **742** |
| **Probable Developed Non-Producing** | | | | | | | |
| Dolinnoe-1 | Middle Triassic T2 (Zones IV & III) | (incr.) | 100 | 55 | 109 | 0 | 109 |
| Dolinnoe-3 | Middle Triassic T2 (Zones V, III & II) | | 100 | 56 | 329 | 0 | 329 |
| Dolinnoe-3 | Middle Triassic T2 (Zone I) | | 100 | 56 | 32 | 0 | 32 |
| Dolinnoe-5 | Middle Triassic T2 (Zones III & II) | | 200 | 56 | 318 | 3 | 315 |
| Dolinnoe-6 | Middle Triassic T2 (Zones V, IV, III, II', II" & I) | (incr.) | 200 | 56 | 206 | 0 | 206 |
| Dolinnoe-7 | Middle Triassic T2 (Zones V, III, II & I) | (incr.) | 300 | 56 | 206 | 0 | 206 |
| | **Total Probable Developed Non-Producing** | | **1,000** | | **1,201** | **3** | **1,198** |
| | **Total Probable Developed** | | **1,400** | | **1,943** | **3** | **1,940** |
| **Probable Undeveloped** | | | | | | | |
| Locations 1, 2, 3 | Middle Triassic T2 (Upper Part) | (incr.) | 500 | 45 | 518 | 0 | 518 |
| Locations 1, 2, 3 | Middle Triassic T2 (Lower Part) | (incr.) | 500 | 45 | 767 | 0 | 767 |
| Six Location | Middle Triassic T2 (Upper Part) | | 1,200 | 45 | 2,070 | 0 | 2,070 |
| Six Location | Middle Triassic T2 (Lower Part) | | 1,200 | 45 | 3,070 | 0 | 3,070 |
| | **Total Probable Undeveloped** | | **3,400** | | **6,425** | **0** | **6,425** |
| | **Total Probable** | | **4,800** | | **8,368** | **3** | **8,365** |
| | **Total Proved Plus Probable** | | **7,987** | | **16,916** | **1,038** | **15,878** |
| **Possible** | | | | | | | |
| Locations 1, 2 & 3 | Middle Triassic T2 (Upper Part) | (incr.) | 500 | 45 | 259 | 0 | 259 |
| Locations 1, 2 & 3 | Middle Triassic T2 (Lower Part) | (incr.) | 500 | 45 | 384 | 0 | 384 |
| Dolinnoe-5 | Middle Triassic T2 (Zone IV) | | 50 | 56 | 60 | 0 | 60 |
| Dolinnoe-5 | Middle Triassic T2 (Zones III & II) | (incr.) | 100 | 56 | 53 | 0 | 53 |
| Six Location | Middle Triassic T2 (Upper Part) | | 1200 | 45 | 1,038 | 0 | 1,038 |
| Six Location | Middle Triassic T2 (Lower Part) | | 1200 | 45 | 1,535 | 0 | 1,535 |
| Twelve Location | Middle Triassic T2 (Upper Part) | | 2400 | 45 | 4,142 | 0 | 4,142 |
| Twelve Location | Middle Triassic T2 (Lower Part) | | 2400 | 45 | 6,140 | 0 | 6,140 |
| | **Total Possible** | | **8,350** | | **13,611** | **0** | **13,611** |
| | **Total Proved Plus Probable Plus Possible** | | **16,337** | | **30,526** | **1,038** | **29,488** |

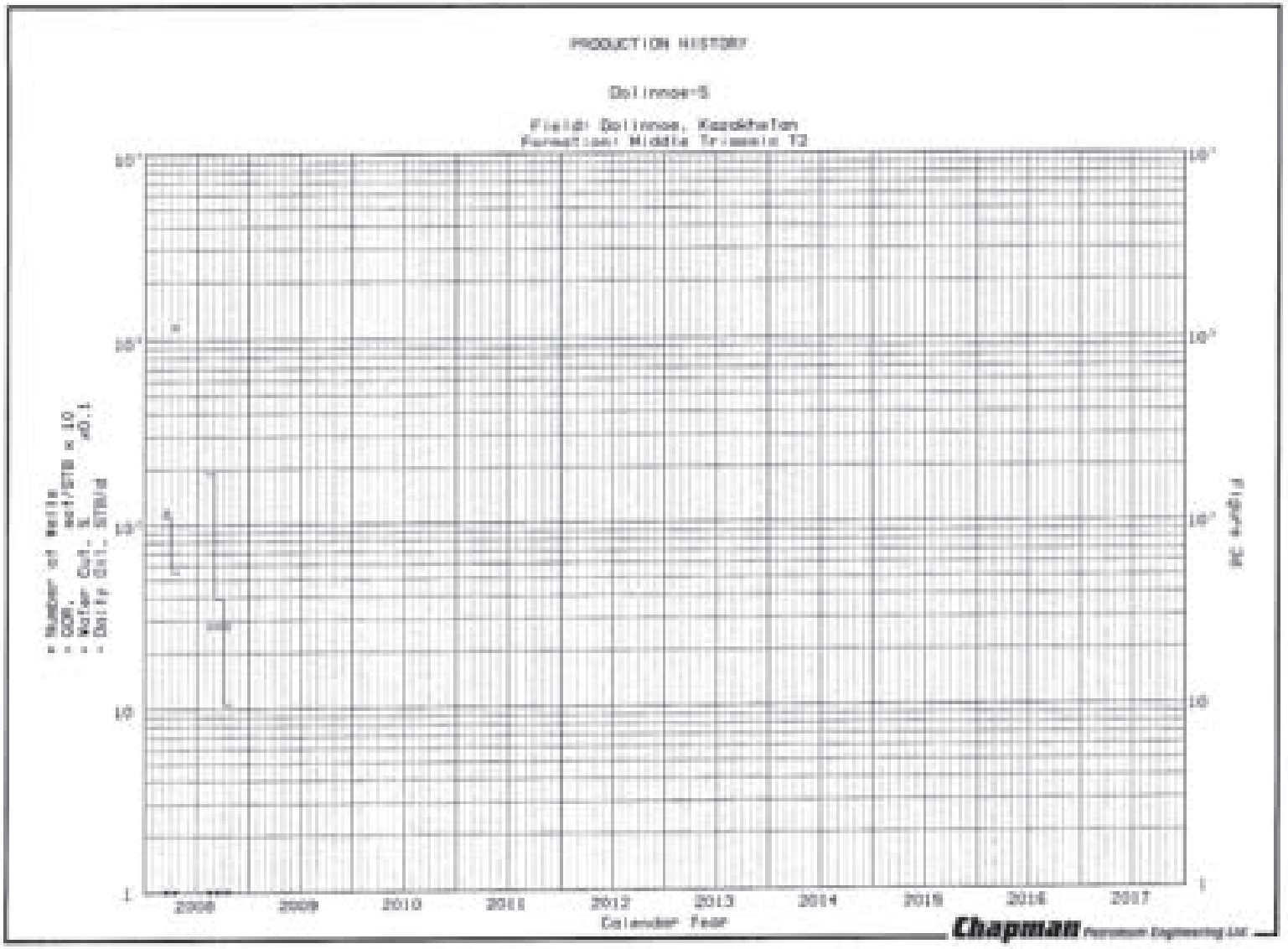
| Description | | Current or Initial Rate *Mscf/d* | Ultimate RGIP *(MMscf)* | Cumulative Production *(MMscf)* | Remaining RGIP (raw) *(MMscf)* | Remaining RGIP (sales) *(MMscf)* | Reference | sloss % | NGL Ratio *Bbls/MMscf* | Sulphur Ratio *LT/MMscf* | GOR *Scf/STB* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **SOLUTION GAS** | | | | | | | | | | | |
| **Proved Developed Producing** | | | | | | | | | | | |
| Dolinnoe-1 | Middle Triassic T2 (Zones II & I) | 241 | 684 | 236 | 449 | 417 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Dolinnoe-2 | Middle Triassic T2 (Zones IV, III, II & I) | 75 | 1,117 | 151 | 966 | 898 | GOR: 1,012 scf/STB | **7** | 0 | 0 | 1,012 |
| Dolinnoe-3 | Middle Triassic T2 (Zone IV) | 158 | 525 | 497 | 28 | 26 | GOR: 1,306 scf/STB | **7** | 0 | 0 | 1,306 |
| Dolinnoe-7 | Middle Triassic T2 (Zone IV) | 124 | 707 | 42 | 664 | 618 | GOR: 1,502 scf/STB | **7** | 0 | 0 | 1,502 |
| | **Total Proved Developed Producing** | **598** | **3,034** | **926** | **2,108** | **1,960** | | | | | |
| **Proved Developed Non-Producing** | | | | | | | | | | | |
| Dolinnoe-1 | Middle Triassic T2 (Zones IV & III) | 227 | 990 | 155 | 835 | 777 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Dolinnoe-3 | Middle Triassic T2 (Zones V, III & II) | 392 | 1,073 | 65 | 1,008 | 937 | GOR: 1,306 scf/STB | **7** | 0 | 0 | 1,306 |
| Dolinnoe-6 | Middle Triassic T2 (Zones V, IV, III, II', II" & I) | 935 | 2,895 | 222 | 2,673 | 2,486 | GOR: 2,337 scf/STB | **7** | 0 | 0 | 2,337 |
| Dolinnoe-7 | Middle Triassic T2 (Zones V, III, II & I) | 451 | 1,254 | 112 | 1,142 | 1,062 | GOR: 1,502 scf/STB | **7** | 0 | 0 | 1,502 |
| | **Total Proved Developed Non-Producing** | **2,005** | **6,212** | **554** | **5,658** | **5,262** | | | | | |
| | **Total Proved Developed** | **2,602** | **9,246** | **1,480** | **7,766** | **7,222** | | | | | |
| **Proved Undeveloped** | | | | | | | | | | | |
| Locations 1, 2 & 3 | Middle Triassic T2 (Upper Part) | 1,213 | 1,571 | 0 | 1,571 | 1,461 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Locations 1, 2 & 3 | Middle Triassic T2 (Lower Part) | 1,213 | 2,327 | 0 | 2,327 | 2,164 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| | **Total Proved Undeveloped** | **2,426** | **3,898** | **0** | **3,898** | **3,625** | | | | | |
| | **Total Proved** | **5,028** | **13,143** | **1,480** | **11,663** | **10,847** | | | | | |

| Description | | Current or Initial Rate *Mscf/d* | Ultimate RGIP *(MMscf)* | Cumulative Production *(MMscf)* | Remaining RGIP (raw) *(MMscf)* | Remaining RGIP (sales) *(MMscf)* | Reference | sloss % | NGL Ratio *Bbls/MMscf* | Sulphur Ratio *LT/MMscf* | GOR *Scf/STB* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Probable** | | | | | | | | | | | |
| **Probable Developed Producing** | | | | | | | | | | | |
| Dolinnoe-1 | Middle Triassic T2 (Zones II & I) | | 114 | 0 | 114 | 107 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Dolinnoe-2 | Middle Triassic T2 (Zones IV, III, II & I) | | 321 | 0 | 321 | 298 | GOR: 1,012 scf/STB | **7** | 0 | 0 | 1,012 |
| Dolinnoe-3 | Middle Triassic T2 (Zone IV) | | 210 | 0 | 210 | 195 | GOR: 1,306 scf/STB | **7** | 0 | 0 | 1,306 |
| Dolinnoe-7 | Middle Triassic T2 (Zone IV) | | 287 | 5 | 283 | 263 | GOR: 1,502 scf/STB | **7** | 0 | 0 | 1,502 |
| | **Total Probable Developed Producing** | | **932** | **5** | **928** | **864** | | | | | |
| **Probable Developed Non-Producing** | | | | | | | | | | | |
| Dolinnoe-1 | Middle Triassic T2 (Zones IV & III) | | 164 | 0 | 165 | 153 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Dolinnoe-3 | Middle Triassic T2 (Zones V, III & II) | | 433 | 0 | 430 | 400 | GOR: 1,306 scf/STB | **7** | 0 | 0 | 1,306 |
| Dolinnoe-3 | Middle Triassic T2 (Zone I) | | 46 | 4 | 42 | 39 | GOR: 1,306 scf/STB | **7** | 0 | 0 | 1,306 |
| Dolinnoe-5 | Middle Triassic T2 (Zones III & II) | | 942 | 0 | 943 | 877 | GOR: 2,990 scf/STB | **7** | 0 | 0 | 2,990 |
| Dolinnoe-6 | Middle Triassic T2 (Zones V, IV, III, II', II" & I) | | 481 | 0 | 482 | 449 | GOR: 2,337 scf/STB | **7** | 0 | 0 | 2,337 |
| Dolinnoe-7 | Middle Triassic T2 (Zones V, III, II & I) | | 310 | 0 | 310 | 289 | GOR: 1,502 scf/STB | **7** | 0 | 0 | 1,502 |
| | **Total Probable Developed Non-Producing** | | **2,376** | **4** | **2,372** | **2,205** | | | | | |
| | **Total Probable Developed** | | **3,309** | **9** | **3,300** | **3,069** | | | | | |
| **Probable Undeveloped** | | | | | | | | | | | |
| Locations 1, 2, 3 | Middle Triassic T2 (Upper Part) | | 785 | 0 | 785 | 730 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Locations 1, 2, 3 | Middle Triassic T2 (Lower Part) | | 1,163 | 0 | 1,163 | 1,082 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Six Location | Middle Triassic T2 (Upper Part) | | 3,138 | 0 | 3,138 | 2,919 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Six Location | Middle Triassic T2 (Lower Part) | | 4,654 | 0 | 4,654 | 4,328 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| | **Total Probable Undeveloped** | | **9,741** | **0** | **9,741** | **9,059** | | | | | |
| | **Total Probable** | | **13,050** | **9** | **13,040** | **12,128** | | | | | |
| | **Total Proved Plus Probable** | | **26,193** | **1,489** | **24,704** | **22,975** | | | | | |
| **Possible** | | | | | | | | | | | |
| Locations 1, 2 & 3 | Middle Triassic T2 (Upper Part) | | 393 | 0 | 393 | 365 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Locations 1, 2 & 3 | Middle Triassic T2 (Lower Part) | | 582 | 0 | 582 | 541 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Dolinnoe-5 | Middle Triassic T2 (Zone IV) | | 179 | 0 | 179 | 167 | GOR: 2,990 scf/STB | **7** | 0 | 0 | 2,990 |
| Dolinnoe-5 | Middle Triassic T2 (Zones III & II) | | 159 | 0 | 159 | 148 | GOR: 2,990 scf/STB | **7** | 0 | 0 | 2,990 |
| Six Location | Middle Triassic T2 (Upper Part) | | 1,574 | 0 | 1,574 | 1,464 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Six Location | Middle Triassic T2 (Lower Part) | | 2,327 | 0 | 2,327 | 2,164 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Twelve Location | Middle Triassic T2 (Upper Part) | | 6,279 | 0 | 6,279 | 5,840 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| Twelve Location | Middle Triassic T2 (Lower Part) | | 9,308 | 0 | 9,308 | 8,657 | GOR: 1,516 scf/STB | **7** | 0 | 0 | 1,516 |
| | **Total Possible** | | **20,801** | **0** | **20,801** | **19,344** | | | | | |
| | **Total Proved Plus Probable Plus Possible** | | **46,994** | **1,489** | **45,505** | **42,319** | | | | | |


Figure 3a
Chapman
Petroleum Engineering Ltd.
Calendar Year
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Dolinovsk-1
Fasin Dolinovsk Kozakhstan
Forecast: Hist&Fc Trimest T2
PRODUCTION HISTORY


Figure 3b
Chapman Petroleum Engineering Ltd.
Calendar Year
2014
2013
2012
2011
2010
2009
2008
2007
2006
2005
PRODUCTION RATE
Dollarhide
Field: Dollarhide, Roadrunner
Formation: Wildcat Triassic T2


Figure 3a
PRODUCTION HISTORY
Calendar Year


PRODUCTION HISTORY
Dolinnoe-5
Field: Dolinnoe, Kazakhstan
Formation: Middle Triassic T2
Number of Wells
Oil, Wells
Water Cut, %
Daily Oil, STB/d
Calendar Year
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Chapman Petroleum Engineering Ltd.

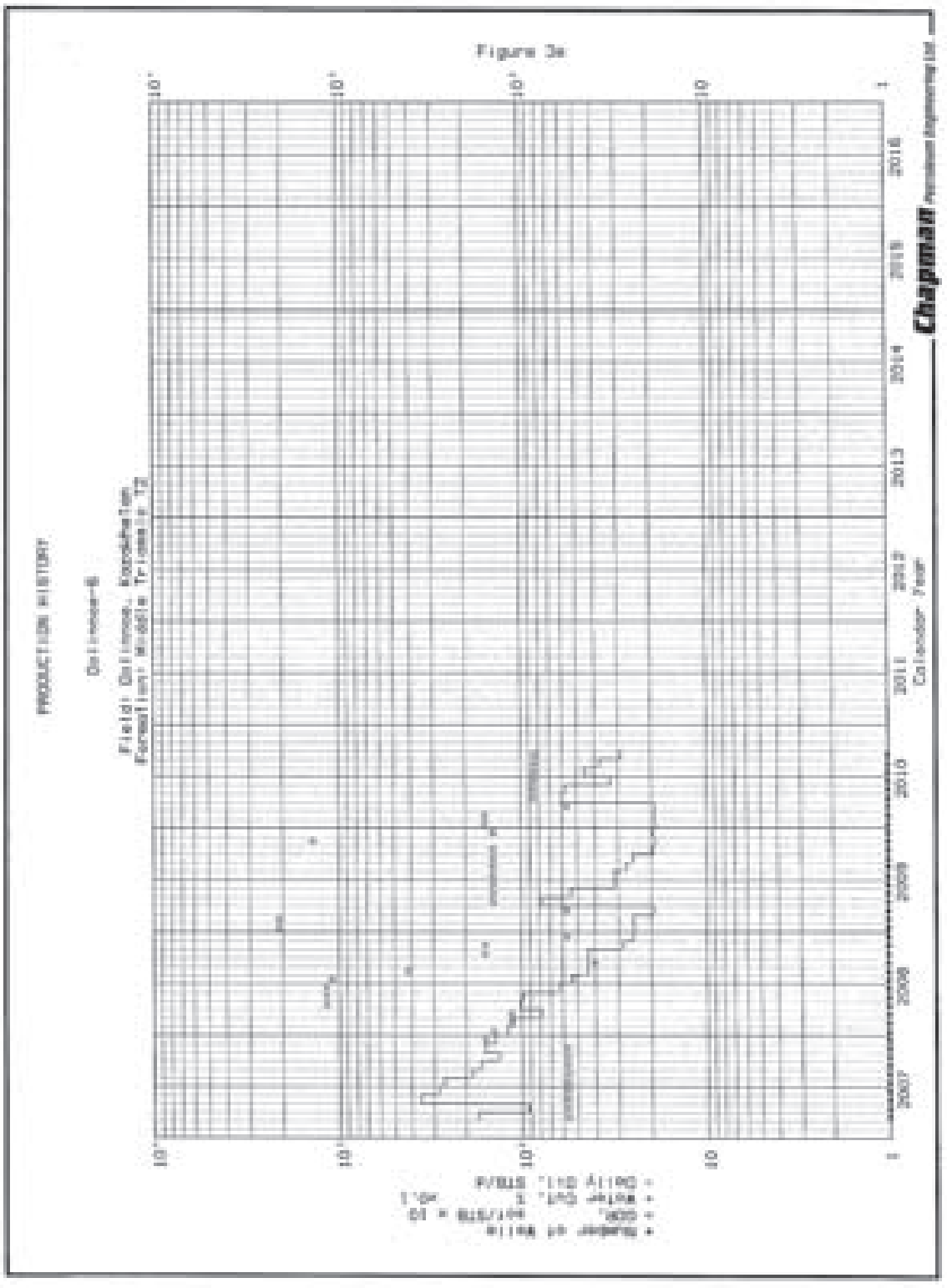
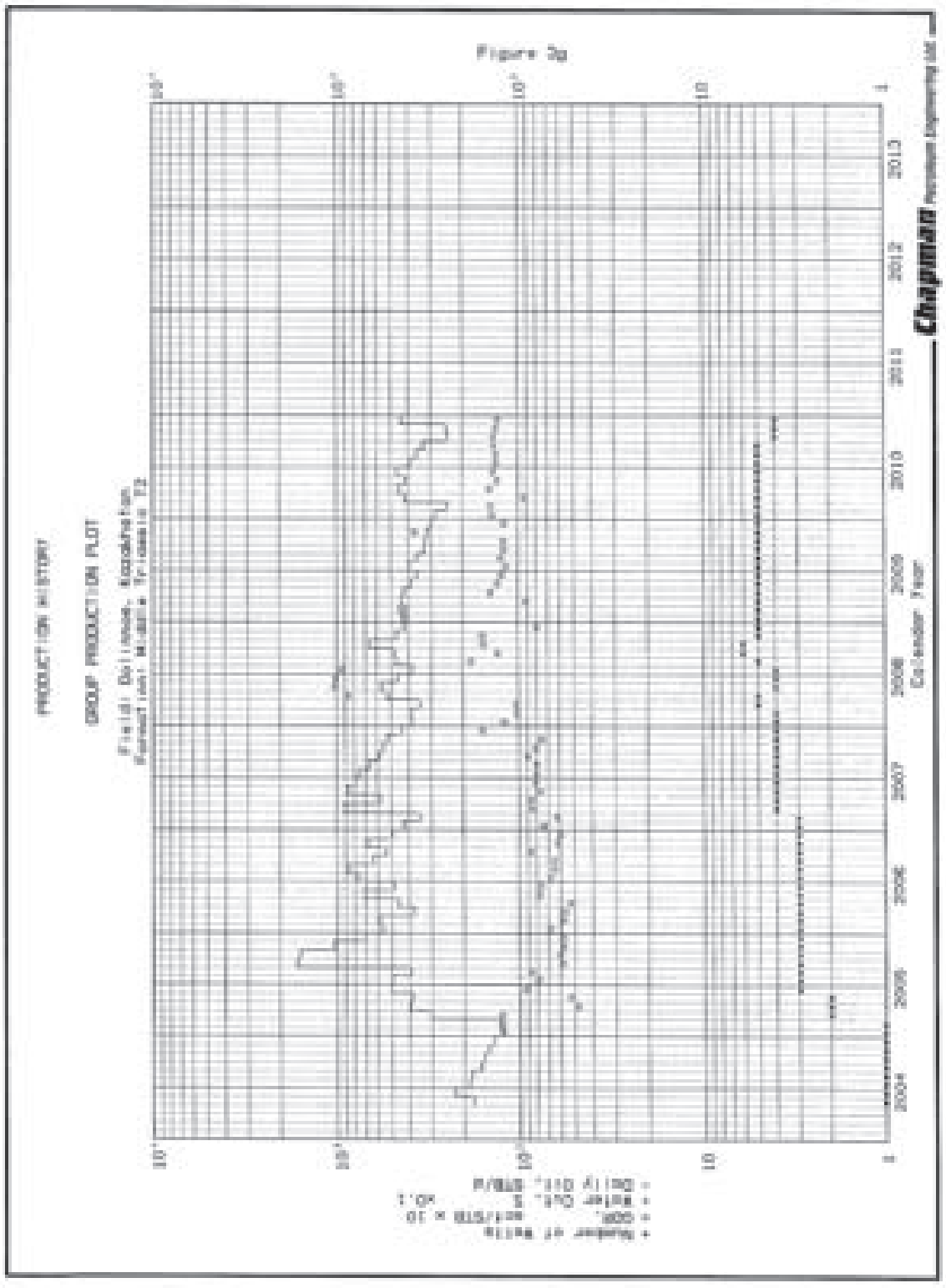

Figure 3a
PRODUCTION HISTORY
Oil-rate-B
Field: Dollinger, Kodaikanal
Formation: Middle Triassic T2
Calendar Year
Chapman Petroleum Engineering Ltd.

Figure 31


Figure 2a
PRODUCTION HISTORY
DROP PRODUCTION PLOT
Chapman Petroleum Engineering Ltd.
Calendar Year

## Table 3a

## Summary of Anticipated Capital Expenditures Development
## January 1, 2011

## BMB Munai, Inc.

## Dolinnoe, Republic of Kazakhstan

| Description | Date | Operation | Capital Interest % | Gross Capital M$ | Net Capital M$ |
|---|---|---|---|---|---|
| **Proved** | | | | | |
| **Proved Developed Producing** | | | | | |
| Dolinnoe-1 | 2011 | Stimulate Producing Intervals | 100.0000 | 300 | 300 |
| Dolinnoe-2 | 2011 | Stimulate Producing Intervals | 100.0000 | 300 | 300 |
| Dolinnoe-3 | 2011 | Stimulate Producing Intervals | 100.0000 | 150 | 150 |
| Dolinnoe-7 | 2011 | Stimulate Producing Intervals | 100.0000 | 150 | 150 |
| | | **Total Proved Developed Non-Producing** | | **900** | **900** |
| **Proved Developed Non-Producing** | | | | | |
| Dolinnoe-1 | 2011 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 300 | 300 |
| Dolinnoe-3 | 2011 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 600 | 600 |
| Dolinnoe-6 | 2011 | Re-complete, Tie-in and Place on Production | 100.0000 | 800 | 800 |
| Dolinnoe-7 | 2011 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 600 | 600 |
| | | **Total Proved Developed Non-Producing** | | **2,300** | **2,300** |
| | | **Total Proved Developed** | | **3,200** | **3,200** |
| **Proved Undeveloped** | | | | | |
| Three Locations | 2013 | Drill, Complete, Tie-in and Place on Production | 100.0000 | 25,500 | 25,500 |
| | | **Total Proved Undeveloped** | | **25,500** | **25,500** |
| | | **Total Proved** | | **28,700** | **28,700** |

| Description | Date | Operation | Capital Interest % | Gross Capital M$ | Net Capital M$ |
|---|---|---|---|---|---|
| **Probable** | | | | | |
| **Probable Developed** | | | | | |
| Dolinnoe-1 | 2012 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 800 | 800 |
| Dolinnoe-2 | 2012 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 600 | 600 |
| Dolinnoe-3 | 2012 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 1,400 | 1,400 |
| Dolinnoe-6 | 2012 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 400 | 400 |
| Dolinnoe-7 | 2012 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 1,000 | 1,000 |
| Dolinnoe-5 | 2014 | Complete, Tie-in and Place on Production Additional Intervals | 100.0000 | 1,000 | 1,000 |
| | | **Total Probable Developed** | | **5,200** | **5,200** |
| **Probable Undeveloped** | | | | | |
| Gas Gathering Facilities | 2012 | Build and Tie-in Gas Gathering Facilities | 100.0000 | 7,500 | 7,500 |
| Three Locations | 2013 | Complete and Tie-in Additional Intervals | 100.0000 | 1,500 | 1,500 |
| Six Locations | 2015-2016 | Drill, complete and Tie-in | 100.0000 | 51,000 | 51,000 |
| | | **Total Probable Undeveloped** | | **60,000** | **60,000** |
| | | **Total Probable** | | **65,200** | **65,200** |
| | | **Total Proved Plus Probable** | | **93,900** | **93,900** |
| **Possible** | | | | | |
| Three Locations | 2013 | Complete and Tie-in Additional Intervals | 100.0000 | 1,500 | 1,500 |
| Dolinnoe-5 | 2014 | Complete and Tie-in Additional Intervals | 100.0000 | 800 | 800 |
| Six Locations | 2015-2016 | Complete and Tie-in Additional Intervals | 100.0000 | 3,000 | 3,000 |
| Twelve Locations | 2017-2020 | Drill, complete and Tie-in | 100.0000 | 102,000 | 102,000 |
| | | **Total Possible** | | **107,300** | **107,300** |
| | | **Total Proved Plus Probable Plus Possible** | | **201,200** | **201,200** |

*Note:* The above capital values are expressed in terms of current dollar without escalation.

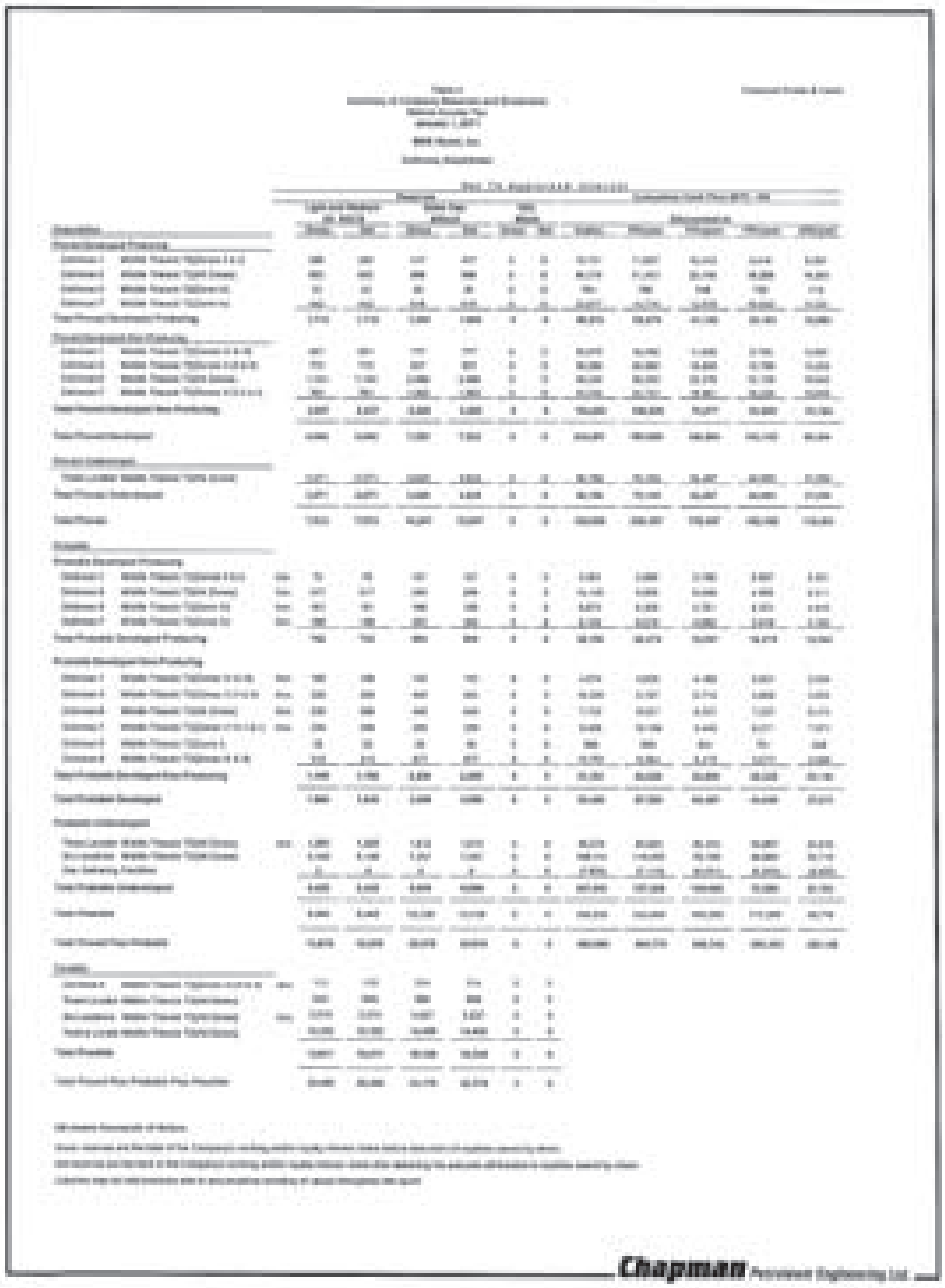
## Table 3b

## Summary of Anticipated Capital Expenditures
## Abandonment and Restoration
## January 1, 2011

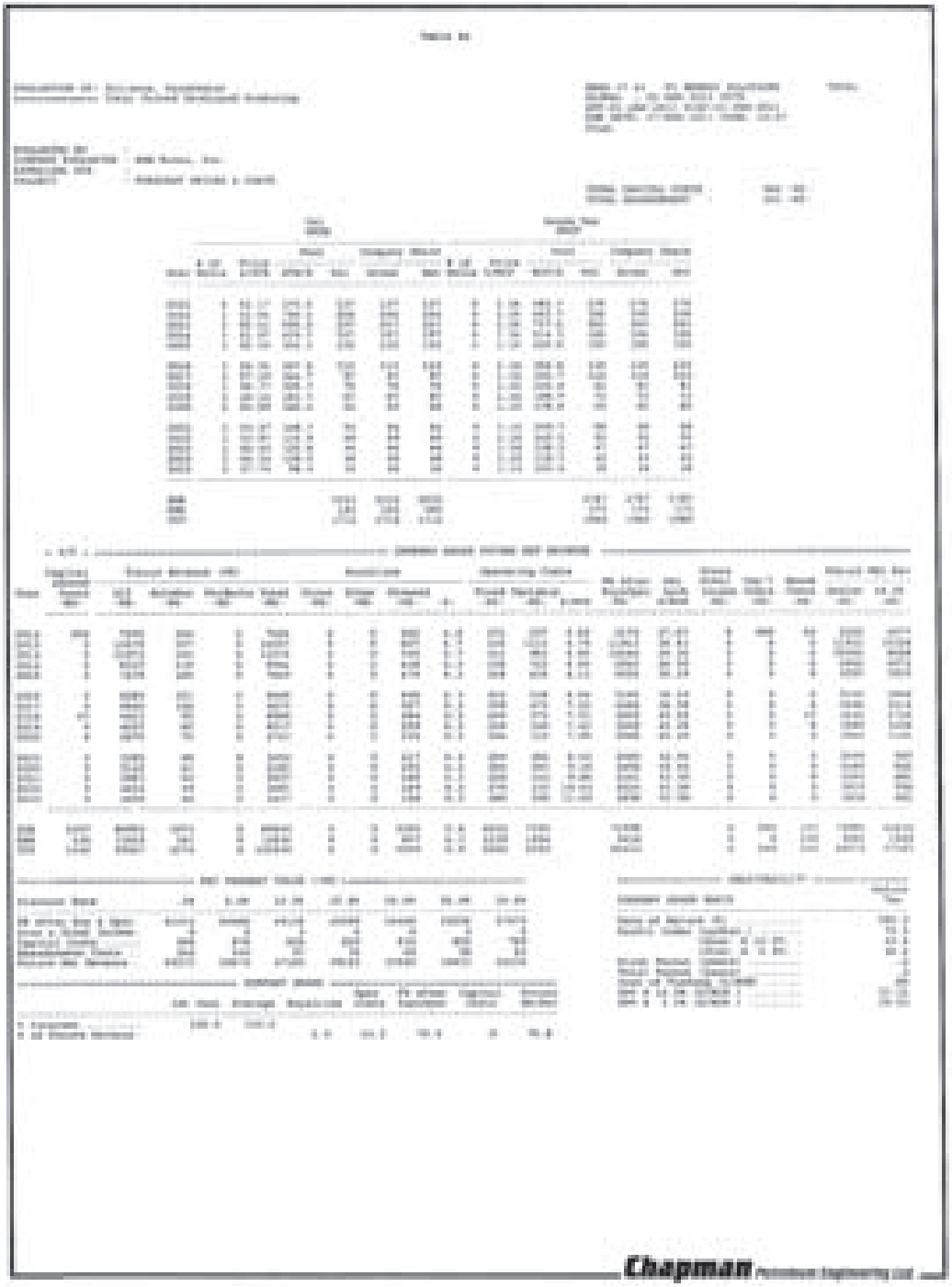
## BMB Munai, Inc.

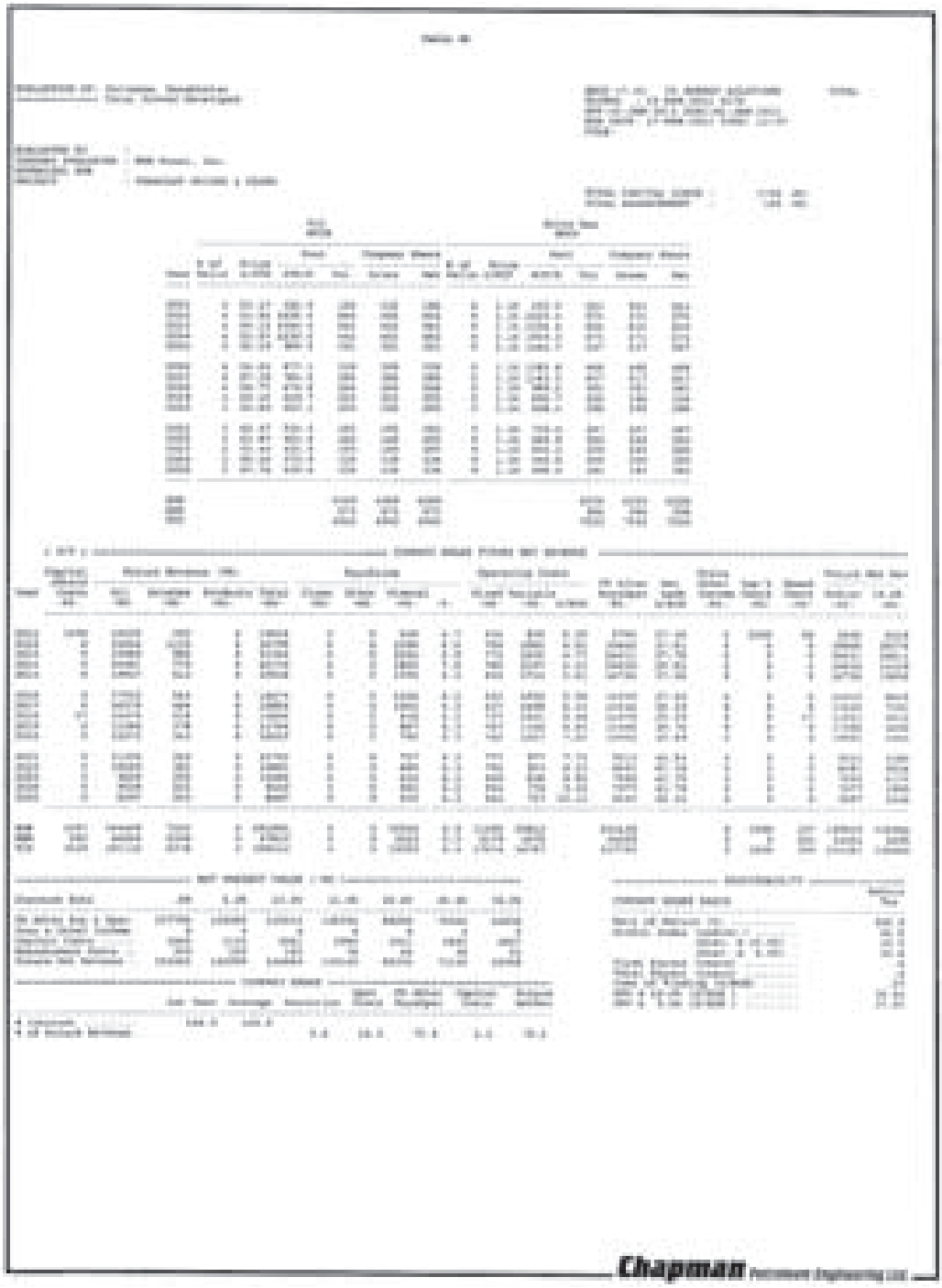
## Dolinnoe, Republic of Kazakhstan

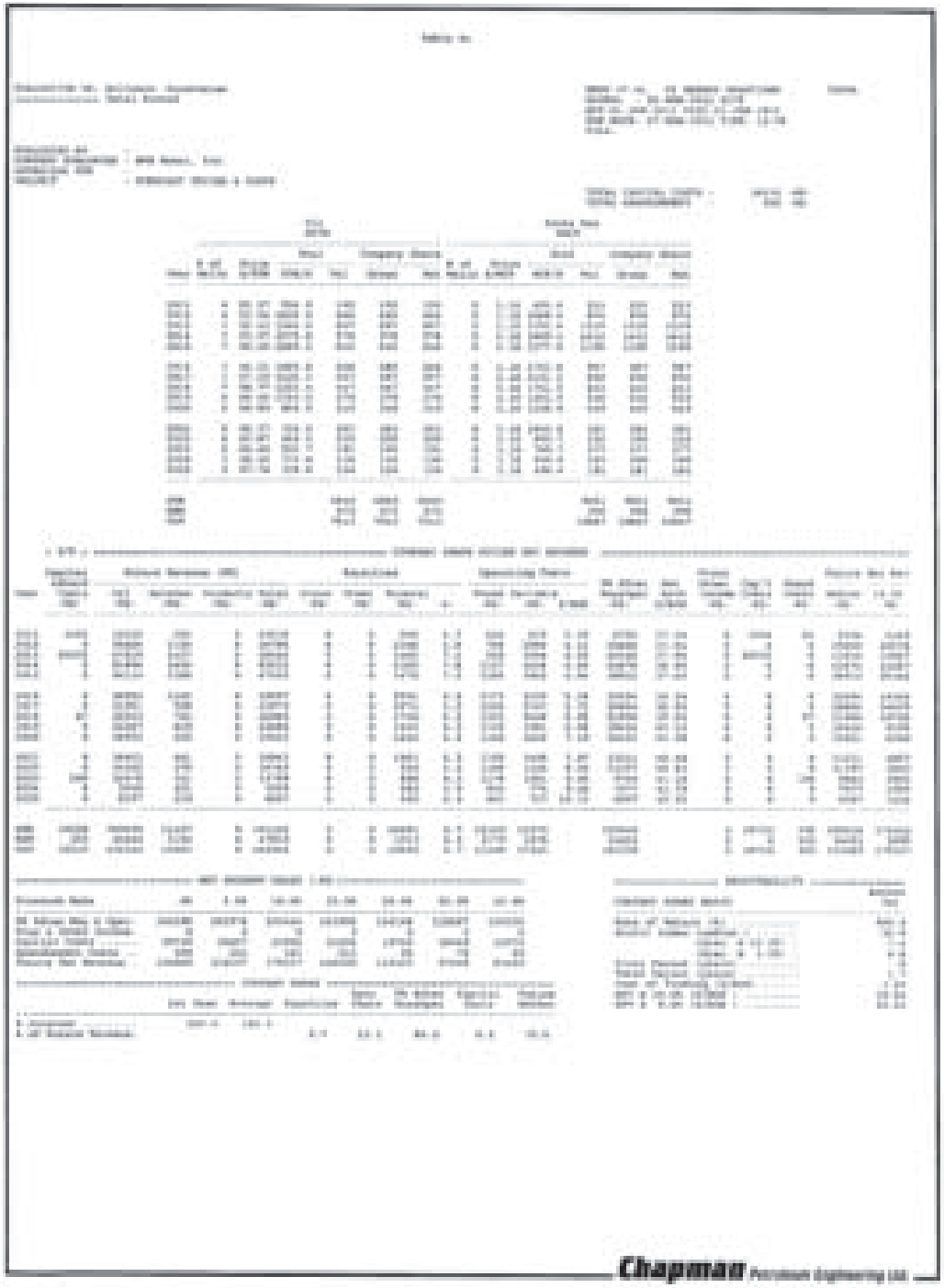
| Description | Year | Well Parameters | Capital Interest % | Gross Capital M$ | Net Capital M$ |
|---|---|---|---|---|---|
| **Light & Medium Oil** | | | | | |
| Dolinnoe-1 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Dolinnoe-2 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Dolinnoe-3 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Dolinnoe-5 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Dolinnoe-6 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Dolinnoe-7 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Three Locations | | Multiple zone oil producing well | 100.0000 | 150 | 150 |
| Six Locations | | Multiple zone oil producing well | 100.0000 | 300 | 300 |
| Twelve Locations | | Multiple zone oil producing well | 100.0000 | 600 | 600 |
| | | **Total** | | **1,350** | **1,350** |

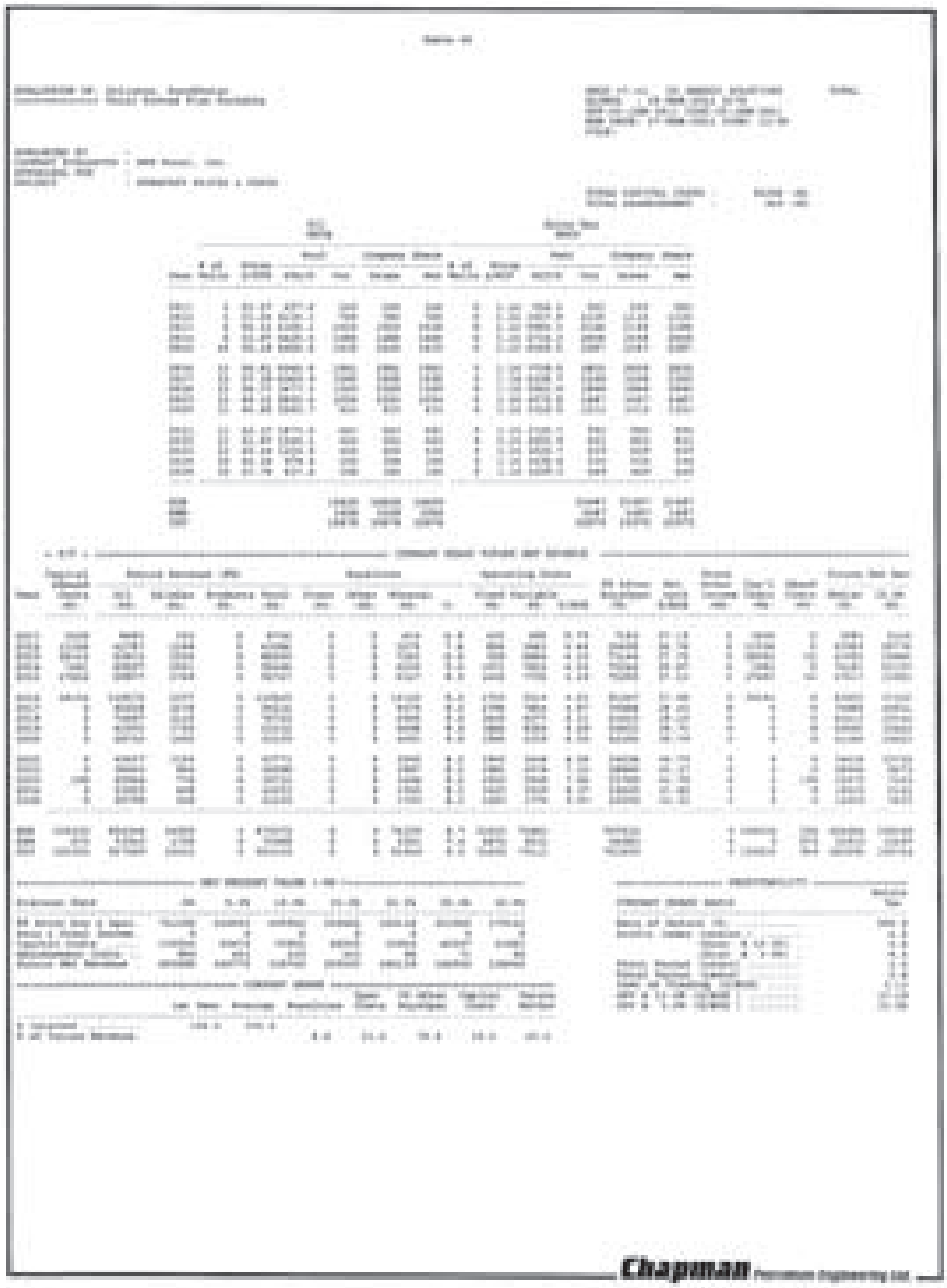


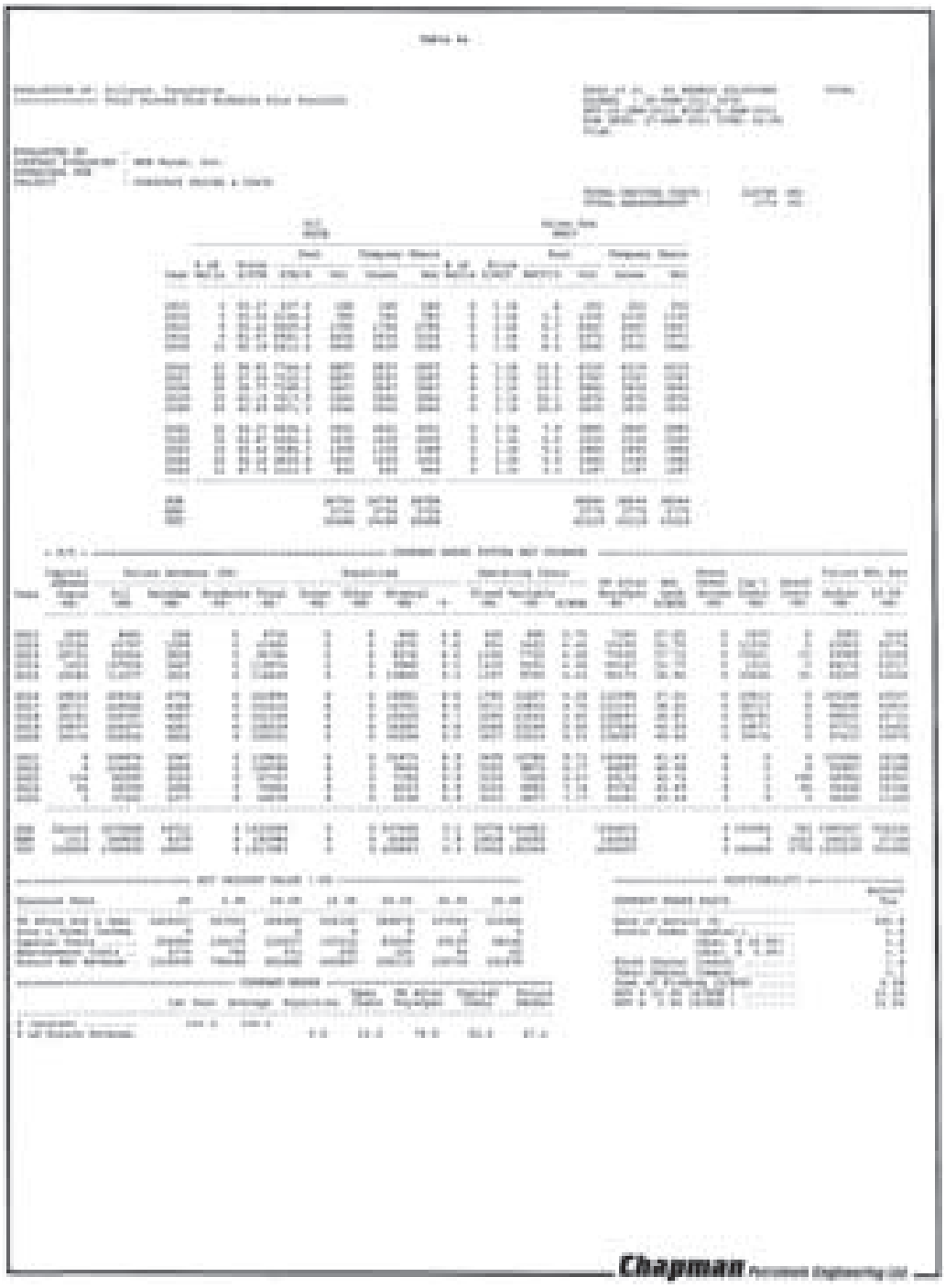
Chapman Petroleum Engineering Ltd.











**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**EMIR FIELD**

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c) Total Proved Plus Probable Plus Possible

**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**EMIR FIELD**

**DISCUSSION**

**Ownership**

The Company owns a 100 percent working interest in a "License" and "Exploration Contract" referred to as the ADEK Block which is located onshore in Kazakhstan in the Mangistau Oblast, approximately 50 kilometers from Aktau in the Republic of Kazakhstan (ROK).

The License originated in 1999 and the Exploration Contract was entered into on June 9, 2000 by a preceding company. The License and Contract Area were assigned to the Company on September 23, 2002.

The License and Exploration Contract granted the right to engage in exploration and development activities on the block. Originally the Exploration contract had a five year term but it has since been extended and now expires on January 9, 2013.

The terms of the extension require minimum capital expenditures of $7,000,000 in 2004, $9,300,000 in 2005 and $5,000,000 in 2006, $6,790,000 from July 9, 2009 to December 31, 2009, $12,690,000 in 2010, all of which have been satisfied or even exceeded. And in addition, a minimum work program requires $27,240,000 in 2011 and $14,840,000 in 2012.

Once commercial production is established within the ADEK Block, the Company can make application for an "Exploration and Production Contract", the terms of which would be negotiated. The Company has the right to produce and sell oil under the Law of Petroleum for the term of the existing Exploration Contract at a royalty rates presented on Table 1. Provided that the Company can show evidence of a commercial discovery, has fulfilled its minimum work commitments and presents a development plan acceptable to the MEMR, there is no reason to believe the Exploration and Production Contract would not be granted.

Under the Production and Exploration contract royalty rates are negotiated and vary depending on the reserves and production rates. It is estimated that a royalty (Mineral Extraction Tax) rate of 9.9 percent would not be exceeded for this Block, with the anticipated reserves and production rates.

There are two general forms of production contracts in Kazakhstan, production-sharing contracts and tax and royalty based contracts. We have utilized a royalty based contract as mentioned.

The Emir field is one of four known fields already discovered on the ADEK Block. The Company has re-entered well Emir-1, which was placed on production but currently is shut-in waiting on a workover and stimulation. Well Emir-2 was drilled, tested in one zone and placed

on production from this zone at the rate of 50 STB/d, and currently is shut-in. Well Emir-6 commenced production in August 2007 at a rate of 30 STB/d and currently is shut-in. The Company has plans to work over and stimulate all three wells.

A map of the field, showing the well location and reservoir structure is presented on Figure 1 and a brief description of the ownership is presented in Table 1.

**Geology**

The ADEK Block is located at the edge of the Mangistau Ustyrt Central High which contains several producing oilfields in the area. The main producing horizon is the Middle Triassic carbonate.

The Emir structure is an articulation zone where the Beke-Bashkudsky high and Karagiin saddle transits into the Zhetybay-Uzen tectonic zone. In the north the structure aligns with the line of a regional fault, interpreted as a thrust.

The productive Middle Triassic consists of limestone in the upper portion and dolomite in the lower portion. We have referred to these intervals as Upper Triassic and Lower Triassic for the purposes of this report.

The ADEK Block is covered by several vintages of 2D seismic plus a recent 3-D survey. The Middle Triassic structure top is represented by the reflection horizon $V2^{IV}$, which is presented on Figure 1.

The Jurassic, a clastic sand shale sequence with some carbonate, lies about 950m above the Triassic throughout the block. The Jurassic is a secondary opportunity for hydrocarbon potential as indicated by log analysis. Resource potential has been identified but reserves have not been assigned or evaluated in this report.

**Petrophysical Data and Analysis**

Russian GIS logs were run in the shallow formations and Baker Atlas logs over the carbonate.

The Chapman digital log analysis was made using HDS software over the carbonate reservoirs.

The Gamma Ray was used as a shale indicator in the Modified Simandoux water saturation equation with a carbonate selection for a, m, and n.

Sw cutoff was 40% along with a shale volume cutoff of 30%.

Net pay was identified in the carbonate reservoirs as shown in the interpreted log.

**Reserves**

Proved developed non-producing oil reserves of 24 MSTB have been estimated for the Upper Triassic zone IV in well Emir-2 based on reservoir parameters determined from digital

log analysis and production data from the wells, with assigned recovery factor of 20 percent and drainage area of 80 acres. These assumptions are based on the well performance.

Incremental Probable Developed reserves of 270 MSTB have been estimated for well Emir-2 in the same interval as the Proved Reserves based on increased recovery factor from 20 to 30 percent.

Additional Probable developed oil reserves of 4,802 MSTB have been estimated for the Triassic zones in wells Emir-1, 2 and 6 based on reservoir parameters determined from digital log analysis, assuming an 80 acre drainage area and a recovery factor of 20 percent.

The upper Triassic interval covering over 200 feet of pay has been produced however, the interval was damaged during drilling operations and is currently unproductive. Remedial well work is being planned.

Fluid property correlations have been utilized to determine the oil formation volume factor and solution gas oil ratio based on known oil density and reservoir pressure and temperature along with early production performance of the well.

There are numerous hydrocarbon zones in this well of which only the currently producing interval has been effectively production tested.

Proved Developed Non-Producing marketable gas reserves of 3 MMscf have been assigned to Upper Triassic zone IV in well Emir-2 based on a gas-oil ratio of 130 scf/STB.

Probable Developed Non-producing Marketable Gas reserves of 887 MMscf have been assigned to three existing wells based on each well's gas-oil ratio.

Probable undeveloped oil reserves of 10,192 MSTB and marketable solution gas of 1,422 MMscf have been estimated for the interval which had produced in wells Emir-1 and Emir-6 and are producing in well Emir-2 in twelve locations directly adjacent to Emir-1, Emir-2 and Emir-6.

Additional Probable undeveloped reserves of 16,066 MSTB and 2,241 MMscf of marketable solution gas have been estimated for sixteen additional locations to be drilled on the same fault block as encountered by Emir-1, Emir-2 and Emir-6, based on 3-D mapping, as shown on Figure 1. These reserves have been based on the same interval and reservoir parameters as for the completed interval in the existing well, applied to the area of the structure not assigned to the other probable drainage area. We have accepted the area of the accumulation as presented by the geological and geophysical consultants responsible for the 3-D seismic interpretation as shown on Figure 1.

Incremental possible reserves of 9,893 MSTB of oil and 1,473 MMscf of solution marketable gas have been assigned to the overall field reflecting an increase in recovery factor from 20 percent to 30 percent in existing wells, and from 30 to 35 – in future locations.

As mentioned above, reserves assigned in this report have been restricted to the fault block which has been encountered by wells Emir-1, Emir-2 and Emir-6. Additional resource potential may exist on the surrounding fault blocks (Figure 1) which has not yet been drilled. This has not been accounted for in this report.

Also, the Jurassic has indicated significant possible reserves potential, based on log analysis, which has not been evaluated herein, but will be tested with additional wells. There is insufficient data at present to accurately quantify reserves, however log analysis on Emir-1 demonstrates potential hydrocarbon as discussed above.

A summary of the reserves for this area is presented in Table 2.

**Production**

Emir-1 was placed on production in 2004 flowing at average of 100 STB/d against a wellhead back pressure of greater than 500 psi from a 45 meter perforated interval. During the drilling and testing phase of this well the well was killed with heavy mud of unknown chemical content which caused damage to the formation in the immediate wellbore. The well eventually became unproductive, likely due to the damage and is shut-in waiting on remedial action. Prior to killing the well it had flowed at a rate of 2,377 STB/d (378 $m^3$/d) of oil and mud, for a short time before it was killed with heavy fluid.

For this report we are required to schedule rates in accordance with actual performance demonstrated to date. With a successful stimulation, rates of over 2,000 STB/d might be achievable, which would make the values presented in this report greatly conservative.

For Probable case we have assumed that a successful workover could result in an initial rate of 450 STB/d for Emir-1, 600 STB/d for Emir-2 and 300 STB/d for Emir-6. These wells are expected to be placed on production by January 2010. For probable plus possible cases initial rates of 750 STB/d have been predicted for well Emir-1, 950 STB/d – for well Emir-2 and 400 STB/d for well Emir-6.

For the twelve adjacent probable undeveloped locations, initial rates of 150 STB/d per well have been assumed for Probable case, and 225 STB/d – for Probable Plus Possible case.

For the sixteen step-out probable undeveloped locations, initial rates of 150 STB/d per well have been assumed for Probable case, and 225 STB/d – for Probable Plus Possible case.

The analog field to the Company's oil fields is Alatobe, which has exhibited initial production rates varying from a few hundred STB/d up to over 10,000 STB/d. Our estimated rates are consciously conservation in anticipation of performance data with modern drilling and completion techniques.

Production history graphs for individual wells and a Group Production Plot are presented on Figures 3a through 3d.

**Product Prices**

The Company has secured an export permit for oil sales which allows all of the Company's production to be exported. During the exploration stage exports are subject to "export rent tax" (ERT), which would be until January 9, 2013 with the expected extension in the exploration license. During this period the ERT is based on the current Tax Low of ROK and its values are presents in the Attachment 1. Exported oil is exempt from VAT.

A forecast price used for this project is based on the Chapman's forecast utilizing Forecast Brent crude price less $16.37/STB (transportation discount), export duty of $5.20/STB, ERT (values are presented in the Attachment 1), domestic price of $26.72/STB (before VAT), VAT (12 percent) and an export/domestic sales split of 90/10 percent for the first three years and 80/20 percent thereafter.

A natural gas price of $1.16/Mscf has been utilized for solution gas sales and assumed to be constant throughout the report.

**Capital Expenditures**

Total capital expenditures of $249,455,000 have been estimated for the development of the proved, probable and possible oil and gas reserves in this filed.

Detailed brake down of the capital expenses required for full development of the assigned reserves is presented in Table 3a.

Total abandonment and restoration costs (net of salvage) of $1,550,000 ($50,000 per well) have been estimated for this property as presented in Table 3b.

**Operating Costs**

Field operating costs of $8,850/well/month (fixed), $4.15/STB, and $0.15/Mscf have been estimated for this project, based on field estimates provided by the Company, which we consider to be reasonable.

**Economics**

The economic analysis performed for this evaluation, presented here, reflects future cash flows from this property before consideration of income taxes and other taxes which apply under the "royalty and tax contract".

The cash flow forecasts have been prepared under a "forecast prices and costs" assumption based on Chapman Petroleum Engineering price forecast.

A summary of the economic results are presented in Table 4 and the consolidated cash flows forecasts are presented in Tables 4a through 4c.

## Table 1

## Schedule of Lands, Interests and Royalty Burdens
## January 1, 2011

## BMB Munai, Inc.

## Emir, Republic of Kazakhstan

| Description | Rights Owned | Gross Acres | Appraised Interest | | Royalty Burdens | |
|---|---|---|---|---|---|---|
| | | | Working | Royalty | Basic | Overriding |
| | | | % | % | % | % |
| License AI No.1552 & Contract No.482 | A | N/A | 100.0000 | – | 1 | – |

*General Notes:*

1 According to the New Tax Law of ROK:

| Annual Production | | Royalty (Mineral Extraction Tax) for OIL, % | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011-2012 | | | 2013 | | | 2014 and after | | |
| tons | MSTB | Export | Domestic | Blend | Export | Domestic | Blend | Export | Domestic | Blend |
| up to 250,000 | up to 1,964 | 5.00 | 2.50 | **4.75** | 6.00 | 3.00 | **5.70** | 7.00 | 3.50 | **6.30** |
| up to 500,000 | up to 3,928 | 7.00 | 3.50 | **6.65** | 8.00 | 4.00 | **7.60** | 9.00 | 4.50 | **8.10** |
| up to 1,000,000 | up to 7,856 | 8.00 | 4.00 | **7.60** | 9.00 | 4.50 | **8.55** | 10.00 | 5.00 | **9.00** |
| up to 2,000,000 | up to 15,711 | 9.00 | 4.50 | **8.55** | 10.00 | 5.00 | **9.50** | 11.00 | 5.50 | **9.90** |
| up to 3,000,000 | up to 23,567 | 10.00 | 5.00 | **9.50** | 11.00 | 5.50 | **10.45** | 12.00 | 6.00 | **10.80** |
| up to 4,000,000 | up to 31,423 | 11.00 | 5.50 | **10.45** | 12.00 | 6.00 | **11.40** | 13.00 | 6.50 | **11.70** |
| up to 5,000,000 | up to 39,278 | 12.00 | 6.00 | **11.40** | 13.00 | 6.50 | **12.35** | 14.00 | 7.00 | **12.60** |
| up to 7,000,000 | up to 54,990 | 13.00 | 6.50 | **12.35** | 14.00 | 7.00 | **13.30** | 15.00 | 7.50 | **13.50** |
| up to 10,000,000 | up to 78,557 | 15.00 | 7.50 | **14.25** | 16.00 | 8.00 | **15.20** | 17.00 | 8.50 | **15.30** |
| over 10,000,000 | over 78,558 | 18.00 | 9.00 | **17.10** | 19.00 | 9.50 | **18.05** | 20.00 | 10.00 | **18.00** |

2011-2013 – production split will be 90/10 (90 percent of production – for export and 10 percent for domestic sales)

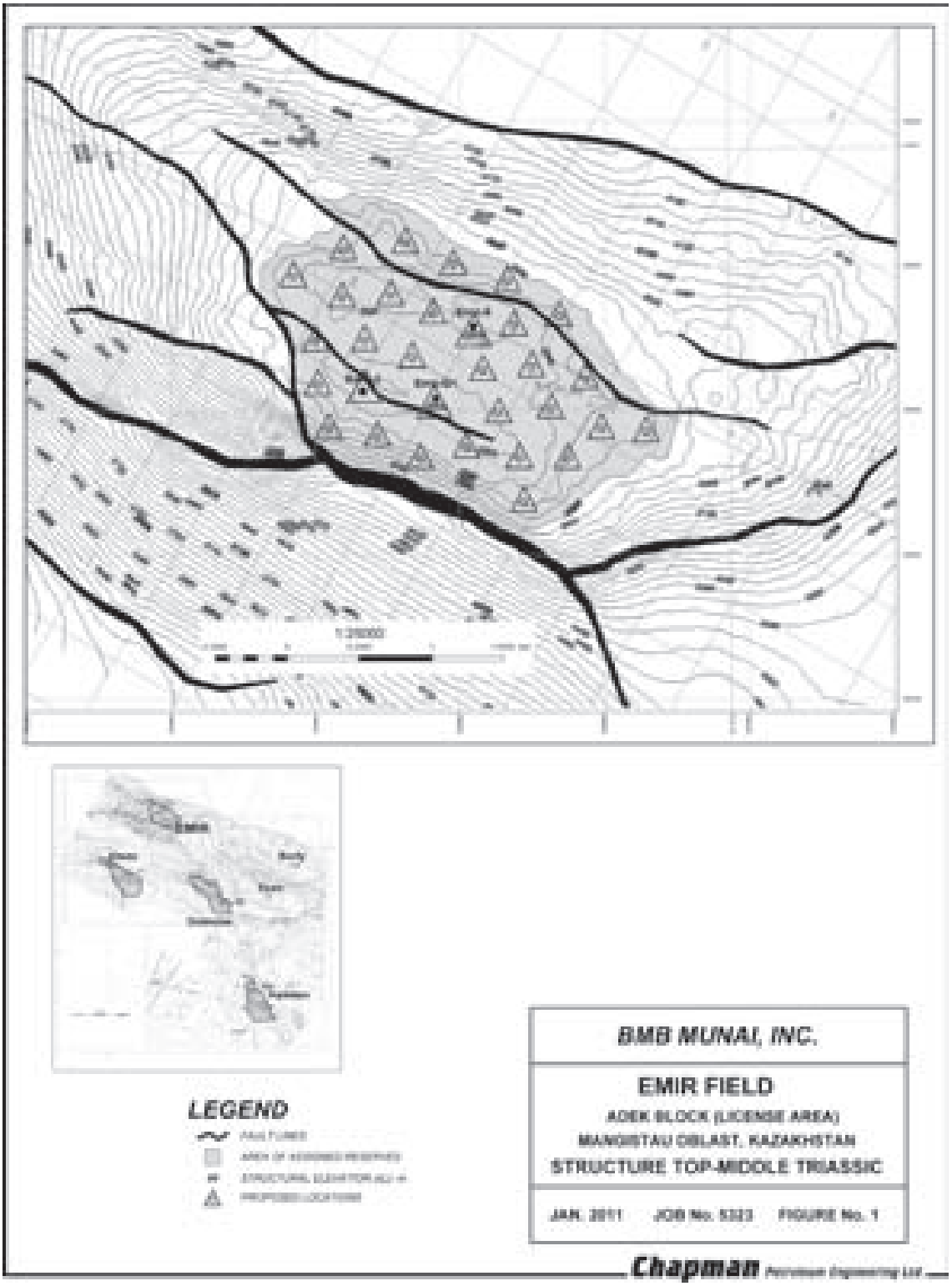
after 2013 – production split will be 80/20 (80 percent of production – for export and 20 percent for domestic sales)

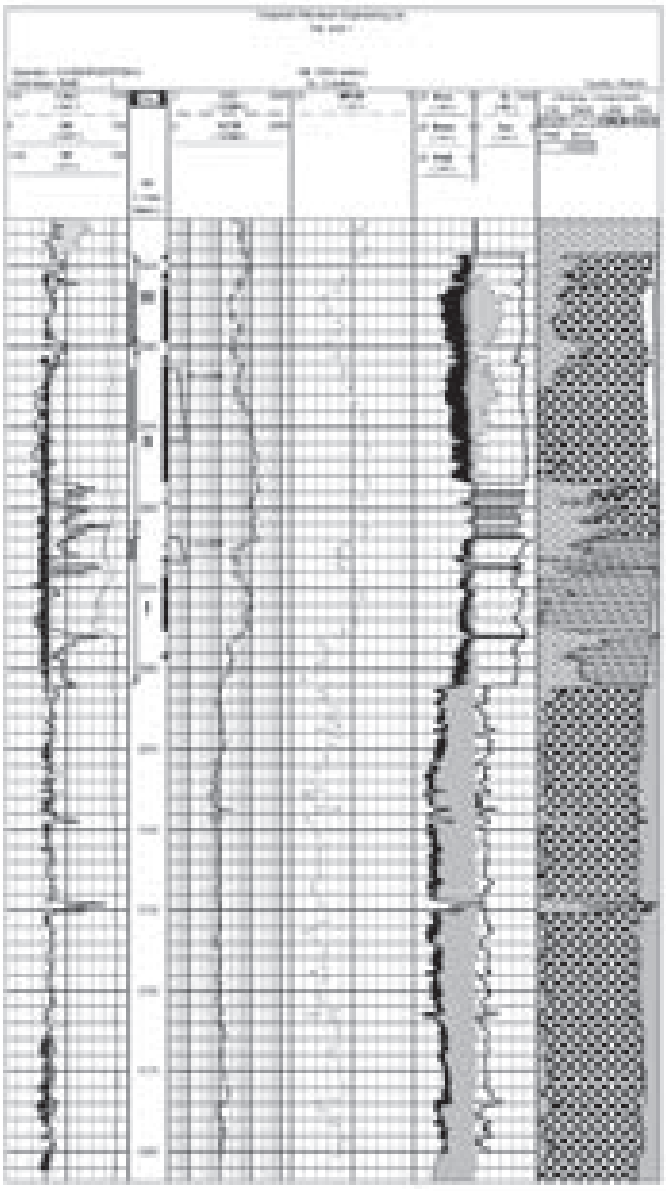
| Annual Production | | Royalty (Mineral Extraction Tax) for GAS, % | |
|---|---|---|---|
| $10^6$ $m^3$ | MMscf | Export | Domestic |
| up to 1000 | up to 35,490 | 10.00 | 0.50 |
| up to 2000 | up to 70,980 | 10.00 | 1.00 |
| over 2000 | over 70,980 | 10.00 | 1.50 |

| Corporate Income Tax | |
|---|---|
| Year | Rate, % |
| 2011-2012 | 20.00 |
| 2013 | 17.50 |
| 2014 and after | 15.00 |

*Rights Owned:*

A Emir Field located in blocks XXXVI-10-C(partially) and XXXVI-11-A(partially).


1:25000
LEGEND
BMB MUNAI, INC.
EMIR FIELD
ADEK BLOCK (LICENSE AREA)
MANGISTAU OBLAST, KAZAKHSTAN
STRUCTURE TOP-MIDDLE TRIASSIC
JAN. 2011
JOB No. 5323
FIGURE No. 1
Chapman Petroleum Engineering Ltd

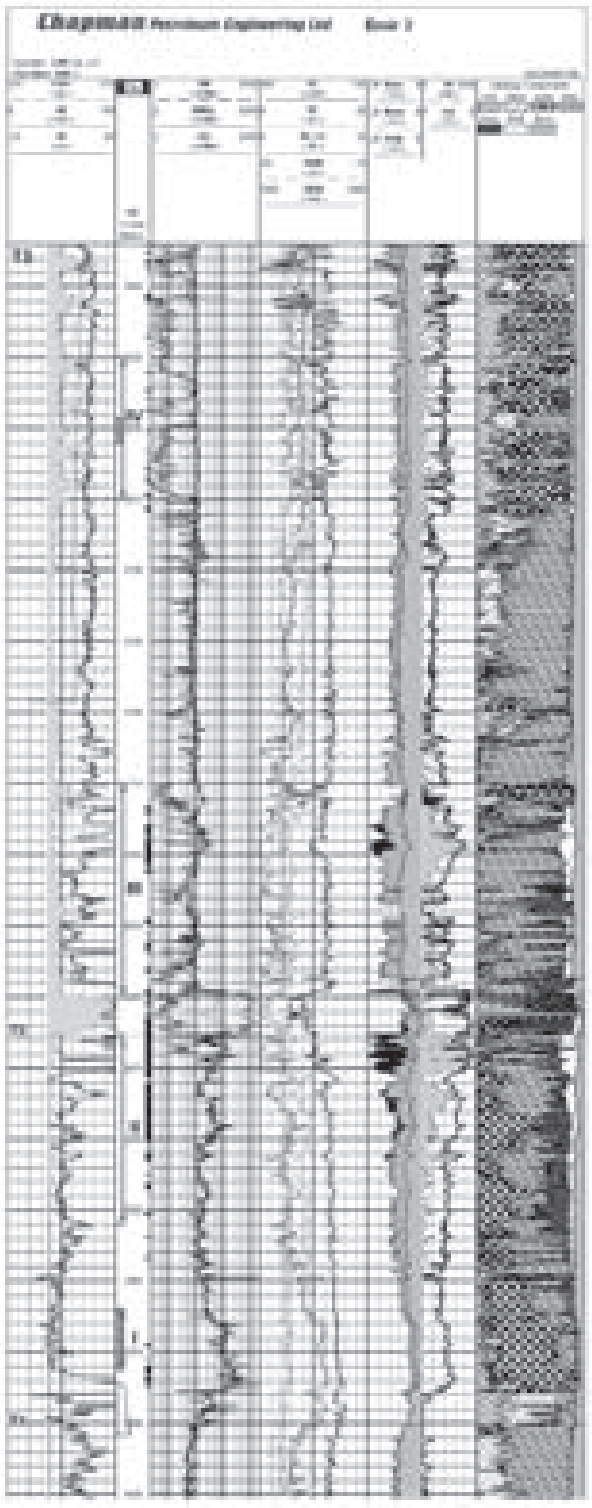


**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**EMIR 1**
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 3a

Chapman Petroleum Engineering Ltd.

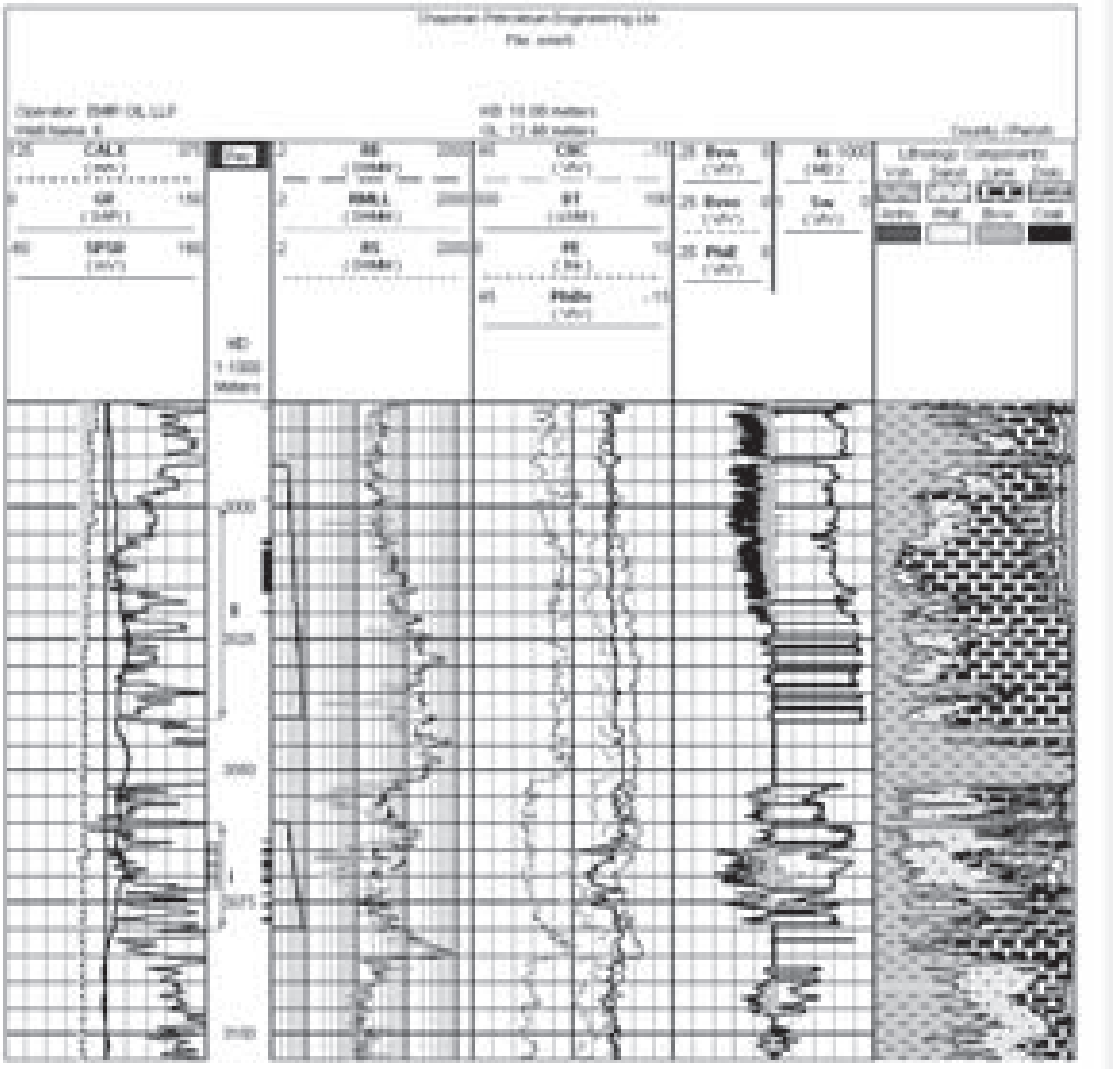


**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**EMIR 2**
UPPER TRIASSIC T3 & MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 3b

Chapman Petroleum Engineering Ltd



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**EMIR 6**
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2c

Chapman Petroleum Engineering Ltd.

## Table 2

## Summary of Gross Reserves
## January 1, 2011

## BMB Munai, Inc.

## Emir, Republic of Kazakhstan

| Description | | | Current or Initial Rate *STB/d* | API Gravity *(Deg)* | Ultimate ROIP *(MSTB)* | Cumulative Production *(MSTB)* | Remaining ROIP *(MSTB)* |
|---|---|---|---|---|---|---|---|
| **LIGHT & MEDIUM OIL** | | | | | | | |
| **Proved Developed Non-Producing** | | | | | | | |
| Emir-2 | Upper Triassic T3 (Zone IV) | | shut-in | 40 | 25 | 1 | 24 |
| | **Total Proved Developed Producing** | | | | **25** | **1** | **24** |
| | **Total Proved** | | | | **25** | **1** | **24** |
| **Probable Developed Non-Producing** | | | | | | | |
| Emir-1 | Middle Triassic T2 (Zones III, II & I) | | 450 | 40 | 2,197 | 5 | 2,192 |
| Emir-2 | Upper Triassic T3 (Zone IV) | (incr.) | 150 | 40 | 270 | 1 | 270 |
| Emir-2 | Upper Triassic T3 (Zone III) | | 150 | 40 | 849 | 1 | 849 |
| Emir-2 | Middle Triassic T2 (Zones II & I) | | 300 | 40 | 1,364 | 0 | 1,364 |
| Emir-6 | Middle Triassic T2 (Zones II & I) | | 300 | 40 | 400 | 2 | 398 |
| | **Total Probable Developed Non-producing** | | **1,350** | | **5,080** | **8** | **5,072** |
| **Probable Undeveloped** | | | | | | | |
| Twelve Adjacent Locations | Upper Triassic T3 & Middle Triassic T2 | | 1,800 | 40 | 10,192 | 0 | 10,192 |
| Sixteen Step-out locations | Middle Triassic T2 (Zones III, II & I) | | 2,400 | 40 | 16,066 | 0 | 16,066 |
| | **Total Probable Undeveloped** | | 4,200 | | 26,258 | 0 | 26,258 |
| | **Total Probable** | | 5,550 | | 31,338 | 8 | 31,330 |
| | **Total Proved Plus Probable** | | 5,550 | | 31,363 | 9 | 31,354 |
| **Possible** | | | | | | | |
| Emir-1 | Middle Triassic T2 (Zones III, II & I) | (incr.) | 300 | 40 | 1,098 | 0 | 1,098 |
| Emir-2 | Upper Triassic T3 (Zone III) | (incr.) | 100 | 40 | 424 | 0 | 424 |
| Emir-2 | Middle Triassic T2 (Zones II & I) | (incr.) | 200 | 40 | 682 | 0 | 682 |
| Emir-6 | Middle Triassic T2 (Zones II & I) | (incr.) | 100 | 40 | 200 | 0 | 200 |
| Twelve Adjacent Locations | Upper Triassic T3 & Middle Triassic T2 | (incr.) | 900 | 40 | 4,810 | 0 | 4,810 |
| Sixteen Step-out locations | Middle Triassic T2 (Zones III, II & I) | (incr.) | 1,200 | 40 | 2,678 | 0 | 2,678 |
| | **Total Possible** | | **2,800** | | **9,893** | **0** | **9,893** |
| | **Total Proved Plus Probable Plus Possible** | | **8,350** | | **41,256** | **9** | **41,247** |

## Table 2

## Summary of Gross Reserves
## January 1, 2011
## BMB Munai, Inc.

## Emir, Republic of Kazakhstan

| Description | | Ultimate RGIP (MMscf) | Cumulative Production (MMscf) | Remaining RGIP (raw) (MMscf) | Remaining RGIP (sales) (MMscf) | Reference | sloss % | NGL Ratio Bbls/MMscf | Sulphur Ratio LT/MMscf | GOR Scf/STB |
|---|---|---|---|---|---|---|---|---|---|---|
| **SOLUTION GAS** | | | | | | | | | | |
| **Proved Developed Non-Producing** | | | | | | | | | | |
| Emir-2 | Upper Triassic T3 (Zone IV) | 3 | 0 | 3 | 3 | GOR: 130 scf/STB | **7** | 0 | 0 | 130 |
| | **Total Proved Developed Non-Producing** | **3** | **0** | **3** | **3** | | | | | |
| | **Total Proved** | **3** | **0** | **3** | **3** | | | | | |
| **Probable Developed Non-Producing** | | | | | | | | | | |
| Emir-1 | Middle Triassic T2 | 592 | 0 | 592 | 550 | GOR: 270 scf/STB | **7** | 0 | 0 | 270 |
| Emir-2 | Upper Triassic T3 and Middle Triassic T2 | 323 | 0 | 323 | 300 | GOR: 130 scf/STB | **7** | 0 | 0 | 130 |
| Emir-6 | Middle Triassic T2 | 40 | 0 | 40 | 37 | GOR: 100 scf/STB | **7** | 0 | 0 | 100 |
| | **Total Probable Developed Non-producing** | **954** | **0** | **954** | **887** | | | | | |
| **Probable Undeveloped** | | | | | | | | | | |
| Twelve Adjacent Locations | Middle Triassic T2 | 1,529 | 0 | 1,529 | 1,422 | GOR: 150 scf/STB | **7** | 0 | 0 | 150 |
| Sixteen Step-out locations | Middle Triassic T2 | 2,410 | 0 | 2,410 | 2,241 | GOR: 150 scf/STB | **7** | 0 | 0 | 150 |
| | **Total Probable Undeveloped** | **3,939** | **0** | **3,939** | **3,663** | | | | | |
| | **Total Probable** | **4,893** | **0** | **4,893** | **4,550** | | | | | |
| | **Total Proved Plus Probable** | **4,896** | **0** | **4,896** | **4,553** | | | | | |
| **Possible** | | | | | | | | | | |
| Emir-1 | (incr.) Middle Triassic T2 | 297 | 0 | 297 | 276 | GOR: 270 scf/STB | **7** | 0 | 0 | 270 |
| Emir-2 | (incr.) Upper Triassic T3 and Middle Triassic T2 | 144 | 0 | 144 | 134 | GOR: 130 scf/STB | **7** | 0 | 0 | 130 |
| Emir-6 | (incr.) Middle Triassic T2 | 20 | 0 | 20 | 19 | GOR: 100 scf/STB | **7** | 0 | 0 | 100 |
| Twelve Adjacent Locations | (incr.) Middle Triassic T2 | 722 | 0 | 722 | 671 | GOR: 150 scf/STB | **7** | 0 | 0 | 150 |
| Sixteen Step-out locations | (incr.) Middle Triassic T2 | 402 | 0 | 402 | 374 | GOR: 150 scf/STB | **7** | 0 | 0 | 150 |
| | **Total Possible** | **1,584** | **0** | **1,584** | **1,473** | | | | | |
| | **Total Probable Plus Possible** | **6,480** | **0** | **6,480** | **6,026** | | | | | |

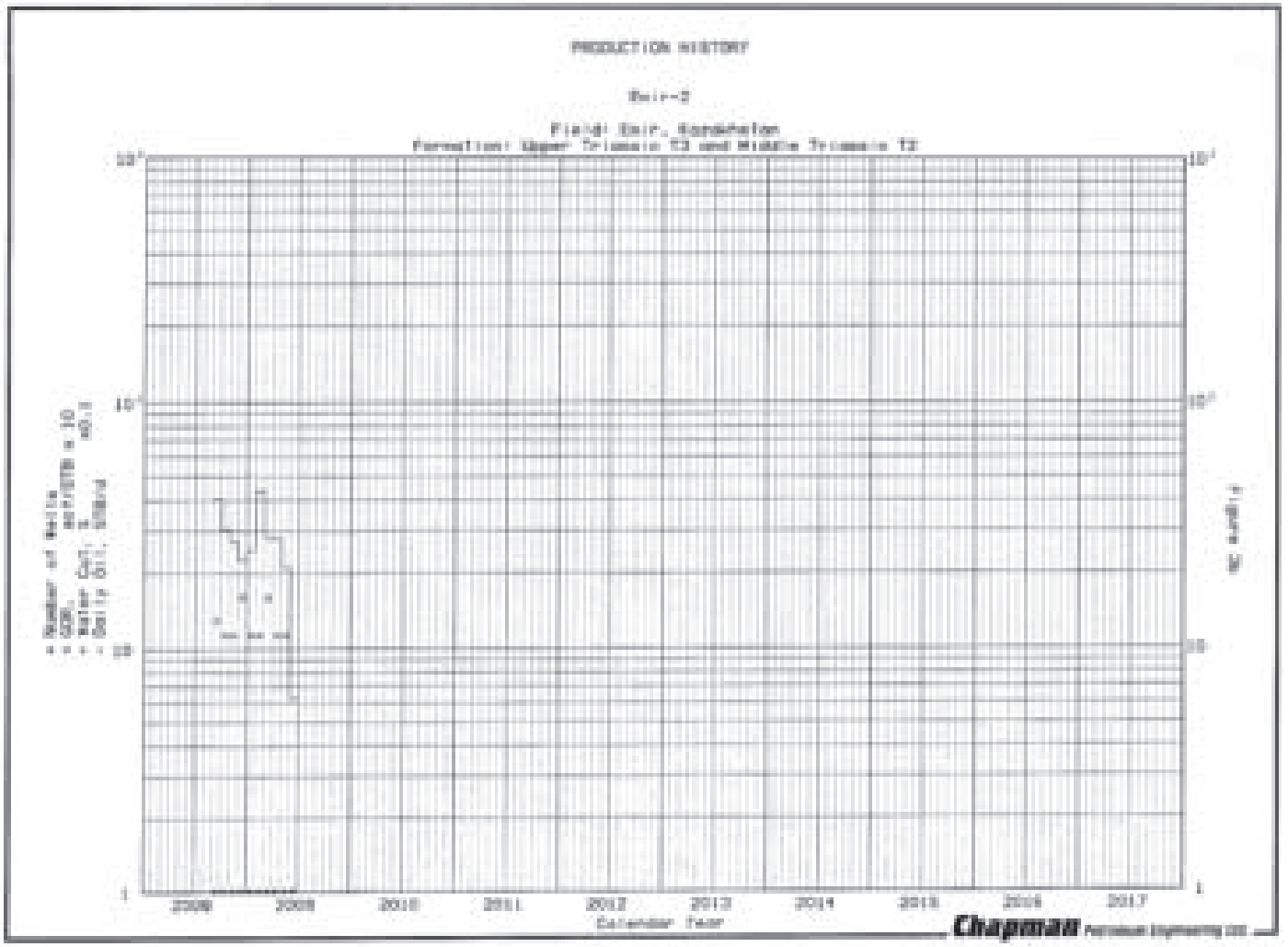
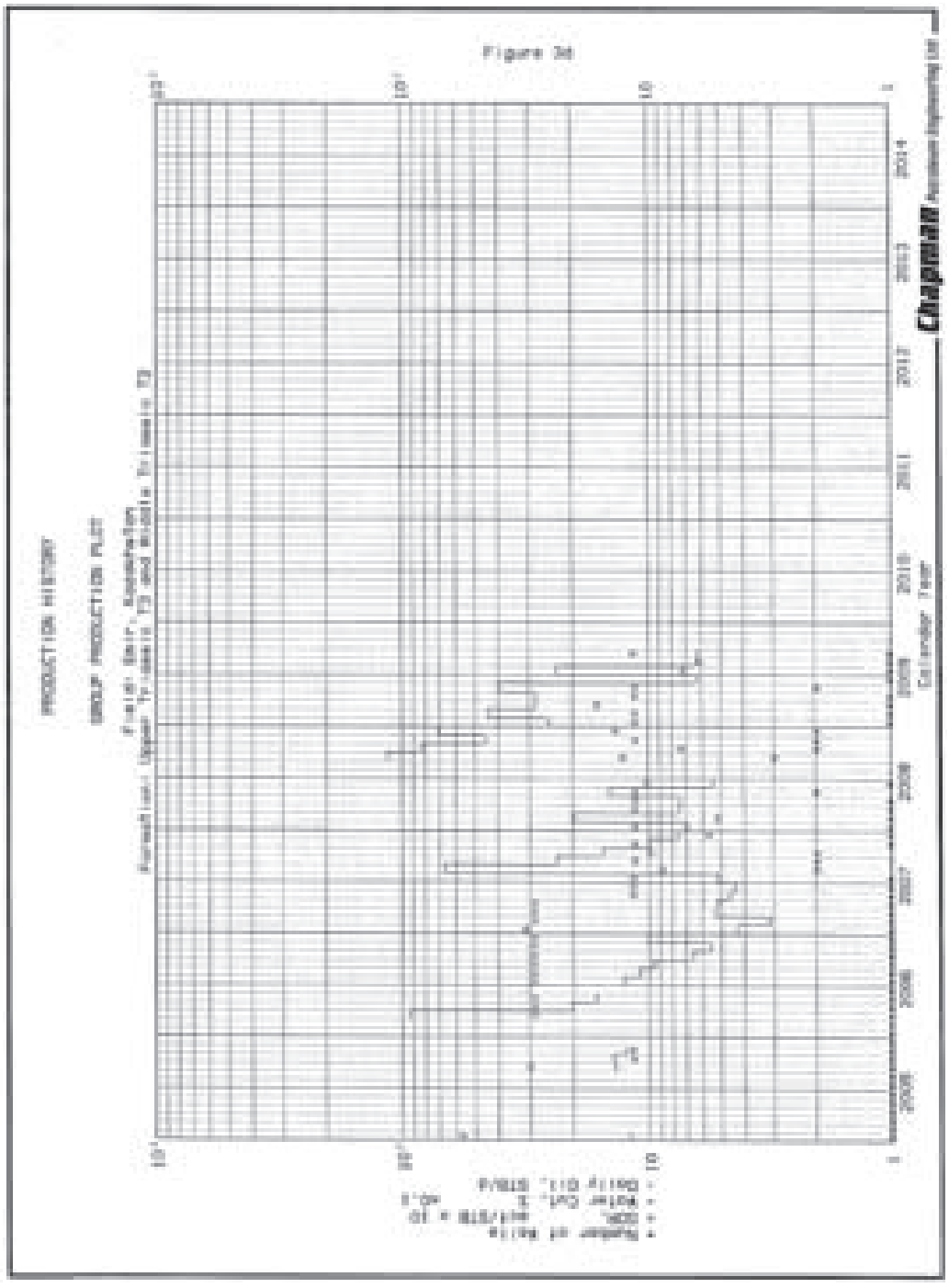

PRODUCTION HISTORY
Well-2
Field: Unit, Randleton
Formation: Upper Triassic T3 and Middle Triassic T2
Calendar Year
Chapman Petroleum Engineering Ltd.

Figure 3c
PRODUCTION HISTORY
Chapman


Figure 36
PRODUCTION HISTORY
GROUP PRODUCTION PLOT
Chapman
Calendar Year

## Table 3a

## Summary of Anticipated Capital Expenditures
## Development
## January 1, 2011

## BMB Munai, Inc.

## Emir, Republic of Kazakhstan

| Description | Date | Operation | Capital Interest % | Gross Capital M$ | Net Capital M$ |
|---|---|---|---|---|---|
| **Proved** | | | | | |
| **Proved Developed** | | | | | |
| Emir-2 | 2011 | Workovers | 100.0000 | 300 | 300 |
| | | **Total Proved** | | **300** | **300** |
| **Probable** | | | | | |
| **Probable Developed** | | | | | |
| Emir-1 | 2012 | Recomplete and tie-in additional intervals | 100.0000 | 700 | 700 |
| Emir-2 | 2012 | Recomplete and tie-in additional intervals | 100.0000 | 700 | 700 |
| Emir-6 | 2012 | Capital Repair of the well | 100.0000 | 155 | 155 |
| Emir-6 | 2012 | Recomplete and tie-in additional intervals | 100.0000 | 600 | 600 |
| | | **Total Probable Developed** | | **2,155** | **2,155** |
| **Probable Undeveloped** | | | | | |
| Twelve Adjacent Locations | 2013-2016 | Drill, complete and Tie-in | 100.0000 | 102,000 | 102,000 |
| Twelve Adjacent Locations | 2013-2016 | Gas Gathering Facilities and Tie-in | 100.0000 | 1,200 | 1,200 |
| Sixteen Step-out locations | 2017-2024 | Drill, complete and Tie-in | 100.0000 | 136,000 | 136,000 |
| Sixteen Step-out locations | 2017-2024 | Gas Gathering Facilities and Tie-in | 100.0000 | 1,600 | 1,600 |
| | | **Total Probable Undeveloped** | | **240,800** | **240,800** |
| | | **Total Probable** | | **242,955** | **242,955** |
| | | **Total Proved Plus Probable** | | **243,255** | **243,255** |
| **Possible** | | | | | |
| Emir-1 | 2012 | Recomplete and tie-in additional intervals | 100.0000 | 200 | 200 |
| Emir-2 | 2012 | Recomplete and tie-in additional intervals | 100.0000 | 200 | 200 |
| Emir-6 | 2012 | Recomplete and tie-in additional intervals | 100.0000 | 200 | 200 |
| Twelve Adjacent Locations | 2013-2016 | Recomplete and tie-in additional intervals | 100.0000 | 2,400 | 2,400 |
| Sixteen Step-out locations | 2017-2024 | Recomplete and tie-in additional intervals | 100.0000 | 3,200 | 3,200 |
| | | **Total Possible** | | **6,200** | **6,200** |
| | | **Total Proved Plus Probable Plus Possible** | | **249,455** | **249,455** |

Note: The above capital values are expressed in terms of current dollar values without escalation.

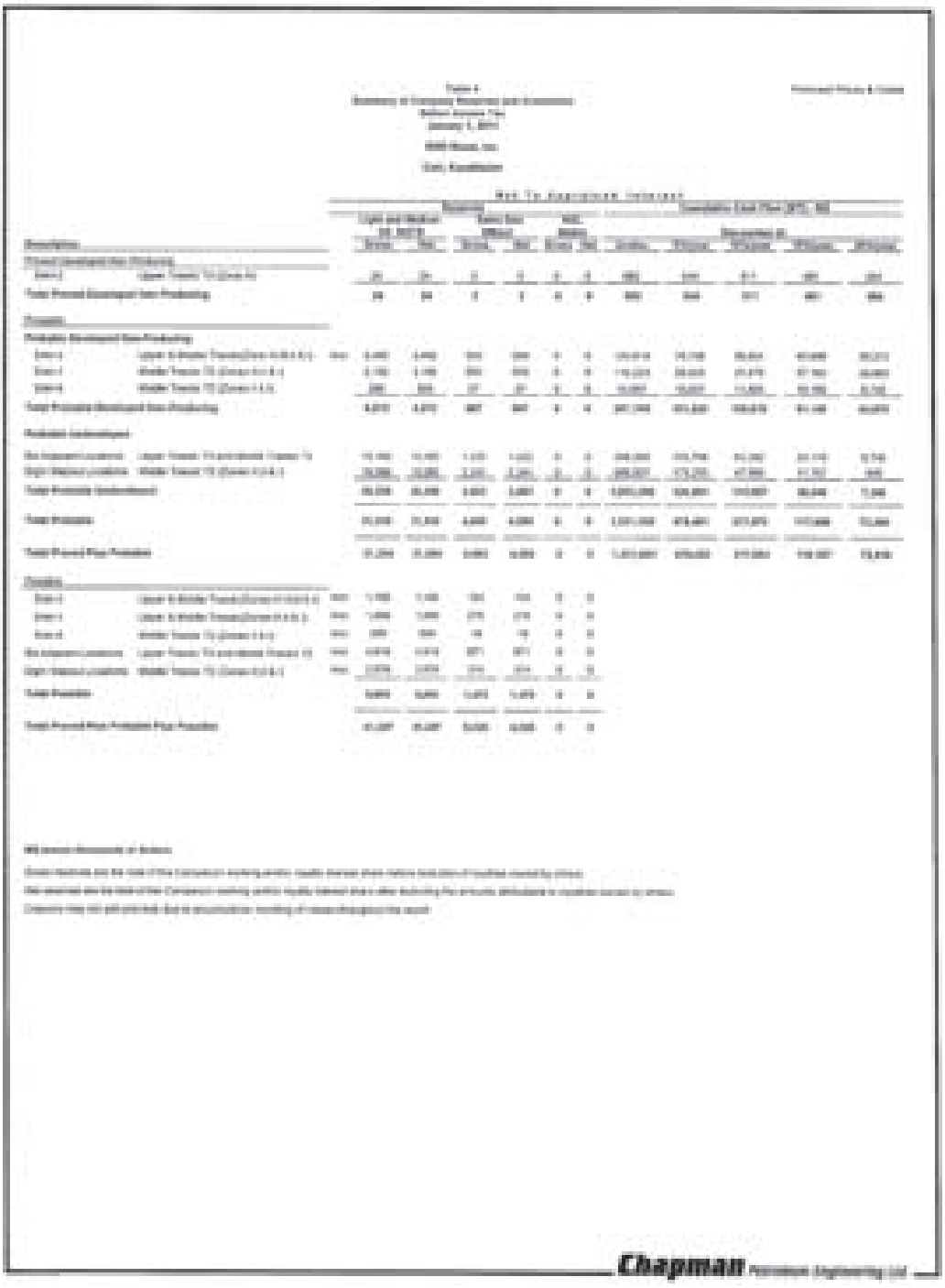
## Table 3b

## Summary of Anticipated Capital Expenditures
## Abandonment and Restoration
## January 1, 2011

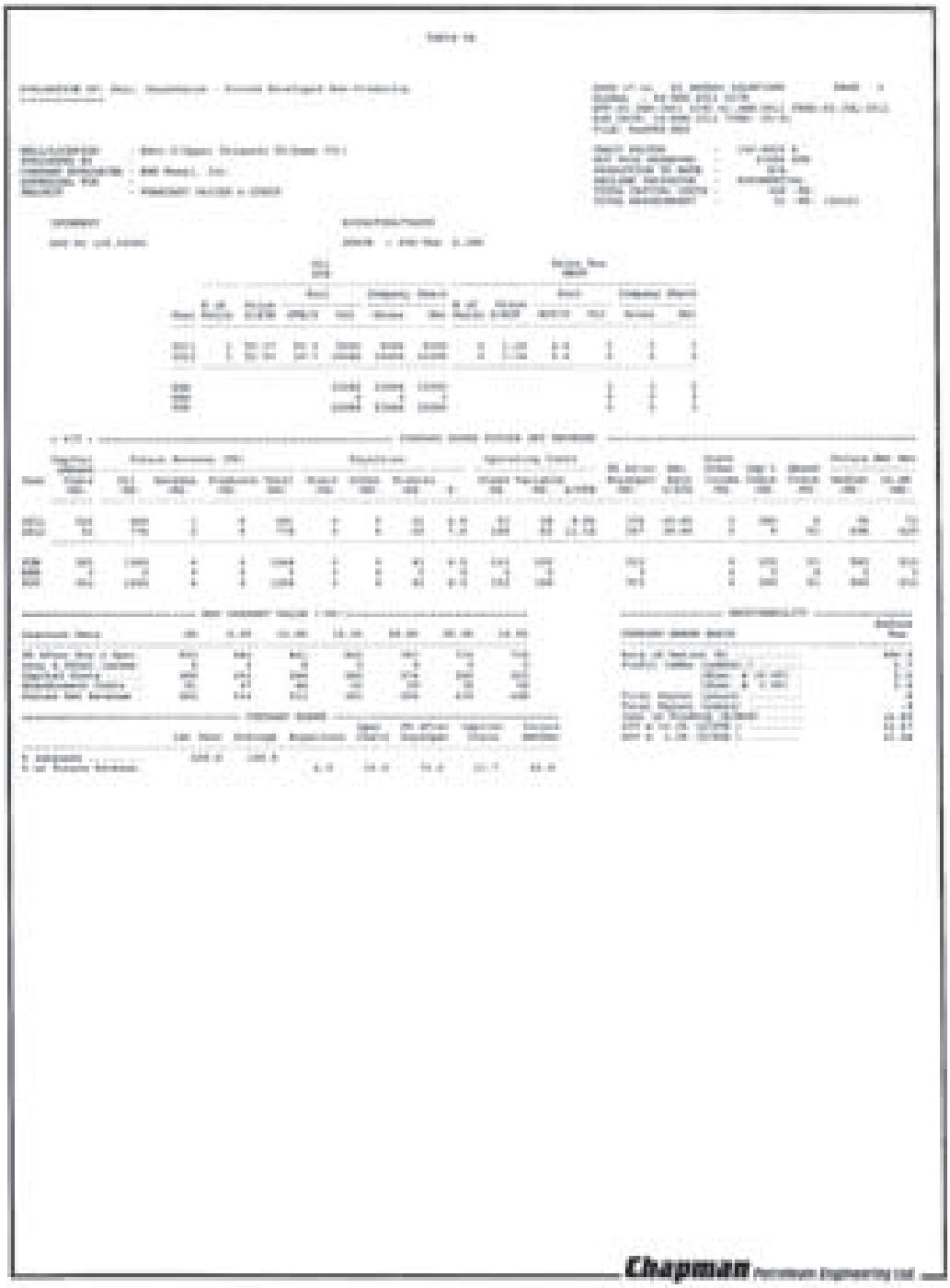
## BMB Munai, Inc.

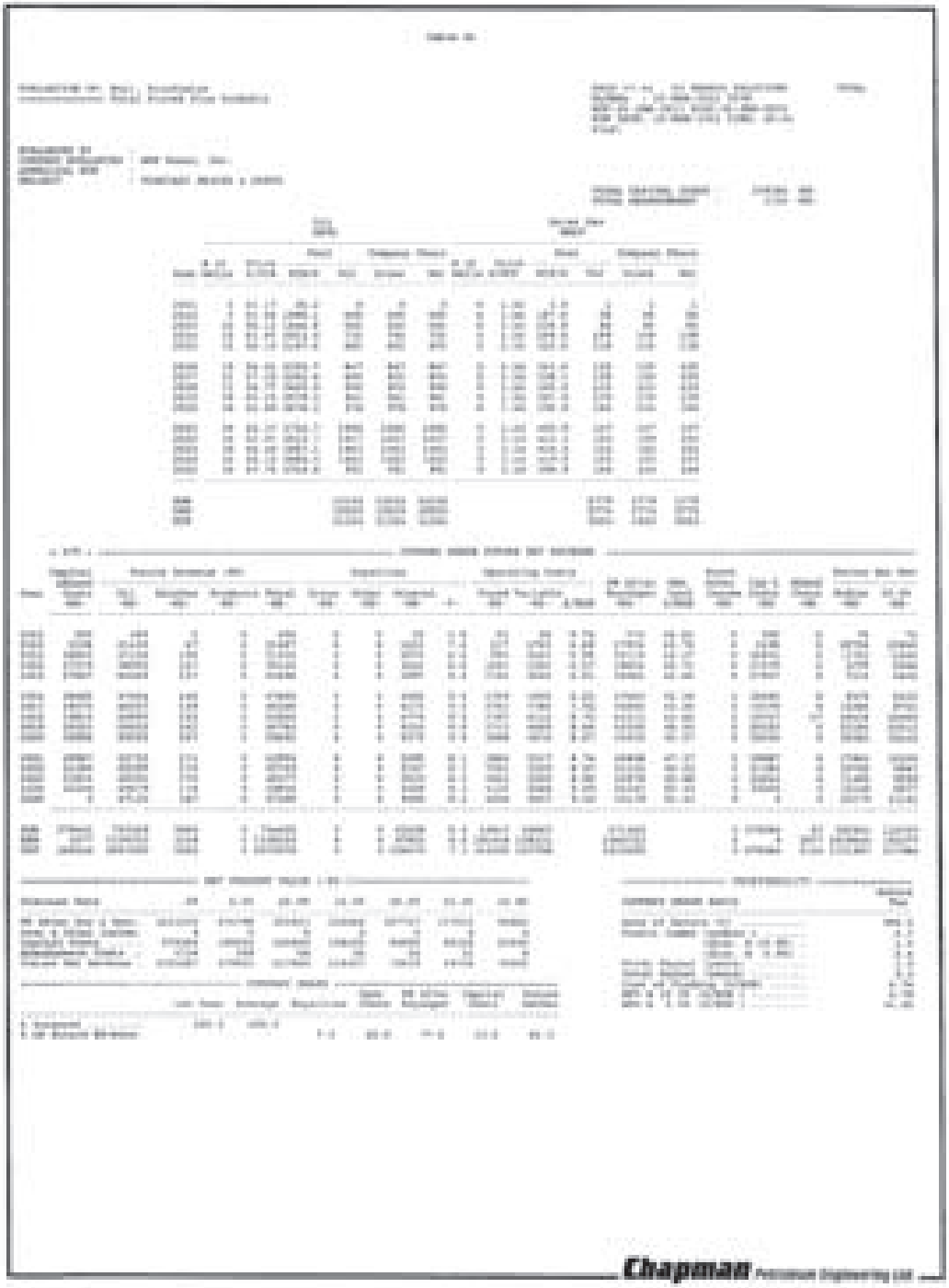
## Emir, Republic of Kazakhstan

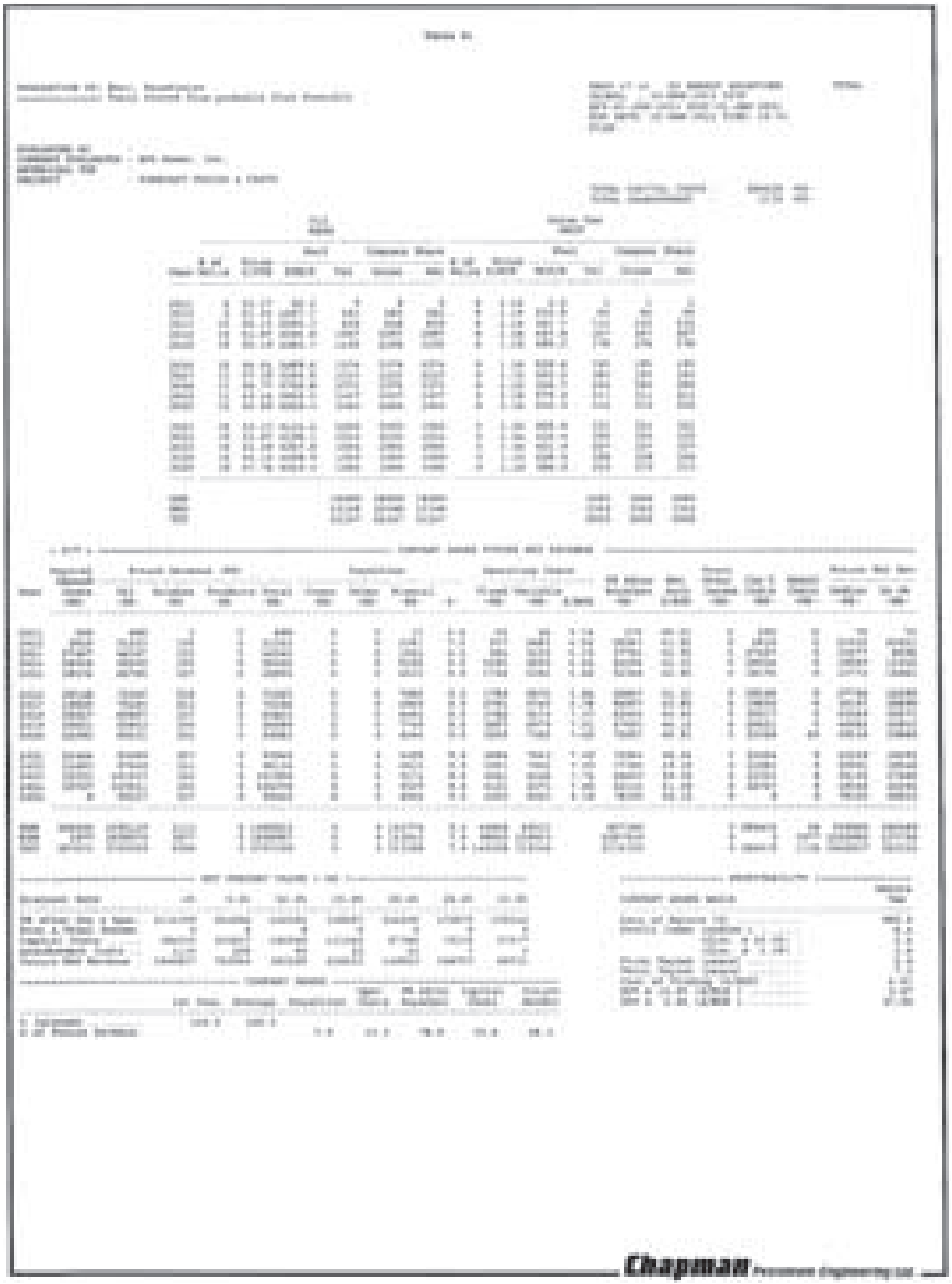
| Description | Year | Well Parameters | Capital Interest<br>% | Gross Capital<br>M$ | Net Capital<br>M$ |
|---|---|---|---|---|---|
| **Light & Medium Oil** | | | | | |
| Emir # 1 | | Oil well Abandonment and Restoration | 100.0000 | 50 | 50 |
| Emir # 2 | | Oil well Abandonment and Restoration | 100.0000 | 50 | 50 |
| Emir # 6 | | Oil well Abandonment and Restoration | 100.0000 | 50 | 50 |
| Twelve Adjacent Locations | | Oil wells Abandonment and Restoration | 100.0000 | 600 | 600 |
| Sixteen Step-out locations | | Oil wells Abandonment and Restoration | 100.0000 | 800 | 800 |
| | | **Total Abandonment and Restoration** | | **1,550** | **1,550** |



Chapman Petroleum Engineering Ltd.







**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**KARIMAN FIELD**

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Economics

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c) Kariman-3

d) Kariman-4

e) Kariman-5

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i) Kariman-10

j) Kariman-11

Table 2: Summary of Gross Reserves

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b) Kariman-2, Middle Triassic T2

c) Kariman-3, Middle Triassic T2

d) Kariman-4, Middle Triassic T2

e) Kariman-5, Middle Triassic T2

f) Kariman-6, Middle Triassic T2

g) Kariman-7, Middle Triassic T2

h) Kariman-8, Middle Triassic T2

i) Kariman-10, Middle Triassic T2

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k) Group Production Plot, Middle Triassic T2

Table 3: Summary of Anticipated Capital Expenditures

e) Development

f) Abandonment and Restoration

Table 4: Economic Summary

Consolidated Cash Flows

a) Total Proved Developed Producing

b) Total Proved Developed

c) Total Proved Plus Probable

d) Total Proved Plus Probable Plus Possible

**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**KARIMAN FIELD**

**DISCUSSION**

**Ownership**

The Company owns a 100 percent working interest in a "License" and "Exploration Contract" referred to as the ADEK Block which is located onshore in Kazakhstan in the Mangistau Oblast, approximately 50 kilometers from Aktau in the Republic of Kazakhstan (ROK).

The License originated in 1999 and the Exploration Contract was entered into on June 9, 2000 by a preceding company. The License and Contract Area were assigned to the Company on September 23, 2002.

The License and Exploration Contract granted the right to engage in exploration and development activities on the block. Originally the Exploration contract had a five year term but it has since been extended and now expires on January 9, 2013

The terms of the extension require minimum capital expenditures of $7,000,000 in 2004, $9,300,000 in 2005 and $5,000,000 in 2006, $6,790,000 from July 9, 2009 to December 31, 2009, $12,690,000 in 2010, all of which have been satisfied or even exceeded. And in addition, a minimum work program requires $27,240,000 in 2011 and $14,840,000 in 2012.

Once commercial production is established within the ADEK Block, the Company can make application for an "Exploration and Production Contract", the terms of which would be negotiated. The Company has the right to produce and sell oil under the Law of Petroleum for the term of the existing Exploration Contract at a royalty rates presented on Table 1. Provided that the Company can show evidence of a commercial discovery, has fulfilled its minimum work commitments and presents a development plan acceptable to the MEMR, there is no reason to believe the Exploration and Production Contract would not be granted.

Under the Production and Exploration contract royalty rates are negotiated and vary depending on the reserves and production rates. It is estimated that a royalty (Mineral Extraction Tax) rate of 9.9 percent would not be exceeded for this Block, with the anticipated reserves and production rates.

There are two general forms of production contracts in Kazakhstan, production-sharing contracts and tax and royalty based contracts. We have utilized a royalty based contract as mentioned.

Three fields already have been discovered on the ADEK Block which are on production from the Triassic formation. The Kariman Field has 2D seismic coverage from which, so far, four structures have been identified, which, if hydrocarbon productive, are expected to be analogous to the Dolinnoe Field.

The Kariman field, earlier known as an Extended Territory, is the one of the fields of the ADEK Block. The Company has drilled ten wells: Kariman-1, 2, 3, 4, 5, 6, 7, 8, 10 and 11. Currently, all wells are on production from one zone: wells 3 and 5 – from zone I, wells 2, 4, 6, 7, 8, 10 and 11 – from Zone II, and well 1 – from zone 4.

**Geology**

The ADEK Block is located at the edge of the Mangistau Ustyrt Central High which contains several producing oilfields in the area. The Kariman field which contains 64,247 acres (260 $km^2$) lies to the east adjacent to the original Block. The typical reservoir is a faulted anticline comprising several faulted blocks. The main producing horizon is the Middle Triassic carbonate.

Hydrocarbon traps are formed within the transition zone of the Beke – Bashkudsky high and Karagiin saddle.

The productive Middle Triassic consists of limestone in the upper portion and dolomite in the lower portion. In this area sandstone has been encountered in the Upper Triassic. The Triassic is located at a depth between 3,150 and 3,500 meters.

**Petrophysical Data and Analysis**

Russian GIS logs were run in the shallow formations and Baker Atlas logs over the Triassic.

The Chapman digital log analysis was made using HDS software over the Upper and Lower Triassic reservoirs.

For Kariman-7, The Gamma Ray was used as a shale indicator in the Dual water saturation equation with a carbonate selection for a, m, and n.

Sw cutoff was 40% along with a shale volume cutoff of 50%.

Net pay was identified in the Upper and Lower Triassic reservoirs as shown in the interpreted log.

**Reserves**

Proved developed producing oil reserves of 6,026 MSTB and marketable solution gas reserves of 2,010 MMscf have been estimated for the Middle Triassic T2 Zones (completed producing intervals) in existing wells based on reservoir parameters determined from digital log analysis and production data. Assumptions for the drainage area and recovery factor were made as follows: Kariman-1B – 50 acres and 20 percent; Kariman-2, 4, 5, 6 – 80 acres and 20 percent; Kariman-3A, 7, 8, 10 and 11 – 60 acres and 20 percent.

Additional proved developed non-producing oil reserves of 8,405 MSTB and marketable solution gas reserves of 3,058 MMscf have been estimated for additional Triassic intervals in wells Kariman-2, 3, 4, 5, 6, 6A, 7, 8, 10 and 11.

Probable developed oil reserves of 14,606 MSTB and marketable solution gas reserves of 4,907 MMscf have been assigned to existing wells for producing and non-producing intervals.

Marketable solution gas reserves have been estimated for existing wells based on each well's actual gas-oil ratio as presented in Table 2.

Probable undeveloped oil reserves of 5,573 MSTB have been estimated for four locations directly adjacent to wells Kariman-4 and 5 based on the reservoir parameters, drainage areas and recovery factors of these wells.

Probable undeveloped marketable solution gas reserves of 3,382 MMscf have been assigned to four adjacent probable locations based on the gas-oil ratio of wells Kariman-4 and 5.

Possible oil reserves of 4,859 MSTB have been estimated for one interval in well Kariman-3A and six adjacent locations based on analogy to the adjacent locations and the wells Kariman-4 and 5 based on reservoir parameters, drainage area and a recovery factor of these wells and locations.

Possible marketable solution gas reserves of 3,106 MMscf have been estimated for well Kariman-3A and six adjacent locations based on the gas-oil ratio wells Kariman-3, 4 and 5.

A summary of the reserves for this area is presented in Table 2.

**Production**

Well Kariman-1 Sidetrack B is currently producing at a rate of 468 STB/d from three zones, but after workover and completing of additional intervals we assume that is will produce up to 610 STB/d.

Well Kariman-2 commenced production during early 2007 at an initial rate of up to 2,000 STB/d and is currently producing at a rate of 554 STB/d with a gas-oil ratio of 315 scf/STB.

Well Kariman-3 Sidetrack A was drilled and placed on production in 2010, and is currently producing at a rate of 145 STB/d from two zones.

Well Kariman-4 is currently producing at a rate of 85 STB/d. This well was placed on production in August 2007 at an initial rate of 1,600 STB/d.

Well Kariman-5 is currently producing at a rate of 47 STB/d, but after workover and completing of additional intervals we assume that is will produce up to 550 STB/d. The well commenced production in January 2008 with an initial rate of 210 STB/d.

Well Kariman-6 Sidetrack A was drilled in 2010 and is expected to be placed on production at 200 STB/d from only one zone.

Well Kariman-7 commenced production in April 2008 at an initial rate of 800 STB/d and is currently shut-in for re-work and stimulation. It is planned to be placed on production in the first half of 2011 at a rate of 400 STB/d from two zones.

Well Kariman-8 commenced production in June 2008 at an initial rate of 400 STB/d and is currently producing at a rate of 206 STB/d from only one zone.

Well Kariman-10 commenced production in June 2008 at an initial rate of 420 STB/d and is currently producing at a rate of 131 STB/d from only one zone, but after workover and completing of additional intervals we assume that is will produce up to 600 STB/d.

Well Kariman-11 commenced production in January 2009 at an initial rate of 220 STB/d and is currently producing at a rate of 60 STB/d.

Additional zones in all existing wells are expected to be completed and placed on production by January 2012. Rates for the additional zones are shown in Table 2.

Four probable locations have been anticipated to commence production by January 2015 at a total initial rate of 2,100 STB/d.

Two possible locations have been anticipated to commence production by January 2017 at a total initial rate of 900 STB/d.

These initial rates have been based on the existing wells production performance analysis.

Production history graphs for individual wells and the Group Production Plot are presented in Figures 3a through 3k.

**Product Prices**

The Company has secured an export permit for oil sales which allows all of the Company's production to be exported. During the exploration stage exports are subject to "export rent tax" (ERT), which would be until January 9, 2013 with the expected extension in the exploration license. During this period the ERT is based on the current Tax Low of ROK and its values are presents in the Attachment 1. Exported oil is exempt from VAT.

A forecast price used for this project is based on the Chapman's forecast utilizing Forecast Brent crude price less $16.37/STB (transportation discount), export duty of $5.20/STB, ERT (values are presented in the Attachment 1), domestic price of $26.72/STB (before VAT), VAT (12 percent) and an export/domestic sales split of 90/10 percent for the first three years and 80/20 percent thereafter.

A natural gas price of $1.16/Mscf has been utilized for solution gas sales and assumed to be constant throughout the report.

**Capital Expenditures**

Total capital expenditures of $73,600,000 have been estimated for the development of the proved, probable and possible reserves in this field.

Detailed brake down of the capital expenses required for full development of the assigned reserves is presented in Table 3a.

Total abandonment and restoration costs (net of salvages) of $900,000 ($50,000 per well) have been estimated for this property as presented in Table 3b.

**Operating Costs**

Field operating costs of $8,850/well/month (fixed), $4.15/STB, and $0.15/Mscf have been estimated for this project, based on field estimates provided by the Company, which we consider to be reasonable.

**Economics**

The economic analysis performed for this evaluation, presented here, reflects future cash flows from this property before consideration of income taxes and other taxes which apply under the "royalty and tax contract".

The cash flow forecasts have been prepared under a "forecast prices and costs" assumption based on Chapman Petroleum Engineering price forecast.

A summary of the economic results are presented in Table 4 and the consolidated cash flows forecasts are presented in Tables 4a through 4d.

## Table 1

## Schedule of Lands, Interests and Royalty Burdens
## January 1, 2011

## BMB Munai, Inc.

## Kariman, Republic of Kazakhstan

| Description | Rights Owned | Gross Acres | Appraised Interest | | Royalty Burdens | |
|---|---|---|---|---|---|---|
| | | | Working | Royalty | Basic | Overriding |
| | | % | % | % | % | |
| License AI No.1552 & Contract No.482 | A | N/A | 100.0000 | – | 1 | – |

*General Notes:*

1 According to the New Tax Law of ROK:

| Annual Production | | Royalty (Mineral Extraction Tax) for OIL, % | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011-2012 | | | 2013 | | | 2014 and after | | |
| tons | MSTB | Export | Domestic | Blend | Export | Domestic | Blend | Export | Domestic | Blend |
| up to 250,000 | up to 1,964 | 5.00 | 2.50 | **4.75** | 6.00 | 3.00 | **5.70** | 7.00 | 3.50 | **6.30** |
| up to 500,000 | up to 3,928 | 7.00 | 3.50 | **6.65** | 8.00 | 4.00 | **7.60** | 9.00 | 4.50 | **8.10** |
| up to 1,000,000 | up to 7,856 | 8.00 | 4.00 | **7.60** | 9.00 | 4.50 | **8.55** | 10.00 | 5.00 | **9.00** |
| up to 2,000,000 | up to 15,711 | 9.00 | 4.50 | **8.55** | 10.00 | 5.00 | **9.50** | 11.00 | 5.50 | **9.90** |
| up to 3,000,000 | up to 23,567 | 10.00 | 5.00 | **9.50** | 11.00 | 5.50 | **10.45** | 12.00 | 6.00 | **10.80** |
| up to 4,000,000 | up to 31,423 | 11.00 | 5.50 | **10.45** | 12.00 | 6.00 | **11.40** | 13.00 | 6.50 | **11.70** |
| up to 5,000,000 | up to 39,278 | 12.00 | 6.00 | **11.40** | 13.00 | 6.50 | **12.35** | 14.00 | 7.00 | **12.60** |
| up to 7,000,000 | up to 54,990 | 13.00 | 6.50 | **12.35** | 14.00 | 7.00 | **13.30** | 15.00 | 7.50 | **13.50** |
| up to 10,000,000 | up to 78,557 | 15.00 | 7.50 | **14.25** | 16.00 | 8.00 | **15.20** | 17.00 | 8.50 | **15.30** |
| over 10,000,000 | over 78,558 | 18.00 | 9.00 | **17.10** | 19.00 | 9.50 | **18.05** | 20.00 | 10.00 | **18.00** |

2011-2013 – production split will be 90/10 (90 percent of production – for export and 10 percent for domestic sales)

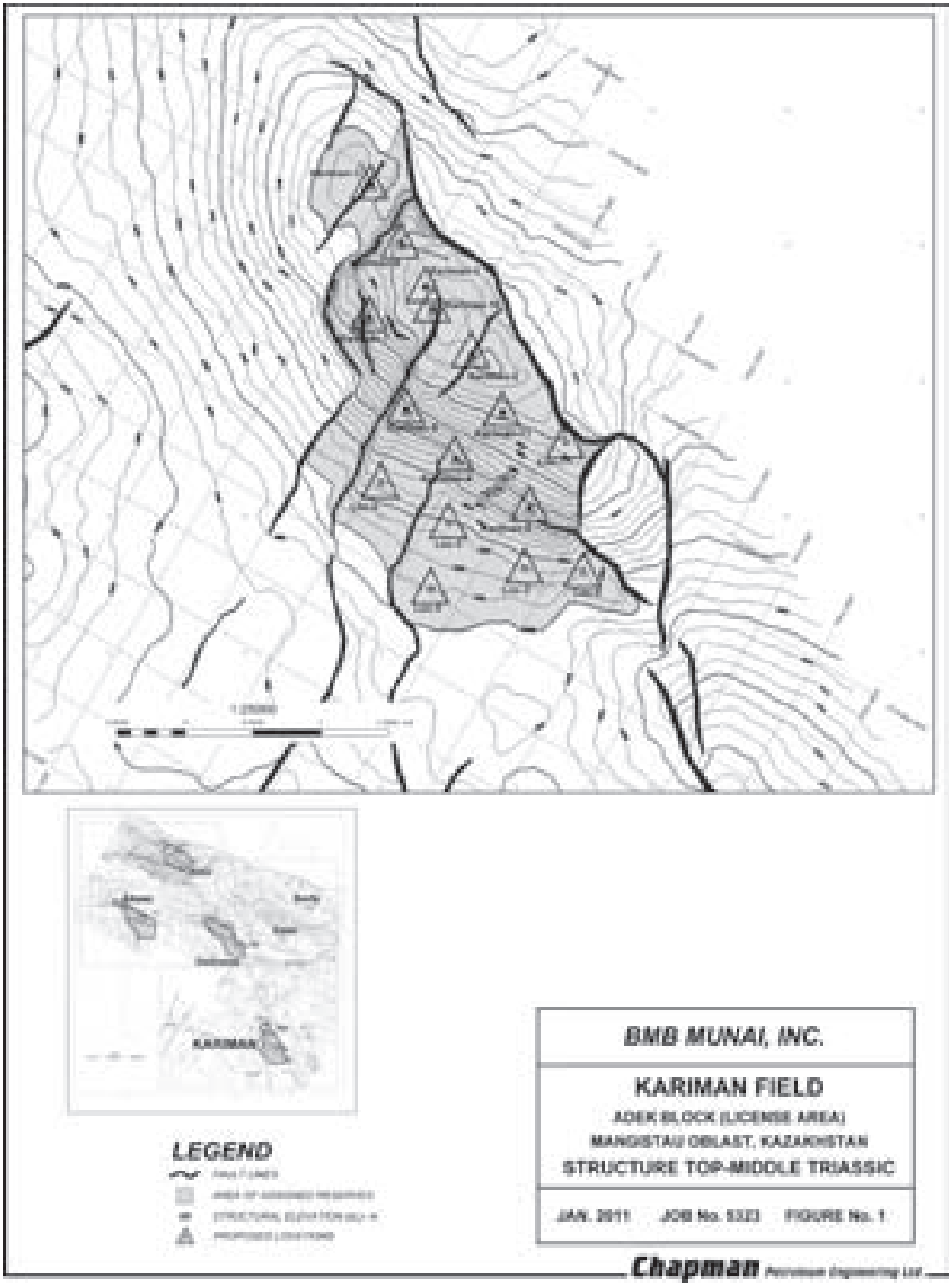
after 2013 – production split will be 80/20 (80 percent of production – for export and 20 percent for domestic sales)

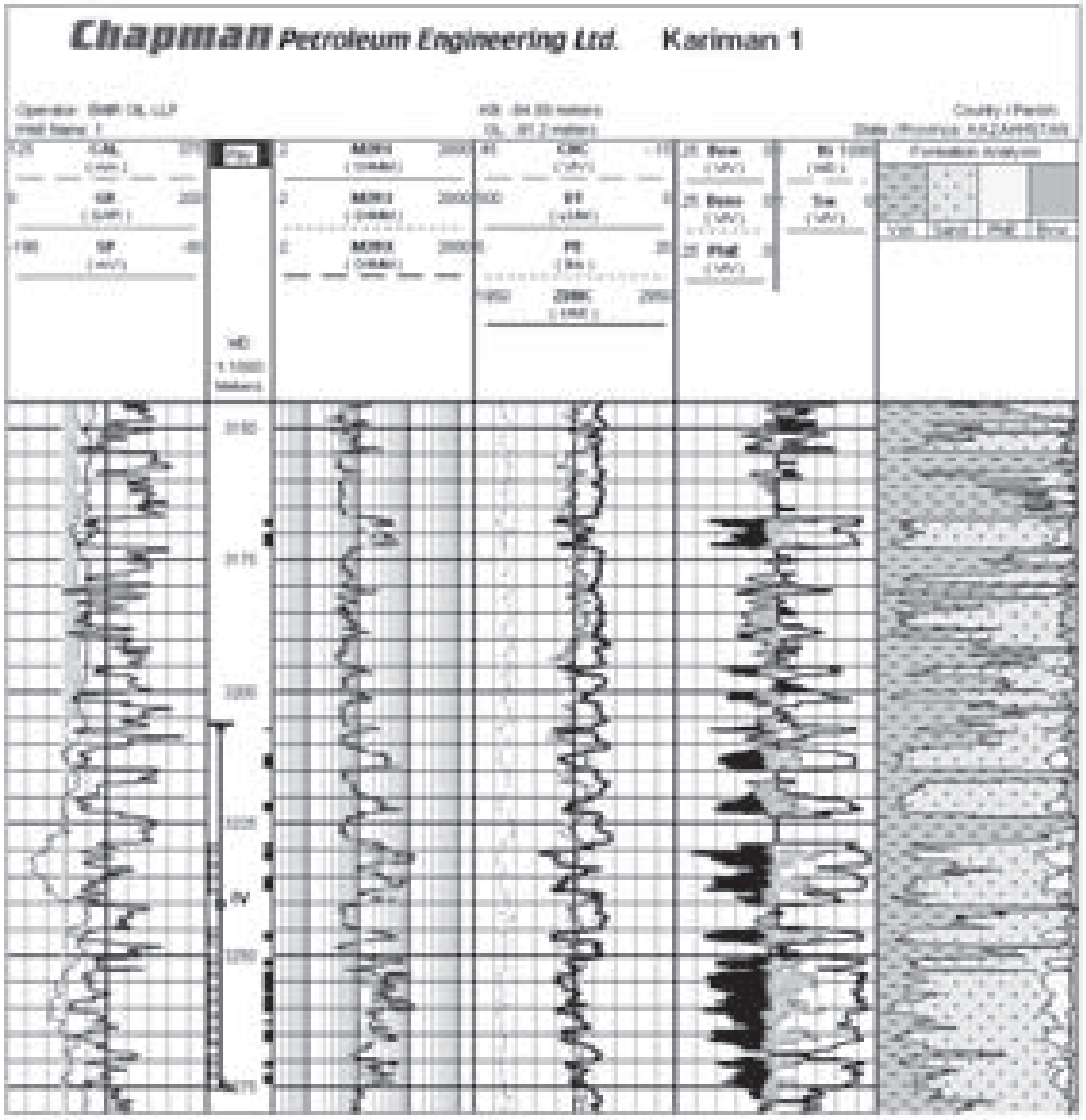
| Annual Production | | Royalty (Mineral Extraction Tax) for GAS, % | |
|---|---|---|---|
| $10^6$ $m^3$ | MMscf | Export | Domestic |
| up to 1000 | up to 35,490 | 10.00 | 0.50 |
| up to 2000 | up to 70,980 | 10.00 | 1.00 |
| over 2000 | over 70,980 | 10.00 | 1.50 |

| Corporate Income Tax | |
|---|---|
| Year | Rate, % |
| 2011-2012 | 20.00 |
| 2013 | 17.50 |
| 2014 and after | 15.00 |

*Rights Owned:*

A Kariman Field located in blocks XXXVI-11-D(partially), E(partially).


KARIMAN
LEGEND
BMB MUNAI, INC.
KARIMAN FIELD
ADEK BLOCK (LICENSE AREA)
MANGISTAU OBLAST, KAZAKHSTAN
STRUCTURE TOP-MIDDLE TRIASSIC
JAN. 2011 JOB No. 5323 FIGURE No. 1
Chapman Petroleum Engineering Ltd

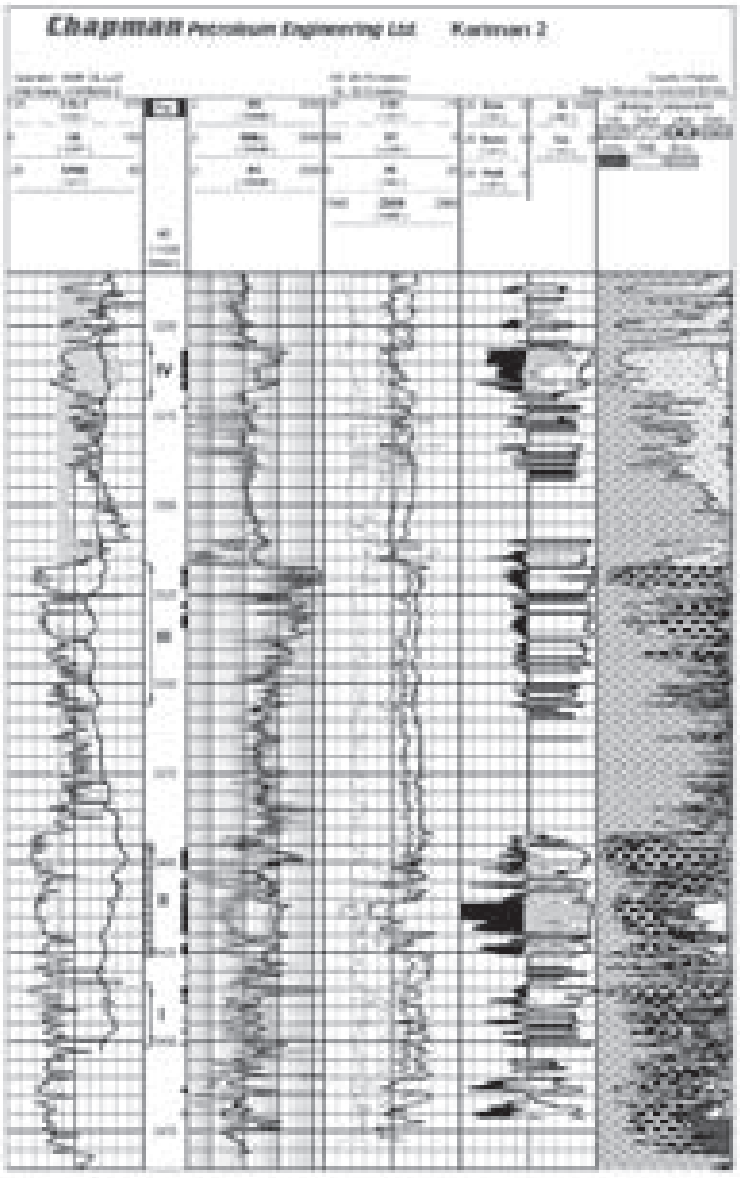



BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
KARIMAN 1
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2a

Chapman Petroleum Engineering Ltd.

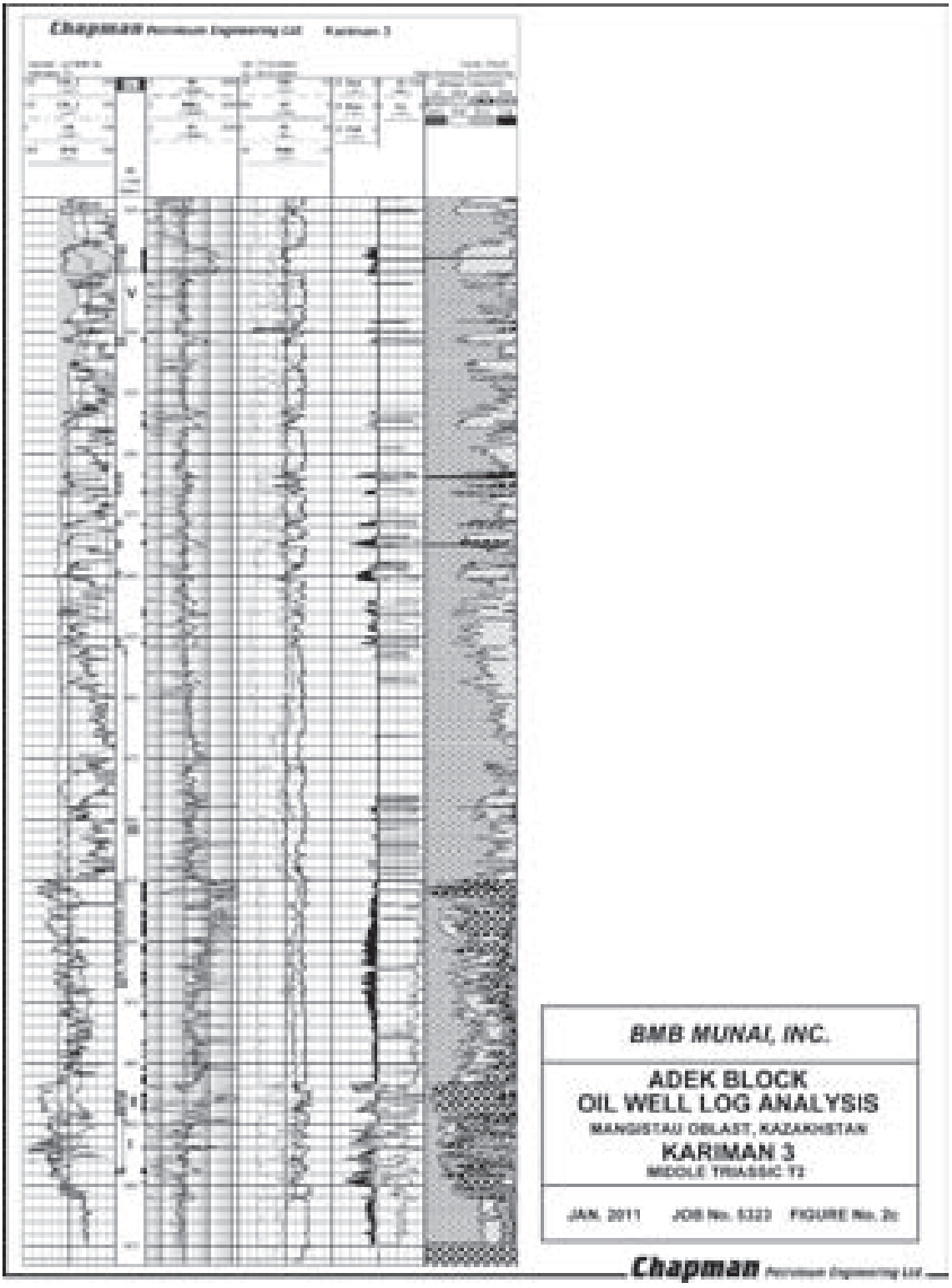


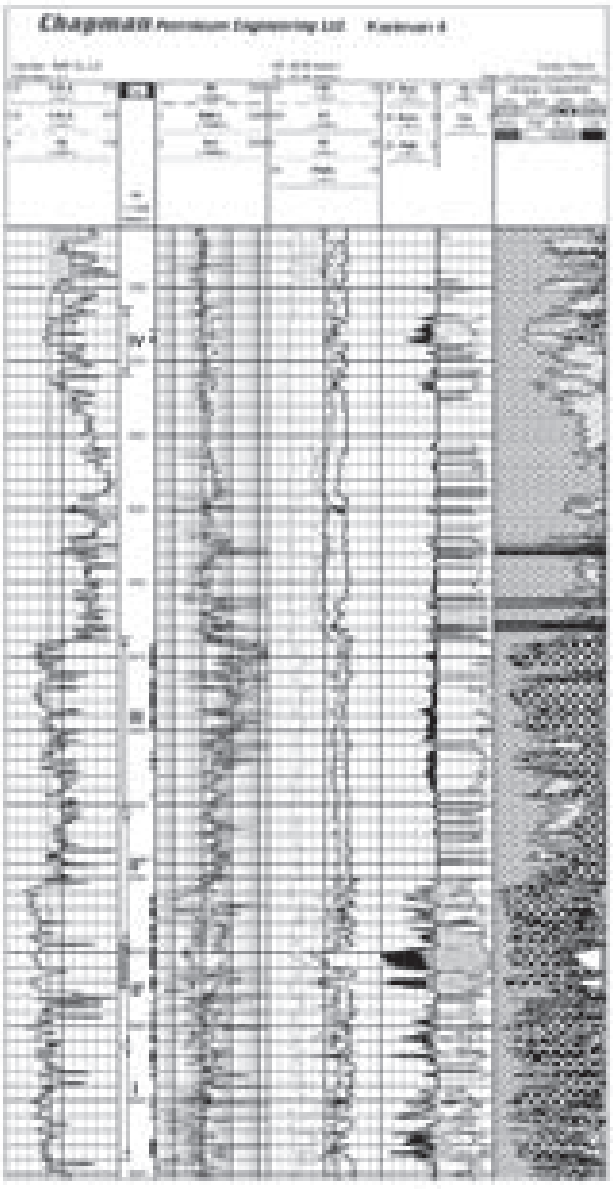

BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
KARIMAN 2
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 3b

Chapman Petroleum Engineering Ltd.


Chapman Petroleum Engineering Ltd.
BMB MUNAI, INC.
ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
KARIMAN 3
MIDDLE TRIASSIC T2
JAN. 2011
JOB No. 5323
FIGURE No. 3c
Chapman Petroleum Engineering Ltd.

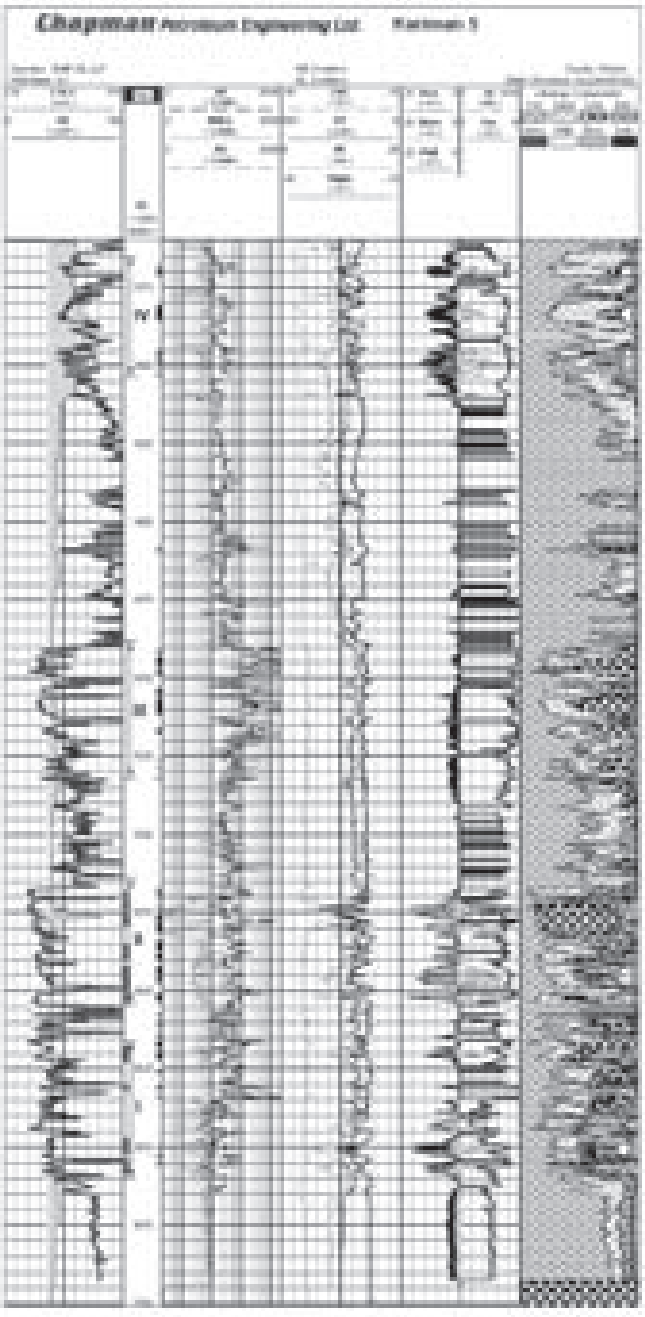


**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**KARIMAN 4**
MIDDLE TRIASSIC T2

JAN. 2011 JOB No.5323 FIGURE No. 2d

Chapman Petroleum Engineering Ltd

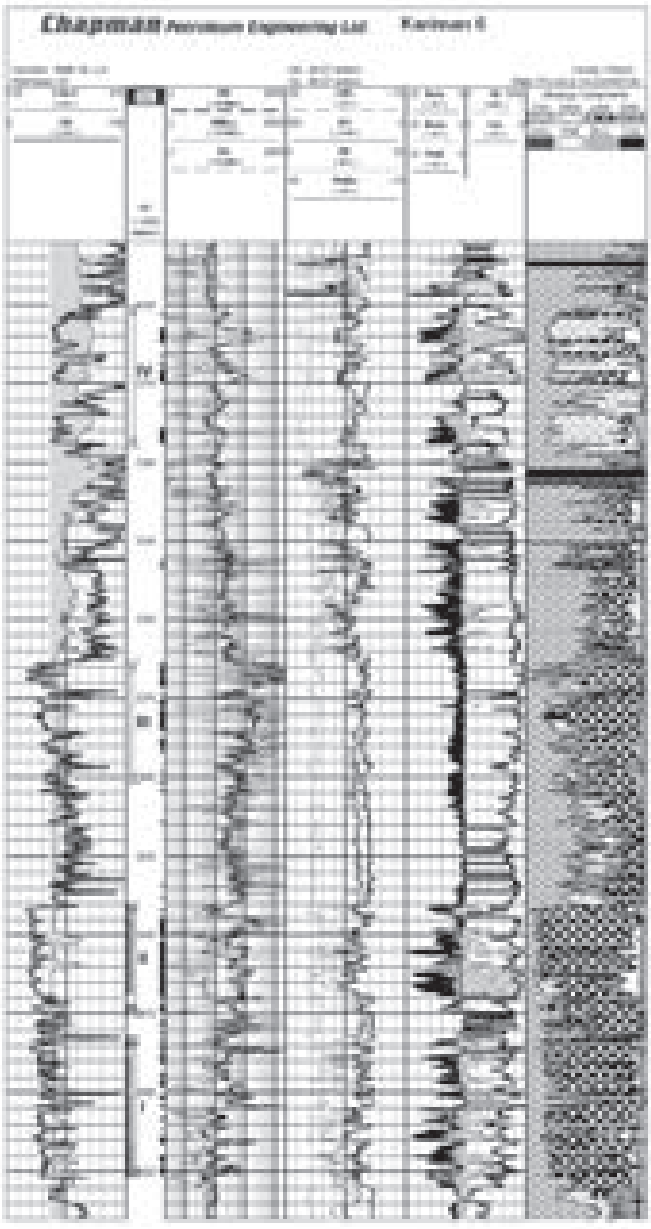



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**KARIMAN 5**
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2e

Chapman Petroleum Engineering Ltd.

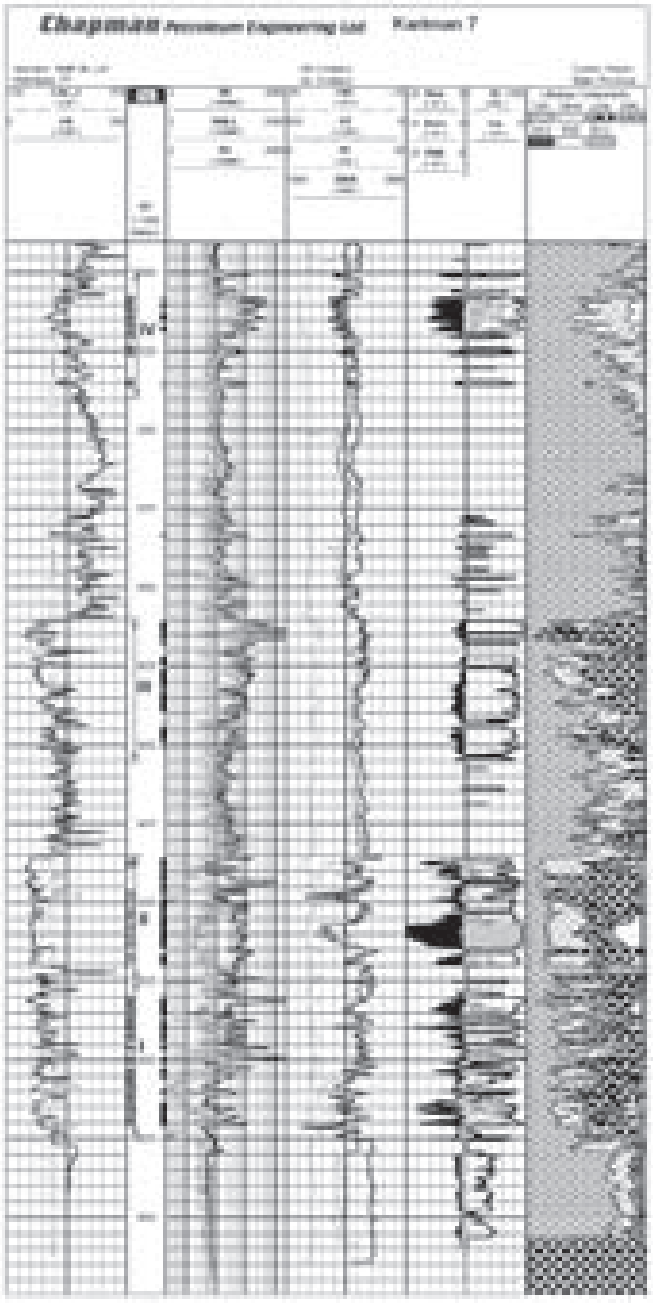



BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
KARIMAN 6
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5333 FIGURE No. 2f

Chapman Petroleum Engineering Ltd

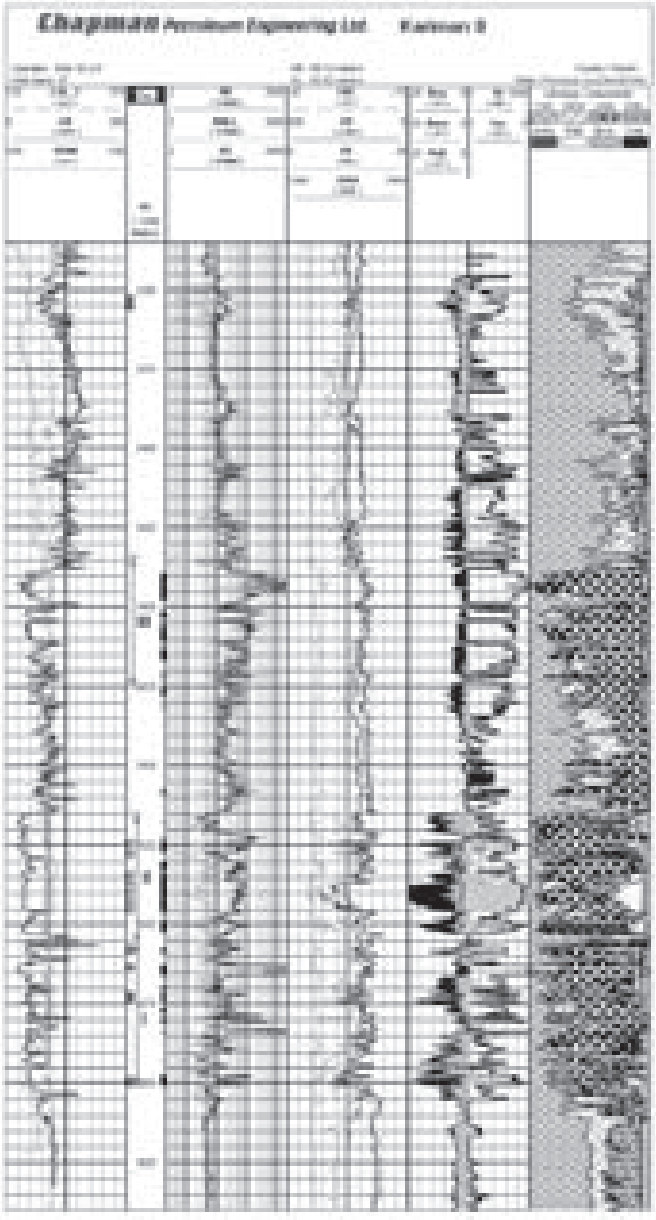



BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
KARIMAN 7
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2g

Chapman Petroleum Engineering Ltd

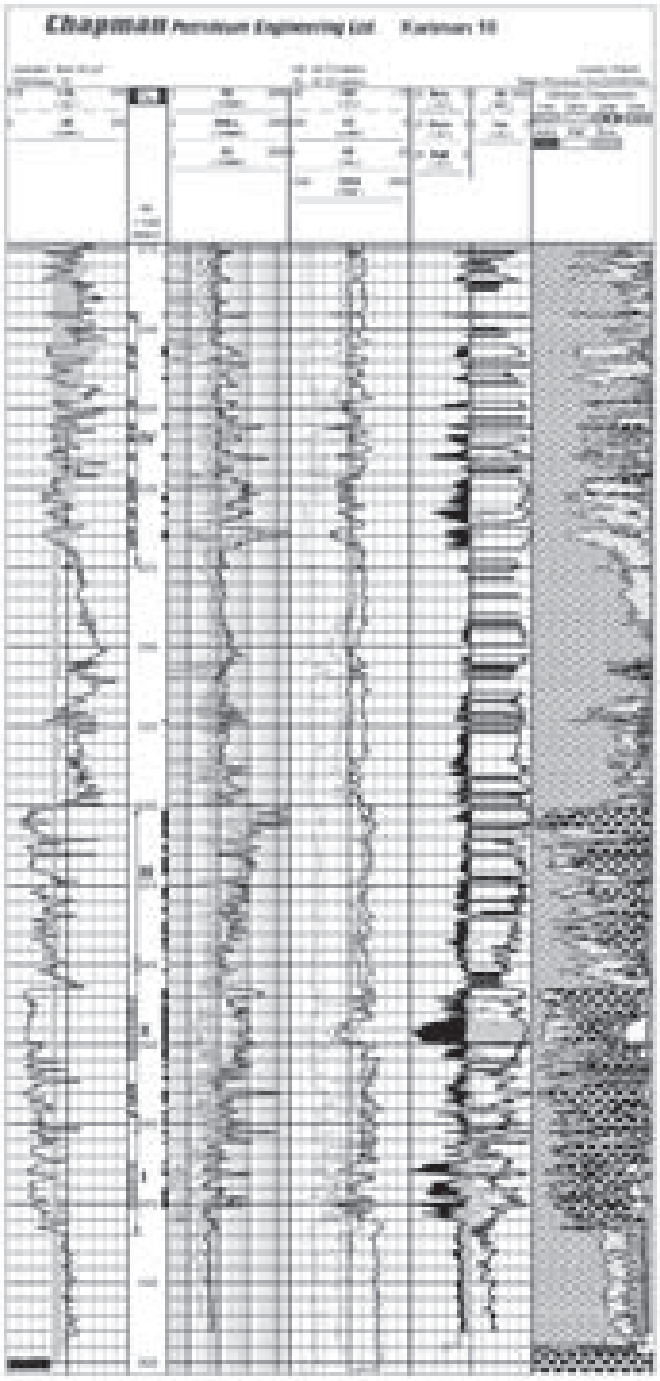



**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**KARIMAN 8**
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5123 FIGURE No. 2h

Chapman Petroleum Engineering Ltd.

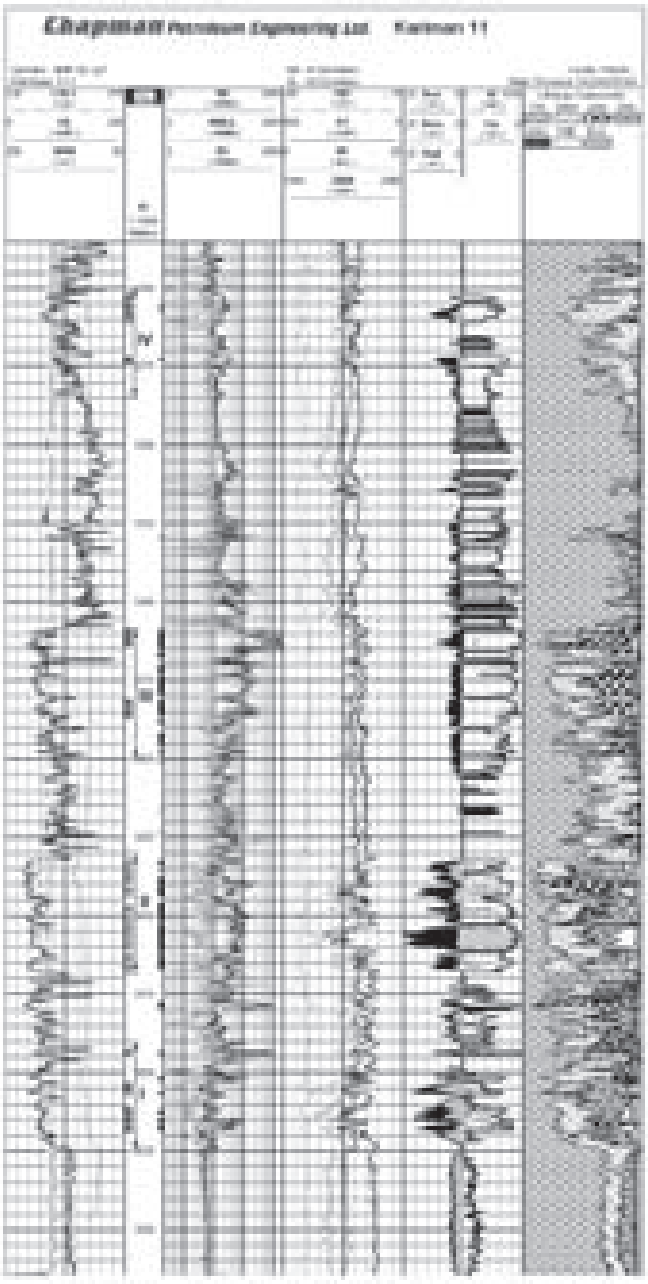



BMB MUNAI, INC.

ADEK BLOCK
OIL WELL LOG ANALYSIS
MANGISTAU OBLAST, KAZAKHSTAN
KARIMAN 10
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 6323 FIGURE No. 31

Chapman Petroleum Engineering Ltd.




**BMB MUNAI, INC.**

**ADEK BLOCK**
**OIL WELL LOG ANALYSIS**
MANGISTAU OBLAST, KAZAKHSTAN
**KARIMAN 11**
MIDDLE TRIASSIC T2

JAN. 2011 JOB No. 5323 FIGURE No. 2

Chapman Petroleum Engineering Ltd.

## Table 2

## Summary of Gross Reserves
## January 1, 2011

## BMB Munai, Inc.

## Kariman, Republic of Kazakhstan

| Description | | Current or Initial Rate *STB/d* | | API Gravity *(Deg)* | Ultimate ROIP *(MSTB)* | Cumulative Production *(MSTB)* | Remaining ROIP *(MSTB)* |
|---|---|---|---|---|---|---|---|
| **LIGHT & MEDIUM OIL** | | | | | | | |
| **Proved Developed Producing** | | | | | | | |
| Kariman-1 | | | | | | | |
| Sidetrack B | Middle Triassic T2 (Zones IV, II & I) | 468 | | 36 | 2,211 | 81 | 2,129 |
| Kariman-2 | Middle Triassic T2 (Zone II) | 554 | | 36 | 1,512 | 1,047 | 465 |
| Kariman-3 | | | | | | | |
| Sidetrack A | Middle Triassic T2 (Zones II & I) | 145 | | 36 | 243 | 20 | 224 |
| Kariman-4 | Middle Triassic T2 (Zone II') | 85 | | 36 | 971 | 409 | 562 |
| Kariman-5 | Middle Triassic T2 (Zone IV) | 47 | | 36 | 348 | 1 | 347 |
| Kariman-8 | Middle Triassic T2 (Zone II) | 206 | | 36 | 721 | 324 | 397 |
| Kariman-10 | Middle Triassic T2 (Zone II) | 131 | | 36 | 977 | 99 | 878 |
| Kariman-11 | Middle Triassic T2 (Zone II) | 60 | | 36 | 1,174 | 150 | 1,024 |
| | **Total Proved Develop Producing** | **1,696** | | | **8,158** | **2,132** | **6,026** |
| **Proved Developed Non-Producing** | | | | | | | |
| Kariman-2 | Middle Triassic T2 (Zones IV & I) | 300 | | 36 | 576 | 0 | 576 |
| Kariman-3 | Middle Triassic T2 (Zone V) | 100 | | 36 | 136 | 2 | 134 |
| Kariman-4 | Middle Triassic T2 (Zones IV, II" & I) | 600 | | 36 | 1,080 | 0 | 1,080 |
| Kariman-5 | Middle Triassic T2 (Zones II & I) | 400 | | 36 | 1,316 | 47 | 1,269 |
| Kariman-6 | | | | | | | |
| Sidetrack A | Middle Triassic T2 (Zone IV) | 200 | | 36 | 795 | 0 | 795 |
| Kariman-6 | Middle Triassic T2 (Zones II & I) | 500 | | 36 | 2,008 | 315 | 1,693 |
| Kariman-7 | Middle Triassic T2 (Zones II & I) | 400 | | 36 | 1,874 | 297 | 1,577 |
| Kariman-8 | Middle Triassic T2 (Zone I) | 100 | | 36 | 276 | 0 | 276 |
| Kariman-10 | Middle Triassic T2 (Zones IV & I) | 400 | | 36 | 645 | 36 | 609 |
| Kariman-11 | Middle Triassic T2 (Zones IV & I) | 300 | | 36 | 396 | 0 | 396 |
| | **Total Proved Developed Non-Producing** | **3,300** | | | **9,102** | **697** | **8,405** |
| | **Total Proved** | **4,996** | | | **17,260** | **2,829** | **14,431** |
| **Probable** | | | | | | | |
| **Probable Developed Producing** | | | | | | | |
| Kariman-1 | | | | | | | |
| Sidetrack B | Middle Triassic T2 (Zones IV, II & I) | 150 | (incr.) | 36 | 1,309 | 0 | 1,309 |
| Kariman-2 | Middle Triassic T2 (Zone II) | 50 | (incr.) | 36 | 756 | 0 | 756 |
| Kariman-3 | | | | | | | |
| Sidetrack A | Middle Triassic T2 (Zones II & I) | 100 | (incr.) | 36 | 104 | 0 | 104 |
| Kariman-4 | Middle Triassic T2 (Zone II') | 100 | (incr.) | 36 | 412 | 0 | 412 |
| Kariman-5 | Middle Triassic T2 (Zone IV) | 50 | (incr.) | 36 | 159 | 0 | 159 |
| Kariman-8 | Middle Triassic T2 (Zone II) | 150 | (incr.) | 36 | 451 | 0 | 451 |
| Kariman-10 | Middle Triassic T2 (Zone II) | 150 | (incr.) | 36 | 332 | 0 | 332 |
| Kariman-11 | Middle Triassic T2 (Zone II) | 200 | (incr.) | 36 | 587 | 0 | 587 |
| | **Total Probable Developed Producing** | **950** | | **288** | **4,110** | **0** | **4,109** |

| Description | | Current or Initial Rate *STB/d* | | API Gravity *(Deg)* | Ultimate ROIP *(MSTB)* | Cumulative Production *(MSTB)* | Remaining ROIP *(MSTB)* |
|---|---|---|---|---|---|---|---|
| **Probable Developed Non-Producing** | | | | | | | |
| Kariman-1 Sidetrack B | Middle Triassic T2 (Zone III) | 150 | | 36 | 427 | 0 | 427 |
| Kariman-2 | Middle Triassic T2 (Zones IV & I) | 100 | (incr.) | 36 | 288 | 0 | 288 |
| Kariman-2 | Middle Triassic T2 (Zone III) | 100 | | 36 | 409 | 0 | 409 |
| Kariman-3 | Middle Triassic T2 (Zone V) | 50 | (incr.) | 36 | 68 | 0 | 68 |
| Kariman-4 | Middle Triassic T2 (Zones IV, II" & I) | 300 | (incr.) | 36 | 540 | 0 | 540 |
| Kariman-4 | Middle Triassic T2 (Zone III) | 100 | | 36 | 839 | 0 | 839 |
| Kariman-5 | Middle Triassic T2 (Zone III) | 150 | | 36 | 323 | 0 | 323 |
| Kariman-5 | Middle Triassic T2 (Zones II & I) | 150 | (incr.) | 36 | 658 | 0 | 658 |
| Kariman-6 | Middle Triassic T2 (Zone III) | 100 | | 36 | 391 | 0 | 391 |
| Kariman-6 | Middle Triassic T2 (Zones II & I) | 300 | (incr.) | 36 | 1,004 | 0 | 1,004 |
| Kariman-6 Sidetrack A | Middle Triassic T2 (Zone IV) | 100 | (incr.) | 36 | 397 | 0 | 397 |
| Kariman-6 Sidetrack A | Middle Triassic T2 (Zones III & II) | 300 | | 37 | 475 | 0 | 475 |
| Kariman-7 | Middle Triassic T2 (Zone VI) | 100 | | 36 | 275 | 0 | 275 |
| Kariman-7 | Middle Triassic T2 (Zone III) | 100 | | 36 | 513 | 0 | 513 |
| Kariman-7 | Middle Triassic T2 (Zones II & I) | 300 | (incr.) | 36 | 1,223 | 0 | 1,223 |
| Kariman-8 | Middle Triassic T2 (Zone III) | 100 | | 36 | 498 | 0 | 498 |
| Kariman-8 | Middle Triassic T2 (Zone I) | 100 | (incr.) | 36 | 192 | 0 | 192 |
| Kariman-10 | Middle Triassic T2 (Zones IV & I) | 150 | (incr.) | 36 | 361 | 0 | 361 |
| Kariman-10 | Middle Triassic T2 (Zone III) | 100 | | 36 | 629 | 0 | 629 |
| Kariman-11 | Middle Triassic T2 (Zones IV & I) | 150 | (incr.) | 36 | 198 | 0 | 198 |
| Kariman-11 | Middle Triassic T2 (Zone III) | 100 | | 36 | 789 | 0 | 789 |
| | **Total Probable Developed Non-Producing** | **3,100** | | | **10,498** | **0** | **10,498** |
| | **Total Probable Developed** | **4,050** | | | **14,608** | **0** | **14,606** |
| **Probable Undeveloped** | | | | | | | |
| Location 1 | Middle Triassic T2 (Zones IV, II & I) | 450 | | 36 | 1,248 | 0 | 1,248 |
| Location 2 | Middle Triassic T2 (Zones IV, II & I) | 450 | | 36 | 1,248 | 0 | 1,248 |
| Location 3 | Middle Triassic T2 (Zones IV, II", II' & I) | 600 | | 36 | 1,538 | 0 | 1,538 |
| Location 4 | Middle Triassic T2 (Zones IV, II", II' & I) | 600 | | 36 | 1,538 | 0 | 1,538 |
| | **Total Probable Undeveloped** | **2,100** | | | **5,573** | **0** | **5,573** |
| | **Total Probable** | **6,150** | | | **20,180** | **0** | **20,179** |
| | **Total Proved Plus Probable** | **11,146** | | | **37,440** | **2,829** | **34,611** |
| **Possible** | | | | | | | |
| Kariman-3A | Middle Triassic T2 (Zone III) | 150 | | 36 | 620 | 0 | 620 |
| Location 1 | Middle Triassic T2 (Zone III) | 150 | | 36 | 242 | 0 | 242 |
| Location 2 | Middle Triassic T2 (Zone III) | 150 | | 36 | 242 | 0 | 242 |
| Location 3 | Middle Triassic T2 (Zone III) | 150 | | 36 | 630 | 0 | 630 |
| Location 4 | Middle Triassic T2 (Zone III) | 150 | | 36 | 630 | 0 | 630 |
| Location 5 | Middle Triassic T2 (Zones IV, II & I) | 450 | | 36 | 1,248 | 0 | 1,248 |
| Location 6 | Middle Triassic T2 (Zones IV, II & I) | 450 | | 36 | 1,248 | 0 | 1,248 |
| | **Total Possible** | **1,650** | | | **4,860** | **0** | **4,859** |
| | **Total Proved Plus Probable Plus Possible** | **12,796** | | | **42,300** | **2,829** | **39,470** |

| Description | | Current or Initial Rate *Mscf/d* | Ultimate RGIP *(MMscf)* | Cumulative Production *(MMscf)* | Remaining RGIP (raw) *(MMscf)* | Remaining RGIP (sales) *(MMscf)* | *Reference* | sloss *%* | NGL Ratio *Bbls/MMscf* | Sulphur Ratio *LT/MMscf* | GOR *Scf/STB* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **SOLUTION GAS** | | | | | | | | | | | |
| **Proved Developed Producing** | | | | | | | | | | | |
| Kariman-1 Sidetrack B | Middle Triassic T2 (Zones IV, II & I) | 131 | 619 | 23 | 596 | 554 | GOR=280 scf/STB | **7** | 0 | 0 | 280 |
| Kariman-2 | Middle Triassic T2 (Zone II) | 175 | 476 | 330 | 147 | 136 | GOR=315 scf/STB | **7** | 0 | 0 | 315 |
| Kariman-3 Sidetrack A | Middle Triassic T2 (Zones II & I) | 59 | 99 | 8 | 91 | 84 | GOR=406 scf/STB | **7** | 0 | 0 | 406 |
| Kariman-4 | Middle Triassic T2 (Zone II') | 44 | 505 | 213 | 292 | 272 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| Kariman-5 | Middle Triassic T2 (Zone IV) | 38 | 284 | 1 | 283 | 263 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Kariman-8 | Middle Triassic T2 (Zone II) | 68 | 239 | 107 | 132 | 122 | GOR=331 scf/STB | **7** | 0 | 0 | 331 |
| Kariman-10 | Middle Triassic T2 (Zone II) | 45 | 338 | 34 | 304 | 283 | GOR=346 scf/STB | **7** | 0 | 0 | 346 |
| Kariman-11 | Middle Triassic T2 (Zone II) | 19 | 364 | 46 | 317 | 295 | GOR=310 scf/STB | **7** | 0 | 0 | 310 |
| | **Total Proved Develop Producing** | **579** | **2,924** | **762** | **2,162** | **2,010** | | | | | |
| **Proved Developed Non-Producing** | | | | | | | | | | | |
| Kariman-2 | Middle Triassic T2 (Zones IV & I) | 95 | 181 | 0 | 181 | 169 | GOR=315 scf/STB | **7** | 0 | 0 | 315 |
| Kariman-3 | Middle Triassic T2 (Zone V) | 41 | 55 | 1 | 54 | 51 | GOR=406 scf/STB | **7** | 0 | 0 | 406 |
| Kariman-4 | Middle Triassic T2 (Zones IV, II" & I) | 312 | 561 | 0 | 561 | 522 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| Kariman-5 | Middle Triassic T2 (Zones II & I) | 326 | 1,074 | 38 | 1,036 | 963 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Kariman-6 Sidetrack A | Middle Triassic T2 (Zone IV) | 52 | 207 | 0 | 207 | 192 | GOR=260 scf/STB | **7** | 0 | 0 | 260 |
| Kariman-6 | Middle Triassic T2 (Zones II & I) | 130 | 522 | 82 | 440 | 409 | GOR=260 scf/STB | **7** | 0 | 0 | 260 |
| Kariman-7 | Middle Triassic T2 (Zones II & I) | 97 | 455 | 72 | 383 | 356 | GOR=243 scf/STB | **7** | 0 | 0 | 243 |
| Kariman-8 | Middle Triassic T2 (Zone I) | 33 | 91 | 0 | 91 | 85 | GOR=331 scf/STB | **7** | 0 | 0 | 331 |
| Kariman-10 | Middle Triassic T2 (Zones IV & I) | 138 | 223 | 12 | 211 | 196 | GOR=346 scf/STB | **7** | 0 | 0 | 346 |
| Kariman-11 | Middle Triassic T2 (Zones IV & I) | 93 | 123 | 0 | 123 | 114 | GOR=310 scf/STB | **7** | 0 | 0 | 310 |
| | **Total Proved Developed Non-Producing** | 1,317 | 3,494 | 206 | 3,288 | 3,058 | | | | | |
| | **Total Proved** | **1,896** | **6,418** | **968** | **5,449** | **5,068** | | | | | |

| Description | | Current or Initial Rate *Mscf/d* | Ultimate RGIP *(MMscf)* | Cumulative Production *(MMscf)* | Remaining RGIP (raw) *(MMscf)* | Remaining RGIP (sales) *(MMscf)* | *Reference* | sloss *%* | NGL Ratio *Bbls/MMscf* | Sulphur Ratio *LT/MMscf* | GOR *Scf/STB* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Probable** | | | | | | | | | | | |
| **Probable Developed Producing** | | | | | | | | | | | |
| Kariman-1 Sidetrack B | Middle Triassic T2 (Zones IV, II & I) | 42 | 367 | 0 | 367 | 341 | GOR=280 scf/STB | **7** | 0 | 0 | 280 |
| Kariman-2 | Middle Triassic T2 (Zone II) | 16 | 238 | 0 | 238 | 222 | GOR=315 scf/STB | **7** | 0 | 0 | 315 |
| Kariman-3 Sidetrack A | Middle Triassic T2 (Zones II & I) | 41 | 42 | 0 | 42 | 40 | GOR=406 scf/STB | **7** | 0 | 0 | 406 |
| Kariman-4 | Middle Triassic T2 (Zone II') | 52 | 214 | 0 | 214 | 199 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| Kariman-5 | Middle Triassic T2 (Zone IV) | 41 | 130 | 0 | 130 | 121 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Kariman-8 | Middle Triassic T2 (Zone II) | 50 | 149 | 0 | 149 | 139 | GOR=331 scf/STB | **7** | 0 | 0 | 331 |
| Kariman-10 | Middle Triassic T2 (Zone II) | 52 | 115 | 0 | 115 | 106 | GOR=346 scf/STB | **7** | 0 | 0 | 346 |
| Kariman-11 | Middle Triassic T2 (Zone II) | 62 | 182 | 0 | 182 | 169 | GOR=310 scf/STB | **7** | 0 | 0 | 310 |
| | **Total Probable Developed Producing** | **355** | **1,437** | **0** | **1,437** | **1,337** | | | | | |
| **Probable Developed Non-Producing** | | | | | | | | | | | |
| Kariman-1 Sidetrack B | Middle Triassic T2 (Zone III) | 42 | 120 | 0 | 120 | 111 | GOR=280 scf/STB | **7** | 0 | 0 | 280 |
| Kariman-2 | Middle Triassic T2 (Zones IV & I) | 32 | 91 | 0 | 91 | 84 | GOR=315 scf/STB | **7** | 0 | 0 | 315 |
| Kariman-2 | Middle Triassic T2 (Zone III) | 32 | 129 | 0 | 129 | 120 | GOR=315 scf/STB | **7** | 0 | 0 | 315 |
| Kariman-3 | Middle Triassic T2 (Zone V) | 20 | 28 | 0 | 28 | 25 | GOR=406 scf/STB | **7** | 0 | 0 | 406 |
| Kariman-4 | Middle Triassic T2 (Zones IV, II" & I) | 156 | 281 | 0 | 281 | 261 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| Kariman-4 | Middle Triassic T2 (Zone III) | 52 | 437 | 0 | 437 | 406 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| Kariman-5 | Middle Triassic T2 (Zone III) | 122 | 264 | 0 | 264 | 245 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Kariman-5 | Middle Triassic T2 (Zones II & I) | 122 | 537 | 0 | 537 | 499 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Kariman-6 | Middle Triassic T2 (Zone III) | 26 | 102 | 0 | 102 | 94 | GOR=260 scf/STB | **7** | 0 | 0 | 260 |
| Kariman-6 | Middle Triassic T2 (Zones II & I) | 78 | 261 | 0 | 261 | 243 | GOR=260 scf/STB | **7** | 0 | 0 | 260 |
| Kariman-6 Sidetrack A | Middle Triassic T2 (Zone IV) | 26 | 103 | 0 | 103 | 96 | GOR=260 scf/STB | **7** | 0 | 0 | 260 |
| Kariman-6 Sidetrack A | Middle Triassic T2 (Zones III & II) | 78 | 123 | 0 | 123 | 115 | GOR=260 scf/STB | **7** | 0 | 0 | 260 |
| Kariman-7 | Middle Triassic T2 (Zone VI) | 24 | 67 | 0 | 67 | 62 | GOR=243 scf/STB | **7** | 0 | 0 | 243 |
| Kariman-7 | Middle Triassic T2 (Zone III) | 24 | 125 | 0 | 125 | 116 | GOR=243 scf/STB | **7** | 0 | 0 | 243 |
| Kariman-7 | Middle Triassic T2 (Zones II & I) | 73 | 297 | 0 | 297 | 276 | GOR=243 scf/STB | **7** | 0 | 0 | 243 |
| Kariman-8 | Middle Triassic T2 (Zone III) | 33 | 165 | 0 | 165 | 153 | GOR=331 scf/STB | **7** | 0 | 0 | 331 |
| Kariman-8 | Middle Triassic T2 (Zone I) | 33 | 64 | 0 | 64 | 59 | GOR=331 scf/STB | **7** | 0 | 0 | 331 |
| Kariman-10 | Middle Triassic T2 (Zones IV & I) | 52 | 125 | 0 | 125 | 116 | GOR=346 scf/STB | **7** | 0 | 0 | 346 |
| Kariman-10 | Middle Triassic T2 (Zone III) | 35 | 218 | 0 | 218 | 202 | GOR=346 scf/STB | **7** | 0 | 0 | 346 |
| Kariman-11 | Middle Triassic T2 (Zones IV & I) | 47 | 61 | 0 | 61 | 57 | GOR=310 scf/STB | **7** | 0 | 0 | 310 |
| Kariman-11 | Middle Triassic T2 (Zone III) | 31 | 245 | 0 | 245 | 227 | GOR=310 scf/STB | **7** | 0 | 0 | 310 |
| | **Total Probable Developed Non-Producing** | **1,138** | **3,840** | **0** | **3,840** | **3,570** | | | | | |
| | **Total Probable Developed** | **1,847** | **6,714** | **0** | **6,714** | **4,907** | | | | | |

| Description | | Current or Initial Rate *Mscf/d* | Ultimate RGIP *(MMscf)* | Cumulative Production *(MMscf)* | Remaining RGIP (raw) *(MMscf)* | Remaining RGIP (sales) *(MMscf)* | *Reference* | sloss *%* | NGL Ratio *Bbls/MMscf* | Sulphur Ratio *LT/MMscf* | GOR *Scf/STB* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Probable Undeveloped** | | | | | | | | | | | |
| Location 1 | Middle Triassic T2 (Zones IV, II & I) | 367 | 1,018 | 0 | 1,018 | 947 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Location 2 | Middle Triassic T2 (Zones IV, II & I) | 367 | 1,018 | 0 | 1,018 | 947 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Location 3 | Middle Triassic T2 (Zones IV, II", II' & I) | 312 | 800 | 0 | 800 | 744 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| Location 4 | Middle Triassic T2 (Zones IV, II", II' & I) | 312 | 800 | 0 | 800 | 744 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| | **Total Probable Undeveloped** | **1,358** | **3,637** | **0** | **3,637** | **3,382** | | | | | |
| | **Total Probable** | **3,206** | **10,350** | **0** | **10,351** | **8,289** | | | | | |
| | **Total Proved Plus Probable** | **5,102** | **16,769** | **968** | **15,800** | **13,357** | | | | | |
| **Possible** | | | | | | | | | | | |
| Kariman-3 | Middle Triassic T2 (Zone III) | 61 | 252 | 0 | 252 | 234 | GOR=406 scf/STB | **7** | 0 | 0 | 406 |
| Location 1 | Middle Triassic T2 (Zone III) | 122 | 198 | 0 | 198 | 184 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Location 2 | Middle Triassic T2 (Zone III) | 122 | 198 | 0 | 198 | 184 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Location 3 | Middle Triassic T2 (Zone III) | 78 | 327 | 0 | 327 | 304 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| Location 4 | Middle Triassic T2 (Zone III) | 78 | 327 | 0 | 327 | 304 | GOR=520 scf/STB | **7** | 0 | 0 | 520 |
| Location 5 | Middle Triassic T2 (Zones IV, II & I) | 367 | 1,018 | 0 | 1,018 | 947 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| Location 6 | Middle Triassic T2 (Zones IV, II & I) | 367 | 1,018 | 0 | 1,018 | 947 | GOR=816 scf/STB | **7** | 0 | 0 | 816 |
| | **Total Possible** | **1,196** | **3,338** | **0** | **3,338** | **3,106** | | | | | |
| | **Total Proved Plus Probable Plus Possible** | **6,298** | **20,107** | **968** | **19,139** | **16,463** | | | | | |

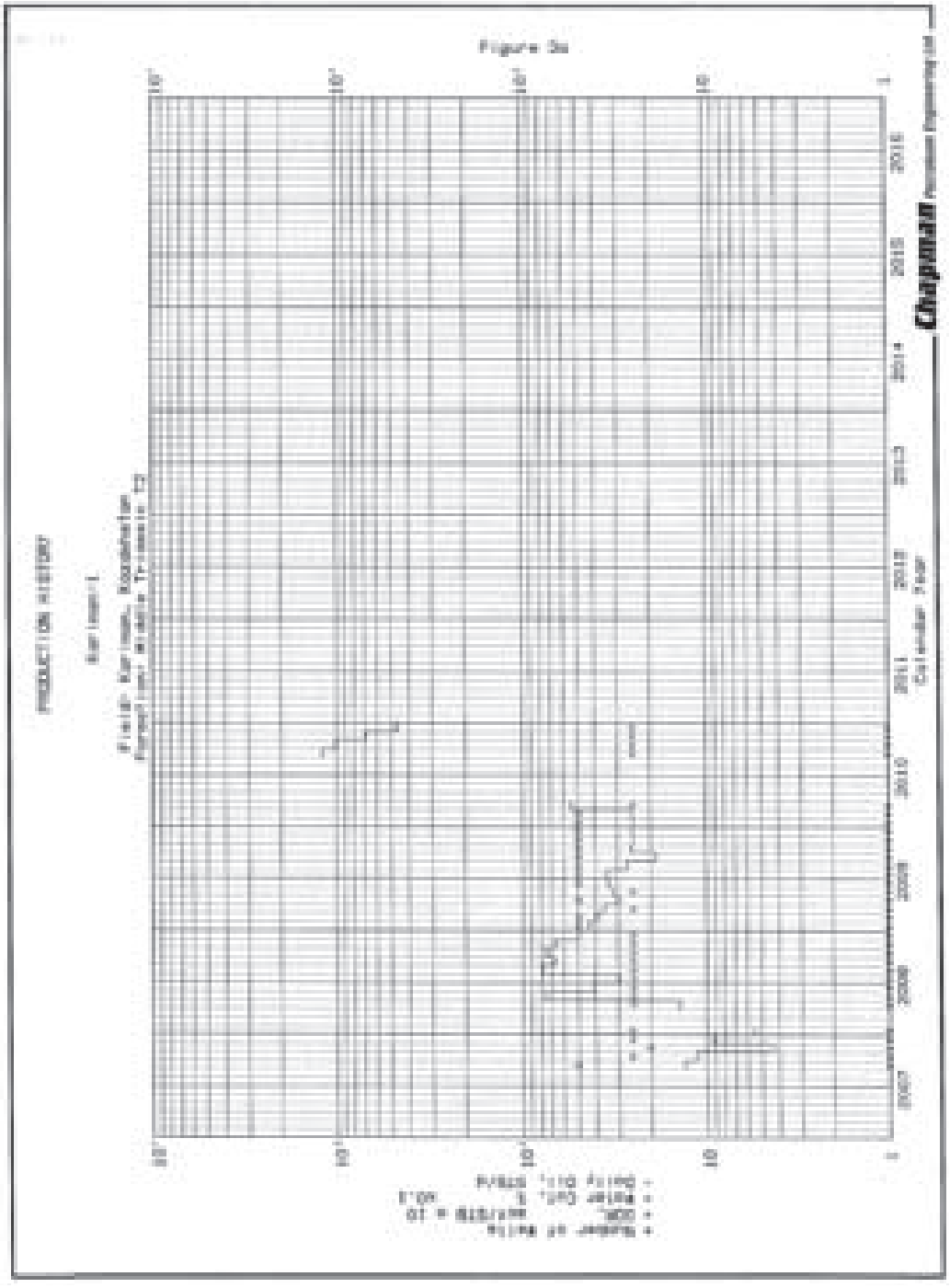


Figure 3b
PRODUCTION HISTORY
Kerlikan-2
Chapman

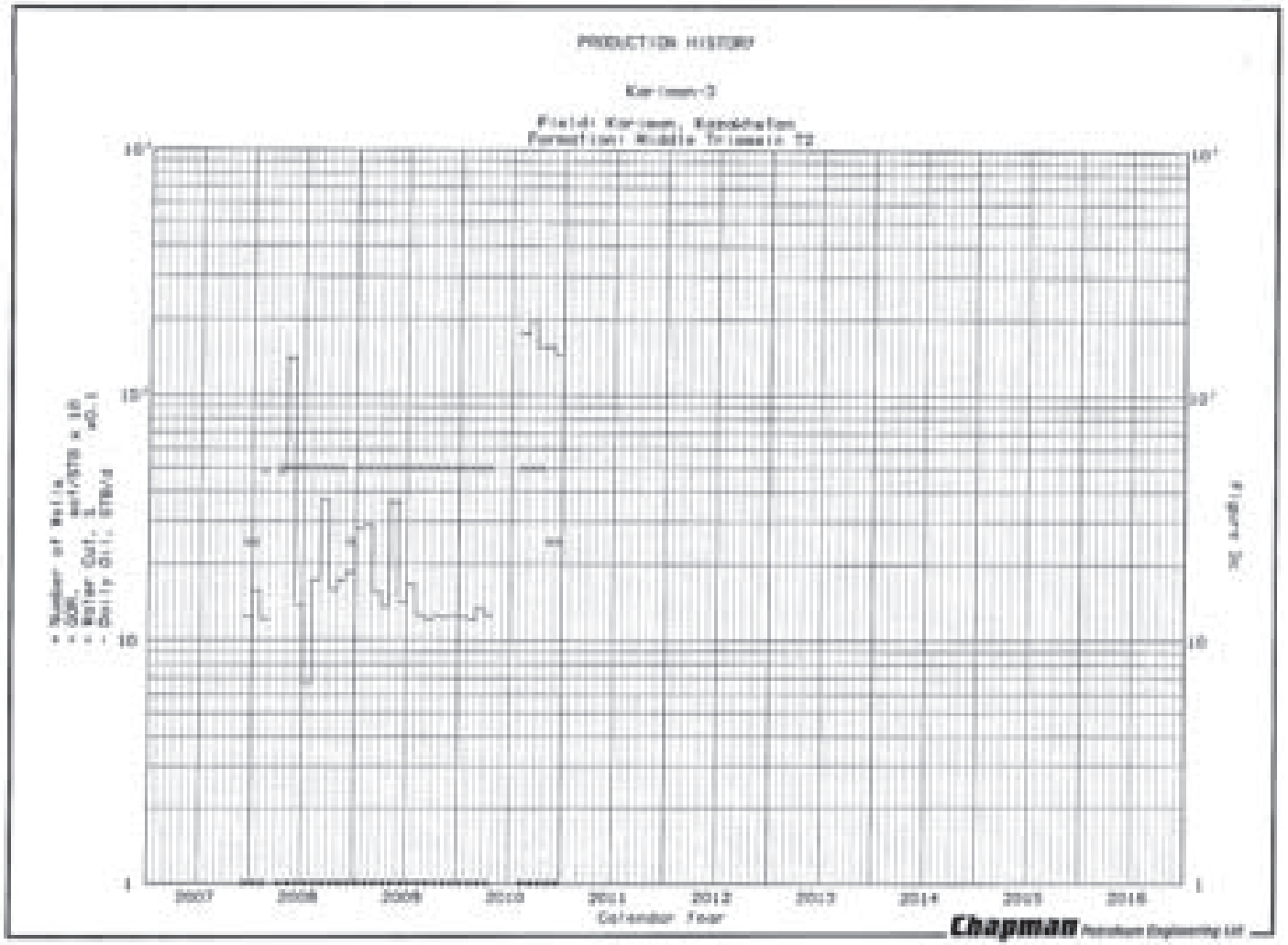
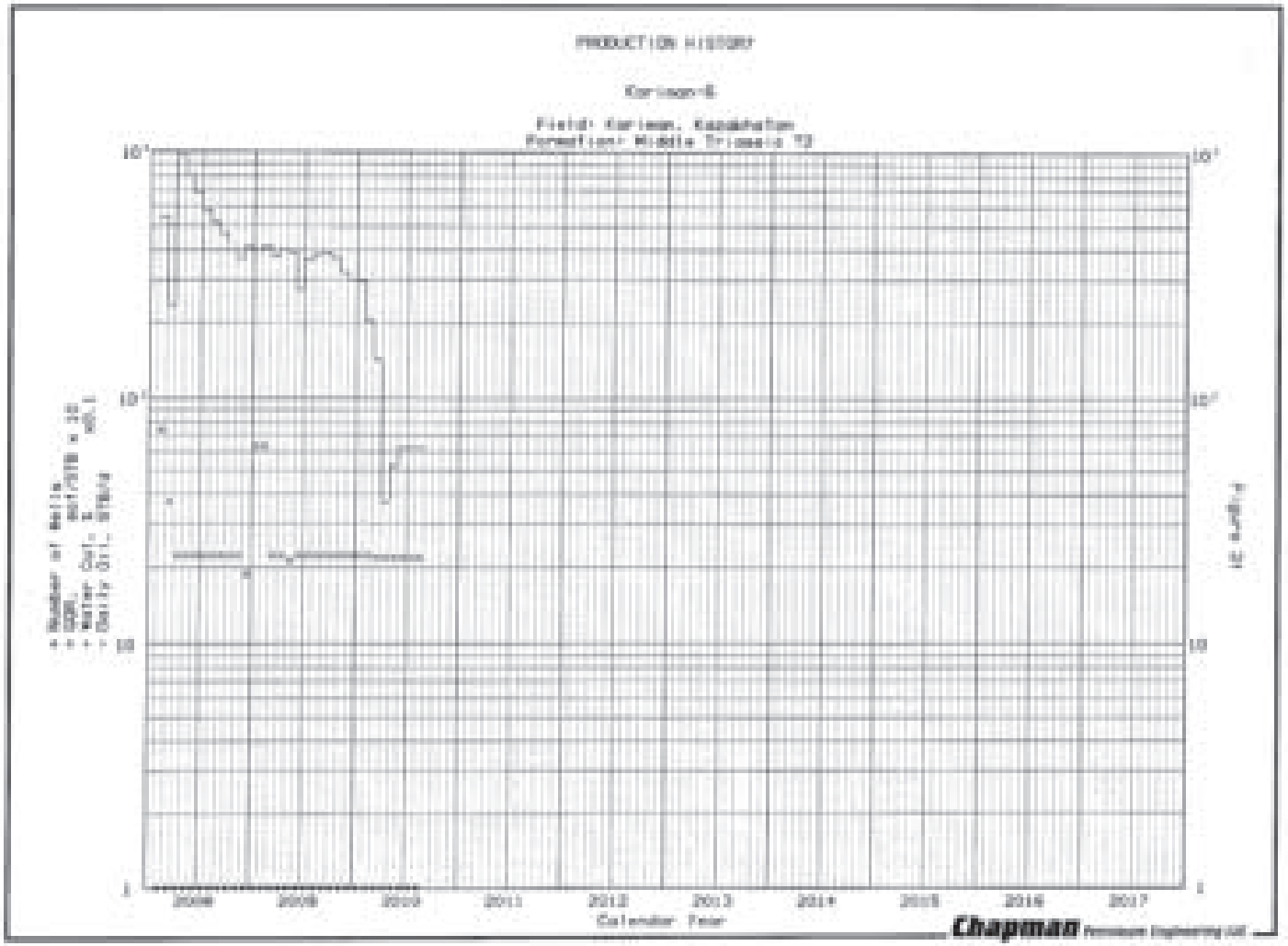

PRODUCTION HISTORY
Kar-1xxx-2
Field: Kar-xxxx, Kapokhaton
Formation: Middle Triassic T2
Number of Wells
Oil, m³/STB x 10
Water Cut, %
Gas, MMscf/d
Calendar Year
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Chapman Petroleum Engineering Ltd

Figure 36
PRODUCTION HISTORY
Chapman

Figure 3a
PRODUCTION HISTORY
Calendar Year


PRODUCTION HISTORY
Karlsevan-6
Field: Karlsevan, Kazakhstan
Formation: Middle Triassic T2
Number of Wells
Oil, Water, Oil + Water Rate
Calendar Year
Chapman Petroleum Engineering Ltd.

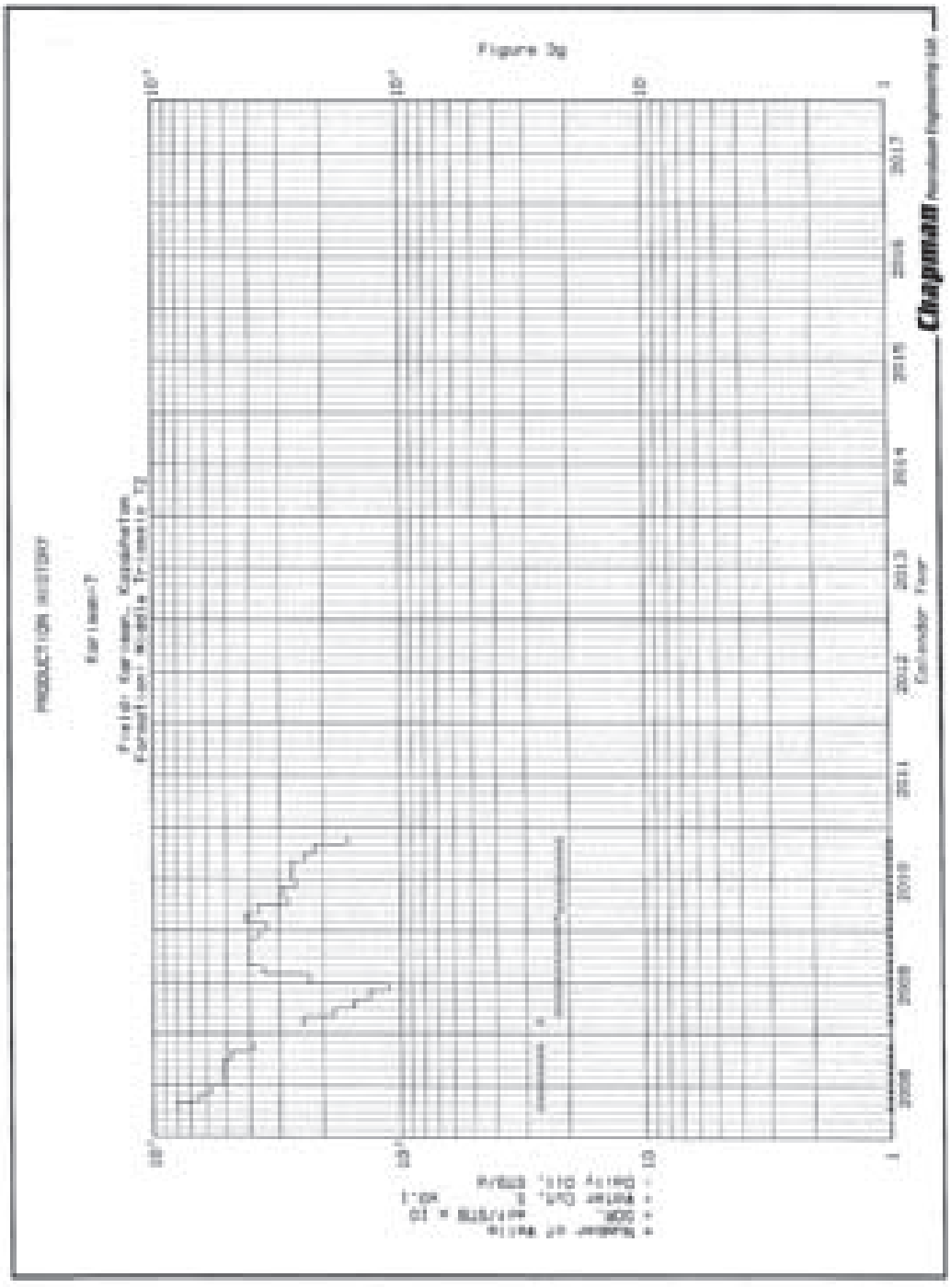
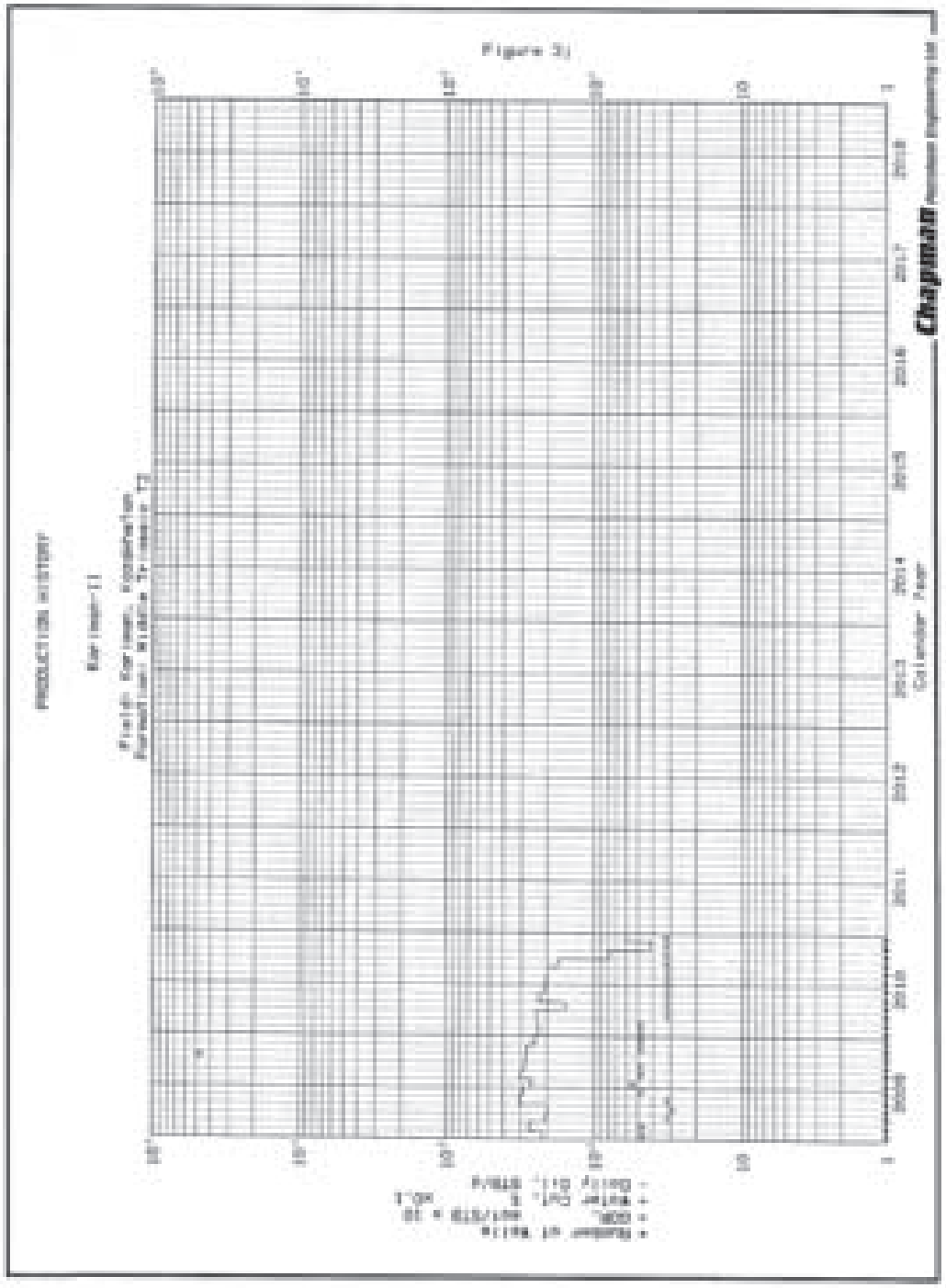
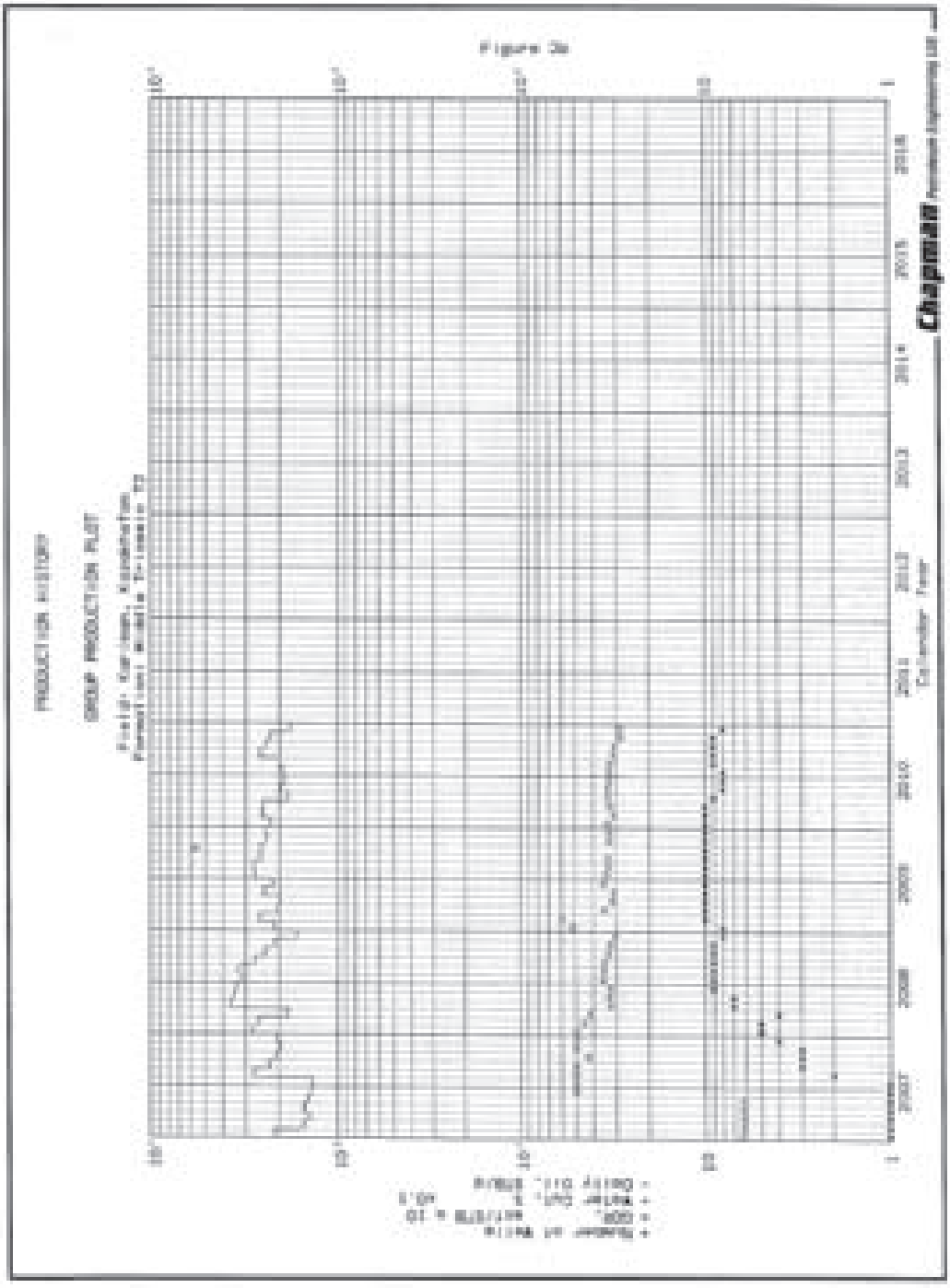


Figure 31
PRODUCTION HISTORY
Calendar Year
Chapman




PRODUCTION HISTORY
GROUP PRODUCTION PLOT
Chapman

## Table 3a

## Summary of Anticipated Capital Expenditures Development
## January 1, 2011

## BMB Munai, Inc.

## Kariman, Republic of Kazakhstan

| Description | Date | Operation | Capital Interest % | Gross Capital M$ | Net Capital M$ |
|---|---|---|---|---|---|
| **Proved Developed Producing** | | | | | |
| Kariman-3 Sidetrack A | 2011 | Stimulation of producing intervals | 100.0000 | 200 | 200 |
| Kariman-4 | 2011 | Stimulation of producing intervals | 100.0000 | 200 | 200 |
| Kariman-5 | 2011 | Stimulation of producing intervals | 100.0000 | 200 | 200 |
| Kariman-10 | 2011 | Stimulation of producing intervals | 100.0000 | 200 | 200 |
| Kariman-11 | 2011 | Stimulation of producing intervals | 100.0000 | 200 | 200 |
| | | **Total Proved Developed Producing** | | **1,000** | **1,000** |
| **Proved Developed Non-Producing** | | | | | |
| Kariman-2 | 2011 | Recomplete and Tie-in Additional Intervals | 100.0000 | 400 | 400 |
| Kariman-3 | 2017 | Recomplete and Tie-in Additional Intervals | 100.0000 | 400 | 400 |
| Kariman-4 | 2011 | Recomplete and Tie-in Additional Intervals | 100.0000 | 400 | 400 |
| Kariman-5 | 2011 | Recomplete and Tie-in Additional Intervals | 100.0000 | 400 | 400 |
| Kariman-6 Sidetrack A | 2011 | Recomplete and Tie-in Additional Intervals | 100.0000 | 600 | 600 |
| Kariman-6 | 2020 | Recomplete and Tie-in Additional Intervals | 100.0000 | 1,000 | 1,000 |
| Kariman-7 | 2011 | Recomplete and Tie-in Additional Intervals | 100.0000 | 400 | 400 |
| Kariman-8 | 2011 | Recomplete and Tie-in Additional Intervals | 100.0000 | 400 | 400 |
| Kariman-10 | 2011 | Recomplete and Tie-in Additional Intervals | 100.0000 | 400 | 400 |
| Kariman-11 | 2011 | Recomplete and Tie-in Additional Intervals | 100.0000 | 400 | 400 |
| | | **Total Proved Developed Non-Producing** | | **4,800** | **4,800** |
| | | **Total Proved Developed** | | **5,800** | **5,800** |
| | | **Total Proved** | | **5,800** | **5,800** |

| Description | Date | Operation | Capital Interest % | Gross Capital M$ | Net Capital M$ |
|---|---|---|---|---|---|
| **Probable** | | | | | |
| **Probable Developed** | | | | | |
| Kariman-1 Sidetrack B | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 600 | 600 |
| Kariman-2 | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 900 | 900 |
| Kariman-3 Sidetrack A | 2014 | Recomplete and Tie-in Additional Intervals | 100.0000 | 450 | 450 |
| Kariman-3 | 2019 | Recomplete and Tie-in Additional Intervals | 100.0000 | 450 | 450 |
| Kariman-4 | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 1,000 | 1,000 |
| Kariman-5 | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 1,000 | 1,000 |
| Kariman-6 Sidetrack A | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 1,000 | 1,000 |
| Kariman-6 | 2022 | Recomplete and Tie-in Additional Intervals | 100.0000 | 800 | 800 |
| Kariman-7 | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 800 | 800 |
| Kariman-8 | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 800 | 800 |
| Kariman-10 | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 800 | 800 |
| Kariman-11 | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 800 | 800 |
| | | **Total Probable Developed** | | **9,400** | **9,400** |
| **Probable Undeveloped** | | | | | |
| Location 1 | 2015 | Drill, Complete and Tie-in Well | 100.0000 | 8,500 | 8,500 |
| Location 2 | 2015 | Drill, Complete and Tie-in Well | 100.0000 | 8,500 | 8,500 |
| Location 3 | 2015 | Drill, Complete and Tie-in Well | 100.0000 | 8,500 | 8,500 |
| Location 4 | 2015 | Drill, Complete and Tie-in Well | 100.0000 | 8,500 | 8,500 |
| Gas Gathering Facility | 2015 | Build and Tie-in Gas Gathering Facility | 100.0000 | 5,000 | 5,000 |
| | | **Total Probable Undeveloped** | | **39,000** | **39,000** |
| | | **Total Probable** | | **48,400** | **48,400** |
| | | **Total Proved Plus Probable** | | **54,200** | **54,200** |
| **Possible** | | | | | |
| Kariman-3 Sidetrack A | 2013 | Recomplete and Tie-in Additional Intervals | 100.0000 | 600 | 600 |
| Location 1 | 2016 | Recomplete and Tie-in Additional Intervals | 100.0000 | 450 | 450 |
| Location 2 | 2016 | Recomplete and Tie-in Additional Intervals | 100.0000 | 450 | 450 |
| Location 3 | 2016 | Recomplete and Tie-in Additional Intervals | 100.0000 | 450 | 450 |
| Location 4 | 2016 | Recomplete and Tie-in Additional Intervals | 100.0000 | 450 | 450 |
| Location 5 | 2017 | Drill, Complete and Tie-in Well | 100.0000 | 8,500 | 8,500 |
| Location 6 | 2017 | Drill, Complete and Tie-in Well | 100.0000 | 8,500 | 8,500 |
| | | **Total Possible** | | **19,400** | **19,400** |
| | | **Total Proved Plus Probable Plus Possible** | | **73,600** | **73,600** |

Note: The above capital values are expressed in terms of current dollar without escalation.

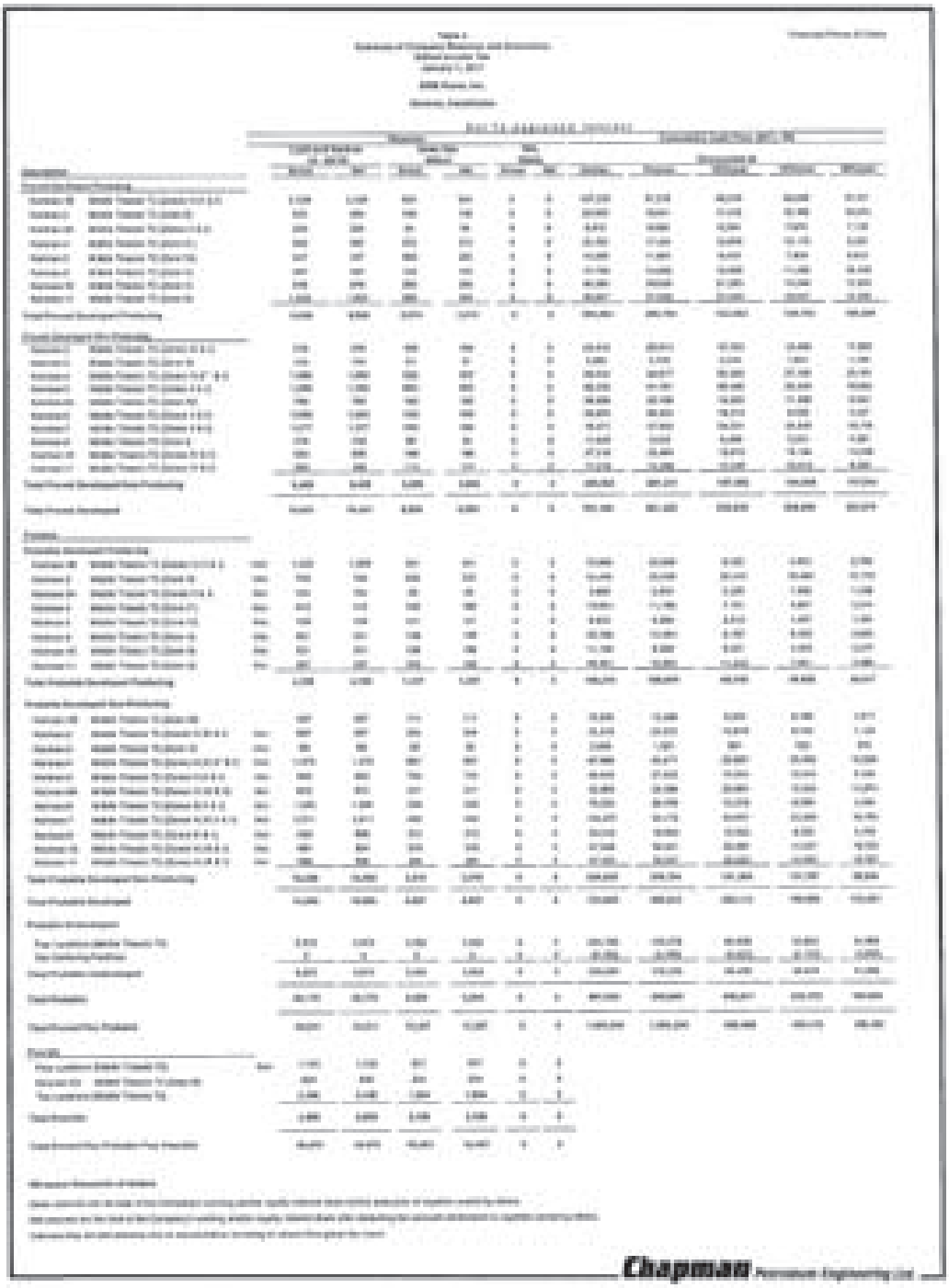
## Table 3b

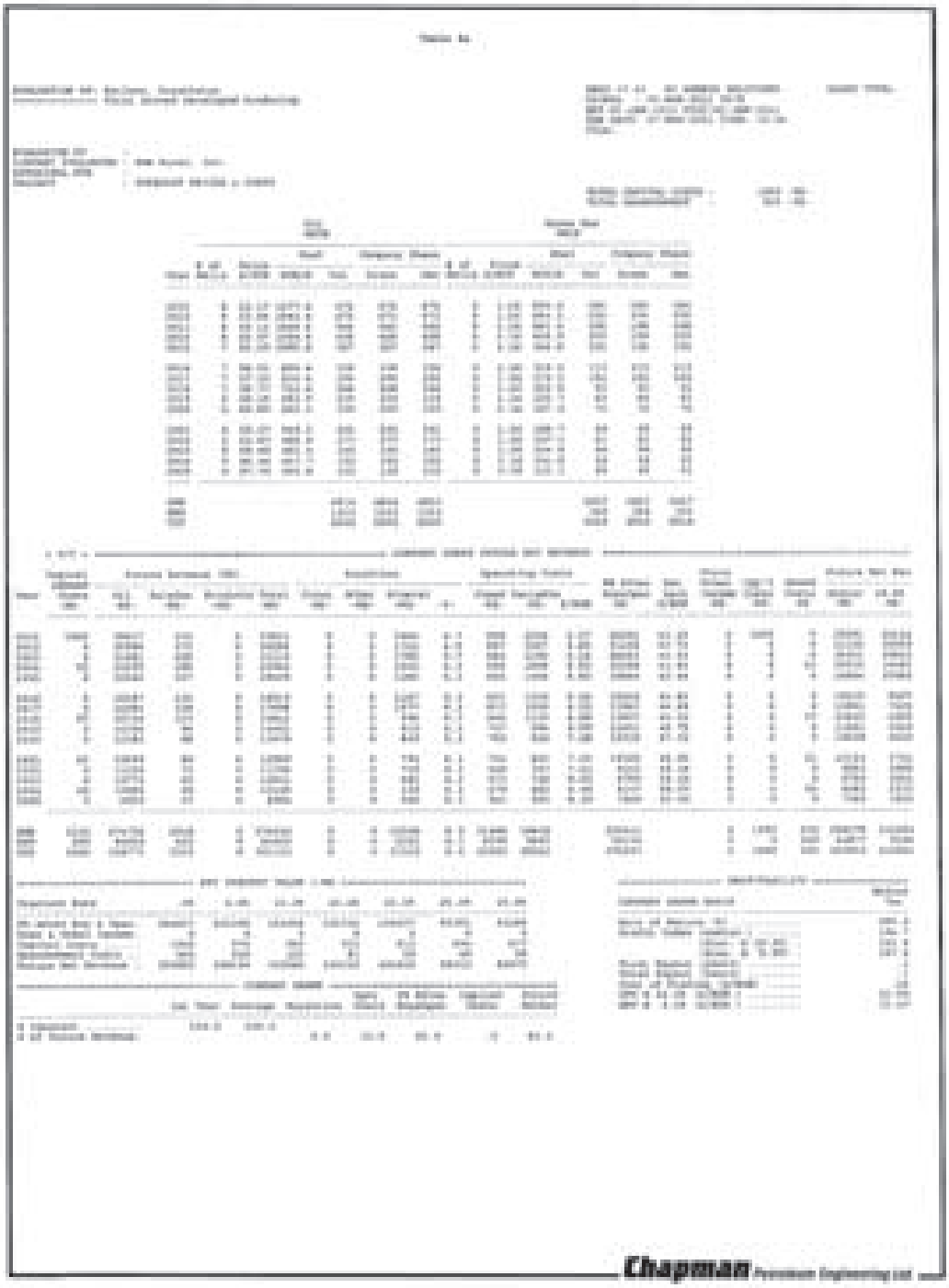
## Summary of Anticipated Capital Expenditures
## Abandonment and Restoration
## January 1, 2011

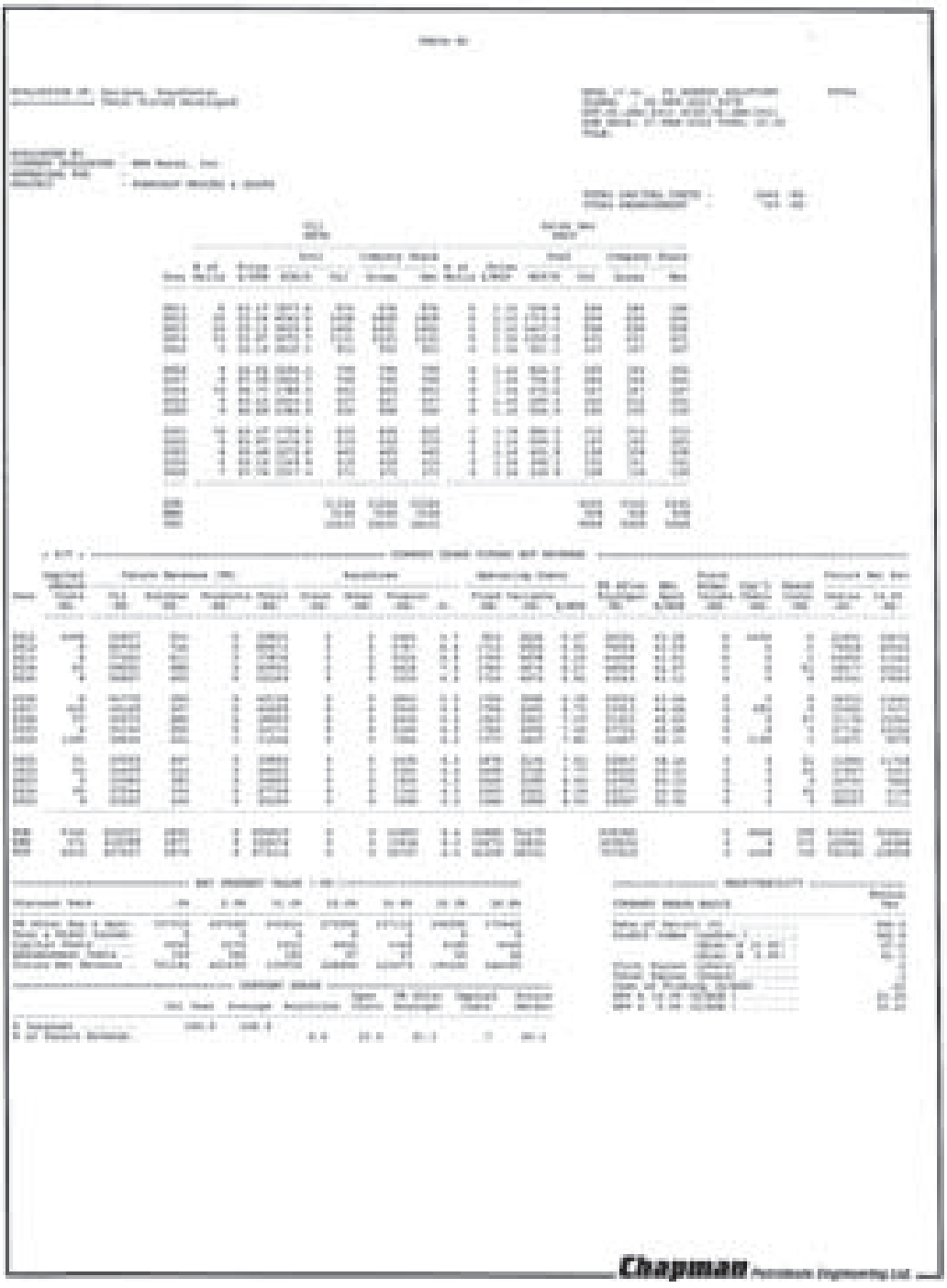
## BMB Munai, Inc.

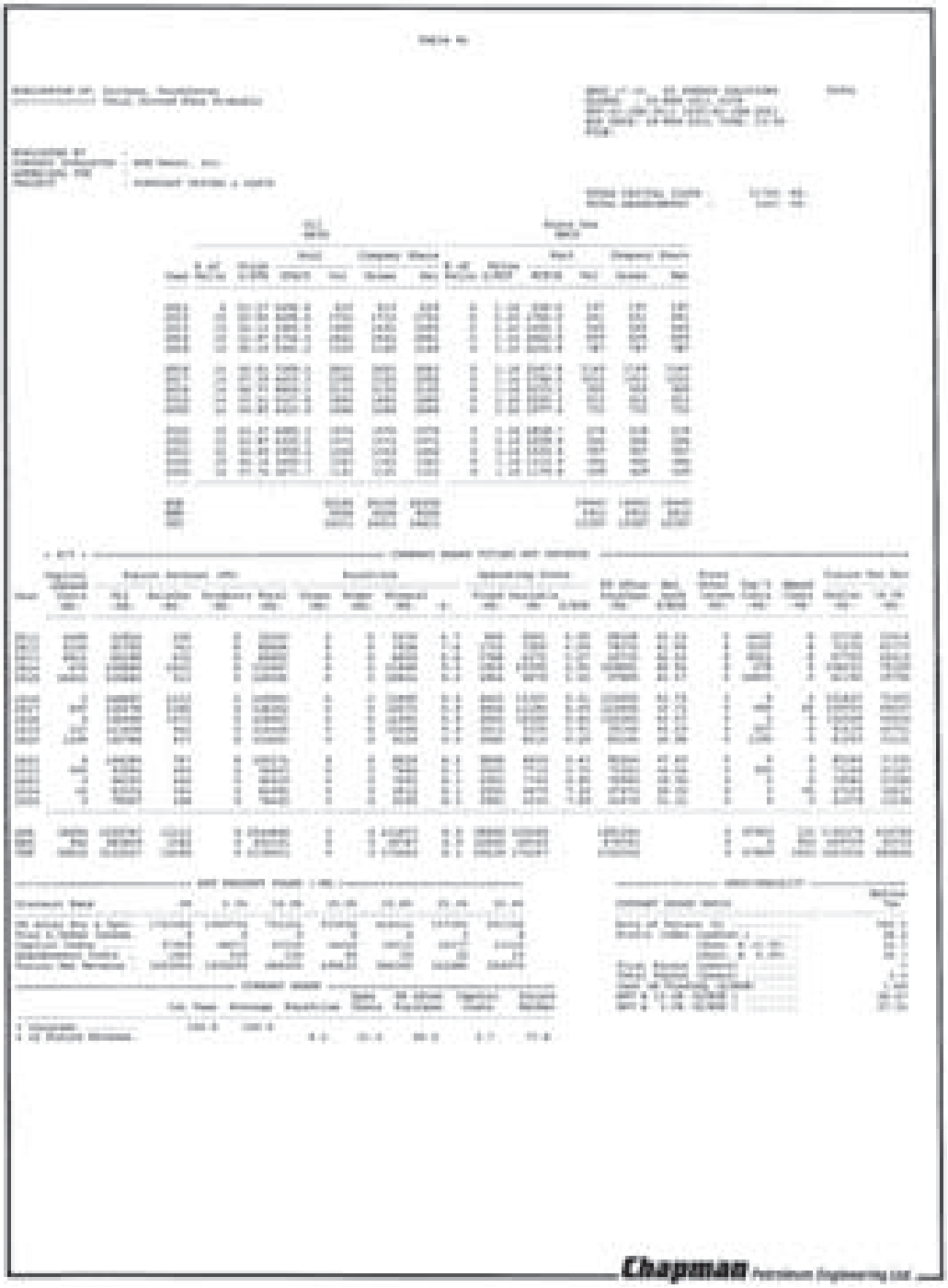
## Kariman, Republic of Kazakhstan

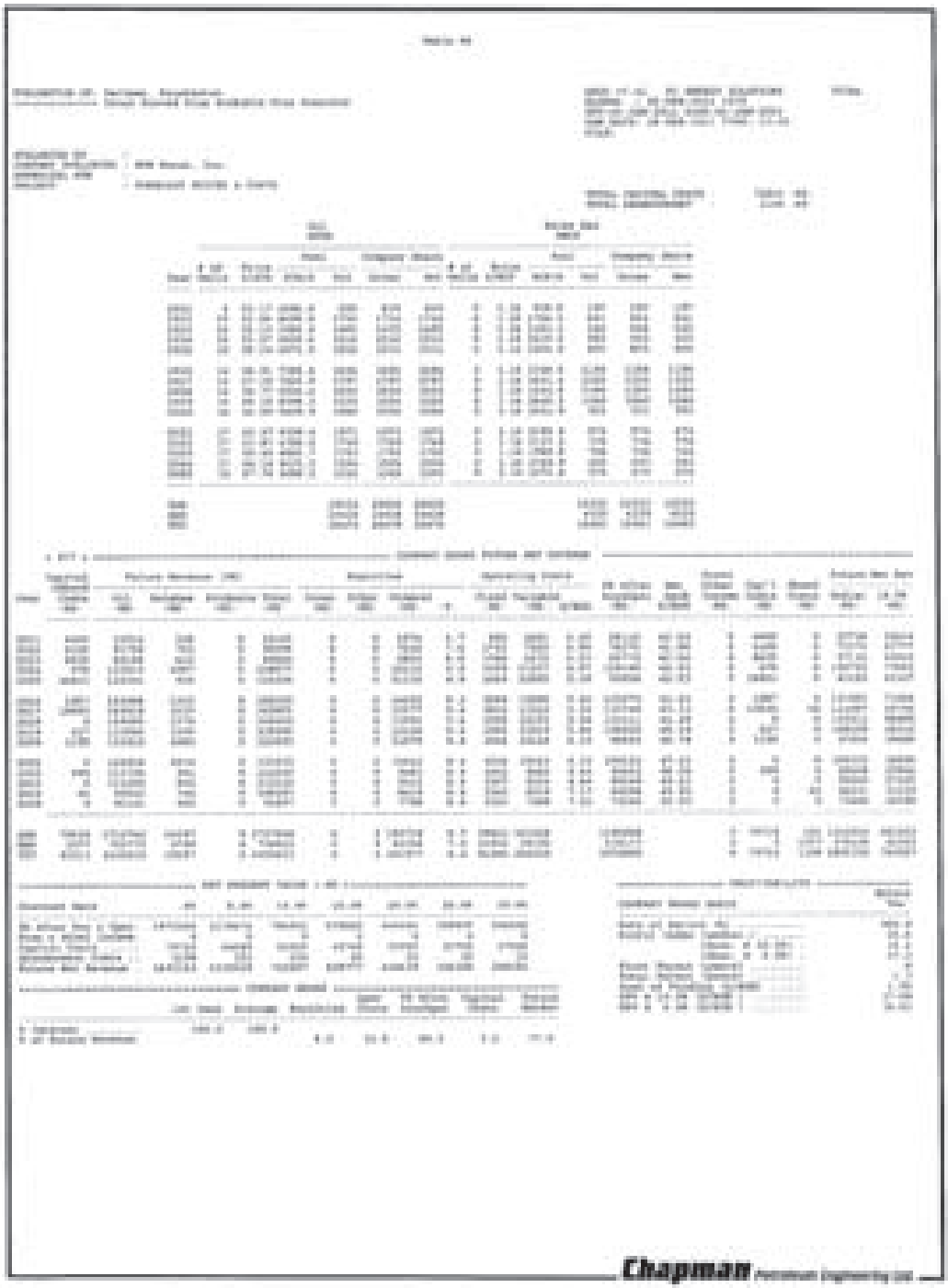
| Description | Year | Well Parameters | Capital Interest | Gross Capital | Net Capital |
|---|---|---|---|---|---|
| | | | *%* | *M$* | *M$* |
| Kariman-1B | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-2 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-3 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-3A | | Multiple zone oil producing deviated well | 100.0000 | 50 | 50 |
| Kariman-4 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-5 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-6 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-6A | | Multiple zone oil producing deviated well | 100.0000 | 50 | 50 |
| Kariman-7 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-8 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-10 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Kariman-11 | | Multiple zone oil producing well | 100.0000 | 50 | 50 |
| Six Locations | | Multiple zone oil producing well | 100.0000 | 300 | 300 |
| | | **Total Abandonment and Restoration** | | **900** | **900** |











**APPENDIX A**
**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**PROSPECTIVE RESOURCES**

**INDEX**

**Discussion**

Introduction
Ownership
Exploration History
Geology
Resource Potential

**Attachments**

Table 1: Summary of Prospective Resources
Figure 1A: Extended License Territory Structure Map – Triassic
Figure 2A: ADEK Block: Structure Map – Jurassic
Figure 3A: ADEK Block: Geological Stratigraphic Chart

**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**PROSPECTIVE RESOURCES**
**DISCUSSION**

## Introduction

This report contains information regarding Prospective Resources assigned to the ADEK Block. This information is based on the report "Evaluation of Resource Potential, ADE Block and Extended License Territory" dated March 23, 2006 and updated to December 31, 2010.

Resources have been identified in the Jurassic formation in the existing fields Aksaz, Dolinnoe, Emir and Kariman plus one developed structure, Borly. Triassic resources have been identified in the undeveloped structures, Borly and Esen in the extended territory.

## Ownership

The Company owns a 100 percent working interest in a "License" and "Exploration Contract" referred to as the ADEK Block which is located onshore in Kazakhstan in the Mangistau Oblast, approximately 50 kilometers from Aktau in the Republic of Kazakhstan (ROK).

The License originated in 1999 and the Exploration Contract was entered into on June 9, 2000 by a preceding company. The License and Contract Area were assigned to the Company on September 23, 2002. The Extended License Territory was established in 2004.

The License and Exploration Contract granted the right to engage in exploration and development activities on the block. Originally the Exploration contract had a five year term but it has since been extended and now expires on January 9, 2013.

A map of the block, showing reservoir structures, is presented on Figures 1A and 2A.

## Exploration History

Four fields (Aksaz, Dolinnoe, Emir and Kariman) already have been discovered on the ADEK Block which are on production from the Triassic formation.

This Block has recent 3-D seismic coverage. Based on the 3-D interpretation, three Triassic plays have been identified on the extended license territory, one of which, Kariman, has been developed and is producing from 10 wells. The other two structures, Borly and Esen, are expected to be analogous to the Dolinnoe Triassic reservoir, which is producing on the ADEK Block.

In addition, five Jurassic structures have been identified on the original ADE Block (Aksaz, Dolinnoe and Emir) and the extended license territory (Kariman and Borly).

The ADEK Block has 24 wells drilled, 16 of which are currently producing at a total rate of 2,572 STB/d.

**Geology**

The ADEK Block is located at the edge of the Mangistau Ustyrt Central High which contains several producing oilfields in the area. The Extended License Territory which contains 64,247 acres (260 $km^2$) lies to the east adjacent to the original Block. The typical reservoir is a faulted anticline comprising several faulted blocks. The main producing horizon is the middle Triassic carbonate. Jurassic structures have also been identified by the recent 3D seismic.

Hydrocarbon traps are formed within the transition zone of the Beke-Bashkudsky high and Karagiin saddle.

The productive middle Triassic consists of limestone in the upper portion and dolomite in the lower portion. The Triassic is located at a depth between 3100 and 3700 meters. The analog for the Triassic on the extension is the producing Dolinnoe field, on the Company's ADEK Block.

The Jurassic is not yet being produced on the ADEK Block, but a number of surrounding fields are producing from or have tested the Jurassic. Three of those fields – North Western Zhetybai, Asar and Airantakyr – have been used as an analog for the Jurassic. The Jurassic producing formations are located at the depths of 1950-2640 m and represented by sandstones and alevrolites with the average porosity of 20%.

The target zones are located in Jurassic and Triassic deposits. The Jurassic formations are presented by sandstones, and the Triassic formations are presented by limestones and dolomites.

A geological stratigraphic chart showing the zones of interest is presented on Figure 3A.

**Resource Potential**

Kariman Triassic structure has been fully developed and assigned reserves.

Resource potential of 139.1 MMSTB of oil and 156 BCF of solution gas has been estimated for the extended license territory for the two identified Triassic plays (Borly and Esen), based on closure area indicated by recent 3-D seismic and reservoir parameters from the Dolinnoe field.

Resource potential of 25.3 MMSTB of oil has been estimated for three structures in the original ADE Block (Aksaz, Dolinnoe, Emir) and two structures in the extended license territory (Borly, Kariman) for Jurassic formations. The estimate is based on the closure areas indicated by recent 3-D seismic and reservoir parameters from the nearby fields – North Western Zhetybai, Airantakyr and Asar.

The probability of success has been determined to be 15%. The main risk on this prospect is the possibility of encountering a low quality reservoir which is not capable of delivering commercial rates.

The resources assigned to each structure before and after risk, as well as a detailed break down of the risk factors, are presented on Table 1.

## Table 1

## Summary of Prospective Resources
## January 1, 2011

## BMB Munai, Inc.

## ADEK Block
## Republic of Kazakhstan

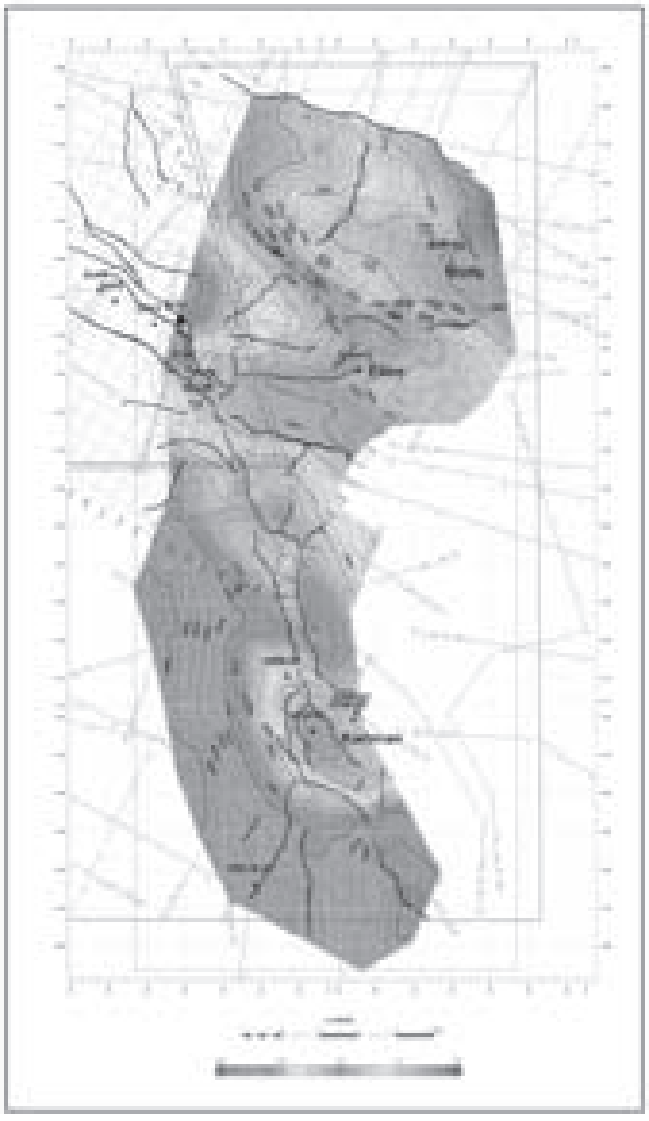
| Description | | Closure Area, acres | Anticipated Number of Wells | Ultimate Resources (Before Risk) Oil, MSTB | Gas, Bscf | Hydrocarbons, MBOE | Ultimate Resources (After Risk) 2 Oil, MSTB | Gas, Bscf | Hydrocarbons, MBOE |
|---|---|---|---|---|---|---|---|---|---|
| **Triassic** | | | | | | | | | |
| **ADE Block Extension** | | | | | | | | | |
| Borly | | 5,120 | 32 | 117,413 | 132 | 139,413 | 17,612 | 20 | 20,912 |
| Esen | | 1,920 | 12 | 21,686 | 24 | 25,716 | 3,253 | 4 | 3,857 |
| Kariman | *1* | 2,240 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Triassic** | | **9,280** | **44** | **139,099** | **156** | **165,129** | **20,865** | **23** | **24,769** |
| **Jurassic** | | | | | | | | | |
| **ADE Block Extension** | | | | | | | | | |
| Borly | | 1,500 | 12 | 7,076 | 0 | 7,076 | 1,061 | 0 | 1,061 |
| Kariman | | 2,640 | 17 | 12,420 | 0 | 12,420 | 1,863 | 0 | 1,863 |
| **Original ADE Block** | | | | | | | | | |
| Aksaz | | 160 | 1 | 753 | 0 | 753 | 113 | 0 | 113 |
| Dolinnoe | | 760 | 6 | 3,576 | 0 | 3,576 | 536 | 0 | 536 |
| Emir | | 320 | 2 | 1,506 | 0 | 1,506 | 226 | 0 | 226 |
| **Total for Jurassic** | | **5,380** | **38** | **25,331** | **0** | **25,331** | **3,800** | **0** | **3,800** |
| **Grand Total** | | **14,660** | **82** | **164,430** | **156** | **190,460** | **24,665** | **23** | **28,569** |

*Notes:*

1 Kariman Triassic structure has been fully developed and assigned reserves.

2 Probability of success – 15% derived as follows:

| | **Probability Factor** |
|---|---|
| i) Source | 0.90 |
| ii) Reservoir | 0.45 |
| iii) Trap/Seal | 0.60 |
| iv) Timing/Migration | 0.90 |
| Geological POS | **0.21** |
| Commerciality Factor | **0.70** |
| Probability of Success | **0.15** |



**BMB MUNAI, INC.**

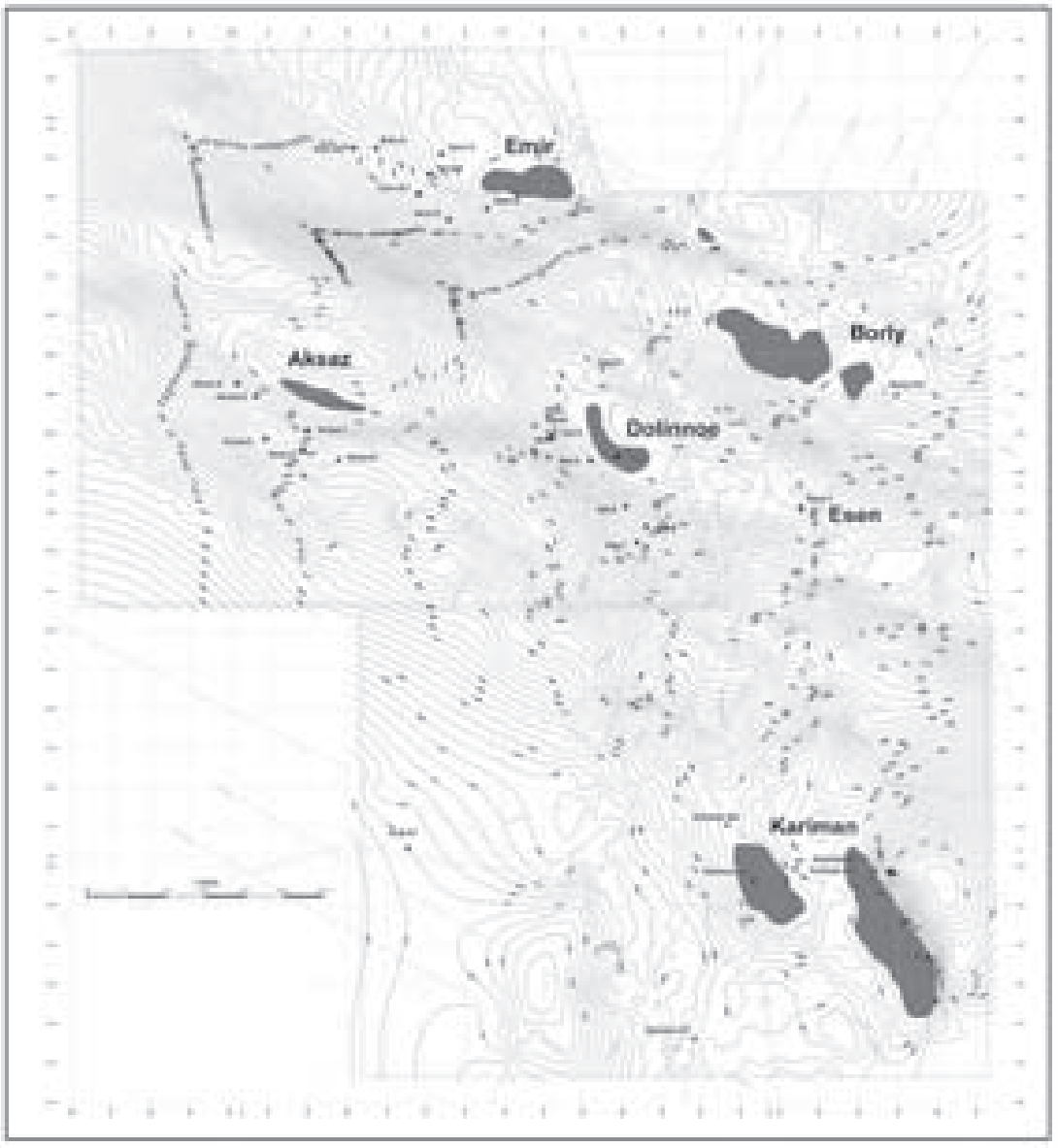
**EXTENDED LICENSE TERRITORY**

MANGISTAU OBLAST, KAZAKHSTAN

**STRUCTURE MAP ON TRIASSIC**

JAN. 201 JOB No. 5323 FIGURE No. 1A

Chapman Petroleum Engineering Ltd.




**BMB MUNAI, INC.**

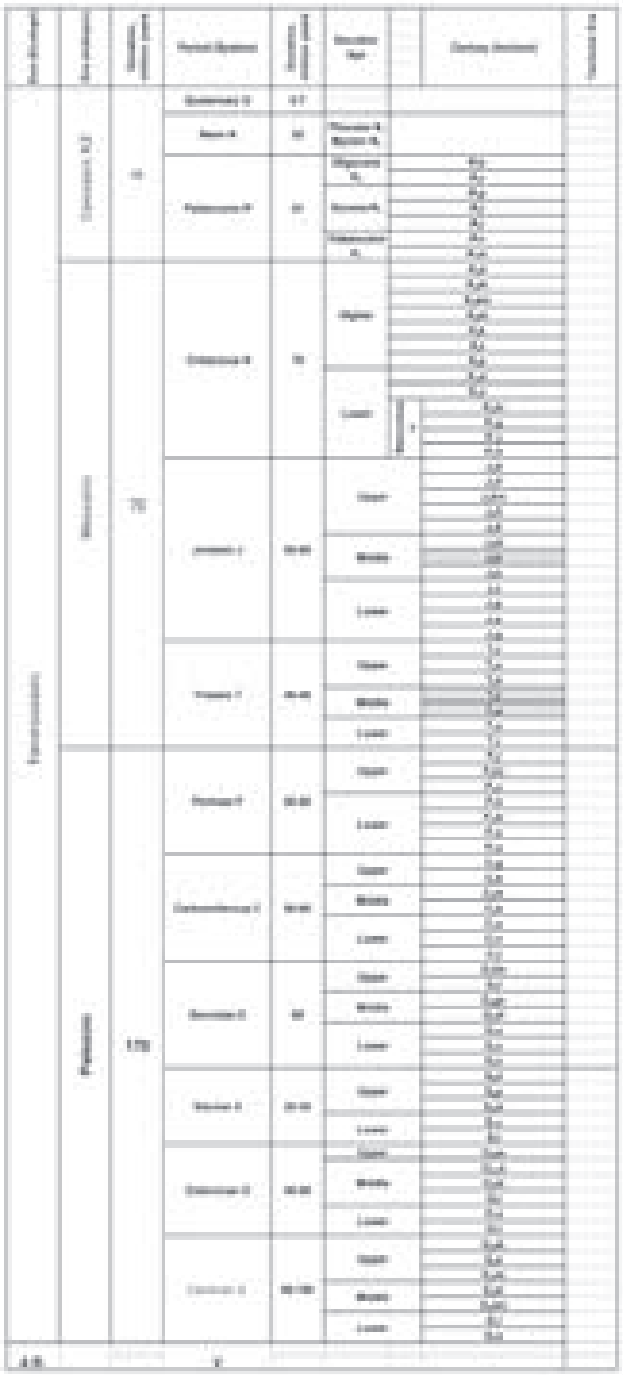
**ADEK BLOCK**

MANGISTAU OBLAST, KAZAKHSTAN

**STRUCTURE MAP ON JURASSIC**

JAN. 2011 JOB No. 5323 FIGURE No. 24

Chapman Petroleum Engineering Ltd.



**BMB MUNAI, INC.**

**ADEK BLOCK**

MANGISTAU OBLAST, KAZAKHSTAN

**GEOLOGICAL STRATIGRAPHIC CHART**

JAN. 2011 JOB No. 5323 FIGURE No. 3A

Chapman Petroleum Engineering Ltd.

**APPENDIX B**
**ADEK BLOCK (LICENSE AREA)**
**REPUBLIC OF KAZAKHSTAN**
**SITE VISIT**

## DISCUSSION

In July 2004 our Company performed a site visit to the three Kazakh oil fields of Aksaz, Dolinnoe and Emir.

Chapman Petroleum Engineering Ltd. personnel, Mr. Chapman, P.Eng., President, and Mr. Denis Briere, P.Eng., Manager of International and Special Projects, visited the Almaty head office of BMB Munai Inc., and the field office in Aktau, where they reviewed all the well data and information collected during exploration of these three fields. During this visit, information was gathered and verified to be sufficient for the requirements of preparing the first report. Later, ongoing information was sent every year for updates to the ADEK reports.

For seven years that BMB Munai Inc./Emir Oil LLP have been our Client, we have never found any difficulty in acquiring the necessary information from them. Their personnel has proved to be very professional, adequately responding to all our enquiries.

It has not been found necessary to conduct further site visits because all the information required for our evaluation is readily available from the Company through electronic means. We have confirmed the presence and location of all wells via Google Earth software. In the past year Emir Oil personnel visited our office in Calgary.

Pictures confirming the client meetings and the site visit in ADE Block are shown on Figure 1B.



Office Meeting: Data Gathering and Review



Well Dolinnoe-1



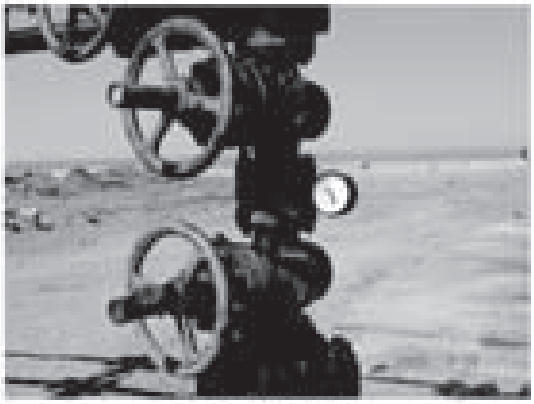
Well Dolinnoe-2



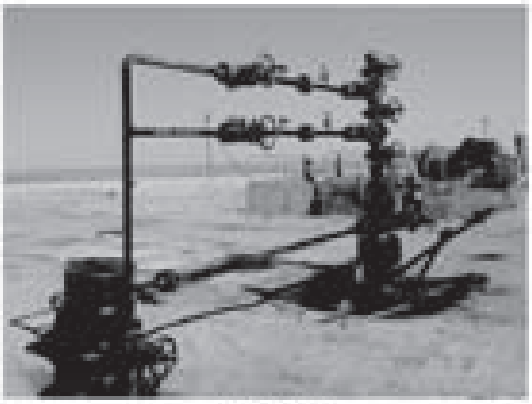
Dolinnoe Facilities

| BMB MUNAI, INC. |
| --- |
| ADEK BLOCK<br>MANGISTAU OBLAST, KAZAKHSTAN<br>2004 SITE VISIT PHOTOS |
| JAN. 2011 JOB No. 5323 FIGURE No. 18 |

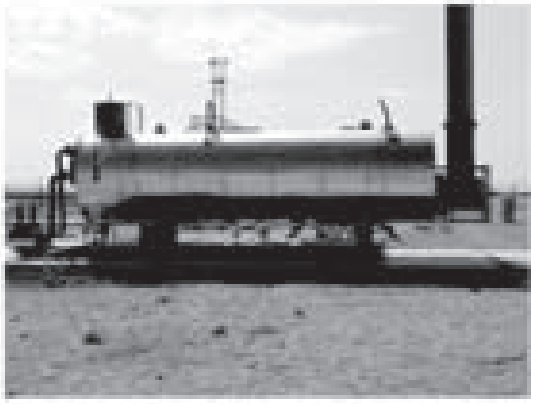
Chapman Petroleum Engineering Ltd.



Emir-1 Wellhead



Well Emir-1



Emir Oil Facilities



At Emir Field

**BMB MUNAI, INC.**

**ADEK BLOCK**

MANGISTAU OBLAST, KAZAKHSTAN

**2004 SITE VISIT PHOTOS**

JAN. 2011 JOB No. 5123 FIGURE No. 18 Cont.

Chapman Petroleum Engineering Ltd.

## GLOSSARY OF TERMS
## (Abbreviations & Definitions)

| | | |
|---|---|---|
| BIT | – | Before Income Tax |
| AIT | – | After Income Tax |
| M$ | – | Thousands of Dollars |
| Effective Date | – | Effective Date The date for which the Present Value of the future cash flows and reserve categories are established |
| BRENT | – | North Sea Oil – the common reference for crude oil used for oil price comparisons |
| psia | – | Pounds per square inch absolute |
| MSTB | – | Thousands of Stock Tank Barrels of oil (oil volume at 60 F and 14.65 psia) |
| MMscf | – | Millions of standard cubic feet of gas (gas volume at 60 F and 14.65 psia) |
| bbls | – | Barrels |
| Mbbls | – | Thousands of barrels |
| MMBTU | – | Millions of British Thermal Units – heating value of natural gas |
| STB/d | – | Stock Tank Barrels of oil per day – oil production rate |
| Mscf/d | – | Thousands of standard cubic feet of gas per day – gas production rate |
| GOR (scf/STB) | – | Gas-Oil Ratio (standard cubic feet of solution gas per stock tank barrel of oil) |
| mKB | – | Metres Kelly Bushing – depth of well in relation to the Kelly Bushing located on the floor of the drilling rig. The Kelly Bushing is the usual reference for all depth measurements during drilling operations. |
| EOR | – | Enhanced Oil Recovery |

| | | |
|---|---|---|
| GJ | – | Gigajoules |
| Marketable on Sales Natural Gas | – | Natural gas that meets specifications for its sale, whether it occurs naturally or results from the processing of raw natural gas. Field and plant fuel and losses to the point of the sale must be excluded from the marketable quantity. The heating value of marketable natural gas may very considerably, depending upon its composition; therefore, quantities are usually expressed not only in volumes but also in terms of energy content. Reserves are always reported as marketable quantities. |
| NGLs (Natural Gas Liquids) | – | Those hydrocarbon components that can be recovered from natural gas as liquids, including but not limited to ethane, propane, butanes, pentanes plus condensate, and small quantities of non-hydrocarbons. |
| Raw Gas | – | Natural gas as it is produced from the reservoir prior to processing. It is gaseous at the conditions under which its volume is measured or estimated and may include varying amounts of heavier hydrocarbons (that may liquefy at atmospheric conditions) and water vapour; may also contain sulphur and other non-hydrocarbon compounds. Raw natural gas is generally not suitable for end use. |

March 29, 2011

**Chapman Petroleum Engineering Ltd.**
445, 708 – 11 Avenue SW
Calgary, AB
T2R 0E4

Dear Sir:

**Re: Company Representation Letter**

Regarding the evaluation of our Company's oil and gas reserves and independent appraisal of the economic value of these reserves for the year ended December 31, 2010 (the effective date), we herein confirm to the best of our knowledge and belief as of the effective date of the reserves evaluation, and as applicable, as of today, the following representations and information made available to you during the conduct of the evaluation:

1. We, MIE Holdings Corporation, (the Client) have made available to you, Chapman Petroleum Engineering Ltd. (the Evaluator) certain records, information, and data relating to the evaluated properties that we confirm is, with the exception of immaterial items, complete and accurate as of the effective date of the reserves evaluation, including the following:

    - Accounting, financial, tax and contractual data;
    - Asset ownership and related encumbrance information;
    - Details concerning product marketing, transportation and processing arrangements;
    - All technical information including geological, engineering and production and test data;
    - Estimates of future abandonment and reclamation costs.

2. We confirm that all financial and accounting information provided to you is, to the best of our knowledge, both on an individual entity basis and in total, entirely consistent with that reported by our Company for public disclosure and audit purposes.

3. We confirm that our Company has satisfactory title to all of the assets, whether tangible, intangible, or otherwise, for which accurate and current ownership information has been provided.

4. With respect to all information provided to you regarding product marketing, transportation, and processing arrangements, we confirm that we have disclosed to

you all anticipated changes, terminations, and additions to these arrangements that could reasonably be expected to have a material effect on the evaluation of our Company's reserves and future net revenues.

5. With the possible exception of items of an immaterial nature, we confirm the following as of the effective date of the evaluation:

   - For all operated properties that you have evaluated, no changes have occurred or are reasonably expected to occur to the operating conditions or methods that have been used by our Company over the past twelve (12) months, except as disclosed to you. In the case of non-operated properties, we have advised you of any such changes of which we have been made aware.

   - All regulatory, permits, and licenses required to allow continuity of future operations and production from the evaluated properties are in place and, except as disclosed to you, there are no directives, orders, penalties, or regulatory rulings in effect or expected to come into effect relating to the evaluated properties.

   - Except as disclosed to you, the producing trend and status of each evaluated well or entity in effect throughout the three-month period preceding the effective date of the evaluation are consistent with those that existed for the same well or entity immediately prior to this three-month period.

   - Except as disclosed to you, we have no plans or intentions related to the ownership, development or operation of the evaluated properties that could reasonably be expected to materially affect the production levels or recovery of reserves from the evaluated properties.

   - If material changes of an adverse nature occur in the Company's operating performance subsequent to the effective date and prior to the report data, we will inform you of such material changes prior to requesting your approval for any public disclosure of reserves information.

6. We hereby confirm that our Company is in material compliance with all Environmental Laws and does not have any Environmental Claims pending.

Between the effective date of the report and the date of this letter, nothing has come to our attention that has materially affected or could affect our reserves and economic value of these reserves that has not been disclosed to you.

Yours very truly,
*Chief Financial Officer*

## REGISTERED OFFICE AND HEAD OFFICE OF THE ISSUER

**Registered Office**

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

**Principal Place of Business in the PRC**

Suite 406, Block C, Grand Place
5 Hui Zhong Road
Chaoyang District
Beijing 10010
China

**Principal Place of Business in Hong Kong**

Level 28
Three Pacific Place
1 Queen's Road East
Hong Kong

## TRUSTEE

**Citicorp International Limited**
39th Floor, Citibank Tower,
Citibank Plaza
3 Garden Road, Central
Hong Kong

## REGISTRAR

**Citigroup Global Markets Deutschland AG**
Reuterweg 16
60323 Frankfurt
Germany

## THE PAYING AGENT

**Citibank, N.A., London Branch**
21st Floor, Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB

## LEGAL ADVISORS TO THE ISSUER

*As to Hong Kong and United States law:*
**Latham & Watkins**
41st Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

*As to PRC law:*
**Zhong Lun Law Firm**
36th-37th Floor, SK Tower
6A Jiangoomenwai Avenue
Beijing 100022
China

*As to Cayman Islands law:*
**Maples and Calder**
53rd Floor, The Center
99 Queen's Road
Central
Hong Kong

*As to Kazakhstan law:*
**GRATA Law Firm**
104, M. Ospanov Street
Almaty, Kazakhstan

*As to Dutch law:*
**De Brauw Blackstone Westbroek N.V.**
Claude Debussylaan 80
1082 MD Amsterdam
The Netherlands

## LEGAL ADVISORS TO THE INITIAL PURCHASERS

*As to United States law:*
**White & Case**
9th Floor, Central Tower
28 Queen's Road Central
Hong Kong

*As to PRC law:*
**Jingtian & Gongcheng**
34th Floor, Tower 3 China Central Place
77 Jianguo Road
Beijing
China

## AUDITORS AND REPORTING ACCOUNTANTS

**PricewaterhouseCoopers**
22nd Floor, Prince's Building
Central
Hong Kong

**US$400,000,000**

# MIE HOLDINGS CORPORATION

*(incorporated in Cayman Islands with limited liability)*

## 9.75% Senior Notes due 2016

Offering Price: 100%

## OFFERING MEMORANDUM

May 5, 2011