HURRICANE HYDROCARBONS LTD
Form 424B1
December 13, 2002

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Secondary Offering

December 12, 2002

8,000,000 Class A Common Shares

Central Asian Industrial Holdings N.V., or the Selling Shareholder, is offering 8,000,000 Class A common shares, or the Common Shares, of Hurricane Hydrocarbons Ltd. The Selling Shareholder owns or controls approximately 30% of the outstanding Common Shares. Following the completion of the offering, the Selling Shareholder will own or control approximately 20% of the outstanding Common Shares (19% if the Underwriters' Option as referred to below, is exercised in full). We will not receive any of the proceeds of the offering. The Common Shares are being offered in Canada, the United States and internationally, where permitted by law.

Our outstanding Common Shares are listed on the Toronto and New York stock exchanges under the symbol "HHL" and on the Frankfurt stock exchange under the symbol "HHCA". The closing price of our Common Shares on December 11, 2002 on the Toronto Stock Exchange was C$14.10 per share and on the New York Stock Exchange was US$9.05 per share. The offering price of the Common Shares has been determined by negotiation between CIBC World Markets Inc. and BMO Nesbitt Burns Inc., or the Underwriters, and the Selling Shareholder. See "Plan of Distribution".

Investing in the Common Shares involves risks that are described in the "Risk Factors" section beginning on page 12 of this prospectus.

We are permitted to prepare this prospectus in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements in accordance with Canadian generally accepted accounting principles, and they may be subject to Canadian auditing and auditor independence standards. As a result, they may not be comparable to financial statements of United States companies.

Owning the common shares may subject you to tax consequences both in the United States and Canada. This prospectus may not describe these tax consequences fully. You should read the tax discussion under "Income Tax Considerations".

Your ability to enforce civil liabilities under the United States federal securities laws may be affected adversely because the Company is organized under the laws of Alberta, Canada, all of its officers and directors and certain experts named in this prospectus are residents of countries other than the United States, and all or a substantial portion of the assets of the Company and the assets of such persons are located outside the United States.

Neither the Securities and Exchange Commission nor any state securities commission, nor any securities regulatory authority in Canada has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Price to the Public	Underwriting Commission	Net Proceeds to the Selling Shareholder
Per Common Share	C$13.85	C$0.6925	C$13.1575
Total	C$110,800,000	C$5,540,000	C$105,260,000

The public offering price for Common Shares offered in Canada is payable in Canadian dollars, and the public offering price for Common Shares offered in the United States is payable in Canadian or U.S. dollars. The U.S. dollar offering price is US$8.90, being the approximate U.S. dollar equivalent of the Canadian dollar offering price based on an exchange rate of US$0.6426 per C$1.00. **The Underwriters may offer the Common Shares at a lower price than stated above. See "Plan of Distribution".**

The Underwriters have an option, or the Underwriters' Option, to purchase up to 800,000 Common Shares from the Selling Shareholder, at the public offering price, less the underwriting commission, within 30 days after the closing of this offering solely to cover over-allotments, if any.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares in accordance with applicable market stabilization rules. See "Plan of Distribution". The Common Shares will be ready for delivery on or about December 18, 2002.

CIBC WORLD MARKETS **BMO NESBITT BURNS**

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide different information. The Common Shares offered hereunder may not be offered or sold in any jurisdiction where their offer or sale is not permitted. You should not assume that the information in this prospectus and the documents incorporated by reference is accurate as of any date other than the dates in respect of which such information is given. Our business, financial condition, results of operations and prospects may have changed since those dates.

In this prospectus "Hurricane", the "Company", "we", "us" and "our" refer to Hurricane Hydrocarbons Ltd. and its consolidated subsidiaries, unless the context otherwise requires, and "Selling Shareholder" and "CAIH" refer to Central Asian Industrial Holdings N.V.

Bbls, Mbbls and MMbbls means barrels, thousand barrels and million barrels. BOPD and MBPOD means barrels of oil per day and thousand barrels of oil per day. Mcf, MMcf and Bcf means thousand cubic feet, million cubic feet and billion cubic feet. MMcfd means millions of cubic feet per day.

PRESENTATION OF OUR FINANCIAL INFORMATION

Our consolidated financial statements incorporated by reference in this prospectus and the financial information contained in this prospectus are reported in U.S. dollars and unless otherwise indicated have been prepared in accordance with generally accepted accounting principles, or GAAP, in Canada. Canadian GAAP conforms, in all material respects, with accounting principles generally accepted in the United States, except as noted in the documents entitled "Reconciliation of Results from Canadian GAAP to U.S. GAAP for the Year Ended December 31, 2001" and "Reconciliation of Results from Canadian GAAP to U.S. GAAP for the Nine Months Ended September 30, 2002 and 2001" which we have made publicly available and which are incorporated by reference in this prospectus.

Unless otherwise indicated, all references to "$", "US$" or "dollars" in this prospectus refer to U.S. dollars, "C$" refers to Canadian dollars and "Tenge" refers to Kazakhstani Tenge. For information purposes, on December 11, 2002, the noon buying rate in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York was US$1.00 = C$1.5562, and the exchange rate for Kazakhstani Tenge as quoted by the National Bank of the Republic of Kazakhstan, on December 11, 2002, was US$1.00 = 155.42 Tenge.

PRESENTATION OF OUR RESERVE INFORMATION

The United States Securities and Exchange Commission, or the SEC, generally permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves, after the deduction of royalties and interests of others, which are those reserves that a company has demonstrated by actual production or conclusive formation tests to be economically producible under existing economic and operating conditions. Canadian securities laws permit oil and gas companies, in their filings with Canadian securities regulators, to disclose not only proved reserves but also probable reserves, and to disclose reserves and production on a gross basis before deducting royalties. Probable reserves are less accurately estimated and there is greater risk that the reserves estimated will not actually be recovered. The SEC's guidelines strictly prohibit reserves in this category from being included in filings with the SEC that are required to be prepared in accordance with U.S. disclosure requirements. However, because we are permitted to prepare this prospectus in accordance with Canadian disclosure requirements, we have disclosed in this prospectus and in the documents incorporated by reference, reserves designated as "probable". Moreover, we have determined and disclosed estimated future net cash flow from our reserves using both constant and escalated prices and costs, whereas the SEC generally requires that prices and costs be held constant at levels in effect at the date of the reserve report. In addition, the estimates of future net cash flows included in this prospectus or incorporated by reference herein based on constant price and cost assumptions, as reflected in the report prepared by McDaniel & Associates Consultants Ltd., or the McDaniel report, were prepared using average prices received by us during 2001, as set out in the McDaniel report, held constant for the economic life of the reserves, whereas the SEC guidelines would require that the estimates of future net cash flows be prepared using prices in effect as of January 1, 2002, the effective date of the McDaniel report, held constant for the economic life of the reserves. For a description of these and additional differences between Canadian and U.S. standards of reporting, see "Risk Factors Risk Factors Relating to Our Industry Canadian and U.S. practices differ in reporting reserves and production".

Unless otherwise specified, reserve information contained in this prospectus, and the documents incorporated by reference in this prospectus, has been derived from the McDaniel report dated January 1, 2002, prepared by McDaniel & Associates Consultants Ltd., or McDaniel, independent petroleum engineers.

In this prospectus, all estimates of reserves and production reflect our interest only and are before royalties, unless we indicate otherwise. In addition, all reserve evaluations have been stated prior to any provision for income taxes, but do take into account general and administrative costs incurred by us in Kazakhstan. The estimated present worth values of net production revenue contained in this prospectus may not be representative of the fair market value of the reserves. Actual reserves may be greater than or less than the estimates provided herein.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference contain "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 about our expectations, beliefs, plans, objectives, assumptions or future events or performance. These statements include, among others, statements regarding our future financial position, strategy, reserves, projected levels of capacity and production, projected costs and estimates of capital expenditures. These statements are often, but not always, made through the use of words or phrases such as "will likely result", "are expected to", "will continue", "anticipate", "estimate", "intend", "plan", "project", "would" and "outlook". These forward-looking statements are not historical facts, and are subject to a number of risks, uncertainties and assumptions. Certain of these risks, uncertainties and assumptions are beyond our control. Accordingly, our actual results could differ materially from those suggested by these forward-looking statements for various reasons discussed throughout this prospectus and particularly in the section entitled "Risk Factors". Some of the key factors that have a direct bearing on our results of operations are as follows:

- the concentration of our operations, assets and revenues in Kazakhstan;
- the business of exploration, development and production of crude oil and natural gas reserves, the levels of those reserves, and the marketing of crude oil and refined products;
- our ability to transport our crude oil to export markets;
- fluctuations in crude oil and refined product prices;
- changes in general political, social, economic and business conditions in Kazakhstan and the region;
- our ability to manage our growth;

changes in business strategy or development plans;

our future capital needs;

business abilities and judgement of our personnel;

changes in, or our failure to comply with, government regulations or changes in interpretation, application or enforcement of government regulations;

costs arising from environmental liability;

costs and other effects of legal and administrative proceedings;

our ability to manage currency fluctuations; and

general economic and business conditions.

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

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

PROSPECTUS SUMMARY

This summary highlights selected information found in greater detail elsewhere in this prospectus and the documents incorporated by reference herein. This summary does not contain all the information that is important to prospective investors. Prospective investors should read the entire prospectus, including the financial data and related notes and the documents incorporated by reference, before making an investment.

The Company

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

Upstream

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

Our exploration activities involve exploration and exploratory drilling for new reserves in areas in which we hold exploration licenses. We own a 100% interest in exploration licenses for areas covering approximately 414,000 acres. To date, exploration on these lands has resulted in the discovery of two new fields. Our exploration program in 2002 has been primarily focused on assessing deeper stratigraphic prospects.

Our production activities involve the production of oil from our existing reserves. We own interests in 11 fields, all of which are located in the South Turgai Basin in south central Kazakhstan.

Downstream

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

Our refining and marketing activities involve the operation of the Shymkent refinery and the marketing of the refined products it produces. The refined products produced at the Shymkent refinery include heating fuel, gasoline, diesel fuel and jet fuel primarily for the Kazakhstani domestic market (see map on inside front cover).

Our trading activities include crude oil exports from our refinery at Shymkent, which serves as our crude oil distribution hub.

Competitive Strengths

We believe that we enjoy the following principal competitive strengths:

- We are an integrated oil company with exploration, development, production, refining and marketing capabilities in Kazakhstan.

- The favourable characteristics of our producing properties enable us to develop our fields and produce and refine our crude oil at relatively low costs.

- We have transportation and pipeline connections between our oil fields and our refinery with sufficient capacity.

- The Shymkent refinery's throughput capacity gives us significant flexibility in choosing between trading crude oil or refined products.

- The Shymkent refinery is the only refinery located in the southern region of Kazakhstan, which is the most densely populated area of the country.

- We have applied Western technology and management techniques to modernize our operational infrastructure in Kazakhstan.

Business Strategy

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

explore undeveloped properties for which we hold exploration licenses;

capitalize on our development opportunities;

increase our oil transportation alternatives in order to reduce transportation costs and to increase our export opportunities;

improve performance of the Shymkent refinery;

reduce overhead and operating costs;

selectively seek acquisition opportunities; and

effectively exploit our natural gas reserves.

Corporate Information

We are a Canadian company incorporated under the *Business Corporations Act* (Alberta). Our registered office is located in Calgary, Alberta, and we have representative offices in Windsor, the United Kingdom and Almaty, Kazakhstan.

The Offering

Common Shares Offered:	8,000,000 Common Shares, plus up to an additional 800,000 Common Shares if the Underwriters' Option is exercised in full, to be sold by the Selling Shareholder.
Price:	C$13.85 per Common Share.
Use of Proceeds:	We will not receive any proceeds from the sale of the Common Shares.
Ownership of Common Shares by the Selling Shareholder:	The 8,000,000 Common Shares offered hereby represent approximately 10% of our outstanding Common Shares. We have been advised that, following the closing of this offering, the Selling Shareholder will beneficially own or control 15,766,425 Common Shares representing approximately 20% of our outstanding Common Shares. If the Underwriters' Option is exercised in full, a total of 8,800,000 Common Shares will be offered hereby representing approximately 11% of our outstanding Common Shares. Accordingly, if the Underwriters' Option is exercised in full, the Selling Shareholder will beneficially own or control 14,966,425 Common Shares representing approximately 19% of our outstanding Common Shares.
CAIH Shareholders' Agreement:	We are party to a shareholders' agreement with the Selling Shareholder that will continue to be effective so long as the Selling Shareholder continues to own not less than 10% of our outstanding Common Shares. The shareholders' agreement governs certain aspects of the Selling Shareholder's relationship with us, including the right of the Selling Shareholder to nominate directors and the

acquisition, disposition and voting of Common Shares beneficially owned by the Selling Shareholder. See "Description of Share Capital CAIH Shareholders' Agreement".

Risk Factors: Prospective purchasers of Common Shares should consider carefully the matters set forth under "Risk Factors" before purchasing any Common Shares offered hereby.

TSX and NYSE Symbol: HHL

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Summary Consolidated Financial Data

The summary consolidated financial data presented below for the years ended December 31, 2001 and 2000, has been derived from our consolidated financial statements and the related notes thereto and the document entitled "Reconciliation of Results from Canadian GAAP to U.S. GAAP for the Year Ended December 31, 2001", incorporated by reference in this prospectus. Our audited consolidated financial statements for the annual periods presented below have been audited by TOO Deloitte & Touche. Our summary consolidated financial data presented below for the nine-month periods ended September 30, 2002 and 2001, has been derived from our unaudited interim consolidated financial statements for such periods and the document entitled "Reconciliation of Results from Canadian GAAP to U.S. GAAP for the Nine Months Ended September 30, 2002 and 2001", incorporated by reference in this prospectus. In the opinion of management, such interim financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly our financial results for such period. Interim results are not necessarily indicative of the results which may be expected for any other interim period or for the full year.

You should read the summary consolidated financial data presented below in conjunction with the information contained in our consolidated financial statements incorporated by reference in this prospectus, including the related notes, management's discussion and analysis of financial condition and results of operations incorporated by reference in this prospectus, and the other financial data appearing elsewhere in this prospectus and the documents incorporated by reference in this prospectus.

	Year Ended December 31,		Nine Months Ended September 30,	
	2000	2001	2001	2002
	(in $ thousands, except share data)			
Income Statement Data				
Canadian GAAP:				
Total revenue	$ 523,201	$ 603,056	$ 474,833	$ 568,691
Total expenses	238,261	357,849	257,706	371,437
Income before income taxes	264,567	239,661	211,127	190,120
Net income	154,930	169,340	146,296	117,430
Net income per share:				
Basic	$ 2.19	$ 2.12	$ 1.83	$ 1.45
Diluted	$ 2.12	$ 2.02	$ 1.73	$ 1.39
Weighted average number of shares outstanding:				
Basic	70,590,314	79,807,038	79,875,296	81,042,900
Diluted	73,129,154	83,649,160	84,461,557	84,483,117
U.S. GAAP:				
Net income	$ 165,971	$ 162,643	$ 146,296	$ 117,401
Net income per share:				
Basic	$ 2.35	$ 2.04	$ 1.83	$ 1.45
Diluted	$ 2.26	$ 1.94	$ 1.73	$ 1.39

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	Year Ended December 31,		Nine Months Ended September 30,	
	2000	2001	2001	2002
	(in $ thousands)			
Balance Sheet Data (at end of period)				
Canadian GAAP:				
Working capital[(1)]	$ 33,808	$ 61,393	$ 89,741	$ 168,762
Total assets	414,526	572,470	527,153	737,384
Total long-term debt[(2)]	82,048	277,767	249,125	293,197
Total shareholders' equity	185,043	132,140	108,799	247,223
U.S. GAAP:				
Total shareholders' equity	$ 140,800	$ 79,603	$ 63,387	$ 186,593
Other Financial Data				
Canadian GAAP:				
EBITDA[(3)]	$ 287,975	$ 291,518	$ 246,718	$ 243,590
Cash flow	179,446	194,654	167,326	158,217
Capital expenditures	21,627	110,207	55,215	101,559

Notes:

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

(2) $61.1 million and $62.7 million of these amounts represent our portion of the non-recourse debt incurred by our Kazgermunai joint venture as of December 31, 2001 and September 30, 2002, respectively. We own a 50% interest in this joint venture.

(3) "EBITDA" is defined as earnings before interest, income taxes and depletion and depreciation. We have included EBITDA in the table above because we believe that some investors will find it to be a useful tool for measuring our ability to service our indebtedness. However, EBITDA does not represent cash flow from operations, as defined by generally accepted accounting principles, and should not be considered as a substitute for net income as an indicator of our operating performance or cash flow as a measure of liquidity. EBITDA may not be comparable to similarly titled measures of other companies. The following table shows a reconciliation of EBITDA to net income.

	Year Ended December 31,		Nine Months Ended September 30,	
	2000	2001	2001	2002
	(in $ thousands)			
Net Income	$ 154,930	$ 169,340	$ 146,296	$ 117,430
Interest	18,708	19,530	12,126	26,078
Income taxes	99,657	68,394	63,678	71,018
Depletion and depreciation	14,680	34,254	24,618	29,064
EBITDA	$ 287,975	$ 291,518	$ 246,718	$ 243,590

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Summary Consolidated Operating and Reserves Data

The first table below sets forth information with respect to production, sales and other operating data for the years ended December 31, 2000 and 2001 and the nine months ended September 30, 2001 and 2002.

The second table below, which is derived from the McDaniel report, sets forth our estimated gross (prior to the deduction of royalties) and net (after the deduction of royalties) oil and natural gas reserves in Kazakhstan and the present worth value of estimated future net pre-tax cash flows of those reserves (on both a discounted and undiscounted basis) effective as of January 1, 2002. The McDaniel report, prepared on an escalating price and constant price basis, is dated January 1, 2002.

Calculations of pre-tax cash flows are net of value added tax and general and administration costs incurred by us in Kazakhstan, but give no effect to income taxes, excess profit taxes or other applicable taxes attributable to estimated future net cash flows from the sale of oil and natural gas. Pre-tax disclosure is inconsistent with U.S. GAAP as prescribed by Statement of Financial Accounting Standards No. 69.

In addition, except as otherwise indicated, all evaluations relating to our crude oil and natural gas reserves are based upon escalating price assumptions, which assume, among other things, price forecasts, political and economic stability in Kazakhstan and the continuance of current laws and regulations. See "The Company Upstream Operations Principal Properties and Licenses" and "Risk Factors Risk Factors Relating to Our Industry Volatility of oil prices could adversely affect our results of operations".

For additional information relating to our reserves, production and refining capacity, see "Risk Factors", "The Company", the notes to our audited comparative consolidated financial statements for the years ended December 31, 2001 and 2000 and the notes to our unaudited comparative consolidated interim financial statements for the nine months ended September 30, 2002 and 2001, incorporated by reference in this prospectus.

Operating Data

	Year Ended December 31,		Nine Months Ended September 30,	
	2000	**2001**	**2001**	**2002**
Production				
Total production (MMbbls)	30.7	36.8	26.7	35.0
Average daily production (BOPD)	84,090	100,877	97,770	128,203
Total crude oil sales (including purchased crude) (MMbbls)				
Crude oil exports	1.1	18.2	12.8	18.7
Crude oil transferred to downstream	6.8	10.8	8.8	12.5
Crude oil transferred to downstream and subsequently exported	9.6	0.2	0.2	0
Crude oil transferred to downstream and joint ventures (50%)	1.8	4.8	3.3	3.0
Crude oil sold to HOP	6.3	0	0	0
Royalty payments	1.3	1.7	0.7	2.2
Crude oil domestic sales	3.5	0.8	0.7	0.3
Total crude oil sales or transfers	30.4	36.5	26.5	36.7

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Estimated Reserves as at January 1, 2002

Escalating Price Basis

Estimated Reserves				Estimated Present Worth Value before Income Tax	
Oil		Natural Gas			
Gross(1)	Net(2)	Gross(1)	Net(2)	Undiscounted	Discounted at 10%

	Estimated Reserves					
	(Mbbls)		(Bcf)		(in $ thousands)	
Proved Developed Producing	243,229	224,403	0	0	1,745,870	1,194,537
Proved Undeveloped	104,832	96,331	33	30	1,070,885	688,049
Total Proved	348,061	320,735	33	30	2,816,755	1,882,587
Probable Reserves	164,254	152,393	16	15	1,722,892	914,581
Proved Plus Probable Unrisked	512,316	473,128	49	46	4,539,647	2,797,167
Reduction for Risk	(82,127)	(76,197)	(8)	(8)	(861,446)	(457,290)
Proven Plus Probable Risked	430,189	396,931	41	38	3,678,201	2,339,877

Constant Price Basis

	Estimated Reserves				Estimated Present Worth Value before Income Tax	
	Oil		Natural Gas			
	Gross(1)	Net(2)	Gross(1)	Net(2)	Undiscounted	Discounted at 10%
	(Mbbls)		(Bcf)		(in $ thousands)	
Proved Developed Producing	242,811	223,996	0	0	1,504,426	1,101,900
Proved Undeveloped	102,371	93,956	33	30	479,298	315,245
Total Proved	345,182	317,952	33	30	1,983,725	1,417,145
Probable Reserves	162,796	150,990	17	16	1,104,148	630,663
Proved Plus Probable Unrisked	507,978	468,942	50	47	3,087,872	2,047,807
Reduction for Risk	(81,398)	(75,495)	(9)	(8)	(552,074)	(315,331)
Proven Plus Probable Risked	426,580	393,447	41	39	2,535,798	1,732,476

Notes:

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

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

Please see the footnotes on pages 31 and 32 for more details regarding this reserve data.

RISK FACTORS

An investment in the Common Shares involves certain risks. Before making an investment decision, prospective purchasers should carefully consider all of the information in this prospectus and in the documents incorporated by reference herein and, in particular, should evaluate the risk factors below. However, the risks described below are not the only ones we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business operations and financial condition in the future.

Risk Factors Relating to Our Business

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

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

For instance, we have a 50% interest in the Kumkol North field through our CJSC Turgai Petroleum joint venture. The joint venture, Turgai Petroleum, is the operator of the Kumkol North field. Turgai Petroleum, under the exploration and production license dated December 20, 1995 for the Kumkol North producing oil field, committed to invest 5.3 billion Tenge, 5.4 billion Tenge, 2.6 billion Tenge and 2.5 billion Tenge in 1996, 1997, 1998 and 1999, respectively, which, at the exchange rate in effect at December 31, 1995, would have been approximately $82.0 million, $84.8 million, $41.1 million and $38.8 million, respectively.

Turgai Petroleum did not satisfy these commitments in 1996, 1997, 1998 or 1999. We cannot assure you that the Kazakhstani government will waive this breach of the license. The failure to satisfy these capital investment commitments may result in the cancellation of the Kumkol North license. While we have not, to date, received any notice from the government of Kazakhstan of its intent to terminate the Kumkol North license, we cannot assure you that it will not do so. The Kumkol North producing oil field represented approximately 22% of our net proved reserves as of January 1, 2002, and if the related license was cancelled, it could significantly affect our business, results of operation and financial condition. Under the agreement pursuant to which we acquired OJSC Hurricane Kumkol Munai, or HKM, we have the right to have the license for the Kumkol North producing oil field reissued to us in the event of the cancellation of the existing Kumkol North license. We cannot assure you, however, that if the license is cancelled, it will be reissued in a timely manner.

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

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

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

For example, we are currently flaring approximately 96% of the gas produced from our fields and releasing pollutants from the Shymkent refinery. These practices in Kazakhstan are in breach of current Kazakhstani

environmental legislation. We believe, however, that gas flaring and emission releases are operating practices followed by many oil producers in Kazakhstan. We cannot assure you that we will not be required to strictly comply with the current environmental legislation, or comply with stringent requirements, with respect to our gas flaring or emission release practices, which could have a material adverse effect on our financial condition and results of operations.

In consideration of this issue, we are in the process of implementing a government approved gas utilization program and will install a 55-megawatt electrical power plant in the Kumkol field to use associated gas from our Kumkol South, South Kumkol and Kumkol North fields. The cost of construction of the plant, anticipated to be approximately $32.0 million, will be shared with Turgai Petroleum. It is intended that the plant will provide stable electrical power for field operations and will provide excess electricity for sale to Kyzylorda city and a credit for Shymkent refinery power usage. The plant is due to be commissioned in the third quarter of 2003. In addition, as a joint venture partner in Kazgermunai LLP, or Kazgermunai, we are participating in a project to provide natural gas to the Kyzylorda region. The feasibility of this project is under consideration, but funds have been budgeted in 2003 for its construction. We cannot assure you that our gas utilization program will not require a larger investment than we currently expect, which could have a material adverse effect on our results of operations. Either of these operations could raise additional issues under environmental laws and require us to expend funds to bring such operations into compliance.

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

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

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

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

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

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

We conduct some of our operations through joint ventures.

We currently have a 50% interest in two joint ventures, Kazgermunai, the operator of the Akshabulak, Nurali and Aksai fields, and Turgai Petroleum, the operator of Kumkol North, and may in the future enter into further joint ventures as a means of conducting our business. We cannot fully control the operations and the assets of our joint ventures, nor can we make major decisions with respect to our joint ventures unless our joint venture partners agree. Accordingly, although we have the ability to veto decisions with respect to our joint ventures, we are not in a position to make unilateral decisions. This may constrain the ability of our joint ventures to take action. For example, the purchase order for a new process facility for the Akshabulak field operated by Kazgermunai is currently subject to delay, pending assurances from the Kazakhstani government to our joint venture partners with respect to certain marketing and transportation issues.

Our crude oil is transported through a single processing unit.

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

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

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

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

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

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

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

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

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

We operate in a highly competitive industry.

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

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

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

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

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

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

In order to satisfy future capital investment commitments and liquidity needs with respect to HKM and HOP and their ongoing operations, we may require additional equity or debt financing.

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

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

The terms and conditions on which future funding or financing may be made available may not be acceptable or funding or financing may not be available at all. If we issue additional capital stock or convertible securities to raise funds, your ownership could be diluted or the new investors might obtain terms more favourable than yours. If we decide to raise additional funds by incurring debt, we may become more leveraged and subject to additional or more restrictive financial covenants and ratios. Our inability to procure sufficient financing could adversely affect our ability to implement our business strategy.

We have significant indebtedness and may incur additional indebtedness in the future, and our level of indebtedness could adversely affect our financial health.

As of September 30, 2002, we had total debt (including amounts outstanding under our existing working capital facilities), consolidated total assets and shareholders' equity of $368.5 million (of which $62.7 million is non-recourse), $737.4 million and $247.2 million.

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

- require us to dedicate a substantial portion of our cash flow from operations to payments of our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industries in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; or
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds.

If we are unable to retain key personnel, or hire and retain qualified personnel, it may harm our ability to carry out our business strategy.

Our success depends to a significant degree upon the continued contributions of our key qualified technical personnel. We believe our future success will also depend in large part upon our ability to attract and retain highly skilled personnel. Competition for such personnel in the industries in which we operate is intense, and we may not be successful in attracting and retaining qualified personnel. Our inability to attract and retain qualified personnel in the futu