CHAPARRAL RESOURCES INC
Form DEF 14A
August 28, 2006

Table of Contents

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(A) of
the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-12

Chaparral Resources, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

þ Fee computed on table below per Exchange Act Rules 14a-6(i)(l) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value $0.0001 per share

(2) Aggregate number of securities to which transaction applies:

15,283,801 shares of Common Stock

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, and Fee Rate Advisory #5 for Fiscal Year 2006 issued by the Securities and Exchange Commission on November 23, 2005, the amount of the filing fee was determined by multiplying $0.000107 by the transaction value. The transaction value was determined by multiplying 15,283,801 shares of common stock, par value $0.0001 per share, of Chaparral Resources, Inc. by $5.80 per share. The number of shares of common stock is equal to the total number of outstanding shares of common stock of Chaparral Resources, Inc. entitled to receive the merger consideration.

(4) Proposed maximum aggregate value of transaction:

$88,646,045.80

(5) Total fee paid:

$9,485.13

þ Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

CHAPARRAL

CHAPARRAL RESOURCES, INC.
2 Gannett Drive, Suite 418
White Plains, New York 10604

A MERGER PROPOSAL   YOUR VOTE IS VERY IMPORTANT

Dear Chaparral Stockholders:

You are cordially invited to attend the special meeting of our stockholders to be held on September 29, 2006, at 10:00 a.m. local time at the Radisson Edwardian Hampshire Hotel, 31-36 Leicester Square, London, England.

At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated March 13, 2006, among Chaparral, LUKOIL Overseas Holding Ltd. and NRL Acquisition Corp., and approve the merger between Chaparral and NRL Acquisition pursuant to the terms of the merger agreement. If our stockholders adopt the merger agreement, NRL Acquisition will merge with and into Chaparral and each issued and outstanding share of our common stock (other than shares held by LUKOIL or its affiliates and any shares with respect to which appraisal rights have been properly perfected under Delaware law) will be converted into the right to receive $5.80 in cash, without interest and less any applicable withholding taxes. As a result of the merger, we will cease to be a publicly traded company and will become an indirect wholly owned subsidiary of LUKOIL.

The merger consideration represents a premium of (1) approximately 9% over $5.30, the last trade price for the shares of our common stock on March 10, 2006, the last trading day before we announced the execution of the merger agreement, (2) approximately 12% over $5.19, the average last trade price per share during the one week period preceding the initial announcement regarding the executed merger agreement, and (3) approximately 180% over the average closing price of our common stock during the first half of 2005.

This attached proxy statement provides you with detailed information about the proposed merger and the special meeting. You can also obtain financial and other information about us from documents we have filed with the Securities and Exchange Commission.

The special committee, consisting of two independent directors, (1) has approved the merger agreement and the transactions contemplated thereby, including the merger and (2) has determined that the terms of the merger agreement and the transactions contemplated thereby, including the merger, are advisable, fair to and in the best interests of our public stockholders.

Our board of directors, upon the recommendation of a special committee and by unanimous vote and after careful consideration, (1) has approved the merger agreement and the transactions contemplated thereby, including the merger, and (2) has determined that the terms of the merger agreement and the transactions contemplated thereby, including the merger, are advisable, fair to and in the best interests of our unaffiliated stockholders. **Accordingly, our board of directors unanimously recommends that our stockholders vote FOR the approval and adoption of the merger agreement and the merger.**

The special committee received the written opinion of Petrie Parkman & Co., Inc. to the effect that, as of March 10, 2006, based upon and subject to the matters set forth in the opinion, the merger consideration to be received by the holders of our common stock (other than LUKOIL and its affiliates) was fair, from a financial point of view, to such holders.

The affirmative vote of a majority of the outstanding shares of our common stock is required to approve and adopt the merger agreement and the merger. LUKOIL controls 60% of our outstanding common stock and has committed to vote its shares in favor of the merger agreement and the merger. The affirmative vote of the shares controlled by LUKOIL is sufficient under Delaware law to adopt the merger agreement and approve the merger. The proposed transaction does not require the approval of a majority of our unaffiliated stockholders.

Dissenting stockholders are entitled to appraisal rights under Delaware law as described in the attached proxy statement.

It is very important to us and the special committee that your shares be represented at the special meeting, whether or not you plan to attend personally. Therefore, please complete and sign the enclosed proxy card and return it as soon as possible in the enclosed postage-paid envelope. This will ensure that your shares are represented at the special meeting.

Thank you for your cooperation.

Sincerely,
Boris Zilbermints
Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction, passed upon the fairness or merits of this transaction, or passed upon the accuracy or adequacy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated August 25, 2006 and is first being mailed to stockholders on or about August 30, 2006.

Table of Contents

CHAPARRAL

CHAPARRAL RESOURCES, INC.
2 Gannett Drive, Suite 418
White Plains, New York 10604

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 29, 2006

To our stockholders:

We will hold a special meeting of the stockholders of Chaparral Resources, Inc. on September 29, 2006 at 10:00 a.m. local time at the Radisson Edwardian Hampshire Hotel, 31-36 Leicester Square, London, England for the following purposes, as more fully described in the enclosed proxy statement:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of March 13, 2006, among LUKOIL Overseas Holding Ltd., NRL Acquisition Corp., and Chaparral, and approve the merger between Chaparral and NRL Acquisition, with Chaparral being the surviving corporation, pursuant to the merger agreement. In the merger, each Chaparral stockholder (other than LUKOIL and its affiliates) will be entitled to receive $5.80 per share in cash, without interest, for each share of our common stock in accordance with and subject to the terms and conditions contained in the merger agreement. The merger agreement is more fully described in the accompanying proxy statement and a copy of the merger agreement is attached as Exhibit A to the accompanying proxy statement.

2. To consider, act upon and transact such other matters as may properly come before the special meeting or any adjournments or postponements thereof.

The affirmative vote of a majority of the outstanding shares of our common stock is required to adopt the merger agreement and approve the merger. LUKOIL controls 60% of our outstanding common stock and has committed to vote its shares in favor of the merger agreement and the merger. The affirmative vote of the shares controlled by LUKOIL is sufficient under Delaware law to adopt the merger agreement and approve the merger. The proposed transaction does not require the approval of a majority of our unaffiliated stockholders.

Our board of directors, upon the recommendation of the special committee consisting of two independent directors and by unanimous vote and after careful consideration, (1) has approved the merger agreement and the transactions contemplated thereby, including the merger and (2) has determined that the terms of the merger agreement and the transactions contemplated thereby, including the merger, are advisable, fair to and in the best interests of our unaffiliated public stockholders. **Accordingly, our board of directors unanimously recommends that our stockholders vote FOR the adoption of the merger agreement and approval of the merger.** In considering the recommendation of our board of directors, you should be aware that our non-independent directors have interests in the proposed transaction that are different from, or are in addition to, the interests of our stockholders (other than LUKOIL and its affiliates) generally. These interests and benefits are described in the attached proxy statement.

Our stockholders of record as of the close of business on August 23, 2006 will be entitled to notice of and to vote at the special meeting and any postponement or adjournment thereof.

Attendance at the meeting is limited to our stockholders. Registration will begin at 9:00 a.m. and the meeting will begin at 10:00 a.m., London time. Each stockholder holding shares in brokerage accounts will need to bring a copy of

a brokerage statement reflecting stock ownership as of the record date. Please note that you may be asked to present valid picture identification, such as a driver s license or passport.

Table of Contents

Under Delaware law, if you do not wish to accept the cash payment provided for in the merger agreement, you have the right to dissent from the merger and to receive payment in cash for the fair value of your shares of our common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger. Stockholders electing to exercise appraisal rights must comply with the provisions of Section 262 of the Delaware General Corporation Law in order to perfect their rights, and must deliver a written demand for appraisal of their shares to us before the vote with respect to the merger is taken at the special meeting. We will require strict compliance with the statutory procedures. See THE MERGER Appraisal Rights. A copy of these provisions is included as Exhibit B to the attached proxy statement. We also refer you to the information included in the section of the attached proxy statement entitled THE MERGER Appraisal Rights.

It is very important to us and the special committee that your shares be represented at the special meeting, whether or not you plan to attend personally. Therefore, please complete and sign the enclosed proxy card and return it as soon as possible in the enclosed postage-paid envelope. This will ensure that your shares are represented at the special meeting. You may revoke your proxy at any time before it is voted at the special meeting.

If you have certificates representing shares of our common stock, please do not send your certificates to us at this time. If the merger is completed, you will be sent instructions regarding the surrender of your certificates to receive payment for your shares of our common stock. If you hold your shares of our common stock in book-entry form that is, without a stock certificate you do not need to do anything to receive payment for your shares of our common stock. In such a case, following completion of the merger, the paying agent will automatically mail you the merger consideration in exchange for the cancellation of your shares of our common stock.

If you have any questions or need assistance in voting your shares of our common stock, please contact: Chaparral Resources, Inc., 2 Gannett Drive, Suite 418, White Plains, New York 10604, (866) 559-3822. You may also call our proxy solicitor, Georgeson Shareholder Communications, toll-free at 1-866-800-7519.

BY ORDER OF THE BOARD OF DIRECTORS
Alan D. Berlin
Secretary

White Plains, New York
August 25, 2006

TABLE OF CONTENTS

QUESTIONS AND ANSWERS ABOUT THE MERGER	1
SUMMARY TERM SHEET	3
The Parties to the Merger	3
Terms of the Merger	3
The Special Committee of our Board of Directors	4
Vote Required	4
Recommendation of the Special Committee and our Board of Directors	4
Opinion of the Special Committee s Financial Advisor	5
Interests of Directors and Officers in the Merger	5
Effects of the Merger	5
Conditions to Completing the Merger	5
Termination of the Merger Agreement	6
Consequences of Termination	7
Financing	7
Material United States Federal Income Tax Consequences	7
Litigation Relating to the Merger	7
Appraisal Rights	7
Questions	7
SPECIAL FACTORS	8
Background of the Merger	8
Recommendation of the Special Committee	18
Recommendation of our Board of Directors	18
Reasons for the Special Committee s Determination; Fairness of the Merger	19
Reasons for our Board of Directors Determination; Fairness of the Merger	24
Position of LUKOIL and NRL Acquisition as to Fairness	24
Opinion of Financial Advisor to the Special Committee	25
Report of KKM s Reserve Consultant	33
Presentations of LUKOIL s Financial Advisors	33
Selected Financial Projections	34
Purpose and Structure of the Merger	35
Effects of the Merger	36
Certain Benefits and Detriments of the Merger	37
Plans for Chaparral	37
Interests of Directors and Officers in the Merger	37
Certain Relationships and Related Transactions	39
Provisions for Unaffiliated Stockholders	42
CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION	43
CHAPARRAL RESOURCES, INC. SELECTED HISTORICAL FINANCIAL DATA	44
RATIO OF EARNINGS TO FIXED CHARGES	45
MARKET AND MARKET PRICE	46
Market Information	46
Number of Stockholders	46
Dividends	46

PARTIES TO THE MERGER	47
Chaparral Resources, Inc.	47
LUKOIL Overseas Holding Ltd.	47
NRL Acquisition Corp.	47
THE SPECIAL MEETING	48
Date, Time and Place of the Special Meeting	48
Matters to be Considered at the Special Meeting	48
Vote Required	48
Record Date and Voting Rights	48
Quorum	49
Revocability of Proxies	49
Proxy Solicitation	49
Adjournments and Postponements	50
Exchanging Stock Certificates	50
Appraisal Rights	50
THE MERGER	51
Effective Time of the Merger	51
Executive Officers and Directors of the Surviving Corporation	51
Payment of Merger Consideration and Surrender of Stock Certificates	51
Risks that the Merger will not be Completed	52
Risks in the Event of Bankruptcy	52
Merger Financing; Sources of Funds	53
Material United States Federal Income Tax Consequences	53
Litigation Relating to the Merger	53
Anticipated Accounting Treatment of the Merger	54
Regulatory Matters	54
Estimated Fees and Expenses of the Merger	54
Appraisal Rights	55
THE MERGER AGREEMENT	58
Effective Time of Merger	58
The Merger	58
Merger Consideration	58
Payment of Merger Consideration and Surrender of Stock Certificates	58
Treatment of Stock Options	59
Representations and Warranties	59
Conduct of Business Pending the Merger	60
No Solicitation	60
Access to Information	61
Conditions to the Merger	61
Termination of the Merger Agreement	62
Termination Fee and Expense Reimbursement	63
Amendments; Extensions; Waivers	63
Fees and Expenses	64
Governing Law	64

Table of Contents

Assignment	64
Other Actions	64
COMMON STOCK PURCHASE INFORMATION	65
Recent Transactions	65
PRINCIPAL STOCKHOLDERS	66
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	66
FUTURE STOCKHOLDER PROPOSALS	66
WHERE YOU CAN FIND MORE INFORMATION	67

EXHIBITS:

Exhibit A: Agreement and Plan of Merger dated as of March 13, 2006 among Chaparral, LUKOIL and NRL Acquisition	A-1
Exhibit B: Section 262 of Delaware General Corporation Law	B-1
Exhibit C: Fairness Opinion of Petrie Parkman & Co., Inc. dated March 10, 2006	C-1
Exhibit D: Information Regarding the Parties to the Merger, Open Joint Stock Company Oil Company LUKOIL and their Directors and Executive Officers	D-1
Exhibit E: Annual Report on Form 10-K for the year ended December 31, 2005	E-1
Exhibit F: Amendment No. 1 to the Annual Report on Form 10-K for the year ended December 31, 2005	F-1
Exhibit G: Quarterly Report on Form 10-Q for the quarter ended June 30, 2006	G-1
Exhibit H: First Amended Consolidated Complaint *In re: Chaparral Resources, Inc. Shareholders Litigation*	H-1

APPENDIX:

Appendix A: Georgeson Shareholder Proxy Solicitation Scripts	App A-1

QUESTIONS AND ANSWERS ABOUT THE MERGER

The information provided in question and answer format below is for your convenience and is merely a summary of certain information contained in this proxy statement. You should carefully read this entire proxy statement, including each of the exhibits to this proxy statement.

Q: When and where is the special meeting? (See Page 48)

A: The special meeting of our stockholders will be held at 10:00 a.m. local time on September 29, 2006, at the Radisson Edwardian Hampshire Hotel, located at 31-36 Leicester Square, London, England.

Q: What am I being asked to vote upon? (See Page 48)

A: You are being asked to consider and vote upon a proposal to adopt the merger agreement and approve the merger. Under the merger agreement, NRL Acquisition will be merged with and into Chaparral, with Chaparral as the surviving corporation. NRL Acquisition is a Delaware corporation, wholly owned by LUKOIL. LUKOIL is a subsidiary of Open Joint Stock Company Oil Company LUKOIL, a Russian energy company whose shares are traded on the London Stock Exchange. The affirmative vote of the shares controlled by LUKOIL is sufficient under Delaware law to adopt the merger agreement and approve the merger. The proposed transaction does not require the approval of a majority of our unaffiliated stockholders.

Q: What will I receive in the merger? (See Page 58)

A: Upon completion of the merger, each issued and outstanding share of our common stock, other than those shares held by LUKOIL or its affiliates, will be converted into the right to receive $5.80 in cash, without interest. LUKOIL and its affiliates will not receive any cash consideration in the merger. However, they will own all of our outstanding common stock following completion of the merger.

Q: What kind of premium to the price of Chaparral common stock is implied by the merger consideration? (See Page 19)

A: The merger consideration represents a premium of (1) approximately 9% over the last trade price per share of $5.30 on March 10, 2006, the last trading day before we announced the execution of the merger agreement, (2) approximately 12% over the average daily last trade price per share of $5.19 during one week period preceding the initial announcement regarding the executed merger agreement, and (3) approximately 180% over the average closing price of our common stock during the first half of 2005.

Q: Who can vote on the merger agreement? (See Page 48)

A: Holders of record of our common stock at the close of business on August 23, 2006, the record date for the special meeting, are entitled to vote in person or by proxy at the special meeting.

Q: What vote is required to adopt and approve the merger agreement? (See Page 48)

A: The merger agreement must be adopted and approved by the affirmative vote of at least a majority of the outstanding shares of our common stock.

The proposed transaction does not require the approval of a majority of our unaffiliated stockholders. LUKOIL controls 60% of our outstanding common stock and has committed to vote its shares in favor of the merger agreement and the merger. The affirmative vote of the shares controlled by LUKOIL is sufficient under Delaware law to adopt the merger agreement and approve the merger. As of August 24, 2006, other than Mr. Berlin, none of our directors or executive officers own any shares of our common stock. Mr. Berlin beneficially owns 167 shares of our common stock, which represent less than 1% of the voting power of our common stock. We anticipate that Mr. Berlin will vote in favor of the merger.

It is very important to us and the special committee that your shares be represented at the special meeting, whether or not you plan to attend personally. Therefore, please complete and sign the enclosed proxy card and return it as soon as possible in the enclosed postage-paid envelope. This will ensure that your shares are represented at the special meeting. You may revoke your proxy at any time before it is voted at the special meeting.

Q: What do I need to do now? (See Page 48)

A: You should read this proxy statement carefully, including the exhibits accompanying this proxy statement and the documents incorporated by reference into this proxy statement, and consider how the merger affects you. Then, please mark your vote on your proxy card and date, sign and mail it in the enclosed, postage paid return envelope as soon as possible so that your shares can be voted at the special meeting.

Q: What happens if I do not return a proxy card? (See Page 48)

A: The failure to return your proxy card will have the same effect as voting against the merger agreement and the merger.

Q: May I vote in person? (See Page 48)

A: Yes. You may attend the special meeting of our stockholders and vote your shares in person whether or not you sign and return your proxy card. If your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must complete, sign and return the voting instruction form in accordance with the directions provided.

Q: May I change my vote after I have mailed my signed proxy card? (See Page 49)

A: Yes. You may change your vote at any time before your proxy card is voted at the special meeting. You can do this in one of three ways. First, you can send a written notice to the Secretary of Chaparral at Chaparral s executive offices located at 2 Gannett Drive, Suite 418, White Plains, New York 10604, stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. Third, you can attend the meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions you receive from your broker to change those instructions.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me? (See Page 48)

A: No. You should follow the instructions on the voting instruction form you receive and contact your broker if you require assistance.

Q: Should I send in my stock certificates now? (See Page 50)

A: No. After the merger is completed, you will receive written instructions for exchanging your shares of our common stock for a cash payment of $5.80 per share, without interest.

Q: Do I have a right to seek an appraisal of my shares? (See Page 50)

A: Yes. If you wish, you may seek an appraisal of the fair value of your shares, but only if you comply with all requirements of Delaware law as described on page 55 and in Exhibit B of this proxy statement. Based on the determination of the Delaware Court of Chancery, the appraised fair value of your shares of our common stock, which will be paid to you if you seek an appraisal, may be more than, less than or equal to the $5.80 per share to be paid in the merger.

Q: Who can help answer my questions? (See Page 67)

A: If you would like additional copies, without charge, of this proxy statement or if you have questions about the merger, including the procedures for voting your shares, you should contact:

Chaparral Resources, Inc.
2 Gannett Drive, Suite 418
White Plains, New York 10604
Telephone: (866) 559-3822
Attn: Alan D. Berlin, Secretary

You may also call our proxy solicitor, Georgeson Shareholder Communications, toll-free at 1-866-800-7519.

SUMMARY TERM SHEET

This summary section highlights selected information from this proxy statement regarding the stockholder proposal and may not contain all of the information that is important to you. We urge you to carefully read this entire proxy statement, including the exhibits to the proxy statement and the documents that are incorporated by reference. You may obtain a copy of the documents that we have incorporated by reference without charge by following the instructions in the section entitled Where You Can Find More Information beginning on page 67. We have included page references in this summary to direct you to more complete descriptions of the topics presented in this summary.

The Parties to the Merger (See Page 47)

Chaparral Resources, Inc.

We are an independent oil and gas development and production company. Through intermediate holding companies, Central Asian Petroleum (Guernsey), Ltd., a Guernsey company, Korporatsiya Mangistau Terra International Limited, a Kazakhstan company, and Central Asian Petroleum, Inc., a Delaware company, we own a 60% interest in ZAO Karakudukmunay, a Kazakhstani joint stock company that holds a governmental license to develop the Karakuduk Oil Field, a 16,900-acre oil field in the Republic of Kazakhstan. Currently, the Karakuduk Field is our only oil field. We have no other significant subsidiaries besides Central Asian Petroleum (Guernsey), Korporatsiya Mangistau Terra International, and Central Asian Petroleum.

Approximately 40% of our outstanding common stock is quoted on the OTC Bulletin Board under the symbol CHAR.ob and is held by the public. Since December 2005, LUKOIL has indirectly owned 60% of our outstanding common stock. Our corporate headquarters are located at 2 Gannett Drive, Suite 418, White Plains, New York 10604, and our telephone number is (866) 559-3822. See PARTIES TO THE MERGER beginning on page 47.

LUKOIL Overseas Holding Ltd.

LUKOIL is a subsidiary of Open Joint Stock Company Oil Company LUKOIL, a Russian energy company whose shares are traded on the London Stock Exchange, and is responsible for managing its parent s international oil and gas projects. See PARTIES TO THE MERGER beginning on page 47.

LUKOIL, through its ownership of NRL Acquisition, controls 60% of our outstanding common stock and has committed to vote these shares in favor of the merger agreement and the merger. The affirmative vote of the shares controlled by LUKOIL is sufficient under Delaware law to adopt the merger agreement and approve the merger. The proposed transaction does not require the approval of a majority of the unaffiliated stockholders.

NRL Acquisition Corp.

NRL Acquisition is a Delaware corporation wholly owned by LUKOIL whose sole activity is the ownership of shares of our common stock. NRL Acquisition owns 60% of our outstanding common stock and has committed to vote its shares in favor of the merger agreement and the merger. See PARTIES TO THE MERGER beginning on page 47.

Terms of the Merger (See Page 51)

Pursuant to the merger agreement, LUKOIL will acquire Chaparral for $5.80 per share of outstanding common stock (other than shares held by LUKOIL or its affiliates and shares to which appraisal rights have been properly perfected

under Delaware law) in cash, without interest, through the merger of its wholly owned subsidiary, NRL Acquisition, with and into Chaparral. Chaparral will survive the merger, and at the closing of the merger, we will be a privately held, wholly owned subsidiary of LUKOIL, and NRL Acquisition will cease to exist as a separate entity.

The Special Committee of our Board of Directors (See Page 37)

Certain of our directors are officers of LUKOIL or its affiliates. Because these directors have financial or other interests that may be different from, or in addition to, your interests in the merger, our board of directors decided that, in order to protect the interests of our unaffiliated stockholders in evaluating and negotiating the merger agreement, a special committee of independent directors who are not otherwise affiliated with Chaparral or LUKOIL or its affiliates, and who have no financial interest in the merger (other than as stockholders of Chaparral) should be formed to perform those tasks and, if appropriate, recommend the merger and the terms of the merger agreement to our entire board of directors and our stockholders. Our board of directors subsequently formed a special committee consisting of two independent directors, Peter G. Dilling and Alan D. Berlin. Mr. Dilling is chairman of the special committee.

Vote Required (See Page 48)

The merger agreement must be adopted and the merger approved by the affirmative vote of a majority of the voting power of our common stock outstanding on the record date for the special meeting described in this proxy statement. For this vote, abstentions and broker non-votes, as well as shares that are not voted, will have the same effect as a vote against both adoption of the merger agreement and approval of the merger.

The proposed transaction does not require the approval of a majority of our unaffiliated stockholders. LUKOIL controls 60% of our outstanding common stock and has committed to vote its shares in favor of the merger agreement and the merger. The affirmative vote of the shares controlled by LUKOIL is sufficient under Delaware law to adopt the merger agreement and approve the merger. As of August 24, 2006, other than Mr. Berlin, none of our directors or executive officers own any shares of our common stock. Mr. Berlin beneficially owns 167 shares of our common stock, which represents less than 1% of the voting power of our common stock. We anticipate that Mr. Berlin will vote in favor of the merger.

It is very important to us and the special committee that your shares be represented at the special meeting, whether or not you plan to attend personally. Therefore, please complete and sign the enclosed proxy card and return it as soon as possible in the enclosed postage-paid envelope. This will ensure that your shares are represented at the special meeting. You may revoke your proxy at any time before it is voted at the special meeting.

Recommendation of the Special Committee and our Board of Directors (See Page 18)

After careful consideration, and in light of the factors described in the section of this proxy statement entitled SPECIAL FACTORS Reasons for the Special Committee s Determination; Fairness of the Merger, the special committee has unanimously determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable, fair to, and in the best interests of our unaffiliated stockholders.

After careful consideration, our board of directors, based solely on the recommendation of the special committee, has unanimously determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable, fair to, and in the best interests of our unaffiliated stockholders. **Our board of directors recommends that you vote FOR the adoption of the merger agreement and the merger.**

For a discussion of the material factors considered by the special committee in reaching its conclusion and the reasons why our board of directors determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable, fair to, and in the best interests of our unaffiliated stockholders, see the section of this proxy

statement entitled SPECIAL FACTORS Reasons for the Special Committee s Determination; Fairness of the Merger beginning on page 19 and SPECIAL FACTORS Reasons for our Board of Directors Determination; Fairness of the Merger beginning on page 24.

Opinion of the Special Committee s Financial Advisor (See Page 25)

The special committee received the written opinion of Petrie Parkman & Co., Inc. to the effect that, as of March 10, 2006, based upon and subject to the matters set forth in the opinion, the merger consideration to be received by the holders of our common stock (other than LUKOIL and its affiliates) was fair, from a financial point of view, to such holders. The full text of Petrie Parkman s written opinion, dated March 10, 2006, is attached as Exhibit C to this proxy statement. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken.

Petrie Parkman s opinion was provided to the special committee in connection with its evaluation of the merger consideration and relates to the fairness, from a financial point of view, of the merger consideration; it does not address any other aspect of the proposed merger and does not constitute a recommendation to any stockholder as to any matters relating to the merger or any related transaction, including as to how any stockholders should vote on the merger.

Interests of Directors and Officers in the Merger (See Page 37)

When considering the recommendation of our board of directors that you vote for approval and adoption of the merger agreement and the transactions contemplated thereby, including the merger, you should be aware that certain of our directors and officers have interests in the merger that are different from, or in addition to, yours and that may present, or appear to present, a conflict of interest. These interests include the following:

- some of our directors and executive officers are employees and/or shareholders of LUKOIL, including Dmitry Timoshenko, who is a Director of Chaparral and is also Vice-President/General Counsel for LUKOIL; Oktay Movsumov, who is a Director of Chaparral and is also Vice-President/Treasurer for LUKOIL; and Boris Zilbermints, who is Chief Executive Officer and a Director of Chaparral and is also Regional Director of LUKOIL Overseas Service Limited s branch in Kazakhstan; and

- following the merger, LUKOIL will indemnify our current and former directors and officers and provide these directors and officers with liability insurance for at least six years thereafter.

In addition, you should be aware that one of our directors, Mr. Berlin, owns 167 shares of our common stock and will receive the merger consideration for these shares. No other officer or director of Chaparral owns any shares of our common stock.

Effects of the Merger (See Page 36)

Upon completion of the merger, NRL Acquisition will merge with and into Chaparral, with Chaparral surviving the merger. LUKOIL will indirectly own 100% of our then-outstanding common stock, and you will no longer be a stockholder of, or have any ownership interest in, Chaparral. We will no longer be a public company, and our common stock will no longer be quoted on the OTC Bulletin Board. The registration of our common stock under the Securities Exchange Act of 1934, as amended, will terminate, and we will cease to file periodic reports with the Securities and Exchange Commission under the Exchange Act. The management of NRL Acquisition immediately before the effective time will become the management of Chaparral.

Conditions to Completing the Merger (See Page 61)

Conditions to the Obligations of the Parties. The obligations of each party to complete the merger are subject to the satisfaction or waiver of certain conditions, including the following:

the absence of any law, order or injunction that prohibits the completion of the merger; and

approval of the merger agreement by a majority of the votes entitled to be cast at the special meeting, which can be achieved by the affirmative vote of the shares of our common stock controlled by LUKOIL.

Conditions to our Obligations. Our obligations to complete the merger are subject to the satisfaction or waiver of certain other conditions, including the following:

the representations and warranties of LUKOIL and NRL Acquisition contained in the merger agreement are true and correct in all material respects;

each of LUKOIL and NRL Acquisition shall have performed in all material respects its respective undertakings and agreements required by the merger agreement to be performed or complied with before or at the closing; and

we shall have received a certificate of a senior officer of LUKOIL certifying that the above conditions have been fulfilled.

Conditions to the Obligations of LUKOIL and NRL Acquisition. The obligations of LUKOIL and NRL Acquisition to complete the merger are subject to the satisfaction or waiver of certain other conditions, including the following:

our representations and warranties contained in the merger agreement are true and correct in all material respects;

we must have performed in all material respects our undertakings and agreements required by the merger agreement to be performed or complied with before or at the closing;

LUKOIL and NRL Acquisition shall have received a certificate of one of our senior officers certifying that the above conditions have been fulfilled;

holders of no more than 10% of the outstanding shares of our common stock (other than LUKOIL and its affiliates) shall have exercised their right to appraisal under Delaware law;

since the date of the merger agreement, there has not been a material adverse effect on Chaparral; and

receipt of all required consents and approvals.

Termination of the Merger Agreement (See Page 62)

The merger agreement may be terminated before the effective time of the merger for a number of reasons, including the following:

by mutual written consent at any time before adoption of the merger agreement at the special meeting;

by either LUKOIL or us if the merger is not completed on or before September 30, 2006;

by LUKOIL or us (exercised by the special committee) if our board of directors or the special committee fails to recommend, withdraws or modifies its recommendation in a manner adverse to LUKOIL or NRL Acquisition or publicly takes a position materially inconsistent with its approval or recommendation of the merger, in either case, in light of a superior proposal, or our board of directors or the special committee approves, endorses or recommends another superior proposal. A superior proposal is an acquisition proposal that (1) is not subject to any financing contingencies or is, in the good faith judgment of the special committee (including, among other things, the advice of its independent financial advisors and outside legal counsel), reasonably capable of being financed and (2) the special committee determines in good faith, based upon such matters as it deems relevant, including an opinion of its financial advisor, would, if consummated, result in a transaction more favorable to our stockholders, other than LUKOIL and its affiliates, from a financial point of view than the proposed merger.

by the non-breaching party if the other party breaches any of its representations, warranties or covenants in the merger agreement;

by either LUKOIL or us in the event of a nonappealable final order, decree or ruling or any other action of a court of competent jurisdiction or governmental authority having the effect of permanently restraining, enjoining or otherwise prohibiting the merger;

by us if the conditions to the merger described above under Conditions to Completing the Merger Conditions to the Obligations of the Parties and Conditions to our Obligations become impossible to fulfill (other than as a result of our breach of the merger agreement) and that condition has not been waived;

by LUKOIL if the conditions to the merger described above under Conditions to Completing the Merger Conditions to the Obligations of the Parties and Conditions to the Obligations of LUKOIL and NRL Acquisition become impossible to fulfill (other than as a result of a breach of the merger agreement by LUKOIL or NRL Acquisition) and that condition has not been waived; or

by us if we receive an acquisition proposal that the special committee concludes, based on the advice of a nationally recognized investment banking firm, is a superior proposal and the special committee determines in good faith, in consultation with outside counsel, that it is advisable to accept the new acquisition proposal to comply with its fiduciary duties.

Consequences of Termination (See Page 63)

If the merger agreement is terminated by LUKOIL or us because the special committee accepts a superior proposal, we will pay LUKOIL a termination fee of $2,500,000 plus the amount of LUKOIL s and NRL Acquisition s actual and reasonable expenses incurred in connection with the merger agreement. However, the aggregate amount of the termination fee plus expenses may not be more than $3,000,000.

Financing (See Page 53)

We estimate that $91.5 million will be necessary to complete the merger and pay related fees and expenses. LUKOIL and NRL Acquisition expect to fund this amount through LUKOIL s internal working capital.

Material United States Federal Income Tax Consequences (See Page 53)

The conversion of shares of our common stock into cash pursuant to the merger agreement is a taxable transaction for United States federal income tax purposes and may also be a taxable transaction under applicable state, local or foreign tax laws. LUKOIL and NRL Acquisition will have different tax consequences from the merger than stockholders generally. You should consult your own tax advisor about the particular tax consequences of the merger to you.

Litigation Relating to the Merger (See Page 53)

Following our announcement of the merger agreement on March 13, 2006, three separate complaints were filed in the Delaware Court of Chancery and one complaint was filed in the Supreme Court of the State of New York, to commence class action lawsuits on behalf of our stockholders against LUKOIL, Chaparral and our board of directors. The Delaware cases were consolidated on March 31, 2006. The Delaware plaintiffs filed a consolidated amended complaint on July 3, 2006. On July 26, 2006, the defendants filed their respective answers to this consolidated amended complaint. Parties to the New York case have agreed that defendants have until August 31, 2006 to respond to that suit.

Appraisal Rights (See Page 55)

Under Delaware law, if you do not wish to accept the cash payment provided for in the merger agreement, you have the right to dissent from the merger and to receive payment in cash for the fair value of your shares of our common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger. Stockholders electing to exercise appraisal rights must comply with the provisions of Section 262 of the Delaware General Corporation Law in order to perfect their rights, and must deliver a written demand for appraisal of their shares to us before the vote with respect to the merger is taken at the special meeting. We will require strict compliance with the statutory procedures. See THE MERGER Appraisal Rights.

Questions

If, after reading this proxy statement, you have additional questions about the merger or other matters discussed in this proxy statement, need additional copies of this proxy statement or require assistance with voting your shares of our common stock, please contact:

Chaparral Resources, Inc.
2 Gannett Drive, Suite 418
White Plains, New York 10604
Telephone: (866) 559-3822

You may also call our proxy solicitor, Georgeson Shareholder Communications, toll-free at 1-866-800-7519.

Table of Contents

SPECIAL FACTORS

Background of the Merger

Since May 2004, 60% of our outstanding common stock has been held by Nelson Resources Limited and currently, as a result of the transaction between Nelson and LUKOIL described below, by LUKOIL. Approximately 40% of our outstanding common stock is currently quoted on the OTC Bulletin Board under the symbol CHAR.ob and is held by the public. Throughout our existence as a public company, the market value and liquidity of our common stock have been negatively impacted generally by the inherent difficulty of attracting analyst and investor interest to a company with a majority stockholder and a small public float. As a result, the liquidity of the market for our common stock has remained consistently limited.

After being approached by the senior management of LUKOIL, on September 30, 2005, Nelson announced that it had entered into an agreement to negotiate with LUKOIL concerning a proposal received from LUKOIL to acquire 100% of the fully diluted common shares of Nelson for US$2 billion in cash.

On October 3, 2005, our board of directors, which consisted of three Nelson appointees and two independent directors, established a special committee to determine what actions would be appropriate to take in order to protect the interests of our minority stockholders in connection with LUKOIL s acquisition of Nelson. The special committee is composed of two independent directors, Alan D. Berlin and Peter G. Dilling. The special committee is chaired by Peter G. Dilling. Our board of directors authorized the committee to retain advisors, to obtain further information from LUKOIL and Nelson and to act to protect the interests of all of our public stockholders.

Also on October 3, 2005, Nelson held an investor/shareholder conference call, led by Nick Zana, Chairman and Chief Executive Officer of Nelson, to discuss the transaction with LUKOIL. Alan Berlin and Peter Dilling dialed into the conference call and monitored the comments and the questions and answers provided during the call.

After the announcement of the transaction between Nelson and LUKOIL, Chaparral received numerous telephone calls and a number of e-mails raising concerns about the effects of the amalgamation on Chaparral. The reaction was varied and included:

- requests for more information concerning the amalgamation and Chaparral s response to it;
- queries about what rights Chaparral stockholders had to attempt to stop the transaction;
- disappointment regarding the value attributed to Nelson shares in the amalgamation;
- questions about why the Chaparral stock price had dropped so significantly upon the announcement of the amalgamation; and
- requests to be bought out by LUKOIL at the same value per barrel of proved and probable reserves as applied to the Nelson reserves.

Similar questions and sentiments were expressed on the Nelson investor / shareholder conference call held on October 3, 2005.

On October 4, 2005, we issued a press release announcing (1) that Nelson announced it had entered into an agreement to negotiate regarding a proposal received from LUKOIL to acquire 100% of the fully diluted common shares of Nelson for US$2 billion in cash, (2) that we had received no information regarding the intentions of LUKOIL with respect to Chaparral in the event the proposed transaction with Nelson is completed, (3) that we were not informed of the proposed transaction in advance of the public announcements by Nelson and LUKOIL and were not a party to the discussions between those companies, and (4) that a special committee had been appointed to be chaired by Mr. Dilling to represent the interests of our minority stockholders with respect to this potential transaction.

On October 11, 2005, the special committee retained the law firm of Baker Botts L.L.P. of Houston and London to advise the special committee in connection with LUKOIL s acquisition of Nelson and any

subsequent transaction between LUKOIL and Chaparral. Baker Botts has in the past provided and currently provides limited legal services to LUKOIL and its affiliates in matters unrelated to Chaparral primarily out of its Moscow office, and may continue to do so in the future. Baker Botts was unaware of the potential conflict with regard to LUKOIL when it conducted its initial conflicts check. Upon discovery of this representation of LUKOIL affiliates in January or February, Baker Botts discussed it with the special committee, which was already well into the negotiating process. The special committee determined that such representation would not affect the quality of the advice it would receive from Baker Botts because (1) of the reputation of Baker Botts for integrity, work ethic, and the quality of its legal advice, (2) none of the attorneys representing the special committee have provided legal advice to LUKOIL or its affiliates, (3) the legal fees paid by LUKOIL to Baker Botts between April 2005 and March 2006 represent a very small percentage of Baker Botts revenue during that period (less than 0.1%), and (4) Baker Botts provides legal services to LUKOIL primarily out of its Moscow and London offices, and provides legal services to the special committee primarily out of its Houston office. See SPECIAL FACTORS Certain Relationships and Related Transactions beginning on page 39.

At a telephonic meeting on October 13, 2005, the special committee discussed, among other things, the applicability of Section 203 of the Delaware General Corporation Law with respect to approval rights of our minority stockholders, the need to retain a financial advisor, and the advisability of preparing a stockholder rights plan.

On October 14, 2005, Nelson announced that it had entered into a definitive agreement with LUKOIL dated October 13, 2005 to effect an amalgamation between Nelson and a wholly-owned subsidiary of LUKOIL. Nelson indicated in a press release that the amalgamation was subject to certain conditions, including approval of the holders of 75% of the votes cast by Nelson s shareholders at a special meeting of Nelson s shareholders. Also on October 14, 2005, LUKOIL announced that it had purchased approximately 65% of Nelson s outstanding shares from four principal shareholders of Nelson on the same terms offered to the other shareholders of Nelson in the amalgamation.

Also on October 14, 2005, the Nelson members of our board of directors informed the special committee that they would brief the special committee regarding the Nelson transaction with LUKOIL. The special committee requested a meeting with LUKOIL to discuss LUKOIL s intentions with respect to Chaparral, and requested a copy of the definitive amalgamation agreement between Nelson and LUKOIL and any other documentation that was pertinent to Chaparral in connection with the Nelson amalgamation with LUKOIL.

At a telephonic meeting on October 14, 2005, the special committee ratified the retention of Baker Botts as its legal advisors, and Mr. Swanson of Baker Botts provided a brief summary of Delaware law regarding the business judgment rule, director s duty of care and loyalty and the protection of our minority stockholders. The special committee agreed to make a formal request to Nelson for copies of the amalgamation agreement and BMO Nesbitt Burns valuation analysis. Mr. Dilling spoke with Mr. Thieffry, a member of Nelson s board of directors and chair of the special committee of Nelson s board of directors evaluating the transaction with LUKOIL, and requested a copy of the amalgamation agreement and related materials. The special committee also discussed whether Section 203 of the Delaware General Corporation Law would apply in this situation, but noted that Chaparral is exempt from Section 203 because our stock is not listed on a national securities exchange, is not authorized for quotation on The NASDAQ Stock Market, and is held by less than 2,000 record owners, and again discussed whether a stockholder rights plan would be advisable.

Also on October 14, 2005, we issued a press release announcing (1) the execution of a definitive amalgamation agreement by LUKOIL and Nelson, (2) that the special committee was continuing to monitor this transaction and had retained Baker Botts L.L.P. to advise the committee in connection with this transaction, (3) that the special committee had requested a meeting with LUKOIL to discuss the intentions of LUKOIL with respect to Chaparral, and (4) that the committee had requested that Nelson provide the special committee with additional information regarding the agreement between Nelson and LUKOIL.

On October 20, 2005, the special committee sent a letter to Nick Zana, Chairman and Chief Executive Officer of Nelson, requesting (1) a copy of the definitive amalgamation agreement between Nelson and LUKOIL, and (2) a copy of the financial analysis supporting the fairness opinion delivered to Nelson by BMO

Nesbitt Burns in connection with the Nelson acquisition. The special committee offered to execute a customary confidentiality agreement relating to materials not otherwise publicly disclosed.

On the same day, the special committee sent a letter to Ravil Maganov, Chairman of the Board of Directors of LUKOIL, requesting a meeting with Mr. Maganov and other key members of the LUKOIL transaction team to discuss the intentions of LUKOIL with respect to Chaparral after the Nelson acquisition was completed. The special committee offered to execute a customary confidentiality agreement relating to materials not otherwise publicly disclosed in connection with the meeting. In response, Dmitry Timoshenko, Vice President/General Counsel of LUKOIL, indicated to the special committee that LUKOIL was focused on completing the Nelson acquisition and did not expect to develop plans relating to Chaparral until after the Nelson acquisition was completed. In addition, Mr. Timoshenko indicated that LUKOIL was not comfortable meeting with the special committee before LUKOIL s acquisition of Nelson was completed, and declined to do so.

On October 24, 2005, the special committee and its advisors received from Nelson a copy of the amalgamation agreement between Nelson and LUKOIL and a Form 51-102F3 Material Change Report (which contained a summary of the Nelson transaction) for Nelson. The special committee did not receive a copy of Nelson s financial advisor s report. The special committee reviewed the amalgamation agreement and the Material Change Report and discussed both documents with its legal advisors. In particular, the special committee and its legal advisors discussed the terms of the amalgamation agreement, including the closing conditions, timing of the transaction, and the receipt by Nelson of a fairness opinion, and the impact the Nelson transaction may have on Chaparral.

At a meeting on October 25, 2005, our board of directors, which consisted of three Nelson appointees and two independent directors, approved the compensation to be paid to members of the special committee for their service on the special committee through the end of the year. Our board of directors determined that each member of the special committee would receive a one-time fee of $25,000 to cover work by the committee members through December 31, 2005 in addition to our normal compensation for board committee participation of (1) $700 for each special committee meeting attended by teleconference, (2) $1,000 for each special committee meeting attended in person, and (3) $2,000 per day while traveling on business related to the special committee. We agreed to indemnify Messrs. Berlin and Dilling for any expenses, liabilities and losses relating to their service as members of the special committee and/or our board of directors.

Near the end of October 2005, Mr. Dilling requested a meeting with representatives of LUKOIL, including Dmitry Timoshenko, Vice President of LUKOIL, Oktay Movsumov, Vice President Finance of LUKOIL, and Andrei Kuzyaev, President of LUKOIL, to discuss LUKOIL s intentions with respect to Chaparral after its amalgamation with Nelson.

At a telephonic meeting on October 27, 2005, the special committee discussed the status and anticipated timing of the amalgamation between Nelson and LUKOIL and the discussions between Mr. Dilling and representatives of LUKOIL in London regarding LUKOIL s plans with respect to Chaparral. The LUKOIL representatives had indicated that LUKOIL would not focus on Chaparral until after the amalgamation with Nelson was consummated, and declined an invitation to attend the annual meeting of our stockholders. The special committee also discussed the advisability of a press release regarding LUKOIL s acquisition of Nelson, and continued to discuss whether a stockholder rights agreement could be adopted by our board of directors in light of the agreement between Nelson and LUKOIL.

At a telephonic meeting held in early November 2005, the special committee discussed postponing the annual meeting of our stockholders until after the consummation of the amalgamation between Nelson and LUKOIL, but decided that the meeting should proceed as previously scheduled. The special committee noted that it is rare for Chaparral s stockholders, but not for stockholders generally, to attend annual meetings in person. The special committee also discussed Nelson s press release regarding the amalgamation and the anticipated closing date of the amalgamation.

On November 4, 2005, Nelson distributed a Notice of General Meeting of Shareholders of Nelson to be convened on December 2, 2005, to vote on the offer by LUKOIL to amalgamate. The amalgamation was approved by Nelson s shareholders on December 2, 2005.

On November 14, 2005, we issued a press release summarizing the status of LUKOIL s acquisition of Nelson. We noted in the press release that LUKOIL indicated that it was not prepared to discuss Chaparral issues until the amalgamation with Nelson was completed.

At a meeting on November 30, 2005 held in New York, New York, the special committee discussed, among other things, the retention of BMO Nesbitt Burns or Petrie Parkman as its financial advisor. Although BMO Nesbitt Burns had experience in Kazakhstan and familiarity with Nelson due to its retention by the special committee of Nelson s board of directors in connection with Nelson s amalgamation with LUKOIL, the special committee was concerned about the perception of a conflict of interest if it were to rely upon the financial advisor used by a LUKOIL-controlled entity. The special committee also discussed Petrie Parkman s recent experience in Kazakhstan and the favorable experience of Mr. Berlin and the special committee s legal advisors with Petrie Parkman on unrelated transactions. The special committee deferred the decision until further developments with LUKOIL, but placed a call to Petrie Parkman on that day to determine its availability to represent the special committee.

Following the shareholder meeting approving the LUKOIL transaction on December 2, 2005, the three members of our board of directors that had been appointed by Nelson resigned. These positions were filled by LUKOIL appointees effective as of December 2, 2005. Alan D. Berlin and Peter G. Dilling continued to serve on our board of directors as independent directors. On December 5, 2005, Nelson was amalgamated with Caspian Investments Resources Limited, and Nelson ceased to exist. In addition, as a result of the amalgamation, (1) our Chief Executive Officer was replaced by a LUKOIL appointee in January 2006 following the resignation of Mr. Gill, a Nelson appointee, in December 2005, and (2) certain other key management positions in our subsidiary, ZAO Karakudukmunay, have also been replaced with LUKOIL appointees, including the General Director, the Finance Director, the Financial Controller, the Commercial Manager and the Chief Geologist. A number of other positions with ZAO Karakudukmunay have become vacant since the amalgamation of Nelson and LUKOIL, including the Logistics Manager and Field Manager.

On December 2, 2005, the special committee received background information and a draft engagement letter from Petrie Parkman. At a telephonic meeting on December 7, 2005, the special committee reviewed the Petrie Parkman materials. While the special committee also discussed obtaining a price quote from Houlihan Lokey Howard & Zukin (who acted as an investment advisor to Chaparral in connection with a restructuring transaction in the 1990s) to act as its financial advisors, the special committee decided not to do so because of the qualifications of Petrie Parkman and favorable experience with Petrie Parkman on unrelated transactions.

On December 9, 2005, Mr. Dilling again requested a meeting with, and met with, representatives of LUKOIL, including Mr. Movsumov, in London to discuss LUKOIL s intentions with respect to Chaparral. Mr. Movsumov indicated that, because Chaparral represented a relatively insignificant portion of Nelson s asset base, Chaparral had not been a strategic element of LUKOIL s acquisition of Nelson, and that LUKOIL had not yet developed plans relating to Chaparral. During this meeting, Mr. Dilling explained the role of the special committee in providing information to, and protection for, our minority stockholders. Mr. Movsumov indicated that now that the amalgamation had closed, LUKOIL was in a position to develop plans regarding Chaparral, but would need more time to do so.

The special committee held informal meetings almost every day from its formation through the end of December 2005. The special committee discussed with its legal advisors the effect the acquisition would have on our minority stockholders, and in particular whether Section 203 of the Delaware General Corporation Law or a stockholder rights plan would provide additional protections to the stockholders. During this period, the special committee also discussed the need to retain independent directors of Chaparral to protect the interests of our minority stockholders. In particular, the special committee and its legal advisors analyzed whether Chaparral is subject to Section 203 of the Delaware General Corporation Law and, if so, whether Section 203 would prevent LUKOIL from acquiring the publicly traded shares of our common stock without the consent of a majority of the public stockholders. The special committee also

considered, among other things, proposing the adoption of a stockholder rights plan, but believed Nelson would be precluded from permitting its adoption under its agreement with LUKOIL. Although the special committee had reviewed a copy of the BMO Nesbitt Burns fairness opinion delivered to Nelson in connection with the Nelson acquisition, which was publicly available, throughout this time, the special committee continued to request a copy of the financial analysis supporting the BMO Nesbitt

Burns fairness opinion, which Nelson did not provide. Because it has not been provided, neither Chaparral nor LUKOIL has looked at or had access to the underlying financial analysis.

On or around December 15, 2005, LUKOIL confirmed to the special committee that LUKOIL was not willing to sell its 60% ownership in Chaparral due to its ongoing strategy of increasing its asset base in the Republic of Kazakhstan, and that it was not willing to consummate a transaction for the shares of our common stock that it did not already own for consideration other than cash.

The special committee first learned of LUKOIL s interest in a possible transaction during the regular meetings of our full board of directors held on January 19 and January 20, 2006 in Moscow. During these meetings, LUKOIL expressed an interest in seeing if a transaction could be negotiated to purchase the shares of our common stock held by the public and proposed a purchase price of $4.50 to $5.00 per share. Mr. Dilling understood LUKOIL to be proposing a purchase price of $4.75 per share. During these discussions and in accompanying correspondence, Mr. Dilling indicated that he would present the proposal from LUKOIL to the special committee for its consideration, but that the per share purchase price was too low by at least $1.00 per share for a number of reasons, including premiums paid in recent minority buy-outs, the outperformance of Chaparral compared to other companies in the industry, and the initial response of Petrie Parkman to LUKOIL s offer, and would not be fair to the minority stockholders. At the conclusion of the board meeting on January 19, 2005, LUKOIL s intention to purchase all non-LUKOIL shares in Chaparral became the plan going forward.

Following the board meetings on January 19 and January 20, 2006, and in order to move forward with evaluation of a possible transaction with LUKOIL, the special committee telephonically interviewed Petrie Parkman again, and also telephonically interviewed BMO Nesbitt Burns, regarding advising the special committee in connection with LUKOIL s proposal, and providing the special committee with a reference valuation analysis of the minority public interest in Chaparral. In January 2006, the special committee met by telephone and resolved to retain Petrie Parkman as financial advisor to the special committee due, in part, to (1) its professional reputation and recent experience in Kazakhstan, (2) the favorable experience of Mr. Berlin and the special committee s legal advisors with Petrie Parkman on unrelated transactions, (3) the concerns about the appearance of a conflict if the special committee were to use Nelson s financial advisors, BMO Nesbitt Burns, and (4) the fact that while both Petrie Parkman and BMO Nesbitt Burns are premier firms in their field, Petrie Parkman s fee proposal was less than BMO Nesbitt Burns. Subsequently, the special committee executed an engagement letter with Petrie Parkman, dated as of January 21, 2006, to act as its financial advisor in connection with a potential transaction with LUKOIL. The engagement letter provided that Petrie Parkman would:

- meet in person with the special committee to develop an understanding of its strategic objectives with regard to Chaparral;
- meet with the management and consulting engineering firm of Chaparral, as appropriate to allow Petrie Parkman to gain a thorough understanding of our assets, businesses and prospects;
- develop a preliminary analysis indicating the current reference value range of Chaparral;
- review the financial terms of a transaction with LUKOIL as they are expressed in definitive transaction documentation; and
- prepare and render to the special committee a written opinion as to the fairness, from a financial point of view, of the consideration to be received by our minority stockholders in connection with a transaction with LUKOIL.

Petrie Parkman began its due diligence review of Chaparral shortly after execution of the engagement letter.

On January 27, 2006, Petrie Parkman presented the special committee and its legal advisors with a preliminary financial review of Chaparral based on the information it had received to date, including a review of our business, competitors, financial forecasts and reserve reports. Petrie Parkman also reviewed the standard reference valuation methodologies that it had utilized in precedent transactions where Petrie Parkman had provided a fairness opinion and that they planned to utilize in an analysis of Chaparral. These methodologies included: (1) a discounted cash flow analysis of our potential future cash flows assuming various pricing scenarios and discount rates, (2) a comparable transaction analysis based upon the review of implied purchase

price multiples for selected comparable assets and corporate acquisition transactions and the application of selected benchmark multiples to the financial and operating measures of Chaparral, and (3) a common stock comparison based upon the review of market capitalization multiples for selected publicly traded companies with operations similar to Chaparral and the application of selected benchmark multiples to the financial and operating measures of Chaparral. Petrie Parkman also discussed recent energy sector merger and acquisition transactions and related transaction metrics. The special committee instructed Petrie Parkman to undertake such further steps as it deemed necessary to complete its analysis. At this meeting, Petrie Parkman also discussed with the special committee other strategic options potentially available to Chaparral as an independent company, including continued operation as a standalone entity or expansion of Chaparral s operations beyond the Karakuduk field, or through the possible sale to or merger with a third party, including the assessment by Petrie Parkman of the likelihood that (based on knowledge of the industry but without having made specific inquiries) other companies would have the interest or ability to make an offer to acquire or merge with Chaparral. Petrie Parkman indicated it was in the process of preparing an advocacy presentation for use by Mr. Dilling in discussions with LUKOIL that supported the special committee s view that LUKOIL should increase its proposed purchase price. Petrie Parkman also indicated that the presentation would be biased in favor of supporting an increase in LUKOIL s proposed purchase price by making as many persuasive points as possible to support an increase in price.

In January 2006, the special committee presented a budget for the special committee to LUKOIL. This budget included compensation for the special committee and professional fees for its legal and financial advisors. LUKOIL and the special committee negotiated the budgeted compensation and fees, and the budget was eventually approved by Mr. Movsumov. During these negotiations, LUKOIL and the special committee agreed to a reduction in professional fees for the special committee s financial advisors. As a result, Petrie Parkman was asked to reduce its fee proposal. Although LUKOIL believed the reductions should have been greater, the special committee and Petrie Parkman agreed upon a mutually acceptable fee structure. The initial proposal from BMO Nesbitt Burns was higher than Petrie Parkman s initial proposal.

LUKOIL and the special committee also agreed to a reduction in the special committee s compensation. Each of Messrs. Berlin and Dilling has received or will receive a one-time fee of $85,000 to cover work by the committee members for the period from January 1, 2006 through March 31, 2006, a fee of $21,500 for the month of April, and a fee of $21,500 for the month of May 2006. The members of the special committee also will be reimbursed for their reasonable out-of-pocket expenses related to services on the special committee.

The special committee held telephonic meetings with its legal and financial advisors during the month of January to discuss the meetings held January 19 and 20, 2006, LUKOIL s proposal and developments since the prior special committee meetings. The special committee also discussed its views with respect to the adequacy of LUKOIL s offer. The special committee believed that LUKOIL s $4.75 per share proposal was not attractive, given our then-current trading price, business strategies and growth prospects. The special committee authorized Mr. Dilling to engage in further exploratory discussions with LUKOIL to determine if LUKOIL would be willing to offer a higher price, and authorized Mr. Dilling to give LUKOIL a preliminary update regarding Petrie Parkman s valuation analysis.

In early February 2006, Mr. Dilling advised Mr. Movsumov by telephone that the special committee had no interest in pursuing a transaction at a price of $4.75 per share, and suggested a purchase price of higher than $6.00 per share. Mr. Dilling advised Mr. Movsumov that, if LUKOIL were interested in pursuing a transaction, it should propose a higher per share price and act quickly, in order to minimize any disruption to Chaparral. In order to help LUKOIL evaluate the value of the unaffiliated minority interest in Chaparral, Mr. Dilling discussed with Mr. Movsumov certain aspects of the Petrie Parkman preliminary reference value analysis approach, including preliminary valuation results.

On February 8, 2006, the special committee met with representatives of LUKOIL, including Mr. Movsumov and Nikolai Isaakov, head of the legal division of LUKOIL, and LUKOIL s legal advisors in New York City, New York.

The special committee s legal advisors were present at the meeting by telephone. At that meeting, the special committee indicated that it would be willing to consider a simple, unconditional offer to purchase the outstanding shares of common stock held by our minority stockholders for cash at a purchase price that would be fair to the minority stockholders. Based on, among other things, the Petrie Parkman preliminary reference value analysis and discussions with Whittier Ventures, L.L.C. and Allen & Company Incorporated, two of our largest stockholders and sophisticated investors, with an estimated

combined ownership in Chaparral of approximately 13% of the outstanding public shares, the special committee informed LUKOIL that a purchase price of at least $6.00 per share would be necessary for a successful offer. In order to help LUKOIL evaluate the value of the minority interest, Mr. Dilling again discussed the Petrie Parkman preliminary reference value analysis approach with Mr. Movsumov.

Following these meetings, Mr. Movsumov sent an offer letter to the special committee dated February 8, 2006, proposing cash consideration of $5.50 per share for our minority stockholders. The proposed transaction was highly complex with numerous conditions, including (1) a condition that Whittier Ventures and Allen & Company enter into a lock-up agreement with LUKOIL in a form satisfactory to LUKOIL before or at the same time as the execution of a definitive transaction agreement, (2) that LUKOIL have completed its tax due diligence review of Chaparral as soon as practicable and no later than 5 p.m. (London time) on February 28, 2006, and (3) that LUKOIL and Chaparral have negotiated and documented a mutually satisfactory definitive merger agreement including a structure to implement the transaction and any other definitive documentation that might be required for the merger transaction.

Following the February 8, 2006 meeting, the special committee discussed LUKOIL s offer letter with its legal and financial advisors, and forwarded the offer letter to Whittier Ventures and Allen & Company for review. After extensive discussions between the special committee, its legal and financial advisors, LUKOIL s proposal was rejected as too complex and conditional. In addition, the special committee was of the view that LUKOIL s $5.50 per share proposal was not sufficiently attractive based on the Petrie Parkman valuation analysis and because LUKOIL appeared to be willing to further negotiate the price, and believed that it may be able to get a higher offer. Mr. Dilling was informed that Whittier Ventures and Allen & Company also had rejected LUKOIL s offer due to the numerous conditions imposed by LUKOIL, the low offer price and because the offer did not match market conditions.

Mr. Dilling met with Mr. Movsumov several times over the next few weeks to negotiate a transaction between Chaparral and LUKOIL. At these meetings, Mr. Dilling advised Mr. Movsumov that the offered purchase price of $5.50 per share was too low, that the special committee wanted a purchase price of more than $6.00 per share, that the structure of the transaction had to be simple and unconditional, and that the special committee was unwilling to agree to any transaction that did not require the approval of a majority of the minority stockholders as a condition to the transaction. Mr. Movsumov indicated that LUKOIL was unwilling to pay more than $5.50 per share. However, Mr. Movsumov indicated that LUKOIL would agree to eliminate most of the conditions to the merger set forth in its February 8, 2006 offer letter but for a lock-up agreement with Whittier Ventures and Allen & Company requiring Whittier Ventures and Allen & Company to vote in favor of the merger at a special meeting of the stockholders and refused to agree to the approval of the merger by a majority of the minority stockholders as a condition to closing.

During this time, Mr. Dilling, on behalf of the special committee, held several discussions about a possible transaction with LUKOIL with Brian Murphy, an investment banker at Allen & Company, and James Jeffs, chief investment officer of Whittier Ventures and previous vice chairman and director of Chaparral, at the request of LUKOIL and the LUKOIL representatives on our board of directors. LUKOIL specifically indicated that it would be interested in negotiating a transaction with Allen & Company and Whittier Ventures to purchase all of their shares in Chaparral at a purchase price that would subsequently be paid to all of our shareholders. Over the course of these meetings, Mr. Jeffs expressed an interest in a purchase price of approximately $6.00 per share, and indicated cautious optimism that Allen & Company would be interested in selling its shares at a price that would also be acceptable to Whittier Ventures.

The special committee conveyed this information to the LUKOIL representatives on our board of directors, and also urged LUKOIL to speak with Allen & Company and Whittier Ventures directly. The special committee understands that LUKOIL and its financial advisors may have had separate discussions with Allen & Company during this time.

The special committee was informed that both Whittier Ventures and Allen & Company refused to execute a lock-up agreement with LUKOIL with respect to the transaction as proposed by LUKOIL at that time, expressing a desire to

sell their shares quickly and in a transaction that would not require regulatory approvals. However, both expressed a willingness to sell their shares to LUKOIL independent of a transaction for all of the minority shares. LUKOIL indicated that it would not purchase the shares held by Whittier

Table of Contents

Ventures and Allen & Company in a separate transaction. Both the special committee and LUKOIL were concerned that if they did so before the record date for the special meeting of stockholders, it would be extremely difficult to obtain the approval of the merger from the majority of the minority stockholders if that condition were to remain in the merger agreement.

The special committee met regularly during the month of February and discussed, among other things, its fiduciary duties to the minority stockholders in responding to LUKOIL s proposal. The special committee determined that it would be in the best interest of the minority stockholders for the special committee s legal advisors to prepare a draft of the merger agreement, and at a telephonic meeting on February 16, 2006, discussed the terms of a draft merger agreement between Chaparral and LUKOIL. On February 17, 2006, representatives of Baker Botts distributed to LUKOIL a draft merger agreement containing the terms (other than price) on which the special committee would be willing to recommend a transaction to our board of directors and the minority stockholders. On February 18, 2006, the parties commenced negotiation of the merger agreement. The terms included, among other things, a provision requiring the approval of a majority of the shares of our common stock held by the public.

On February 21, 2006, Petrie Parkman presented the special committee and its legal advisors with an update of its diligence and valuation work completed to date and the current commodity and equity market environment. Petrie Parkman also discussed the results of its preliminary reference value analysis of Chaparral based on information received to date, including a draft of the 2005 reserve report and preliminary 2005 financial results, and reviewed the valuation methodologies that it had performed consistent with those reviewed with the committee on January 27, 2006. (see Opinion of Financial Advisor to the Special Committee for further discussion of Petrie Parkman s reference value analysis methodologies) The preliminary results of these methodologies as of February 21, 2006 are summarized as follows:

Methodology	Preliminary Equity Reference Value Range $/Share
Discounted Cash Flow Analysis	$ 3.31-$6.80
Comparable Property Transaction Analysis	$ 4.76-$6.73
Comparable Company Transaction Analysis	$ 5.30-$6.78
Capital Market Comparison	$ 5.01-$6.49

At this meeting, the special committee instructed Petrie Parkman to undertake further steps as it deemed necessary to complete its analysis. Petrie Parkman completed its analysis, and the respective final report was provided to the special committee on March 10, 2006. During these meetings, the special committee noted that during the course of negotiations with LUKOIL, it was under the impression that LUKOIL had threatened to shut our field in, cease development activities at the field, replace our board of directors and terminate the special committee if no deal could be reached. LUKOIL believes this impression is unfounded.

In negotiations, the special committee reiterated that the purchase price should be higher than $6.00 per share. Finally, on February 24, 2006, Mr. Dilling indicated to LUKOIL that the special committee would be willing to support a $5.80 per share offer price if the definitive merger agreement could be negotiated. On February 27, 2006, LUKOIL sent a formal offer letter to the special committee offering to pay $5.80 per share pursuant to a merger agreement to be executed no later than March 3, 2006. This offer letter included as a condition that Whittier Ventures and Allen & Company enter into lock-up agreements with LUKOIL agreeing to vote all of their shares in favor of the transaction. The offer was rejected by the special committee.

From March 1, 2006 through March 5, 2006, the special committee and its legal advisors met with representatives of LUKOIL and its legal advisors in London, England to continue to negotiate a merger. During these meetings, LUKOIL agreed to pay $5.80 per share in a transaction that did not include as a condition that Whittier Ventures and Allen & Company execute lock-up agreements. The special committee accepted this offer subject to the ability of Petrie Parkman to deliver a fairness opinion at that price, and approval by the board of directors of each of LUKOIL and Chaparral.

The special committee strongly argued for the inclusion of a provision in the merger agreement requiring approval of the transaction by a majority of the minority stockholders. LUKOIL strenuously objected to this

provision and insisted on removal of this condition from the merger agreement. LUKOIL believed, and the special committee ultimately concurred, that it would be mathematically extremely difficult to obtain the approval of a majority of our minority stockholders because:

Such approval would require the approval of more than half of the 40% of our outstanding shares of common stock not held by LUKOIL.

At our last stockholder s meeting held on November 9, 2005, 82.19% of the shares participated by proxy. The parties estimated that at that time, Whittier Ventures held approximately 3% of our outstanding shares and Allen & Company held approximately 10% of our outstanding shares.

Whittier Ventures and Allen & Company refused to sign a lock-up agreement with LUKOIL, and approximately 18% of our outstanding shares were not represented at the last annual meeting.

Given that as much as 77% of the minority shares that would be necessary to approve the merger were at risk of not voting for the proposals (in the case of the two large stockholders) or not responding (in the case of shares not represented at a recent meeting), and because it did not want to risk the extraordinary amount of time, effort and expense that is required in a transaction of this type only to have it fail, LUKOIL absolutely refused to agree to a condition requiring the approval of the majority of our minority stockholders. Even if Whittier Ventures and Allen & Company did support the transaction, we would have needed almost 100% of the remaining shares voting in favor of the transaction to satisfy the majority of the minority condition. This was not considered likely or practical. The special committee reluctantly decided to yield its position on the majority of the minority approval as a condition to the merger based on the belief that a transaction with LUKOIL would be in the best interest of the public stockholders.

From March 6, 2006 through March 12, 2006, representatives of the parties continued negotiation of the merger agreement. Through these negotiations the parties finalized the terms of the proposed merger agreement. On March 7, 2006, the special committee met telephonically to discuss the outstanding issues in the merger agreement, the Petrie Parkman fairness opinion, and disclosure schedules to be delivered by Chaparral under the merger agreement.

During the morning of March 10, 2006, representatives of Petrie Parkman made a presentation to the special committee and its legal advisors regarding Petrie Parkman s financial analyses with respect to the proposed transaction. This presentation was substantially similar to Petrie Parkman s presentation on February 21, 2006, except that Petrie Parkman updated its written materials to provide revised reference values based on recent market activity and additional diligence. Following this presentation, Petrie Parkman orally delivered its opinion to the special committee, which was subsequently confirmed in writing, to the effect that, as of March 10, 2006, based upon and subject to the matters set forth in the opinion, the $5.80 in cash per share of our common stock to be received by the holders of our common stock (other than LUKOIL or its related entities) pursuant to the proposed merger agreement was fair from a financial point of view to those holders.

The special committee evaluated the possibility of turning down the proposed merger consideration and remaining a public company, but was concerned that such decision might result in the minority stockholders losing the opportunity to receive $5.80 per share. The special committee noted that our stock price was historically very vulnerable to fluctuations in the international price of oil, and that oil prices are cyclical. The special committee also noted that the our common stock price had been in the range of $2.00 per share as recently as June of 2005. In addition, the special committee noted that LUKOIL is a large, multi-national corporation with many different priorities, which may not include maximizing share value for our public stockholders. The special committee also considered each of Petrie Parkman s presentations, the implied valuations resulting from the analyses that Petrie Parkman conducted, and that Petrie Parkman was in a position to issue a fairness opinion with respect to a proposed price of $5.80 per share. The special committee further considered that the proposed price was within the range of premiums paid in other

comparable transactions with less than a 50% minority ownership, and discounted cash flow reference value ranges analyzed in Petrie Parkman s presentations. For further discussion of the valuation methods and ranges that the special committee considered, see Opinion of Financial Advisor to the Special Committee below. Finally, the special committee noted that it was unlikely that a third party would attempt to purchase our stock held by

minority stockholders due to LUKOIL s substantial beneficial ownership interest in Chaparral. On March 10, 2006, the special committee indicated to LUKOIL that, subject to resolution of outstanding merger agreement issues, the special committee would recommend the proposed merger based on the $5.80 purchase price per share to our board of directors.

On March 11, 2006, the special committee held a telephonic meeting to consider the LUKOIL proposal with representatives of Baker Botts present. The special committee discussed events relating to the transaction since December 2005. A representative of Baker Botts advised the members of the special committee of their legal duties in connection with considering the proposed transaction and reviewed the terms of the merger agreement. Representatives of Baker Botts also reviewed with the special committee various topics relating to Chaparral and the revised LUKOIL proposal. In addition, the special committee discussed and deliberated the following during the meeting:

that the Petrie Parkman analysis consisted of an in-depth process, comprising multiple presentations and lengthy discussions, to understand and identify the downside risks as well as the upside potential relating to the our stock valuation, and that the agreed price of $5.80 per share reflected both the downside risks and upside potential;

international developments in underdeveloped oil producing countries, in particular events in Venezuela and Equador in which host governments were unilaterally renegotiating contracts to increase the country revenues as a result of the high price of oil. The special committee noted that our fortunes depend entirely on host government cooperation;

the vulnerability of our share price to the international price of oil as shown by the Petrie Parkman report and the cyclicality of oil prices, and the weakening of oil prices in the few weeks leading up to execution of the merger agreement;

our historical stock prices, and in particular that our stock price had been in the range of $2.00 per share as recently as June of 2005;

that LUKOIL is a huge corporation with many internal priorities and that being a tiny minority of a giant foreign corporation increased the future risk to the public stockholders; and

their belief that the $5.80 per share price was the highest they could achieve after extensive negotiations with LUKOIL.

After extensive discussion and deliberation and based on the factors described below under Reasons for the Special Committee s Determination; Fairness of the Merger, after which the special committee unanimously determined that the merger agreement, the merger and the transactions contemplated thereby were fair to and in the best interests of Chaparral and its stockholders, including all the unaffiliated stockholders, the special committee approved and declared advisable the merger agreement and the transactions contemplated thereby and resolved to recommend that our stockholders vote to adopt the merger agreement.

On March 13, 2006, based on the factors described below and the recommendation of the special committee, our board of directors unanimously determined that the merger agreement, the merger and the transactions contemplated thereby were fair to and in the best interests of Chaparral and its stockholders, including all the unaffiliated stockholders, approved and declared advisable the merger agreement and resolved to recommend that our stockholders vote to adopt the merger agreement.

Following the meeting of the special committee and the approval by our board of directors described above, the merger agreement was executed by Chaparral, LUKOIL, and NRL Acquisition. Later that morning, we issued a press release publicly announcing that the parties had entered into the merger agreement.

The day following the issuance of the press release announcing the execution of the merger agreement, the first of three purported class action suits was filed in the Court of Chancery of the State of Delaware. Shortly thereafter, a purported class action suit was filed in the Supreme Court of the State of New York against Chaparral, members of our board of directors, and LUKOIL. The complaints generally allege that our directors, Chaparral and LUKOIL breached their fiduciary duties to our stockholders in connection with the merger, and that the merger consideration offered by LUKOIL is inadequate. These suits generally seek to enjoin the merger or, in the alternative, recover damages in an unspecified amount and rescission in the event

of a merger, as more fully described in the section of this proxy statement called THE MERGER Litigation Relating to the Merger.

The Delaware cases were consolidated on March 31, 2006. The Delaware plaintiffs filed a consolidated amended complaint on July 3, 2006, which in addition to the previous allegations, asserts that the revised preliminary proxy statement filed on June 19, 2006 either did not disclose or falsely characterized numerous matters relating to the Special Committee process, its negotiations efforts, and the merger agreement. Plaintiffs consolidated amended complaint is attached to this proxy statement as Exhibit H and is incorporated herein by reference. While the special committee denies the substantive allegations contained in the consolidated amended complaint and believes the claims asserted are baseless, all shareholders are encouraged to read the complaint in its entirety to apprise themselves of the complaints made by the plaintiffs, which they purport to bring on behalf of themselves and our other minority stockholders.

The parties to the Delaware cases have agreed upon an expedited scheduling order. Defendants filed answers to the amended complaint on July 26, 2006. Defendants have further agreed to keep plaintiffs apprised of the expected date of mailing of the definitive proxy statement and to give plaintiffs notice at least 14 calendar days before the mailing of the definitive proxy statement, to supply plaintiffs with the text of the definitive proxy statement at the soonest practicable date, and not to schedule the vote on the merger transaction less than 30 calendar days after the mailing of the definitive proxy statement. Parties to the New York case have agreed that defendants have until August 31, 2006 to respond to that suit.

Neither the special committee nor Chaparral solicited any alternative proposal to LUKOIL s offer in light of LUKOIL s unwillingness to sell its portion of our common stock to a third party, the attractiveness of LUKOIL s proposal and the restrictions against seeking other offers in the merger agreement. However, under the terms of the merger agreement, we can furnish information to and conduct negotiations with a third party, in connection with an unsolicited superior proposal. No such offer or proposal has been received to date.

Recommendation of the Special Committee

Certain of our directors are also officers of LUKOIL or its affiliates. Because these directors have financial and other interests that may be different from, and in addition to, your interests in the merger, our board of directors decided that, in order to protect the interests of our unaffiliated stockholders in evaluating and negotiating the merger agreement, a special committee of independent directors who are not affiliated with LUKOIL or its affiliates, and who have no financial interest in the merger (other than as stockholders of Chaparral), should be responsible for these tasks and, if appropriate, recommend the merger and the terms of the merger agreement to our entire board.

The special committee has unanimously determined that the terms of the merger agreement and the merger are advisable, fair to and in the best interests of, Chaparral and the stockholders of Chaparral (other than LUKOIL and its affiliates). The special committee unanimously recommended to our board of directors that the merger agreement be adopted and approved and recommended to the stockholders. The special committee considered a number of factors, as more fully described above under Background of the Merger and below under Reasons for the Special Committee s Determination; Fairness of the Merger in making its recommendation.

Recommendation of our Board of Directors

Our board of directors, acting solely upon the recommendation of the special committee, unanimously determined that the terms of the merger agreement and the proposed merger are fair to, and in the best interests of, Chaparral and our stockholders (other than LUKOIL and its affiliates). **Our board of directors, based on the unanimous recommendation of the special committee, recommends that the stockholders vote FOR the adoption of the**

merger agreement and approval of the merger.

Reasons for the Special Committee s Determination; Fairness of the Merger

Substantive Fairness

Positive Factors

In recommending adoption of the merger agreement and approval of the merger to our board of directors, the special committee considered a number of factors which, in the opinion of the members of the special committee, supported the special committee s recommendation and the substantive fairness of the transaction to the minority stockholders, including:

- the special committee s belief that a higher price was unlikely to be obtained in light of
  - the risks of doing business in Kazakhstan, including political instability and the lack of a defined rule of law, and our limited growth potential,
  - the fact that there has been an increasingly active trend in undeveloped countries, such as Venezuela, Bolivia and Equador, to abrogate contracts or use alleged violations to increase the revenues of the host country at the expense of foreign producers, and the increased risk of abrogation or use of alleged violations in Kazakhstan, and
  - the fact that our asset and revenue base is concentrated in one country and is not diversified,

all of which exposes us to greater political and economic risk, increases the risk of doing business in Kazakhstan, reduces the market value of our company and limits the number of potential purchasers of the minority shares. These risks are reflected in our historical stock prices, which with the exception of stock prices in September 2005, have been lower than the merger consideration offered by LUKOIL;

- that the $5.80 per share merger consideration represents a premium of (1) approximately 9% over the last trade price per share of $5.30 on March 10, 2006, the last trading day before we announced the execution of the merger agreement, (2) approximately 12% over the average daily last trade price per share of $5.19 during the one week period preceding the initial announcement regarding execution of the merger agreement, and (3) approximately 180% over the average closing price of our common stock during the first half of 2005, and the belief of the special committee that the merger consideration is fair in light of the premium over the trading prices in the first half of 2006 as well as the period immediately before execution of the merger agreement;

- our historical stock prices: in particular, that
  - our stock price had been in the range of $2.00 per share as recently as June of 2005,
  - our stock price temporarily spiked to as high as $7.24 per share closing price in September 2005 possibly due to speculation surrounding the Petrokazakhstan transaction but dipped back down to between $3.25 and $5.01 per share closing prices in October 2005, and
  - out of the 68 trading days between the consummation of the amalgamation between Nelson and LUKOIL and our announcement of the merger with LUKOIL, the purchase price was higher than our closing stock price on all but four trading days,

and the belief of the special committee that the merger consideration is fair in light of the premium over long-term trading prices of our common stock;

the fact that the price of oil has historically been cyclical and the transaction was negotiated at a time when oil prices were believed to be high but weakening, and that our stock price is highly dependent on oil prices, which supports the fairness of the merger consideration because the merger consideration represents a premium over trading prices in the first half of 2006 and at the time the merger agreement was executed;

the negotiations with respect to the merger consideration that, among other things, led to an increase in LUKOIL s initial offer from as low as $4.50 per share to $5.80 per share of our common stock, and that following extensive and contentious negotiations between the special committee and LUKOIL, $5.80 per share was the highest price that LUKOIL would agree to pay, with the special committee basing its belief on a number of factors, including the duration and tenor of negotiations, assertions made by LUKOIL during the negotiation process, and the experience of the special committee and its

advisors, all of which supports fairness because the purchase price is the result of extensive third party negotiations for the best possible consideration in light of market conditions at the time of the negotiations;

the special committee s belief that a higher price was unlikely to be obtained in light of our limited exploration prospects and anticipated high capital costs, for example

our main field is in secondary recovery and we have limited exploration properties or prospects, and our business plan does not contemplate an increase in exploration properties or prospects,

the high cost of completing a railroad rack to transport Karakuduk crude oil to the port of Aktau to discharge at oil terminals in the Caspian Sea (which, once completed, will ensure that the quality crude oil from Karakuduk is not mixed with lower quality, high sulfur oil in the current pipeline systems), and uncertainty surrounding whether LUKOIL would provide the necessary capital investment to complete the railroad, particularly since LUKOIL does not own 100% of the interest in us, and

the high capital cost of drilling approximately 30 to 40 wells more than initially expected to develop the field (as reflected in the updated reserves estimate of NIPINeftegas) and that drilling is therefore likely to continue at Karakuduk for several more years, and uncertainty surrounding whether LUKOIL would provide the necessary capital investment to complete the wells, particularly since LUKOIL does not own 100% of the interest in us,

all of which reduces the market value of our company and limits the number of potential purchasers of the minority shares;

the fact that the passage of control of a majority stake in Chaparral from Nelson to LUKOIL could lead to a discount on the value of our publicly traded shares because of the inherent uncertainty of being controlled by a new company based in a foreign country, which supports the fairness of the merger because the merger consideration represents a premium over trading prices in the first half of 2006 and at the time the merger agreement was executed;

the fact that (1) two of our largest and most sophisticated stockholders had reduced their positions in our stock in late 2005, primarily at prices of less than $5.80 per share, (2) Allen & Company had been systematically reducing its position in our common stock over time at various prices, (3) according to Form 4s filed by Allen Holding Company, Allen & Company sold over 1.1 million shares between August 16, 2005 and November 14, 2005 for an average price of $5.46 per share, $.34 cents below the purchase price, (4) according to Form 4s filed by Allen Holding Company, Allen & Company sold 573,209 of those shares between September 13 and September 30, 2005 for an average price of $6.73 per share when our stock price had temporarily spiked possibly due to speculation regarding the Petrokazakhstan transaction, and (5) the most recent Form 4 filed by Allen Holding Company reports that between November 11, 2005 and November 14, 2005 (after Nelson had agreed to be acquired by LUKOIL), Allen & Company sold an aggregate of 124,496 shares at prices between $3.78 and $4.68 per share, more than $1.00 per share below the merger consideration. The special committee believes the reduction in equity position by our two largest and most sophisticated stockholders supports the special committee s fairness determination because substantially all of these sales represent a willingness on the part of our sophisticated long-term holders with significant knowledge of our company to sell shares of our common stock at less than the merger consideration to be paid by LUKOIL;

the financial presentation of Petrie Parkman to the special committee on March 10, 2006, including Petrie Parkman s oral opinion, subsequently confirmed in writing that, as of that date and based upon and subject to the matters set forth in the opinion, the merger consideration to be received by the holders of our common stock

(other than LUKOIL and its affiliates) was fair, from a financial point of view, to such holders (see Opinion of Financial Advisor to the Special Committee below), a fact that underscores again the fairness of the transaction;

the special committee s belief that a higher price was unlikely to be obtained in light of

the special committee s belief that it was unlikely that any party other than LUKOIL and its affiliates would propose and complete a transaction that was more fair and favorable than the merger to Chaparral and our stockholders because LUKOIL s controlling equity interest in Chaparral would likely deter potential strategic and financial third party buyers, and

our limited trading volume, institutional sponsorship and research attention from analysts,

all of which adversely affect the trading market in, and the prices of, our common stock and therefore may limit the likelihood of alternative interested parties purchasing our shares under more favorable terms;

the form of consideration, including

the fact that the merger consideration will be paid in all cash to our unaffiliated stockholders, which supports the fairness of the transaction because cash consideration eliminates any uncertainties in value to our stockholders and provides immediate liquidity of our shares to our stockholders, which may not have been available otherwise, and

the fact that the merger agreement does not contain a financing condition, which increases the likelihood that the merger would close as a result of LUKOIL having the necessary capital to finance the merger without having to obtain financing;

the fact that, under the terms of the merger agreement, the special committee would be entitled, if necessary to comply with its fiduciary duties, to consider unsolicited bona fide alternative proposals and would be entitled to terminate the merger agreement if it determined that the merger with LUKOIL was no longer in the best interest of the stockholders in light of a superior proposal (see THE MERGER AGREEMENT No Solicitation);

the fact that, under the terms of the merger agreement, our board of directors (acting upon recommendation of the special committee) or the special committee is not prohibited from withdrawing, qualifying or modifying its recommendation that our stockholders vote to adopt the merger agreement and approve the merger if the special committee determines that such withdrawal, qualification or modification is necessary in order for the special committee to comply with its fiduciary duties in light of a superior proposal, which ensures the determination of the fairness of the transaction by the special committee on a continuing basis; and

the ability of the stockholders who may not support the merger to exercise appraisal rights under Delaware law (see THE MERGER AGREEMENT Appraisal Rights), which supports fairness because dissenting stockholders may obtain fair compensation for their shares under alternative mechanisms.

Each of these factors favored the special committee s determination that the merger and related transactions were fair to, and in the best interests of, the public stockholders.

Negative Factors

The special committee also considered a variety of risks and other potentially negative factors concerning the merger. The material risks and potentially negative factors considered by the special committee were as follows:

we will cease to be a public company and our stockholders will no longer participate in any potential future growth;

while we expect to complete the merger, there can be no assurances that all conditions to the parties obligations to complete the merger will be satisfied and, as a result, the merger may not be completed;

if the merger is not completed under circumstances further discussed in THE MERGER AGREEMENT Termination of the Merger Agreement, we may be required to reimburse LUKOIL for specified expenses and pay a termination fee of up to $3 million;

gains from all cash transactions are generally taxable to our stockholders for U.S. federal income tax purposes generally at a rate of up to 35% for individual investors holding our stock for not more than

one year and at a rate of up to 15% for individual investors holding our stock for more than one year, and may be subject to backup withholding at a 28% rate (see THE MERGER Material United States Federal Income Tax Consequences);

the fact that the proposed merger does not require the approval of any unaffiliated stockholders and will be approved by the affirmative vote by LUKOIL of 60% of the voting power of our common stock in favor of the merger. Approval by a majority of unaffiliated stockholders is a feature in many going private transactions, and some Delaware law commentators express a view that approval of a transaction by a majority of the unaffiliated stockholders is an independent test of fairness. However, despite extensive and contentious negotiations between the special committee and LUKOIL, LUKOIL was unwilling to agree to this condition, in part in light of the fact that based on the percentage of participation in our most recent annual stockholders meeting in November 2005, 77% of the public shares were at risk for not participating in the special meeting, which reduced substantially the likelihood of obtaining the approval of a majority of our unaffiliated stockholders;

the possibility that the price of oil could materially increase, making our company more valuable, before the closing of the transaction. Although the special committee acknowledges that there is no direct correlation between the price of oil and our common stock, our common stock price generally increases when the price of oil increases; and

the possibility of disruption to our operations following the announcement of the merger, and the resulting effect on us if the merger does not close.

The special committee concluded, however, that these risks and potentially negative factors could be managed or mitigated by Chaparral or were unlikely to have a material impact on the merger, and that, overall, the potentially negative factors associated with the merger were outweighed by the potential benefits of the merger.

Procedural Fairness

The special committee also determined that the merger is procedurally fair because, among other things:

our board of directors established the special committee before LUKOIL acquired Nelson and became our majority stockholder, and the members of the special committee, each having approximately 30 years of oil and gas industry experience, among other things, considered and negotiated the merger agreement;

the special committee is composed of independent directors who are not directors, officers, employees or otherwise affiliated with LUKOIL and are not employees of Chaparral, and have no financial interest in the merger different from our stockholders generally;

the special committee s knowledge of our business, assets, financial condition and results of operations, and competitive position, and the nature of our business and the energy industry generally, which knowledge and experience qualified the members of the committee to more effectively evaluate the pros and cons of LUKOIL s offer and reach a determination that the merger consideration is fair to the unaffiliated stockholders;

the special committee was granted the full authority of our board of directors to evaluate LUKOIL s proposal and any alternative transactions and to recommend the terms of any proposed transaction;

the special committee retained and received advice from its own independent legal and financial advisors in evaluating, negotiating and recommending the terms of the merger agreement, and these advisors reported directly to and took direction solely from the special committee;

the price of $5.80 per share and other terms and conditions of the merger agreement resulted from active and lengthy negotiations between the special committee and its legal and financial advisors, on the one hand, and LUKOIL and its legal and financial advisors, on the other hand; and

under Delaware law, our stockholders have the right to demand appraisal of their shares.

The fact that the proposed merger does not require the approval of any unaffiliated stockholders is a factor weighing against procedural fairness of the transaction. The special committee concluded, however, that

the factors enumerated above outweighed this potentially negative factor, and that the merger is procedurally fair despite the fact that the terms of the merger agreement do not require the approval of at least a majority of our unaffiliated stockholders.

Other Considerations

Although the special committee considered our net book value and going concern value in determining the fairness of the merger to our unaffiliated stockholders, the special committee noted the following:

- the fact that our net book value ($4.21 per share diluted average as of December 1, 2005), which is an accounting concept, generally has no correlation to the fair value of our shares in the context of a sale of the company because:
  - our net book value corresponds to the historic cost of our assets plus an estimate of the future capital requirements to lift the proved oil reserves out of the ground, and does not include any risk factors associated with the enterprise nor does it attribute a value to the oil reserves in the ground (proved, probable or possible),
  - our fair value will include an element that relates to the future discounted net cash flows expected to accrue to us from the exploration, production and sale of proved, probable and possible reserves. The discount factors vary widely according to whether the reserves are proved, probable or possible and other factors such as the stability of the operating environment. The fair value is highly dependant upon the predicted future oil price, and
  - in times of high oil prices it is common for the net book value of a company s older oil producing assets to be significantly lower than their fair value; and
- since Chaparral does not have exploration and development activities outside of the Karakuduk field, and since Chaparral is dependent on employees of LUKOIL and KKM to manage Chaparral operations, the special committee viewed the discounted cash flow analysis performed by Petrie Parkman ($3.00 to $6.69 per share as of March 10, 2006) as indicative of Chaparral s going concern value.

The special committee did not consider liquidation a viable option and did not perform a liquidation analysis of Chaparral because LUKOIL, the controlling stockholder, indicated to the special committee that it was not interested in liquidating Chaparral, and LUKOIL s consent would have been necessary for any liquidation plan. LUKOIL s position notwithstanding, the special committee believed the stockholder value to be obtained by execution of a liquidation strategy would have been below the value ranges in Petrie Parkman s discounted cash flow analysis cases due to the likely perception by potential buyers of Chaparral s assets that Chaparral was not a viable going concern.

There were no firm offers of which we or our affiliates are aware during the past two years for (1) the merger or consolidation of Chaparral with or into another company or the sale or other transfer of all or any substantial part of our assets or (2) the purchase of our securities that would enable the holder to exercise control over us (other than LUKOIL s acquisition of a controlling interest in us indirectly through its acquisition of Nelson).

When the special committee was appointed by the Chaparral board in the wake of the Nelson-LUKOIL transaction, it was authorized to hire professional advisors, and its compensation was set by the Chaparral board through December 31, 2005. During this period, there was no specific transaction to consider as none was proposed by LUKOIL. As discussed above, during this period it had considered hiring Petrie Parkman as financial advisors and had initiated contact with Petrie Parkman. When LUKOIL proposed a possible transaction in January 2006, the

question of a budget, compensation and advisors was presented. The special committee gave consideration to whether it could unilaterally set its own budget on all matters, including compensation, and decided it would be better to propose a full budget guideline for a transaction to LUKOIL, realizing that LUKOIL may attempt to negotiate it down. LUKOIL asked the special committee to go back to the two investment banking firms under consideration to see if they would reduce their initial quotes and each did. The special committee never believed that LUKOIL by this process exerted any pressure to designate who would be

used, including any other firm, even if its final quote were higher. The special committee picked Petrie Parkman, among other reasons, because of its recent experience in Kazakhstan and the fact that BMO Nesbitt Burns might be argued to have relied on its prior Nelson analysis as opposed to taking a fresh look at Chaparral. LUKOIL also proposed a $15,000 reduction per person in the special committee compensation and did not object to estimated counsel fees. The special committee believed the fee level agreed with LUKOIL would be adequate to enable it to properly perform its functions. The special committee considered the negotiation of its fees with LUKOIL from a procedural fairness standpoint, but believed it could not set its own fee level. The special committee also believed that LUKOIL would ultimately accept any reasonable budget arrangement and did not believe that LUKOIL controlled its selection of advisors. Moreover, the special committee discussed the possibility of resigning if at any time during the process it believed that any pressure from LUKOIL should prevent it from conducting a procedurally fair process.

The special committee and our board of directors were fully aware of and considered possible conflicts of interest of our directors and officers set forth below under Interests of Directors and Officers in the Merger . The special committee, which consists solely of directors who are not officers, directors or employees of LUKOIL or our employees, and who have no financial interest in the proposed merger different from our stockholders generally, was aware of these interests and considered them in making its determination.

The special committee, which consists of the two independent members of our board of directors, negotiated the merger agreement and the transactions contemplated thereby on behalf of the public stockholders. Neither our board of directors nor the special committee retained an unaffiliated representative to act solely on behalf of the public stockholders for purposes of negotiating the merger agreement and the transactions contemplated thereby. None of our directors are employees of Chaparral.

Conclusion

After considering these factors, the special committee concluded that the positive factors relating to the merger outweighed the negative factors. Because of the variety of factors considered, the special committee did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching its determination. In addition, individual members of the special committee may have assigned different weights to various factors. The determination of the special committee was made after consideration of all of the factors together.

Reasons for our Board of Directors Determination; Fairness of the Merger

Our board of directors consists of five directors, two of whom serve on the special committee. Following the special committee s meetings with its legal and financial advisors, on March 13, 2006, our board of directors, acting solely upon the recommendation of the special committee, unanimously approved the merger agreement and the transactions contemplated thereby, including the merger. In considering the determination of the special committee, our board of directors believed that the analysis of the special committee was reasonable and adopted the special committee s conclusion and the analysis underlying the conclusion.

Our board of directors believes that the merger agreement and the merger are substantively and procedurally fair to, and in the best interests of, our unaffiliated stockholders, for all of the reasons set forth above under Reasons for the Special Committee s Determination; Fairness of the Merger.

Our board of directors determined that the merger is procedurally fair despite the fact that the terms of the merger agreement do not require the approval of at least a majority of our unaffiliated stockholders.

Other than the recommendations of the special committee and our board of directors that the stockholders vote in favor of the adoption and approval of the merger agreement, no other person filing the Schedule 13E-3 with the Securities and Exchange Commission has made any recommendation with respect to the merger.

Position of LUKOIL and NRL Acquisition as to Fairness

Under the rules of the Securities and Exchange Commission, LUKOIL and NRL Acquisition are required to express their belief as to the fairness of the proposed merger to our unaffiliated stockholders. LUKOIL and NRL

Acquisition did not participate in the deliberations of the special committee regarding the fairness to the stockholders of the merger or receive advice from Petrie Parkman as to the fairness, from a financial point of view, of the merger consideration. However, LUKOIL and NRL Acquisition have considered the factors examined by the special committee described in the section of this proxy statement entitled Reasons for the Special Committee s Determination; Fairness of the Merger and expressly adopt the analysis and conclusions of the special committee. LUKOIL controls 60% of our outstanding common stock and has committed to vote its shares in favor of the merger agreement and the merger. The affirmative vote of the shares controlled by LUKOIL is sufficient under Delaware law to adopt the merger agreement and approve the merger.

The special committee, which consists of the two independent members of our board of directors, negotiated the merger agreement and the transactions contemplated thereby on behalf of the public stockholders. Neither our board of directors nor the special committee retained an unaffiliated representative to act solely on behalf of the public stockholders for purposes of negotiating the merger agreement and the transactions contemplated thereby. None of our directors are employees of Chaparral.

The determination of fairness made by LUKOIL and NRL Acquisition relates to all the unaffiliated stockholders of Chaparral. Their views as to the fairness of the merger to our unaffiliated stockholders should not be construed as a recommendation to any stockholder as to whether such stockholder should vote in favor of the merger agreement and the merger.

Opinion of Financial Advisor to the Special Committee

On March 10, 2006 Petrie Parkman rendered its oral opinion, subsequently confirmed in writing, that, as of March 10, 2006, and based upon and subject to the matters set forth therein, the merger consideration to be received by the holders of shares of common stock, other than LUKOIL and its affiliates, in the merger was fair, from a financial point of view, to those holders.

The full text of the Petrie Parkman opinion, dated March 10, 2006, which sets forth, among other things, the assumptions made, procedures followed, matters considered, and qualifications and limitations of the review undertaken by Petrie Parkman in rendering its opinion is attached as Exhibit C to this Proxy Statement and is incorporated in this document by reference. The summary of the Petrie Parkman opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. We urge you to read the Petrie Parkman opinion carefully and in its entirety. Petrie Parkman provided its opinion for the information and assistance of the special committee in connection with its consideration of the merger agreement and the merger. The Petrie Parkman opinion does not constitute a recommendation to any holder of shares of our common stock as to how such holder should vote on the merger. The opinion does not address the relative merits of the merger as compared to any alternative business transaction or strategic alternative that might be available to us, nor does it address our underlying business decision to engage in the merger. Petrie Parkman s opinion and its presentation to the special committee were among many factors taken into consideration by the special committee in approving the merger agreement and making its recommendation regarding the merger.

In connection with Petrie Parkman s role as financial advisor and preparation of its valuation report, the special committee instructed Petrie Parkman to be available to:

- meet with the special committee to develop an understanding of its strategic objectives with regard to Chaparral,
- meet with the management and consulting engineering firm of Chaparral, as appropriate, to allow Petrie Parkman to gain an understanding of our assets, business, and prospects,

develop a preliminary analysis indicating the current reference value range of Chaparral,

review the financial terms of the proposed merger transaction as they are expressed in definitive transaction documentation, and

prepare and render to the special committee a written opinion as to the fairness, from a financial point of view, of the consideration to be received by the minority stockholders of Chaparral in the proposed merger transaction.

In arriving at its opinion, Petrie Parkman has, among other things:

1. reviewed certain publicly available business and financial information relating to Chaparral, including (i) the Annual Reports on Form 10-K and related audited financial statements for the fiscal years ended December 31, 2002, December 31, 2003 and December 31, 2004 and (ii) the Quarterly Report on Form 10-Q and related unaudited financial statements for the fiscal quarter ended September 30, 2005;

2. reviewed non-publicly available business and financial information relating to Chaparral contained within its draft Annual Report on Form 10-K and related audited financial statements for the fiscal year ended December 31, 2005;

3. reviewed certain estimates of Chaparral s oil and gas reserves, including estimates of proved and non-proved reserves located in the Republic of Kazakhstan prepared by the independent engineering firm of McDaniel & Associates Consultants Ltd. (McDaniel) as of December 31, 2005;

4. analyzed certain historical and projected financial and operating data of Chaparral prepared by the management and staff of Chaparral, including the projections described below under Selected Financial Projections;

5. discussed the current operations and prospects of Chaparral with the management and staff of Chaparral;

6. reviewed the historical market price and trading history of the Chaparral Common Stock;

7. compared recent stock market capitalization indicators for Chaparral with recent stock market capitalization indicators for certain other publicly-traded independent energy companies;

8. compared the financial terms of the merger with the financial terms of other transactions that we deemed to be relevant;

9. reviewed a draft dated March 9, 2006 of the merger agreement; and

10. reviewed such other financial studies and analyses and performed such other investigations and taken into account such other matters it deemed necessary or appropriate.

In connection with its opinion, Petrie Parkman has assumed and relied upon, without assuming any responsibility for, or independently verifying, the accuracy and completeness of all information supplied or otherwise made available by Chaparral. Petrie Parkman has further relied upon the assurances of representatives of the management of Chaparral that they are unaware of any facts that would make the information provided to Petrie Parkman incomplete or misleading in any material respect. With respect to projected financial and operating data, Petrie Parkman has assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of our management and staff relating to our future financial and operational performance. With respect to the estimates of oil and gas reserves, Petrie Parkman has assumed that they have been reasonably prepared on bases reflecting the best available estimates and judgments of the management and staff of Chaparral, and their engineering consultants, relating to the oil and gas properties of Chaparral. Petrie Parkman has not made an independent evaluation or appraisal of the assets or liabilities of Chaparral, nor, except for the estimates of oil and gas reserves referred to above, has Petrie Parkman been furnished with any such evaluations or appraisals. In addition, Petrie Parkman has not assumed any obligation to conduct, nor has Petrie Parkman conducted, any physical inspection of the properties or facilities of Chaparral. Petrie Parkman also assumed that the final form of the merger agreement would be substantially similar to the last draft reviewed, and that the merger will be consummated in accordance with the terms of the merger agreement without waiver of any of the conditions precedent to the merger contained in the

merger agreement. In connection with Petrie Parkman s engagement, Petrie Parkman was not requested to, and did not, solicit third party indications of interest in the acquisition of all or a part of Chaparral.

Petrie Parkman s opinion relates solely to the fairness from a financial point of view of the consideration to the holders of the Shares. Petrie Parkman s opinion was provided for the information and assistance of the special committee in connection with its consideration of the merger agreement and the merger, and does not constitute a recommendation to any holder of Chaparral Common Stock as to how such stockholder should

vote on the merger. Petrie Parkman s opinion does not address the relative merits of the merger as compared to any alternative business transaction or strategic alternative that might be available to Chaparral, nor does it address the underlying business decision of Chaparral to engage in the merger. Petrie Parkman has not been asked to consider, and its opinion does not address, the prices at which the Chaparral Common Stock will actually trade at any time. Petrie Parkman is not rendering any legal or accounting advice and understands Chaparral is relying on its legal counsel and accounting advisors as to legal and accounting matters in connection with the merger.

Petrie Parkman s opinion was rendered on the basis of conditions in the securities markets and the oil and gas markets as they existed and could be evaluated on the date of Petrie Parkman s opinion and the conditions and prospects, financial and otherwise, of Chaparral as they were represented to Petrie Parkman as of the date of Petrie Parkman s opinion or as they were reflected in the materials and discussions described above.

Summary of Petrie Parkman s Analyses

The following is a summary of the presentation made by Petrie Parkman to the special committee on March 10, 2006 in connection with the delivery of its opinion.

The summary includes information presented in tabular format. In order to fully understand the financial analyses performed by Petrie Parkman, the tables must be read together with the text accompanying each summary. The tables alone do not constitute a complete description of such financial analyses. Considering the data set forth in the tables without considering the full narrative description in the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Petrie Parkman.

Implied Premium Analysis

Petrie Parkman calculated the premiums implied by comparing the $5.80 per share Consideration to the historical trading prices of the Chaparral Common Stock for specified periods between March 4, 2005 to March 6, 2006, the last trading day examined before Petrie Parkman s presentation to the special committee and calculated the following results:

Period	**Average Market Price ($/share)**	**$5.80 Consideration Implied Premium**
1 Day (March 6, 2006)	$ 5.25	10.5%
1 Month	$ 5.11	13.6%
2 Month	$ 5.28	9.8%
6 Months	$ 4.87	19.0%
1 Year	$ 4.02	44.3%

Discounted Cash Flow Analysis

Petrie Parkman conducted a discounted cash flow analysis for the purpose of determining equity reference value ranges per share of the Chaparral Common Stock. Petrie Parkman calculated the net present value of estimates of future after-tax cash flows of our oil and gas reserve assets based on the proved and non-proved reserve estimates

referred to above and for non-reserve assets utilizing information we provided.

Petrie Parkman evaluated four scenarios in which the principal variables were oil and gas prices. The four pricing scenarios Pricing Case I, Pricing Case II, Pricing Case III, and Strip Pricing Case Flat were based on benchmarks for spot sales of West Texas Intermediate crude oil. The Strip Pricing Cases were based upon the average of oil and gas futures contract prices quoted on the New York Mercantile Exchange. Benchmark prices for cases I, II, and III were projected to be $45.00, $55.00 and $65.00/Bbl. for oil. All pricing cases for the fiscal year ended 2006 reflect actual prices from January 1, 2006 through March 6, 2006

Table of Contents

blended with current strip prices through the end of the year. Petrie Parkman applied appropriate quality and transportation adjustments to these benchmarks based on our historical realized netback prices.

Applying various after-tax discount rates, ranging from 12.5% to 45.0% depending on reserve category, to the after-tax cash flows, assuming a carry-over of existing tax positions, adjusting for other assets and liabilities, long-term debt, net working capital and minority interest, Petrie Parkman calculated the following equity reference value ranges of the Shares for each pricing case:

	Pricing Case I	Pricing Case II	Pricing Case III	Strip Pricing Case (Flat)
Equity Reference Value per Share	$ 3.00 $3.55	$ 4.28 $5.01	$ 5.56 $6.49	$ 5.71 $6.69

Petrie Parkman noted that the Consideration was within or above each of its Equity Reference Value Ranges.

Property Transactions Analysis

Petrie Parkman reviewed selected publicly available information for 14 oil and gas property transactions between January 2003 and March 2006 in Kazakhstan to determine the transaction parameters relevant for an analysis of Chaparral. Based on a review of the purchase price multiples of proved reserves for the acquired assets in each transaction, Petrie Parkman determined benchmark ranges of purchase prices to our corresponding proved reserve figures in order to yield enterprise reference value ranges for our proved reserves. The maximum, mean, median and minimum implied multiples for these transactions are set forth in the following tables together with certain benchmark multiples chosen by Petrie Parkman based on a review of these implied multiples.

References to oil and gas equivalents are for purposes of comparing quantities of oil with quantities of gas or to express these different commodities in a common unit. The term BOE means barrel of oil equivalent. In calculating Mcf and Bbl equivalents, Petrie Parkman used a generally recognized standard in which one Bbl is equal to six Mcf.

	Kazakhstan	
Number of Transactions	14	14
Purchase Price of Reserves / Proved Reserves or Production	Reserves ($/Boe)	Production ($/Boepd)
Maximum	$16.50	$66,000
Mean	$5.73	$20,556
Median	$2.59	$10,859
Minimum	$1.68	$4,044
Benchmark Multiples	$7.50-$10.00	$25,000-$35,000

Following adjustments for our reserves, Petrie Parkman determined an enterprise reference value range of $316 million to $449 million. After deducting long-term debt, net working capital, and minority interest from the enterprise reference value range and dividing by the diluted number of shares of common stock outstanding, the resulting equity reference value range for the Shares was $4.63 to $6.60.

Petrie Parkman noted that the Consideration was within its Equity Reference Value Range.

Company Transaction Analysis

Petrie Parkman reviewed selected publicly available information on 12 North American and 13 Former Soviet Union (FSU) and European company acquisition transactions and offers for control in the oil and gas exploration and production industry that were announced between January 1997 and March 2006.

Acquirer or Bidder for Control	Target	Date of Announcement	Region
LUKOIL	Nelson Resources	09/30/05	North America
CNPC	Petrokazakhstan	08/22/05	North America
Petrohawk Energy Corporation	Mission Resources	04/04/05	North America
Cimarex Energy	Magnum Hunter	01/26/05	North America
Forest Oil Corporation	Wiser Oil Company	05/24/04	North America
APF Energy Trust	Great Northern Exploration	04/07/04	North America
Plains Exploration & Production	Nuevo Energy Company	02/12/04	North America
Whiting Petroleum	Equity Oil Company	02/02/04	North America
Amerada Hess Corp.	Triton Energy Ltd.	07/10/01	North America
Conoco Inc.	Gulf Canada Resources Ltd.	05/29/01	North America
Vintage Petroleum	Genesis Exploration Ltd	03/28/01	North America
Ocean Energy Inc.	Texoil Inc.	01/18/01	North America
Gazprom	Sibneft	09/28/05	FSU / Europe
Baikal Finance Group	Yuganskneftegaz (Yukos)	12/19/04	FSU / Europe
ConocoPhillips	LUKOIL	09/29/04	FSU / Europe
OMV AG	SNP Petrom	07/23/04	FSU / Europe
BP plc	TNK-BP	08/29/03	FSU / Europe
Marathon Oil	KMOC	05/13/03	FSU / Europe
Yukos	Sibneft	04/22/03	FSU / Europe
LUKOIL	OAO PFPG-Energy	02/21/03	FSU / Europe
Invest-Oil	Slavneft	12/18/02	FSU / Europe
Yukos	Vostochnaya Oil Co.	05/24/02	FSU / Europe
LUKOIL	Komitek	06/29/99	FSU / Europe
Sibir Energy plc	Pentex Energy plc	02/16/98	FSU / Europe
BP plc	Sidanco Oil Co.	11/17/97	FSU / Europe

Using publicly available information, with respect to North American company transactions, Petrie Parkman calculated purchase price of equity multiples of latest twelve months (LTM), current year s and next year s estimated discretionary cash flow and total investment, which Petrie Parkman defined for the purposes of this analysis as purchase price of equity plus net obligations assumed, multiples of LTM, current year s and next year s estimated earnings before interest, taxes, depreciation, depletion and amortization expense (EBITDA) and proved reserves for the target company in each transaction. In each case, estimated discretionary cash flow and EBITDA was based on First Call consensus projections and research analyst projections. Using publicly available information with respect to FSU/Europe company transactions, Petrie Parkman calculated purchase price of equity multiples of LTM discretionary cash flow and total investment multiples of LTM EBITDA and reserves for the target company in each transaction.

Table of Contents

The maximum, mean, median and minimum implied multiples in these transactions are set forth below. The table below also includes benchmark multiple ranges selected by Petrie Parkman based on a review of the implied multiples in the selected transactions.

	Implied Multiples in Selected Transactions				
	Maximum	Mean	Median	Minimum	Benchmark Ranges
North American Company Transactions					
Purchase Price/LTM Discretionary Cash Flow	14.3x	6.3x	5.7x	2.5x	3.5 5.0x
Purchase Price/Current Year s Estimated Discretionary Cash Flow	10.4x	4.9x	4.3x	2.2x	3.5 4.5x
Purchase Price/Next Year s Estimated Discretionary Cash Flow	8.4x	5.1x	4.5x	2.5x	3.5 4.5x
Total Investment/LTM EBITDA	12.3x	6.3x	5.4x	3.4x	3.5 4.5x
Total Investment/Current Year s Estimated EBITDA	9.1x	5.5x	5.3x	4.1x	4.0 4.5x
Total Investment/Next Year s Estimated EBITDA	7.7x	5.5x	5.5x	4.3x	4.0 4.5x
Total Investment/Proved Reserves ($/BOE)	$ 15.18	$ 9.27	$ 10.13	$ 4.54	$ 7.50 10.00
FSU/European Company Transactions					
Purchase Price/LTM Discretionary Cash Flow	20.4x	8.63x	8.9Chairman, President & Chief Executive Officer		

(Principal Executive

Officer)

Date: May 14, 2012 /s/ Michael L. Paxton
Michael L. Paxton
Vice President, Chief Financial Officer, Treasurer & Secretary
(Principal Financial & Accounting Officer)