香港交易及結算所有限公司及香港聯合交易所有限公司對本公告的內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示，概不對因本公告全部或任何部分內容而產生或因倚賴該等內容而引致的任何損失承擔任何責任。

本公告僅供參考用途，並不構成收購、購買或認購證券的邀請或招攬或邀請訂立協議以進行任何該等事宜，亦並非用作邀請對收購、購買或認購任何證券的任何要約。

本公告並非於美國或根據任何該等國家或司法權區的證券法未進行登記或獲批准而於上述地區提呈發售、招攬或出售有關證券即屬違法的國家或司法權區提呈證券以供銷售或招攬以購買證券的要約。本公告及當中任何內容均不構成任何合約承諾基礎。本公告或其副本概不得帶入美國或於美國派發。在並無登記或不獲豁免登記下，證券不得在美國或向美籍人士(定義見美國1933年證券法(「證券法」)S規例)提呈發售或出售。本公司並無且不擬在美國登記任何票據。凡在美國公開發售任何證券，均須以刊發招股章程的方式進行。該招股章程須載有本公司、其管理層及財務報表的詳盡資料。本公司不會在美國公開發售任何證券。

MIE HOLDINGS CORPORATION
MI能源控股有限公司

(於開曼群島註冊成立之有限責任公司)

(股份代號：1555)

海外監管公告

本海外監管公告乃根據香港聯合交易所有限公司(「**聯交所**」)證券上市規則(「**上市規則**」)第13.10B條而刊發。

茲提述MI能源控股有限公司(「**本公司**」)日期分別為2013年1月30日、2013年1月31日及2013年2月7日的公告(「**該等公告**」)，內容有關發行票據。除文義另有所指外，本公告所用詞彙與該等公告所界定者具有相同涵義。

請參考隨附有關票據之發售章程(「**發售章程**」)，有關文件已於2013年2月13日於新加坡證券交易所有限公司之網站登載。

於聯交所網站登載發售章程僅為促使向香港投資者同步發佈資訊及遵守上市規則第13.10B條的規定，概無任何其他目的。

發售章程並不構成向任何司法權區的公眾人士提呈出售任何證券的招股章程、通告、通函、小冊子或廣告，亦非邀請公眾人士提出認購或購買任何證券的要約，且不旨在邀請公眾人士提出認購或購買任何證券的要約。

發售章程不應被視為誘使認購或購買本公司任何證券，亦不構成該等勸誘。投資者不應根據發售章程所載資料作出任何投資決定。

承董事會命
MI能源控股有限公司
董事長
張瑞霖

香港，2013年2月14日

於本公告日期，董事會包括(1)執行董事張瑞霖先生、趙江巍先生、Forrest Lee Dietrich先生及麥雅倫先生；(2)非執行董事王兟先生(曾至鍵先生是王兟先生的替任董事)；及(3)獨立非執行董事梅建平先生、Jeffrey W. Miller先生及才汝成先生。

STRICTLY CONFIDENTIAL – DO NOT FORWARD

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS OUTSIDE THE UNITED STATES.

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

Confirmation of Your Representation: By accepting the e-mail and accessing the attached offering memorandum you shall be deemed to have represented to Merrill Lynch International, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co. International plc (the "Initial Purchasers") that (1) you are not resident in the United States nor a U.S. Person, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act") nor are you acting on behalf of a U.S. Person, the electronic mail address that you gave us and to which this email has been delivered is not located in the U.S. and, to the extent you purchase the securities described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the Securities Act, AND (2) you consent to the delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

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

Restrictions: The attached document is an offering memorandum and is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

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

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

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

OFFERING MEMORANDUM **CONFIDENTIAL**

US$200,000,000

MIE Holdings Corporation

(incorporated in the Cayman Islands with limited liability)

6.875% Senior Notes due 2018

This is an offering of US$200,000,000 6.875% senior notes due 2018 (the "Notes") by MIE Holdings Corporation (the "Company"). The Notes will bear interest at the rate of 6.875% per annum. The Notes will bear interest from the Original Issue Date, payable semi-annually in arrears on February 6 and August 6 of each year, commencing August 6, 2013. The Notes will mature on February 6, 2018. At any time on or after February 6, 2016, we may redeem the Notes in whole or in part, at the redemption prices specified under "Description of the Notes — Optional Redemption." At any time prior to February 6, 2016, the Notes may be redeemed at the option of the Company, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium (as defined in "Description of the Notes") applicable to the Notes as of, plus accrued and unpaid interest, if any, to, the redemption date. Before February 6, 2016, we may redeem up to 35% in aggregate principal amount of the Notes, at a redemption price equal to 106.875% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date, with the proceeds from sales of certain kinds of our capital stock. The Notes may be redeemed at the option of the Company, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, together with accrued and unpaid interest, if any, to the redemption date, in the event of certain changes in specified tax laws or other circumstances. Upon the occurrence of a Change of Control (as defined in "Description of the Notes"), the Company must make an offer to purchase all the Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the purchase date. See "Description of the Notes — Repurchase of Notes Upon a Change of Control."

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

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

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or other securities laws and may not be offered or sold within the United States or to U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this offering memorandum, see "Plan of Distribution" and "Transfer Restrictions."

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

Investing in the Notes involves risks. See "Risk Factors" beginning on page 12.

It is expected that the Notes will be made ready for delivery, in book-entry form through the facilities of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream") on or about February 6, 2013 (the "Closing Date") against payment therefor in immediately available funds.

Joint Global Coordinators

BofA Merrill Lynch **Deutsche Bank**

Joint Bookrunners and Joint Lead Managers

BofA Merrill Lynch **Deutsche Bank** **HSBC** **Goldman Sachs (Asia) L.L.C.** **Morgan Stanley**

The date of this offering memorandum is January 30, 2013.

TABLE OF CONTENTS

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

In connection with this offering, Merrill Lynch International, as the stabilizing manager, or any person acting for it, may purchase and sell the Notes in the open market. However, there is no obligation on Merrill Lynch International to do so. These transactions may, to the extent permitted by applicable laws and regulations, include short sales, stabilizing transactions and purchases to cover positions created by short sales. These activities may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time and must in any

event be brought to an end after a limited time. These activities will be undertaken solely for the respective accounts of Merrill Lynch International, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co. International plc (collectively, the "Initial Purchasers"), and not for or on behalf of us.

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

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

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

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

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

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

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

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

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

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

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

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

PRESENTATION OF FINANCIAL INFORMATION

The financial information included in this offering memorandum relating to the Group has been derived from its financial statements. Unless otherwise indicated, financial information in this offering memorandum has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Financial information in respect of the third and fourth quarters of 2012 have not been audited or reviewed by our Independent Auditor.

Solely for the convenience of the reader, this offering memorandum contains translations of certain Renminbi amounts into U.S. dollars. All such U.S. dollar translations have been made at the rate of RMB6.3530 to US$1.00, the noon buying rate in the City of New York for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on June 30, 2012. These translations are provided for reference and convenience only. No representation is made that the Renminbi amounts stated herein could have been, or could be, converted into U.S. dollars at such rates or at any other rate. See "Exchange Rates."

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

CAUTIONARY NOTE REGARDING RESERVES

The estimates of the Group's oil and gas reserves in relation to the Daan, Moliqing and Miao 3 oilfields as at December 31, 2009, 2010 and 2011 presented in this offering memorandum have been made by Ryder Scott Company L.P. ("Ryder Scott"), an international oil and gas consultant, in reports dated December 31, 2009, 2010 and 2011 (the "Ryder Scott Reports"). The reserves estimates presented in the Ryder Scott Reports have been prepared according to standards established by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists, and Society of Petroleum Evaluation Engineers Petroleum Resources Management System ("SPE-PRMS").

The estimates of the Emir-Oil's oil and gas reserves as at December 31, 2011 presented in this offering memorandum have been made by Chapman Petroleum Engineering Ltd., an international oil and gas consultant, in a report dated December 31, 2011 (the "2011 Chapman Report"). The reserves estimates presented in the 2011 Chapman Report have been prepared according to standards set out in the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society) and the SPE-PRMS.

The estimates of the oil reserves in relation to the Dagang oilfield as at December 31, 2011 presented in this offering memorandum have been made by GLJ Petroleum Consultants Ltd. ("GLJ"), an oil and gas resource consulting firm, in a report dated December 31, 2011 (the "2011 GLJ Report"). The reserves estimates presented in the 2011 GLJ Report have been prepared according to standards set out in the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society) and the SPE-PRMS.

The estimates of the gas reserves and resources in relation to the Linxing and Sanjiaobei gas assets as at December 31, 2011 presented in this offering memorandum have been made by RISC Pty Ltd ("RISC"), an independent advisory firm, in a report dated January 2012 (the "2011 RISC Report"). The reserves and resources estimates presented in the 2011 RISC Report have been prepared according to resource classification set out in SPE PRMS Guidelines.

The estimates discussed in the offering memorandum are subject to change as a result of on-going technical analysis by the technical consultants for preparation of 2012 year end reports which are not available as of the date of this offering memorandum. Therefore any recent trend in field performance, field operations, facility status, economic conditions, development drilling results, or technical analysis is not reflected in the estimates disclosed in the offering memorandum. Any and all such values may be revised, favorably or unfavorably, in light of the analysis of such data in future reports by the technical consultants, including any work which is presently underway. See "Risk Factors — Risks Relating to our Business — The crude oil and natural gas reserves data in this offering memorandum are only estimates and the actual production, revenue and expenditures with respect to our net reserves under each of the production sharing contracts may differ materially from these estimates."

INDUSTRY AND MARKET DATA

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

FORWARD-LOOKING STATEMENTS

This offering memorandum contains "forward-looking" statements that relate to future events, which are, by their nature, subject to significant risks and uncertainties. All statements, other than statements of historical fact contained in this offering memorandum including those regarding our future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where they participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "project," "estimate," "anticipate," "predict," "seek," "should" or similar words or expressions, are forward-looking statements. The future events referred to in these forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which it will operate in the future and are not a guarantee of future performance. Important factors that could cause the actual results, performance or achievements to differ materially from those in the forward-looking statements include the following:

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

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

ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated in the Cayman Islands with limited liability. The Cayman Islands has a different body of securities laws from that of the United States and protections for investors may differ. A significant portion of our assets are located in the PRC. In addition, substantially all of our directors and officers are residents of the PRC, and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the PRC or Hong Kong, including judgments predicated upon the civil liability provisions of the U.S. federal or state securities laws. The Company and each Subsidiary Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. Federal or New York State court in the Borough of Manhattan in the City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint CT Corporation System for receipt of service of process in any such suit, action or proceeding.

We have been advised by our Cayman Islands legal counsel, Maples and Calder, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any State; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us predicated upon the civil liability provisions of the securities laws of the United States or any State, on the grounds that such provisions are penal in nature. However, in the case of laws that are not penal in nature, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For a foreign judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands' judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands' court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere. There is also recent English authority which suggests that due to the universal nature of bankruptcy/insolvency proceedings, foreign judgments obtained in foreign bankruptcy/insolvency proceedings may be enforced by the English courts automatically without applying the principles outlined above. This decision would be persuasive in the Cayman Islands but not binding. To date it has not been considered by the Cayman Islands courts. This decision has also been appealed to the Supreme Court in England and judgment is pending.

We have been advised by our British Virgin Islands legal counsel, Maples and Calder, that any final and conclusive monetary judgment obtained in the United States, for a definite sum, may be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issues would be necessary provided that in respect of the foreign judgment:

(a) the foreign court issuing the judgment had jurisdiction in the matter and we either submitted to such jurisdiction or were resident or carrying on business within such jurisdiction and were duly served with process;

(b) the judgment given by the foreign court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the Company;

(c) in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the court;

(d) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and

(e) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

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

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

We have been informed by GRATA Law Firm, our Kazakhstan legal counsel, that Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty between Kazakhstan and the United States. Since Kazakhstan is a party to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "Convention"), foreign arbitration awards are generally recognized and enforceable in Kazakhstan, subject to qualifications provided in the Convention and in the laws of Kazakhstan.

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

GLOSSARY

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

"ADEK Block"	an area of approximately 850 square kilometers of land, comprised of the Aksaz, Dolinnoe, Emir and Kariman oilfields, over which Emir-Oil has certain rights under the Emir-Oil Exploration Contract and the three Emir-Oil Production Contracts
"Board of Directors" or "Board"	our board of directors
"Brent"	North Sea Oil — the common reference for crude oil used for oil price comparisons
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Chapman"	Chapman Petroleum Engineering Ltd., an independent appraisal firm located in Canada and Emir-Oil's independent petroleum engineering firm
"CITIC"	CITIC Bank International Limited and CITIC Bank Guangzhou
"Condor"	Condor Energy Technology LLC
"CNOOC"	CNOOC Limited, a company listed on the Hong Kong Stock Exchange and the New York Stock Exchange, which was incorporated in Hong Kong in August 1999
"CNPC"	China National Petroleum Corporation
"Company," "our company," "we," "us" or "our"	MIE Holdings Corporation, a company incorporated in the Cayman Islands on March 20, 2008 as an exempted company with limited liability, and its subsidiaries, as the context requires
"Competent Authority"	the central executive agency, from time to time designated by the government of Kazakhstan to act on behalf of Kazakhstan to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. Until recently this agency was the Ministry of Energy and Mineral Resources of Kazakhstan, which on March 12, 2010 was reorganized into the MOG with respect to the oil and gas industry
"Controlling Shareholders"	FEEL, Mr. Zhang and Mr. Zhao
"CUCBM"	China United Coal Bed Methane Co.
"Emir-Oil"	Emir-Oil, LLC, a legal entity organized under the laws of the Republic of Kazakhstan on March 20, 2002 and our wholly owned subsidiary

"Emir-Oil Exploration Contract"	the contract for the exploration of hydrocarbons in the "Aksaz-Dolinnoe-Emir" Area in Tubkaraganskii Region in Mangistau Oblast between the Agency of the Republic of Kazakhstan for Investments, and "Zhanaozenskii Remontno-mechanicheskii Zavod" Limited Liability Partnership, being the contractor, dated June 9, 2000 (registration no. 482), and as amended from time to time, to which Emir-Oil became the contractor in September 2002
"Emir-Oil Production Contracts"	the three 25-year contracts for the production of hydrocarbons at the Aksaz, Dolinnoe and Kariman producing oilfields in Tubkaraganskii Region in Mangistau Oblast between the MOG and Emir-Oil
"FEEL"	Far East Energy Limited, a company incorporated in Hong Kong on May 16, 2003 with limited liability, controlled by Mr. Zhang and Mr. Zhao
"GOC"	Global Oil Corporation, a company incorporated in the Bahamas
"Group"	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), and where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, or the present subsidiaries of the Company
"Guotai Technology"	Songyuan Guotai Petroleum Technology Service Company (松原市國泰石油科技服務有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of Jilin Guotai
"HK$," "HKD," or "Hong Kong dollars"	Hong Kong dollars, the lawful currency for the time being of Hong Kong
"Jilin Guotai"	Jilin Guotai Petroleum Development Company, a company incorporated in the PRC on June 14, 2004 and held as to 70% by Mrs. Zhang and 30% by Mr. Zhao
"Jilin Guotai Group"	Jilin Guotai, Guotai Technology and their respective subsidiaries from time to time
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"MIE"	MI Energy Corporation, a company incorporated in the Cayman Islands on May 22, 2001 with limited liability and our wholly owned subsidiary
"MIE New Ventures"	MIE New Ventures Corporation (previously known as MI Energy (Kazakhstan) Corporation), a company incorporated in the Cayman Islands on August 6, 2010 with limited liability and our wholly owned subsidiary
"Minsheng Bank"	China Minsheng Banking Corporation Limited, Head Office and China Minsheng Banking Corporation Limited, Hong Kong Branch

"MOFCOM"	Ministry of Commerce of the PRC
"MOG"	Ministry of Oil and Gas of the Republic of Kazakhstan
"Mr. Shang"	Mr. Shang Zhiguo, an individual who owns 0.01% of the issued share capital of FEEL
"Mr. Zhang"	Mr. Zhang Ruilin, an individual who owns 9.99% of the issued share capital of FEEL. He is an executive director, chairman and chief executive officer of our company
"Mr. Zhao"	Mr. Zhao Jiangwei, an individual who owns 90% of the issued share capital of FEEL. He is an executive director and senior vice president of our company. He also controls the Controlling Shareholder
"Mrs. Zhang"	Ms. Zhao Jiangbo, spouse of Mr. Zhang
"NDRC"	National Development and Reform Commission of the PRC
"NEB"	National Energy Bureau of the PRC
"New EIT Law"	Enterprise Income Tax Law of the People's Republic of China
"Niobrara Acquisition"	our acquisition of 25% working interest in the Niobrara Asset through a strategic partnership with PEDCO in November 2011
"Niobrara Asset"	7,923 net acres of oil and gas leases in the Niobrara formation within the Denver-Julesburg Basin located in Weld County, Colorado, United States
"PBOC"	the People's Bank of China, the central bank of the PRC
"PCR"	Pan-China Resources Ltd., a company incorporated in the British Virgin Islands on January 12, 1995, and our wholly-owned subsidiary
"PCR Acquisition"	the acquisition of all of the issued and outstanding shares in PCR by the Company on December 14, 2012
"PEDCO"	Pacific Energy Development Corp.
"PetroChina"	PetroChina Company Limited, a subsidiary of CNPC
"PetroChina CBM"	PetroChina Coalbed Methane Company Limited, a subsidiary of PetroChina
"PRC" or "China"	the People's Republic of China. References in this offering memorandum to the PRC or China exclude Hong Kong, Macau and Taiwan
"PRMS"	The Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007 as amended, supplemented or otherwise modified from time to time
"PSC"	production sharing contract
"Renminbi" or "RMB"	the lawful currency of the PRC

"SAFE"	State Administration of Foreign Exchange of the PRC
"SGE Holdings"	Sino Gas & Energy Holdings Limited
"Sino Gas"	Sino Gas & Energy Limited (ACN 115 316 599), a public limited liability company incorporated under the laws of Perth, Australia
"Sino Gas Acquisition"	the acquisition of 51% interest in Sino Gas by the Company on July 6, 2012
"Sinopec"	China Petroleum & Chemical Corporation, a company listed on the Shanghai, Hong Kong, New York and London Stock Exchanges which was incorporated in February 2000 under the laws of the PRC
"State Council"	the State Council of the PRC
"Subsoil Use Law"	the Kazakhstan Law "On Subsoil and Subsoil Use" (no. 291-IV, dated June 24, 2010, effective as of July 7, 2010, as amended)
"Tax Code"	the Tax Code of the Republic of Kazakhstan (Kazakhstan Law no. 100-IV, dated December 10, 2008, effective January 1, 2009, as amended)
"Titan Oil"	Titan Oil Trading GmbH
"TPG"	TPG Star Energy Ltd., an exempted company incorporated in Cayman Islands on November 15, 2007 with limited liability and one of our shareholders
"TPG LLC"	TPG Star Energy Co-Invest, LLC, a limited liability company formed in the State of Delaware on August 28, 2009 and one of our shareholders
"USD" or "US$"	United States dollars, the lawful currency of the United States of America
"U.S.," or "United States"	the United States of America
"White Hawk"	White Hawk Petroleum, LLC
"White Hawk Acquisition"	our acquisition of a 50% capital interest in White Hawk from PEDCO in May 2012
"2011 Notes"	the US$400,000,000 9.75% senior notes due 2016 issued by the Company on May 12, 2011

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

"acid frac".	a hydraulic fracturing treatment performed in carbonate formations to etch the open faces of induced fractures using a hydrochloric acid treatment. When the treatment is complete and the fracture closes, the etched surface provides a high-conductivity path from the reservoir to the wellbore
"acid wash"	a wellbore acid treatment designed to remove scale or similar deposits from perforations and well-completion components. Acid-wash treatments generally do not include injection of treatment fluid into the reservoir formation
"API gravity".	an indication of the density of crude oil or other liquid hydrocarbons as measured by a system recommended by the American Petroleum Institute, measured in degrees. The lower the API gravity, the heavier the compound
"barrel".	equivalent to approximately 0.135 tons of oil (assuming an API gravity of 35.2 degrees)
"bcf"	billion cubic feet
"BOE"	barrels of oil equivalent
"contingent resources".	the quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable
"contract area"	an area demarcated by geographical coordinates as set out in the production sharing contract for the cooperative exploitation of oil resources
"developed non-producing"	reserves subcategorized as non-producing include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future recompletion prior to the start of production
"developed producing"	reserves subcategorized as producing are expected to be recovered from completion intervals which are open and producing at the time of the estimate. Improved recovery reserves are considered producing only after the improved recovery project is in operation

"developed reserves".	under the PRMS, developed reserves are reserves of any category that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well, and through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well
"development costs"	for a given period, costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil
"dry hole" or "dry well"	an exploration well that is not commercial, i.e. economically feasible to develop. The full costs incurred in such drillings are charged as an expense
"gross"	as used in "gross development wells," "gross productive wells" and "gross production," represents the total wells or production under the production sharing contracts
"horizontal drilling"	the process of drilling and completing, for production, a well that begins as a vertical or inclined linear bore which extends from the surface to a subsurface location just above the target oil or gas reservoir called the "kickoff point," then bears off on an arc to intersect the reservoir at the "entry point" and, thereafter, continues at a near-horizontal attitude tangent to the arc, to substantially or entirely remain within the reservoir until the desired bottom hole location is reached
"infill drilling"	addition of new wells in an existing field within the original well patterns to accelerate recovery or to test recovery methods
"injector"	well used as a conduit to pump water into the reservoir as part of the waterflood process
"lifting costs"	for a given period, costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. Also known as production costs
"Mbarrels".	thousands of barrels
"MMcf"	million cubic feet
"MMscf".	million standard cubic feet of gas (gas volume at 60°F and 14.65 pounds per square inch absolute)
"net".	as used in "net development wells," "net productive wells" and "net production," represents a party's interest in wells or the production under the production sharing contracts
"net proved reserves"	a party's interest in proved reserves under the production sharing contracts

"net reserves"	a party's interest in reserves under the production sharing contracts
"oil operations"	the development, production, operation and other related activities conducted in carrying out a production sharing contract
"permeability"	a measure of the ability of a porous mass such as rocks to transmit oil or natural gas
"porosity"	a measure of the void spaces in a material and generally refers to the fraction of the total volume in which flow of oil is effectively taking place
"possible reserves"	additional reserves that are less certain to be recovered than probable reserves
"primary recovery"	the first stage of oil production, in which natural reservoir energy, such as gasdrive, waterdrive or gravity drainage, displaces oil from the reservoir, into the wellbore and up to surface
"probable reserves".	additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered
"prospective resources"	quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations
"proved developed reserves"	under the PRMS, proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included in proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved
"proved reserves"	under the PRMS, proved reserves are estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.*, prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions

“proved undeveloped reserves” . . . . . under the PRMS, proved undeveloped reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage is limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir

“reserve-to-production ratio” . . . . . . for any given well or oilfield, the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas

“reservoir” . . . . an underground accumulation of oil or natural gas. Analysis of reservoirs at the simplest level requires an assessment of their porosity (to calculate the volume of *in situ* oil or natural gas) and their permeability (to calculate how easily oil or natural gas will flow out of them)

“secondary recovery” . . . . the second stage of oil production during which an external fluid such as water or gas is injected into the reservoir through injection wells located in rock that has fluid communication with production wells. The purpose of secondary recovery is to maintain reservoir pressure and to displace oil toward the wellbore

“ton,” “tons,” “tonne” or “tonnes” . . . . a unit of measure of weight, equal to 1,000 kilograms

“undeveloped reserves” . . . . under the PRMS, undeveloped reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty

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

SUMMARY

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

Overview

We are an independent oil and gas company engaged in the exploration and production of oil and gas in China, Kazakhstan and the United States. We are also the largest independent upstream oil company operating onshore in China in terms of gross production.

In China, we operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, a subsidiary of CNPC, the largest oil company in China. We hold a 90% participating interest in the foreign contractors' entitlement and obligations under these three production sharing contracts and generate revenues from the sale of the Group's share of crude oil to PetroChina. We also operate the Dagang production sharing contract in Hebei province, China, through the PCR Acquisition in December 2012, in which we hold 100% participating interest in the foreign contractor's entitlement and obligations, and generate revenues from the sale of the Group's share of crude oil to PetroChina. We own 51% of Sino Gas, whose principal activities are the exploration of unconventional gas assets in China pursuant to two production sharing contracts, namely Linxing PSC and Sanjiaobei PSC, both of which are located on the eastern flank of the Ordos Basin.

In Kazakhstan, we hold the three Emir-Oil Production Contracts covering Aksaz, Dolinnoe and Kariman producing oilfields, and the Emir-Oil Exploration Contract covering the ADEK Block that includes the Emir oilfield but excludes the area covered by the three Emir-Oil Production Contracts. The contract areas are located in the Mangistau province in the southwestern region of Kazakhstan.

In the United States, we entered into the emerging shale oil market through the Niobrara Acquisition in November 2011, which provide us with a 61.25% working interest covering 7,923 net acres of oil and gas leases in the Niobrara formation. Through the White Hawk Acquisition, we acquired 50% of White Hawk, which has a 7.94% non-operating working interest (106 net acres) in the Eagle Ford Shale project.

As of December 31, 2011, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 61.0 million barrels, 49.8 million barrels and 28.0 barrels of crude oil, respectively. The Group's (including its net interest entitlement in White Hawk and excluding PCR) net oil production in the fourth quarter of 2012 was 14,857 barrels of crude oil per day. Together with the net oil production of 15,590 barrels per day in the third quarter of 2012, the net oil production for the second half of 2012 was 15,223 barrels per day, an increase of 1,854 barrels per day or 13.9% over the first half of 2012 average oil production of 13,369 barrels per day.

The table below sets out a summary of our revenue, EBITDA, Adjusted EBITDA and net profit for the years ended December 31, 2009, 2010 and 2011 and for the six months ended June 30, 2011 and 2012.

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB million	RMB million	RMB million	US$ million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	US$ million (unaudited)
Revenue	1,166.8	1,805.0	2,827.1	445.0	1,282.9	1,756.0	276.4
EBITDA[(1)]	687.0	1,162.6	2,101.5	330.8	743.7	1,042.2	164.0
Adjusted EBITDA[(1)]	821.3	1,236.7	1,725.3	271.6	809.3	1,062.6	167.3
Net profit	110.5	420.9	1,105.8	174.1	303.9	347.1	54.6

Note:

(1) See "Summary Financial Information and Other Data" for information on how we calculate EBITDA and Adjusted EBITDA

Corporate History and Structure

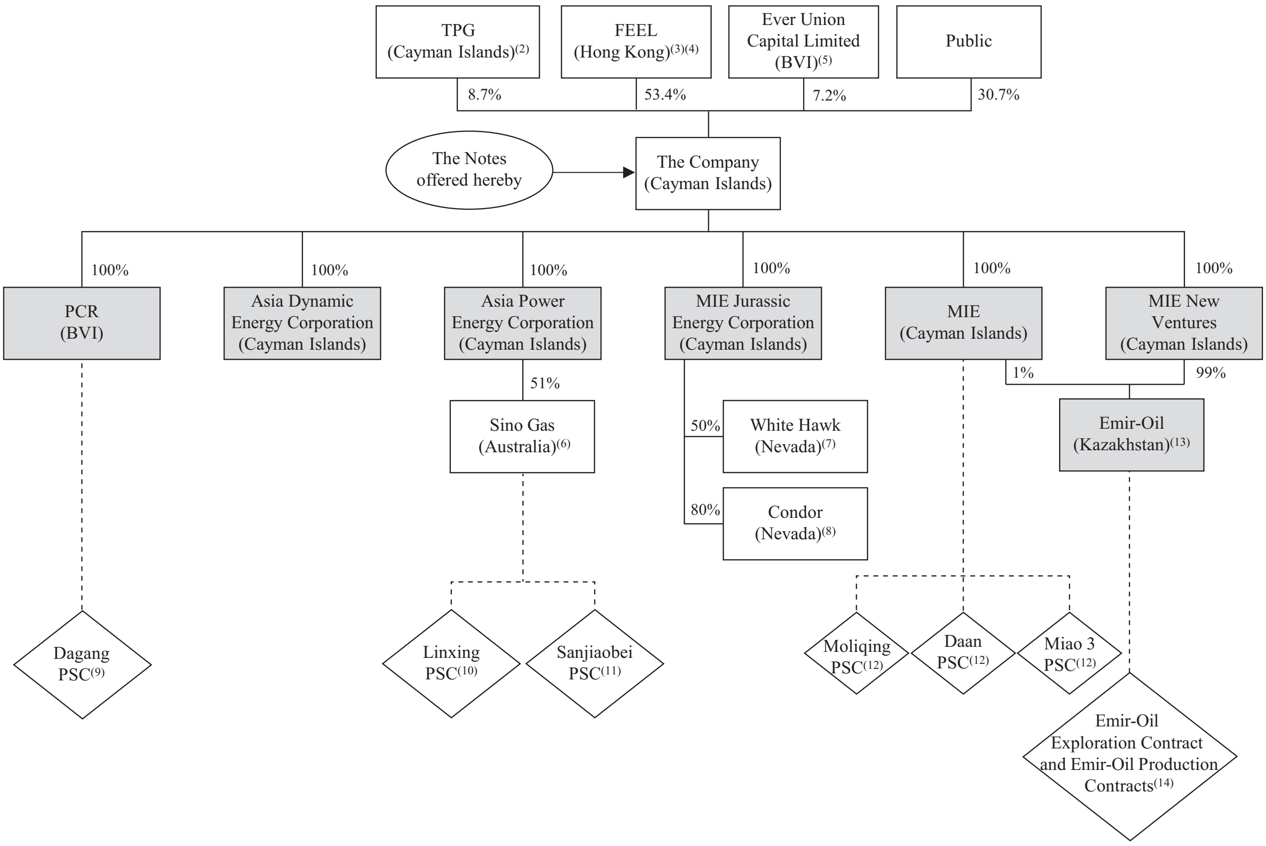
GOC and CNPC entered into the original production sharing contracts for the oilfields at Daan and Miao 3 on December 16, 1997, and for the oilfield at Moliqing on September 25, 1998. In 1999, CNPC assigned to PetroChina most of its commercial and operational rights and obligations under the production sharing contracts, although CNPC remains a party to these contracts.

On October 25, 2000, each of the three production sharing contracts was amended to effect the transfer and assignment of certain interests and obligations under the contracts from GOC to Microbes, Inc. On August 11, 2003, FEEL acquired an equity interest in MIE, then a subsidiary of Microbes, Inc., and held the interests in the three production sharing contracts.

Through its direct or indirect wholly owned subsidiaries, the Company is the sole operator and one of the two foreign contractors of the oilfields at Daan, Moliqing and Miao 3. The other foreign contractor, GOC, continues to hold a 10% interest of the foreign contractors' entitlement and obligations under each of these production sharing contracts but does not directly participate in operational decisions.

Our company was incorporated on March 20, 2008 as an investment holding company with limited liability. On January 12, 2009, FEEL completed a restructuring and our company became the holding company of MIE.

The following diagram illustrates our simplified corporate structure as of the date of this offering memorandum[1].



Notes:

(1) The shaded boxes indicate the Subsidiary Guarantors in the corporate structure of the Group.

(2) TPG is a leading global private investment firm and its 8.7% interest in the Company includes interest held by its affiliates.

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

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

(5) Held directly and indirectly through Harmony Energy Limited, a direct wholly owned subsidiary of Ever Union Capital Limited and an independent third party.
(6) The remaining 49% in Sino Gas is held by SGE Holdings, an independent third party.
(7) The remaining 50% in White Hawk is held by PEDCO, an independent third party.
(8) The remaining 20% in Condor is held by PEDCO, an independent third party.
(9) PCR has a production sharing contract with PetroChina which covers an area located within Dagang oilfield in Hebei Province, China.
(10) Sino Gas has a production sharing contract with CUCBM which covers an area located on the eastern flank of the Ordos Basin, close to the Changqing oilfield in China.
(11) Sino Gas has a production sharing contract with PetroChina CBM which covers an area located on the eastern flank of the Ordos Basin, close to the Changqing oilfield in China.
(12) We operate the Daan, Moliqing and Miao 3 oilfields pursuant to the respective production sharing contracts. These oilfields are located in the Songliao Basin in China. MIE holds the Daan and Moliqing PSCs through its wholly-owned subsidiaries, Gobi Energy Limited and Riyadh Energy Limited, respectively.
(13) Emir-Oil is 100% held by Palaeontol B.V., which is 100% held by Palaeontol Coöperatief U.A. MIE and MIE New Ventures, which are both wholly-owned subsidiaries of the Company, own 1% and 99% of Palaeontol Coöperatief U.A., respectively.
(14) Emir-Oil owns the three Emir-Oil Production Contracts for the Aksaz, Dolinnoe and Kariman producing oilfields, and the Emir-Oil Exploration Contract that covers the Emir oilfield and the rest of the 850 square kilometer ADEK Block located in the Mangistau Oblast in the southwestern region of Kazakhstan.

General Information

We were incorporated as a limited liability company under the laws of Cayman Islands on March 20, 2008 with Registration No. MC-207100. On December 14, 2010, we listed our ordinary shares on the Main Board of the Hong Kong Stock Exchange. Our principal place of business in Hong Kong is located at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong, and our telephone number is (852) 2511 0028. Our website address is www.mienergy.com. Information contained on our website does not form part of this offering memorandum.

The Offering

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

Issuer	MIE Holdings Corporation
Notes Offered	US$200,000,000 aggregate principal amount of 6.875% senior notes due 2018.
Maturity	The Notes will mature on February 6, 2018.
Interest Rate	The Notes will bear interest at an annual rate of 6.875% and will be payable semi-annually in arrears on February 6 and August 6 of each year, commencing on August 6, 2013.
Rankings of the Notes	The Notes are: • general senior obligations of the Company; • senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; • at least *pari passu* in right of payment with the US$400 million 9.75% senior notes due 2016 (the "2011 Notes"), except to the extent of the collateral securing the 2011 Notes and with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); • guaranteed by the Senior Guarantors on a senior basis, subject to the limitations described in "Description of the Notes — The Subsidiary Guarantees" and "Risk Factors — Risks Relating to the Notes and the Subsidiary Guarantees"; • guaranteed by Senior Subordinated Subsidiary Guarantors on a senior subordinated basis, subject to the limitations described in "Description of the Notes — The Subsidiary Guarantees" and "Risk Factors — Risks Relating to the Notes and the Subsidiary Guarantees"; • effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below); and • effectively subordinated in right of payment to certain secured debt of the Subsidiary Guarantors permitted to be Incurred under the Indenture to the extent of any security other than the Collateral.
Subsidiary Guarantees	Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes.

On the Original Issue Date, (i) MIE New Ventures Corporation, Palaeontol Coöperatief U.A., Palaeontol B.V., Emir-Oil LLC, MIE Jurassic Energy Corporation, Asia Dynamic Energy Corporation, Asia Power Energy Corporation and Pan-China Resources Limited will be Senior Guarantors, (ii) MI Energy Corporation ("MIE"), Gobi Energy Limited and Riyadh Energy Limited will be Senior Subordinated Subsidiary Guarantors and (iii) Condor Energy Technology LLC and Sino Gas and Energy Limited will be Non-Guarantor Subsidiaries.

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances. See "Description of the Notes — The Subsidiary Guarantees — Release of the Subsidiary Guarantees."

Each future Subsidiary of the Company (other than Subsidiaries organized under the laws of the PRC) will provide a guarantee of the Notes within 10 Business Days (which period will be increased by the number of days required by law or regulation to obtain any governmental consent or approval required, if any, in order to provide such Guarantee) after becoming a Restricted Subsidiary. Notwithstanding the foregoing, the Company shall not be obligated to cause a Restricted Subsidiary to Guarantee the Notes, or shall be entitled to limit the value of any such Guarantee, as applicable, to the extent that such Guarantee would be expected to give rise to or result in (now or in the future) any violation of applicable law or if after using reasonable best efforts, it is commercially unreasonable to provide such Guarantee.

Rankings of the Subsidiary Guarantees . . . .

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

- is a general senior obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of any assets serving as security therefor, including Capital Stock of certain of the Company's Restricted Subsidiaries that secures the 2011 Notes;

- is senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and

- ranks at least *pari passu* with all other existing and future unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor including the guarantees in respect of the 2011 Notes, except to the extent of the collateral securing the 2011 Notes (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

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

- is a general senior subordinated obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of any assets serving as security therefor, including Capital Stock of certain of the Company's Restricted Subsidiaries that secures the 2011 Notes;
- is subordinated in right of payment to all future Designated Senior Indebtedness Incurred by such Subsidiary Guarantor;
- is senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all existing and future Senior Subordinated Indebtedness of such Subsidiary Guarantor including the guarantees in respect of the 2011 Notes, except to the extent of the collateral securing the 2011 Notes (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

Optional Redemption . . . . At any time on or after February 6, 2016, the Company may redeem the Notes, in whole or in part, at redemption prices specified under "Description of the Notes — Optional Redemption." At any time prior to February 6, 2016, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to February 6, 2016, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 106.875% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

Repurchase of Notes upon a Change of Control Triggering Event. . . . . . Not later than 30 days following a Change of Control Triggering Event the Company will make an offer to purchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

Optional Tax Redemption	Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date of redemption, if the Company or a Subsidiary Guarantor would be obligated to pay certain Additional Amounts (as defined in the "Description of the Notes") as a result of certain changes in specified tax laws or other circumstances. See "Description of the Notes — Redemption for Tax Reasons."
Covenants	The Notes, the Indenture and the Subsidiary Guarantees will limit the Company's ability and the ability of its Restricted Subsidiaries to, among other things: • incur additional Indebtedness and issue preferred stock; • make investments or other Restricted Payments; • pay dividends or make other distributions or repurchase or redeem capital stock; • guarantee Indebtedness; • enter into certain transactions with affiliates; • create Liens; • enter into Sale and Leaseback Transactions; • sell assets; • enter into agreements that restrict the Company's Restricted Subsidiaries' ability to pay dividends; • issue and sell Capital Stock of Restricted Subsidiaries; • effect a consolidation or merger; and • engage in different business activities. All of these limitations are subject to a number of important qualifications and exceptions. See "Description of the Notes — Certain Covenants."
Form, Denomination and Registration	The Notes sold will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of Common depository or its nominee for the accounts of Euroclear and Clearstream, Luxembourg.

Book-Entry	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see "Description of the Notes — Book-Entry; Delivery and Form."
Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds on or about February 6, 2013, which is expected to be the fifth business day following the date of this offering memorandum. See "Plan of Distribution."
Trustee	Citicorp International Limited
Principal Paying Agent, Transfer Agent	Citibank, N.A., London Branch
Registrar	Citigroup Global Markets Deutschland AG
Ratings	The Notes are expected to be rated "B+" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc ("Standard & Poor's") and "B" by Fitch Ratings ("Fitch"). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Use of Proceeds	We estimate that the net proceeds of this offering, after deducting the Initial Purchasers' discounts, fees, commissions and other estimated expenses payable in connection with this offering, will be approximately US$195 million. We intend to use the net proceeds (i) to repay substantially all of the Group's existing indebtedness to Minsheng Bank and (ii) for capital expenditures, working capital and general corporate purposes. The above is based on the Company's current intention subject to market conditions and other factors.
Listing	Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST.
Governing Law	The Notes, the Subsidiary Guarantees and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.
Risk Factors	Investing in the Notes involves substantial risks. You should carefully consider all the information in this offering memorandum prior to investing in the Notes. In particular, we urge you to consider carefully the factors set forth under "Risk Factors."

Summary Financial Information and Other Data

Our Summary Financial Information and Other Data

You should read this summary financial information and other data in conjunction with our audited consolidated financial information, including the notes thereto, included elsewhere in this offering memorandum and information set forth in "Use of Proceeds," "Selected Financial Information and Other Data," "Description of Other Indebtedness" and "Description of the Notes." The summary audited consolidated financial information as at and for the years ended December 31, 2009, 2010 and 2011 set forth below are derived from the Company's published audited consolidated financial statements (which have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong) of the Company as at and for the years ended December 31, 2010 and 2011 included elsewhere in this offering memorandum and should be read in conjunction with the published audited consolidated financial statements of the Company as at and for the years ended December 31, 2009, 2010 and 2011 and the notes thereto.

The summary unaudited consolidated financial information of the Company for the six months ended June 30, 2011 and 2012 set forth below is derived from the Company's unaudited condensed consolidated financial information for the six months ended June 30, 2012, which are included elsewhere in this offering memorandum, and should be read in conjunction with such unaudited condensed consolidated financial information and the notes thereto. The financial position and results of operations of the Company for the six months ended June 30, 2012 should not be taken as an indication of the expected financial position and results of operations for the full year ended December 31, 2012. The consolidated financial information has been prepared in accordance with IFRS. Our historical financial information is not necessarily indicative of the results to be expected for any other period.

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Consolidated statements of comprehensive income:							
Revenue	1,166,827	1,804,976	2,827,141	445,009	1,282,917	1,756,012	276,407
Operating expenses							
Purchases, services and other	(123,587)	(126,517)	(185,494)	(29,198)	(70,857)	(115,991)	(18,258)
Geological and geophysical expense	—	—	—	—	—	(791)	(125)
Employee compensation costs	(67,651)	(110,346)	(197,052)	(31,017)	(110,540)	(118,996)	(18,731)
Depreciation, depletion and amortization	(445,824)	(528,582)	(542,002)	(85,314)	(231,412)	(376,673)	(59,291)
Distribution expenses	(21,861)	(28,424)	(31,472)	(4,954)	(14,890)	(16,620)	(2,616)
Administrative expenses	(62,253)	(50,154)	(90,297)	(14,213)	(35,044)	(55,518)	(8,739)
Taxes other than income taxes	(73,308)	(289,296)	(656,766)	(103,379)	(295,434)	(424,014)	(66,742)
Other income/(loss)	(131,124)	(37,644)	(24,898)	(3,919)	(12,458)	18,040	2,840
Total operating expenses	(925,608)	(1,170,963)	(1,727,981)	(271,994)	(770,635)	(1,090,563)	(171,662)
Profit from operations	241,219	634,013	1,099,160	173,015	512,282	665,449	104,745
Finance income	1,552	35,344	74,728	11,763	32,479	3,684	580
Finance costs	(58,832)	(86,788)	(234,482)	(36,909)	(101,485)	(141,104)	(22,211)
Financial costs — net	(57,280)	(51,444)	(159,754)	(25,146)	(69,006)	(137,420)	(21,631)
Investment income	—	—	—	—	—	66	10
Gain arising from acquisition of Emir-Oil, LLC	—	—	460,345	72,461	—	—	—
Profit before income tax	183,939	582,569	1,399,751	220,330	443,276	528,095	83,124
Income tax (expense)	(73,462)	(161,705)	(293,909)	(46,263)	(139,412)	(181,042)	(28,497)
Net profit for the year	110,477	420,864	1,105,842	174,067	303,864	347,053	54,627
Attributable to							
Owners of the company	110,477	420,864	1,106,072	174,103	303,864	347,469	54,692
Non-controlling interest	—	—	(230)	(36)	—	(416)	(65)
Net profit for the period	110,477	420,864	1,105,842	174,067	303,864	347,053	54,627
Other comprehensive income	—	(10,941)	(44,697)	(7,036)	(20,100)	1,632	257
Total comprehensive income for the period	110,477	409,923	1,061,145	167,031	283,764	348,685	54,884
Attributable to							
Owners of the company	110,477	409,923	1,061,375	167,067	283,764	349,101	54,949
Non-controlling interest	—	—	(230)	(36)	—	(416)	(65)
Total comprehensive income for the period	110,477	409,923	1,061,145	167,031	283,764	348,685	54,884

	As at December 31,				As at June 30,	
	2009	2010	2011		2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Consolidated statements of financial position:						
Non-current assets	2,738,102	3,070,656	5,895,349	927,963	6,672,958	1,050,363
Current assets	988,030	1,156,075	1,530,976	240,985	996,600	156,871
Cash and cash equivalents	290,271	680,033	533,029	83,902	371,955	58,548
Other current assets	697,759	476,042	997,947	157,083	624,645	98,323
Total assets	3,726,132	4,226,731	7,426,325	1,168,948	7,669,558	1,207,234
Total equity	1,253,446	1,959,931	2,962,653	466,339	3,244,502	510,704
Non-current liabilities	1,506,576	1,347,424	2,893,842	455,508	3,170,640	499,077
Current liabilities	966,110	919,376	1,569,830	247,101	1,254,416	197,453
Total liabilities	2,472,686	2,266,800	4,463,672	702,609	4,425,056	696,530
Total equity and liabilities	3,726,132	4,226,731	7,426,325	1,168,948	7,669,558	1,207,234

	For the Year Ended December 31,		For the Six Months Ended June 30,
	2010	2011	2012
Operating data:			
Crude oil production, net (bbl per day)	9,349	12,705	13,369
Average realized price for crude oil sales (US$ per barrel)[(1)]	77.99	108.80	114.61

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Other financial information:							
Total Debt (at period end)[(2)]	1,345,386	1,291,203	2,463,004	387,691	2,524,589	2,761,582	434,689
Net Debt (at period end)[(3)]	1,055,115	611,170	1,929,975	303,790	651,043	2,389,627	376,142
EBITDA[(4)]	687,043	1,162,595	2,101,507	330,790	743,694	1,042,188	164,046
Adjusted EBITDA[(4)]	821,301	1,236,716	1,725,317	271,576	809,340	1,062,600	167,259
Credit statistics:							
Total Debt/Adjusted EBITDA[(5)]	1.64	1.04	1.43	1.43	1.56	1.30	1.30
Net Debt/Adjusted EBITDA[(5)]	1.28	0.49	1.12	1.12	0.40	1.12	1.12
Adjusted EBITDA/Net Finance Cost	14.34	24.04	10.80	10.80	11.73	7.73	7.73

Notes:

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.13 per barrel (applicable to the Daan, Moliqing and Miao 3 oilfields only).

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

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

(4) EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude certain non-cash and one-time items, including share-based compensation expense, impairment of property, plant and equipment, impairment of inventory, net loss/(gain) on forward foreign exchange contract, realized and unrealized loss/(gain) on the oil put option and accrual/write-back of safety fees. EBITDA and Adjusted EBITDA are not standard measures under IFRS. We have included EBITDA and Adjusted EBITDA as we believe EBITDA is a financial measure commonly used in the oil and gas industry. We believe that EBITDA and Adjusted EBITDA are used as supplemental financial measures by our management and by investors, research analysts and others, to assess our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure. However, EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to profit from operations or any other

measure of performance or as an indicator of our operating performance or profitability. EBITDA and Adjusted EBITDA do not account for tax, finance income, finance costs and other non-operating cash expenses. EBITDA and Adjusted EBITDA do not consider any functional or legal requirements of the business that may require us to conserve and allocate funds for any purposes. EBITDA and Adjusted EBITDA should not be considered alternatives to net profit for the year, profit from operations or any other measure of financial performance or liquidity presented in accordance with IFRS. Our EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate EBITDA or Adjusted EBITDA in the same manner. In addition, EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net profit for the period for each of the periods indicated:

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Reconciliation of net profit for the period to EBITDA and Adjusted EBITDA:							
Net profit for the period	110,477	420,864	1,105,842	174,067	303,864	347,053	54,627
Income tax expense	73,462	161,705	293,909	46,263	139,412	181,042	28,497
Finance income	(1,552)	(35,344)	(74,728)	(11,763)	(32,479)	(3,684)	(580)
Finance costs	58,832	86,788	234,482	36,909	101,485	141,104	22,211
Depreciation, depletion and amortization	445,824	528,582	542,002	85,314	231,412	376,673	59,291
EBITDA	687,043	1,162,595	2,101,507	330,790	743,694	1,042,188	164,046
Share-based compensation expense	3,484	29,429	18,042	2,840	49,573	32,120	5,056
Gain arising from acquisition of Emir-Oil, LLC	—	—	(460,345)	(72,461)	—	—	—
Loss on disposal of property, plant and equipment	—	—	1,089	171	—	26	4
Impairment of inventory	—	—	—	—	—	260	41
Geological and geophysical expense	—	—	—	—	—	791	125
Net loss/(gain) on forward foreign exchange contract	(5,478)	—	—	—	—	—	—
Realized loss/(gain) on oil put option	(70,991)	20,285	—	—	—	—	—
Unrealized loss/(gain) on oil put option	207,243	24,407	32,137	5,059	16,073	(4,286)	(675)
Gain from changes of fair value of option to ACAP	—	—	—	—	—	(8,499)	(1,338)
Other acquisition expenses	—	—	8,760	1,379	—	—	—
Expense related to issuance of senior notes	—	—	24,127	3,798	—	—	—
Adjusted EBITDA	821,301	1,236,716	1,725,317	271,576	809,340	1,062,600	167,259

(5) Adjusted EBITDA is annualised for the calculation of Total Debt/Adjusted EBITDA and Net Debt/Adjusted EBITDA for the six months ended June 30, 2011 and 2012.

RISK FACTORS

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

Risks Relating to our Business

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

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

On July 6, 2012, our Group acquired a 51% interest in Sino Gas, which has entered into two production sharing contracts, one of which is with PetroChina CBM for gas assets at Sanjiaobei. Whereas Sino Gas has a 100% interest in the production sharing contract during the exploration period, Sino Gas and PetroChina CBM will have 49% and 51% interest, respectively, in the production sharing contract during the development and production period. On December 14, 2012, our Group acquired 100% interest in PCR, which has entered into a production sharing contract with PetroChina for an oilfield at Dagang. Pursuant to that production sharing contract, PCR holds 100% participating interest in the foreign contractor's entitlement and obligations.

The success of our business and our growth depend to a significant extent on our working relationship with PetroChina. However, we cannot assure you that we will be able to maintain a good working relationship with PetroChina. For instance, if we experience any material disagreement with PetroChina in the interpretation of any of the terms of the production sharing contracts, or if we fail to comply with the terms of the production sharing contracts in a timely manner or at all, our working relationship with PetroChina may be adversely affected or PetroChina may unilaterally terminate our production sharing contracts. Furthermore, we may have disagreements over payments with PetroChina from time to time.

If PetroChina terminates the production sharing contracts, or decides not to enter into any new production sharing contract with us, we cannot assure you that we will be able to secure a new production sharing arrangement in a timely manner or at all. In addition, any failure or undue delay by PetroChina to comply with the terms of any of the production sharing contracts, or its unwillingness to cooperate with us for any reason, may also have a material adverse impact on our operations. If any of the above occurs, our business, financial condition, results of operations and prospects would be materially and adversely affected.

PetroChina controls, to a significant extent, the volume of our net production as our major customer and the influence it has over the management of the Daan, Moliqing, Miao 3 and Dagang oilfields through the joint management committee. If our net production of crude oil decreases, our business, financial condition and results of operations may be materially and adversely affected.

The sales contracts require us to sell to PetroChina, and PetroChina to purchase from us, the crude oil produced from the projects at Daan, Moliqing, Miao 3 and Dagang subject to the approval of the production budget from the joint management committee. The relevant PSCs stipulate that we can export our oil production to offshore customers. However, we need PetroChina's assistance in obtaining relevant governmental approvals for oil exportation. We cannot assure you that such approvals can be obtained in a timely manner or at all, if we decide to export our oil production. The joint management committee performs supervisory functions for each oilfield, including the approval of our annual production budget for each oilfield. See "Business — Daan, Moliqing and Miao 3 Production Sharing Contracts — Management and Operations" for more information regarding the joint management committee. To date, PetroChina has been our major customer, accounting for a substantial amount of our sales in 2009, 2010 and 2011. Emir-Oil has also commenced sales of domestic oil to PetroChina International Kazakhstan LLP ("PetroChina Kazakhstan") in 2012, which accounted for a small percentage of Emir-Oil's sales in 2012.

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

PetroChina may take over from us the operational rights for the oilfields at Daan, Moliqing, Miao 3 and Dagang and the gas assets at Sanjiaobei under the relevant production sharing contracts. If PetroChina takes over the operational rights for one or more of these oilfields or gas assets, our business, financial condition and results of operations may be adversely affected.

Under the production sharing contracts, PetroChina, may take over the operational rights from us at the earlier of (i) the expiration of the production sharing contracts, (ii) when all the development costs have been recovered by the foreign contractors in full and no additional overall development plan under which additional development costs will be incurred by the foreign contractors has been approved, or (iii) if agreed to by the joint management committee, before the full recovery of the development costs by the foreign contractors. Concerning scenario (i) above, the production sharing contracts for the Daan, Moliqing, Miao 3 and Dagang oilfields do not expire until 2024, 2028, 2028 and 2027, respectively, and, concerning scenario (iii) above, under the production sharing contracts any action taken by the joint management committee must be made unanimously.

Concerning scenario (ii) above, we have recovered our past development costs in the Daan, Moliqing, Miao 3 and Dagang oilfields but will continue to invest and develop new portions of each oilfield in accordance with approved overall development plans and joint management committee approved budgets.

Under the Sanjiaobei production sharing contract, PetroChina CBM may, subject to certain conditions, take over the operational rights from us: (i) prior to the recovery of the development costs and interest payments under the first overall development plan if the joint management committee is in agreement with PetroChina CBM; or (ii) by giving us written notice upon recovery of the development costs and interest payments in relation to the overall development plan. In the event that PetroChina takes over the operations of the oilfields after (i) the maximum limits as set out under the original overall development plan and supplemental overall development plan have been reached, and (ii) we have recovered all of the pilot tests and development costs, we would not be able to invest in additional capital expenditures to generate more production and revenue and, accordingly, our business, financial condition and results of operations would be materially and adversely impacted. In addition, our results of operations would be dependent on PetroChina's ability, to operate the oilfields and produce profit-sharing oil after such takeover.

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

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

We may be subject to sanctions if our operations exceed the scope outlined in the current overall development plan approved by the NDRC or the NEB or if we fail to obtain approval from the NDRC or the NEB for any substantial change to the current plan.

We carry out the development and production activities at our oilfields in China. We operate in accordance with overall development plans, all of which were approved by the NDRC or the NEB, an agency established in 2008 under the NDRC to regulate China's energy sector. Under the Verification and Approval of Foreign-invested Projects Tentative Administrative Procedures issued by the NDRC on October 9, 2004, should the total investment amount in a foreign-invested project approved by the NDRC exceed the original approved investment amount by 20%, or any change to the construction venue, investors or main construction items occurs, an amendment application is required to be submitted to the NDRC for approval. Although we are currently operating within the limits set forth in the respective overall development plan and supplemental overall development plan for each of the oilfields we operate, based on our current projections, we, along with PetroChina, may need to submit a new proposal to the NDRC or NEB and obtain approval once our plan to develop and produce oil, as applicable, exceeds the scope of our current overall development plans or there is any substantial change to such plans.

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

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

Our results of operations are significantly affected by crude oil prices. See "Business — Sales and Marketing" for details. International prices for crude oil have fluctuated widely in recent years in response to changes in the supply of and demand for oil, market uncertainty and a variety of additional factors that are beyond our control, including political developments in petroleum-producing regions such as the recent political uncertainty in certain countries in the Middle East, the ability of the Organization of Petroleum Exporting Countries and other petroleum-producing nations to set and maintain production levels and prices, the price and availability of other energy sources, such as coal, domestic and foreign government regulation, and overall economic conditions.

We do not and will not have control over the factors affecting international prices for crude oil. For example, crude oil prices reached a historical high in July 2008 but declined in the fourth quarter of 2008 and the first half of 2009 as a result of the global economic and financial crisis. As a result, our revenue fluctuated significantly. Furthermore, our rate of recovery under our production sharing contracts, depreciation, depletion and amortization, and the amount of special levy paid or payable to the PRC government are affected by movements in crude oil prices. Crude oil prices recovered in the second half of 2009, but there is no guarantee that international prices for crude oil will remain stable and any future declines in international prices for crude oil will reduce our revenue. If crude oil prices increase in the future, the costs of materials and well drilling services may also increase beyond our expectations as a result of higher demand, which will materially and adversely affect our business, financial condition and results of operations.

If Emir-Oil is unable to comply with the terms and conditions of the Emir-Oil Exploration Contract and the Emir-Oil Production Contracts (including the minimum work requirements under these contracts) and applicable laws, the Emir-Oil Exploration Contract and the Emir-Oil Production Contracts) may be subject to amendment, suspension and/or termination by the MOG.

The authorities in Kazakhstan regularly inspect Emir-Oil's compliance with terms and conditions of the Emir-Oil Exploration Contract, the Emir-Oil Production Contracts (including the minimum work requirements under these contracts) and applicable laws. Fines may be imposed on Emir-Oil and the Kazakhstan government can suspend or even terminate the Emir-Oil Exploration Contract and the Emir-Oil Production Contracts if Emir-Oil fails to comply with its obligations under the Emir-Oil Exploration Contract and the Emir-Oil Production Contracts or breaches requirements of the applicable laws. In the past, the Competent Authority has claimed that certain contractors breached their obligations under their subsoil use contracts and certain applicable laws and consequently suspended and, in certain instances, terminated their subsoil use contracts. Moreover, according to the Subsoil Use Law, the MOG, on behalf of the Republic of Kazakhstan, has the right to initiate reviews of subsoil use contract terms and to unilaterally terminate subsoil use contracts in respect of deposits of "strategic importance," if activities of the subsoil user in deposits of "strategic importance" lead to material changes in the economic interests of the State which jeopardize the national security.

Pursuant to the Emir-Oil Exploration Contract and the Emir-Oil Production Contracts, Emir-Oil must meet certain minimum work requirements. In June 2012, the MOG granted a two-year extension to the Emir-Oil Exploration Contract from January 9, 2013 to January 9, 2015. Under the extension work program pursuant to the new contract addendum to the Emir-Oil Exploration Contract, Emir-Oil's main commitment is 50 square kilometers of new 3D seismic survey and a minimum of one exploration well. Under the Emir-Oil Production Contracts, the Group is also obligated to perform minimum work program and make certain commitments during the life of the production contracts. See also "Business — Kazakhstan — Emir-Oil Exploration Contract" and "Business — Kazakhstan — Emir-Oil Production Contracts" for more information.

Although we believe that Emir-Oil is in compliance with its obligations under the Emir-Oil Exploration Contract, the Emir-Oil Production Contracts and applicable Kazakhstan law and that the areas under the Emir-Oil Exploration Contract and the Emir-Oil Production Contracts are not currently considered as strategic deposits, Emir-Oil could potentially face such governmental actions, that could result in the termination of its Emir-Oil Exploration Contract and/or the Emir-Oil Production Contracts, which would have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations.

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

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

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

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

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

The crude oil exported by Emir-Oil is currently transported by rail from Emir-Oil's oilfields to the city of Aktau, and loaded onto ships via the Aktau sea port for delivery across the Caspian Sea. Titan Oil is responsible for the transportation after the crude oil is loaded onto rail at the Emir-Oil oilfield and charges Emir-Oil for all the transportation-related expenses. These railways are operated by state-owned entities or third-parties, which can charge transportation tariffs and whose availability are, in certain instances, subject to governmental regulation, and there can be no assurance that these transportation systems (whether railway or shipment) will be functioning and available in the capacity required for Emir-Oil, or that the transportation costs will be attractive and advantageous for Emir-Oil. An increase in the transportation cost borne by Titan Oil, whether for railway or shipment, would be charged to Emir-Oil. Therefore, any increase in the cost of transportation or reduction in its availability to Emir-Oil could have a material adverse effect on its results of operations. There is no assurance that Emir-Oil will be able to procure sufficient transportation capacity on economical terms, if at all, in Kazakhstan.

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

During the three months ended December 31, 2011 and the six months ended June 30, 2012, Emir-Oil sold approximately 87.8% and 93.9%, respectively, of its crude oil production to Titan Oil (formerly Euro-Asian Oil AG). Revenue from oil sold to Titan Oil made up 93.5% and 93.0%, respectively, of its revenue during the same periods. The loss of Titan Oil as a customer would have a material adverse effect on Emir-Oil's operations in the short-term.

If Sino Gas is not able to meet minimum expenditure requirements in the production sharing contracts in relation to the Linxing and Sanjiaobei gas assets, the unfulfilled balance of such requirements may be added to the minimum expenditure requirements in the following exploration period if any, giving rise to significant financial commitments which may have a material adverse impact on Sino Gas' financial condition.

The production sharing contracts in relation to the Linxing and Sanjiaobei gas assets between Sino Gas and PetroChina or CUCBM, as applicable, require Sino Gas to comply with certain minimum expenditure requirements. In the event that such requirements are not met by the expiration of the exploration period as prescribed in the production sharing contracts, the unfulfilled balance of the minimum expenditure requirement may be added to the minimum expenditure requirement in the following exploration period if any, or such contracts may be terminated by Sino Gas, whereby it should pay to PetroChina or CUCBM, as applicable, any unfulfilled balance as calculated using the method provided by the contracts. Sino Gas requires a significant amount of capital in order to fulfill its minimum expenditure requirement under the production sharing contracts and transition from exploration to commercial production, but may be unable to raise additional capital.

If the exploration under the production sharing contracts in relation to the Linxing and Sanjiaobei gas assets is not productive by the expiration of the exploration period, such period or the current production sharing contracts may not be extended, and the production sharing contracts may be terminated, giving rise to substantial uncertainty that Sino Gas would be able to continue as a going concern.

In case the exploration in Linxing and Sanjiaobei gas assets does not prove fruitful by the expiration of the exploration period, there is no guarantee that such period or the current production sharing contracts held by PetroChina and CUCBM for the Linxing and Sanjiaobei gas assets will be extended, and the production sharing contracts may be terminated; even if upon successful exploration of the gas assets, there is also no guarantee that the overall development plan would be approved, all of which giving rise to substantial uncertainty that Sino Gas would be able to continue as a going concern.

We may have disagreements with our joint venture partner, SGE Holdings, that may adversely affect our business

Sino Gas is held as to 51% by our wholly owned subsidiary, Asia Power Energy Corporation ("Asia Power"), and 49% by SGE Holdings. Asia Power entered into a shareholders agreement with SGE Holdings in July 2012 (the "Sino Gas Shareholders Agreement"). The Sino Gas Shareholders Agreement requires the unanimous board approval for certain material corporate or governance actions by Sino Gas. Currently, the board of Sino Gas comprises 7 directors in which 4 directors are nominated by Asia Power and 3 directors are nominated by SGE Holdings. If there are disagreements between SGE Holdings and us regarding the significant corporate or business activities of Sino Gas covered by the Sino Gas Shareholders Agreement, we might not be able to resolve those disagreements in a manner that will be in the best interests of Sino Gas or us.

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

Substantially all of our revenue is derived from sales of crude oil produced in the PRC and Kazakhstan. Our results of operations are materially affected by economic conditions in China and, to a lesser extent, oil and gas produced in Kazakhstan, and elsewhere around the world. The oil and gas industry is sensitive to macroeconomic trends as oil and gas prices tend to decline in recessionary periods. Recent global economic conditions have been characterized by tight credit and recessionary trends in most major economies.

The negative economic outlook has affected business and consumer confidence. In addition, turbulence in the international energy markets, as well as any slowdown of economic growth in China, may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs. A global recession or an economic downturn in the PRC or Kazakhstan, as well as uncertainties regarding the future economic prospects of the PRC, Kazakhstan and the major economies in the world, could depress oil and gas prices, and any decline in oil and gas prices as a result of such an economic downturn would likely have a material and adverse effect on our results of operations and financial condition.

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

The crude oil and natural gas reserves estimates are important data to us for making future development and production plans and estimating our expected recovery of operating costs incurred and revenue. The crude oil and natural gas reserves data in this offering memorandum are only estimates based on December 31, 2011 figures and all reserves estimates involve some degree of uncertainty. The reliability of reserve estimates depends on the following factors, some of which are beyond our control and may fluctuate or prove to be incorrect over time:

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

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

Moreover, the estimates discussed in the offering memorandum are subject to change as a result of on-going technical analysis by the technical consultants for preparation of 2012 year end reports which are not available as of the date of this offering memorandum. Therefore any recent trend in field performance, field operations, facility status, economic conditions, development drilling results, or technical analysis is not reflected in the estimates disclosed in the offering memorandum and estimates and other reserves and resources data in the 2012 year end reports may likely materially differ from the data based on December 31, 2011 figures presented in this offering memorandum. Any and all such values may be revised, favorably or unfavorably, in light of the analysis of such data in future reports by the technical consultants, including any work which is presently underway.

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

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

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

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

Our future success depends heavily upon the continued services of our senior executives, including Mr. Zhang, our chairman and chief executive officer, and other key employees. We rely on their expertise in developing business strategies, managing business operations and strengthening our relationships with PetroChina and service providers. We carry key person insurance. However, if one or more of our senior management or key employees were unable or unwilling to continue in their present positions, we may not be able to replace them in a timely manner or at all.

If any dispute arises between our key employees and us, we cannot assure you of the extent to which any of the employment agreements that we have entered into with our key employees could be enforced, particularly in the PRC, where most of these key employees reside, in light of the uncertainties within the PRC legal system. See "— Uncertainties with respect to the PRC legal system could limit the protections available to you and us" below. If one or more of our senior management or key employees were unable or unwilling to continue in their present positions, our business could be severely disrupted, our financial condition and results of operations could be materially and adversely affected, and we could incur additional expenses to recruit, train and retain personnel. We may not be able to attract or retain replacement personnel that we will need to achieve our strategic objectives at costs similar to our current costs.

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

Oil and gas operations such as ours are subject to a significant number of licenses, permits and approvals in the PRC, Kazakhstan and the United States such as those relating to environmental protection and work safety. See "Regulations." In particular, our projects and any expansion plans are subject to extensive governmental review and approval. Our ability to continue to conduct our existing operations and to successfully implement our expansion strategies is dependent upon our obtaining, maintaining and renewing, where necessary, the relevant regulatory approvals under PRC law, Kazakhstan law and U.S. law.

We are also dependent on PetroChina's and CUCBM's ability to obtain governmental approvals and licenses. These approvals and licenses include, but are not limited to, those for environmental protection, workplace safety, land use rights allocation, mining exploration and production, foreign exchange and water-drawing. For instance, the PRC branches of Gobi Energy Limited and Riyadh Energy Limited are now in the process of completing the foreign exchange registration. If we or PetroChina or CUCBM fail to obtain or renew such approvals on a timely basis or at all, we may be subject to fines, ordered to take corrective measures, ordered to shut down our operations, lose our rights under the production sharing contracts or subject to other administrative penalties. We may even be prohibited from continuing or expanding our operations due to a failure to obtain or renew such approvals, or we may have to expend considerable time and costs in order to sustain our business, any and all of which may materially and adversely affect our business, financial conditions, results of operations and prospects.

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

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

We also plan to explore other investment opportunities overseas, expand our asset portfolio and diversify into the exploration and development of unconventional gas in China. We have limited experience conducting oil operations outside China and there can be no assurance that we will be successful in venturing into such new business opportunities or geographic areas. Furthermore, these new projects would likely have significant capital requirements and create additional challenges from a technical perspective. These new projects may expose us to additional risks, including but not limited to approvals from regulatory authorities that we may not have dealt with in the past as well as economic and legal risks associated with operating projects in other countries. New investments and projects will also require significant capital expenditures. Taking on such business expansion could adversely impact on our future profitability, business, financial conditions, results of operations and prospects.

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

As of June 30, 2012, all of our gross proved crude oil reserves were located in Northeast and Northwest China, Kazakhstan and the United States. The geographic concentration of our crude oil reserves exposes our business to natural disasters, including floods and earthquakes, and other acts of God, in a single area which could adversely affect the development or production of our crude oil, such as catastrophic damage to pipelines or reservoir structures or events that could result in a material loss or delay of our operations. Acts of terrorism may also cause damage or disruption to us, our employees or our facilities, any of which could materially impact our sales, cost of sales, overall operating results and financial condition.

Our recent and future mergers, acquisitions and investment may not lead to the desire outcome or returns on the consideration paid and our operating results could be adversely affected.

We have made recent acquisitions to expand our operations overseas and in China and diversify into unconventional gas operations in China and the United States. We continue to consider and review potential acquisition targets as well as investment opportunities. We evaluate and, in certain cases, engage in discussions and negotiations regarding these types of opportunities on a regular basis, some of which, if acted upon, could have an adverse material impact on the business, financial condition, results of operations and prospects of the Group.

The mergers, acquisitions and investments which we may engage in from time to time may not lead to the desired outcome or returns on the consideration paid. We have limited experience conducting oil operations outside China and we may not be successful in venturing into such new business opportunities or geographic areas. Furthermore, new acquisitions and projects may divert management's attention and resources from our existing business, require significant capital requirements and create additional technical challenges. We are subject to a variety of risks inherent in expanding our business and in conducting mergers and acquisitions, including:

- overpayment for the target business;

- failure to successfully identify actual or contingent liabilities or other risks in our due diligence and evaluation of the target business;

- failure to successfully close any acquisitions or integrate the acquired operations into our existing business;

- inability to capture synergies with the target business;

- underperformance of our business post-investment or acquisition;

- inability to operate our projects and business profitably due to our limited experience and expertise in other sectors and business environments; and

- failure to comply with laws and regulations in jurisdictions where we have not dealt with in the past.

Our exploration projects may not be profitable or achieve targeted returns

Emir-Oil holds an exploration contract and three production contracts that allow us to conduct exploration and production activities in the Mangystau province in the southwestern region of Kazakhstan. Sino Gas also has a production sharing contracts with PetroChina CBM and CUCBM for the exploration of unconventional gas assets. Oil and gas exploration activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. There can be no assurance that our oil and gas assets will be profitably developed, that new drilled wells will be productive or that we will recover all or any portion of our investment in such assets or wells.

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

Oilfield operations are a capital-intensive business. Our ability to maintain and increase our revenue, net profits and cash flows depends upon continued capital spending. We expect to have significant capital expenditures for our businesses. Our expected net capital expenditures may vary significantly from planned amounts due to various factors, including but not limited to our ability to generate sufficient cash flows from our operations and investments to finance our capital expenditures, our ability to obtain external financing, oil prices and approval by the joint management committee. In addition, one of our growth strategies is to develop our net proved undeveloped reserves, as well as probable and possible reserves. To implement this growth strategy successfully, we will need to raise substantial additional funds.

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

- general economic and capital market conditions;

- the availability of credit from banks or other lenders;

- investor confidence in us; and

- the continued performance of our projects.

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

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

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

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

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

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

Our right and ability to continue to occupy and use the land under each of the production sharing contracts concerning the Daan, Moliqing, Miao 3 and Dagang oilfields as well as the Linxing and Sanjiaobei gas assets for our long-term use may be adversely affected if permanent use approval or formal land use rights certificates are not obtained by PetroChina or CUCBM or us.

We are entitled to use various parcels of land in the PRC pursuant to the provisions of the production sharing contracts and approvals from the relevant PRC land administration authorities. Under the production sharing contracts concerning the Daan, Moliqing, Miao 3 and Dagang oilfields as well as the Linxing and Sanjiaobei gas assets, PetroChina or CUCBM, as applicable has the obligation to procure or assist in procuring land use rights. These parcels of land are used for our development facilities, central collection stations, offices, ancillary facilities and dormitories for our workers. However, formal land use rights certificates have not been obtained by PetroChina or us from the relevant PRC governmental authorities for these lands. See "Business — Properties." Failure to obtain the land use rights certificates may subject us to regulatory actions, including orders from land administration authorities to return the lands we occupy, the demolition or confiscation of buildings on such lands and fines being imposed, which could materially and adversely affect our ability to use the allocated land parcels and buildings. Moreover, even if we obtain land use right certificates and building ownership certificates with respect to the allocated lands and the buildings thereon, Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), effective since May 19, 1990, and Interim Measures for the Administration of Allocated Land Use Right (劃撥土地使用權管理暫行辦法), effective since March 8, 1992, provide that the land use rights of allocated lands and the buildings thereon may be transferred, leased or mortgaged under the conditions that such transfer, mortgage or lease has been approved by competent land and building administration authorities, the grant contracts of land use rights have been executed and the grant fees have been paid up; or else the benefits arising from such transfer, mortgage or lease are used to pay the grant fees or such benefits are turned over to governments. However, according to Law of the People's Republic of China on the Administration of the

Urban Real Estate (中華人民共和國城市房地產管理法), effective since August 30, 2007, in case of mortgage of buildings on allocated lands, the mortgagee may receive compensation only after an amount equivalent to the payable grant fee for the grant of land use rights has been paid up out of the proceeds of the auction of the mortgaged buildings.

We may be subject to disputes or sanctions if there is any deficiency in connection with our ownership or lease of buildings.

We have constructed buildings in oilfields for the use of offices, dormitories and other facilities, and we also lease properties in Beijing, Jilin, Hebei and Shanxi of China as offices and dormitories. Pursuant to the PRC law on real properties, building ownership certificates are evidence of the registration and ownership of such real property. Absent of such certificates, the buildings may not be able to be transferred or mortgaged, and they may be susceptible to claims from third parties. Furthermore, if there is any building constructed on lands for temporary use, such buildings may be ordered to be dismantled upon the expiry of the temporary use period. We may not be able to obtain all the ownership certificates for buildings we constructed, and neither can we guarantee that lessors possess all such certificates for the properties they lease to us, resulting in our inability to assure that no third party will seek to assert its ownership rights against us or our lessors. We may not either assure that the lands for temporary use can be converted to permanent use or such temporary use periods can be extended so that buildings hereon will not be dismantled. Should disputes arise due to title encumbrances on such properties, we may encounter difficulties in occupying or leasing such buildings, which may materially and adversely affect our business and operations. In addition, if we fail to complete the lease registration or filing at competent building administration authorities, we may be subject to fines.

Under the terms of the production sharing contacts in relation to oil fields and gas assets in China, all assets purchased, installed and constructed under the production sharing contracts will eventually become the property of PetroChina or CUCBM, as applicable which could have a material adverse effect on our ability to satisfy our obligations.

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

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

Under existing contracts with a few of our drilling service providers and equipment suppliers, we are required to make prepayments to our service providers and suppliers consistent with industry practice. In many such cases, we make prepayments without receiving collateral for such payments. As a result, our claims for such payments would rank as unsecured claims and expose us to the credit risks of our suppliers and service providers in the event of their insolvency or bankruptcy. We would rank below secured creditors, which would undermine our chances of obtaining the return of our prepayments. If there is a breach of contract, we may need to make a provision for the impairment loss. We may not prevail in our claims against the defaulting service providers or suppliers, and even if we prevail, we may not be able to recover damages from our loss. Any of the above scenarios may have a material adverse effect on our financial condition and results of operations.

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

Developing, producing and transporting crude oil and natural gas involve many hazards, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater contamination;

- abnormally pressured formations;

- mechanical difficulties, such as stuck oilfield drilling and service tools and casing collapse;

- fires and explosions;

- personal injuries and death;

- natural disasters; and

- acts of terrorism.

These hazards may result in fires, explosions, spillages, blow-outs and other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations.

Significant operating hazards and natural disasters may cause interruption to our operations, property and/or environmental damage as well as personal injuries, and each of these incidents could have a material adverse impact on our financial condition and results of operations. Although we are regularly improving our safety and occupational health measures to protect our employees and reduce the risk of accidents, our preventive measures may not always be effective, particularly due the hazardous nature of our industry.

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

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

Our operations, like those of other oil and gas companies in the PRC, are subject to extensive regulations and control by the PRC government. Although the PRC government has been gradually liberalizing its regulations of the oil and gas industry in recent years, it continues to exercise a certain degree of control over this industry by, among other measures, licensing the right to explore and produce crude oil, assessing and imposing taxes and fees payable in respect of crude oil produced and setting safety, environmental and quality standards. For instance, since March 26, 2006, we have been subject to a crude oil special gain levy imposed by the PRC government. As a result, we recorded special levy in aggregate of RMB73.3 million, RMB288.1 million, RMB595.4 million and RMB292.7 million in relation to our sales of crude oil in 2009, 2010, 2011 and the six months ended June 30, 2012, respectively. These regulations and controls, including any future changes in tax rules or policies, may affect material aspects of our operations and profitability, which may in turn constrain our ability to implement our business strategies, to develop or expand our operations or to maximize our profitability.

If we enter into hedging transactions in the future, we may be exposed to risks in connection with such hedging transactions, including counterparty risks and significant fluctuation on our income statement from changes to the fair value of hedging agreements.

As at December 31, 2012, all of our oil hedges have expired and we have not entered into any new oil hedges. If we enter into any future hedging transactions, we may be exposed to risks in connection with such hedging transactions, including counterparty risks and significant fluctuation in our income statement from changes to the fair value of any hedging agreements. Even if we enter into hedging transactions with reputable and well-capitalized banks and financial institutions that are active in the hedging markets, those banks and financial institutions may default or otherwise fail to perform their obligations under these oil hedging transactions.

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

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

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

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

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

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

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

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

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

We also have operations in the United States. Any changes in U.S. environmental laws and regulations may have a material adverse effect on our results of operations, competitive position or financial condition.

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

On August 28, 2000, we entered into a 25-year production sharing contract with Sinopec for exploration and development of a contract area at the Shengli oilfield in Shandong Province. The Shengli oilfield is one of the largest oil production bases in China. In 2000, we began the trial-development phase of our operations at the Shengli oilfield and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, we requested an extension from Sinopec to restart the project at the Shengli oilfield. On September 27, 2006, we received a letter from Sinopec denying our request to restart the project and seeking to terminate the production sharing contract on the grounds that the one-year extension period of the trial-development phase had expired on December 31, 2003, and we had not met our investment commitment of at least US$2 million under the production sharing contract prior to such expiration.

We believe our initial investment of RMB23.1 million in the Shengli oilfield, which investment was made prior to December 31, 2003, had met the required commitment amount under the production sharing contract. We had drilled two wells at Luojiayi Block 64 at the Shengli oilfield, one of which was a dry well, the other was not completed after Sinopec requested operations be suspended in September 2006. Due to geologic factors, the chance of drilling a dry well is greater in Luojiayi Block 64 than in our other oilfields and the development and operating costs are higher. We continue to consider the economic and contractual feasibility of making further investments to develop Luojiayi Block 64, which consideration also takes into account the price of crude oil. We intended to negotiate in good faith with Sinopec to resolve this issue. Therefore, we have chosen not to pursue the termination of this PSC with Sinopec.

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

We face intense competition in the oil and gas industry, and if we fail to compete effectively, we may be unable to sustain our growth.

Through its direct or indirect wholly owned subsidiaries, the Company is the sole operator of the Daan, Moliqing, Miao 3 and Dagang oilfields, as well as the Niobrara Asset. The Company also operates the gas assets at Sanjiaobei and Linxing through Sino Gas. Our wholly owned subsidiary, Emir-Oil, holds an exploration contract and three production contracts that allow us to conduct exploration and production activities in the Mangistau province in the southwestern region of Kazakhstan.

We do not compete with other operators in our contract areas in China. However, we encounter competition when we seek to acquire properties, secure additional production sharing contracts with state-owned oil and gas companies or hire trained personnel. As an independent oil contractor and operator in China, we are required to conduct our operations in accordance with the Regulation on the Exploitation of Onshore Petroleum Resources in Cooperation with Foreign Enterprises. We may face competition from both existing players and new emerging players for the contractual right to cooperate with CNPC and Sinopec, which are the only entities permitted to cooperate with foreign companies in onshore crude oil and natural gas exploration and production in the PRC, and for the development and production of oil resources in the PRC. Some of our competitors include ROC Oil, Central Asia Oil and Bright Oceans. Factors that could affect our competitiveness may include, among others, technical capability, financial resources, experience and track record, and our relationship with CNPC and Sinopec. Our competitors include market players that may be more experienced and/or may have greater financial and personnel resources available to them. In addition, many large oil companies with dominant positions in the PRC, such as PetroChina, Sinopec and CNOOC, are able to independently conduct oil development and production operations. Our ability to successfully enter into new production sharing contracts and sustain our growth therefore will, to a significant extent, depend upon our ability to out-perform other market players in an increasingly competitive market.

In general, the oil and gas industry is characterized by rapid and significant technological advancements. As new technologies develop, we may be placed at a competitive disadvantage, and competitive pressures may force us to implement those new technologies at a substantial cost. We may not be able to respond to these competitive pressures and implement new technologies on a timely basis or at all. If we are unable to utilize the most advanced commercially available technologies, our ability to compete in securing additional production sharing contracts could be adversely affected. Furthermore, if demand for oil in China decreases, we may need to compete with other competitors for reduced amount of oil purchased by PetroChina.

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

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

According to the Notice of the State Administration of Foreign Exchange on Exchange Control Issues Relating to Financing and Reverse Investment by Person Resident in the People's Republic of China Through Offshore Special Vehicles ("SAFE Notice No. 75"), which was issued by SAFE on October 21, 2005 and effective on November 1, 2005, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration with the local SAFE branch by such PRC resident is also required upon the injection of equity interests or assets of an onshore enterprise into the offshore company, or if funds are raised overseas by such offshore company after such injection. In addition, any change of shareholding or any other material capital alternation in such offshore special vehicles not involving a reverse investment shall be filed or registered within 30 days from the date of change.

According to new operational rules for SAFE Notice No. 75 effective since July 1, 2011 published by the SAFE, where a domestic individual resident conducts direct investment in China through an offshore entity which is not an offshore special purpose vehicles ("SPV") as defined under SAFE Notice No. 75, such individual is not required to complete the SPV registration for the offshore companies. Instead, the offshore entity shall be marked as a "non-SPV reverse investment" in the foreign exchange administration information system.

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

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

Risks Related to our Operations In China

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

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

- its structure;
- the level of governmental involvement;
- the level of development;
- the growth rate;
- the level and control of capital investment;
- the control of foreign exchange; and
- the allocation of resources.

While the Chinese economy has grown significantly in the past two decades, the growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Chinese economy will continue to grow or will do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. Due in part to the impact of the global economic and financial crisis and other factors, the growth rate of China's gross domestic product decreased from 10.4% in 2010 to 9.2% and 7.8% in 2011 and 2012, respectively. It is uncertain whether the various macro-economic measures, monetary policies and economic stimulus packages adopted by the PRC government will be effective in restoring or sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long term, may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments.

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

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

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

The New EIT Law, which became effective on January 1, 2008, provides that enterprises established outside of the PRC whose "*de facto* management bodies" are located in the PRC are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the Implementation Rules of the New EIT Law, issued by the State Council, "*de facto* management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. At present, the PRC tax authorities have not issued any guidance on the application of the New EIT Law and its Implementation Rules on offshore entities which are not controlled by Chinese enterprises or Chinese group enterprises. As a result, it is unclear what factors will be used by the PRC tax authorities to determine whether we have a "*de facto* management body" in the PRC. A substantial number of our management personnel are located in the PRC, and a substantial amount of our revenues arise from our operations in the PRC. However, we do recognize some interest income and other gains from our financing activities as well as income from operating activities outside the PRC. We are currently subject to enterprise income tax on our PRC activities. If the PRC tax authorities determine that we are a PRC resident enterprise, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which may have an adverse impact on our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

Labor and Social Insurance laws in the PRC may adversely affect our results of operations.

The Labor Contract Law, effective as of January 1, 2008 and amendment to which will become effective on July 1, 2013, and its implementation regulations, impose greater liabilities on employers and significantly impact the cost of an employer's decision to reduce its workforce. In addition, pursuant to the Labor Contract Law, an employer may not terminate the employment contract under certain circumstances including, but not limited to, an employee suffering from an occupational disease or work-related injury during the term of employment who is confirmed to have lost the ability to work partially or entirely, a female employee in her pregnancy or an employee who has been working for the employer continuously for not less than 15 years and is 5 years away from the legal retirement age. Furthermore, according to Law on Social Insurance of the PRC, which became effective on July 1, 2011 and Regulation Concerning the Administration of Housing Fund implemented since April 3, 1999 and amended on March 24, 2002, an employer is obligated to contribute social insurance and housing fund for its employees. Even though most of our employees are hired through Jilin Foreign Enterprise Services Co., Ltd. in accordance with PRC laws and regulations, we are still affected by the changes in labor and social insurance laws and regulations. In the event that we decide to significantly change or decrease our workforce, the labor laws and regulations could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

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

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

Risks Relating to our Operations in Kazakhstan

The Kazakhstan economy and currency are highly dependent on oil exports. Accordingly, the Kazakhstan economy and our business in Kazakhstan may be affected by oil and gas price volatility.

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

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

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

Emir-Oil is subject to Kazakhstan-specific risks, including, but not limited to, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes with respect to taxes, withholding taxes on distributions to foreign investors, changes in anti-monopoly legislation, nationalization or expropriation of property, and interruption or blockage of hydrocarbons or other strategic materials exports. The occurrence of any of these factors could have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations. Kazakhstan's president, Nursultan Nazarbayev, has been in office since Kazakhstan became an independent sovereign state in 1991, and President Nazarbayev was re-elected on April 3, 2011 for another five-year term. Since 1991, Kazakhstan has pursued a program of political and economic structural reform designed to establish a free market economy through the privatization of state enterprises and deregulation of the economy. In addition, under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including privatization of state assets, liberalization of capital controls, tax reforms and pension system development. As with any economy in transition, such reforms may not continue and may not achieve their intended aims. Since the dissolution of the Soviet Union, a number of former Soviet Republics have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence. Commentators on Kazakhstan suggest that there is political in-fighting among the potential successors to President Nazarbayev, and there are concerns about possible dynastic succession. As there is currently no clear successor, the issue is a potential cause for instability in Kazakhstan. Further, if a president is elected with a different political outlook, the business regime in Kazakhstan could change. Changes to Kazakhstan's property, tax or regulatory regimes or other changes could have a material adverse effect on Emir-Oil's business and results of operations. Furthermore, future political instability, civil unrest or violence in the region could affect the political or economic stability of Kazakhstan or the countries to which or through which Emir-Oil exports its products, and could have a material adverse effect on Emir-Oil's business, prospects, financial condition and results of operations.

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

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

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

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

The Tax Code, which disregards the stability of the tax regime under subsoil use contracts, except for (1) production sharing agreements which were concluded with the Government of Kazakhstan or the Competent Authority before January 1, 2009 and which have undergone a mandatory evaluation by the tax authorities; and (2) subsoil use contracts approved by the President of Kazakhstan, came into force on January 1, 2009. Through amendments to the Tax Code, Kazakhstan may influence operations of subsoil users.

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

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

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

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

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

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

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

There are Kazakhstan tax risks associated with the Notes.

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

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

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

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

Risks Relating to the Notes and the Subsidiary Guarantees

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

We are primarily a holding company that operates through our subsidiaries. On the date of the issuance of the Notes, we will have subsidiaries that are Non-Guarantor Subsidiaries. None of our Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. Moreover, no future subsidiaries that may be organized under the laws of the PRC will provide a Subsidiary Guarantee at any time. We are also not obligated to cause any Restricted Subsidiary to guarantee the Notes to the extent it proves commercially unreasonable to provide such a guarantee after we have used reasonable best efforts to effect such guarantee. As a result, (i) our obligations under the Notes and the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be effectively subordinated to all existing and future obligations of Non-Guarantor Subsidiaries, and (ii) all claims of creditors of Non-Guarantor Subsidiaries, such as trade creditors and lenders, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over our claims or the claims of the Subsidiary Guarantors and those of our creditors or the creditors of the Subsidiary Guarantors, including the Noteholders. We and our subsidiaries may incur significant additional secured or unsecured indebtedness in the future subject to the terms of the Notes.

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

The Notes and the Subsidiary Guarantees are unsecured obligations of the Company and the Subsidiary Guarantors

The Notes and the Subsidiary Guarantees are the unsecured obligations of the Company and the Subsidiary Guarantors, respectively, and will be effectively subordinated to all future secured indebtedness of the Company or the Subsidiary Guarantors and to the 2011 Notes to the extent of the collateral securing the 2011 Notes (as the case may be). As a result, upon any distribution to creditors in a bankruptcy, liquidation, or similar proceeding relating to the Company or the Subsidiary Guarantors (as the case may be), the holders of secured indebtedness of the Company or the Subsidiary Guarantors will be entitled to be paid to the extent of the value of such secured assets before any payment any be made with respect to the Notes or the Subsidiary Guarantees.

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

The Subsidiary Guarantors have the ability to incur additional indebtedness of up to the greater of (i) US$400.0 million and (ii) 30% of Consolidated Tangible Assets as Permitted Indebtedness under future Credit Facilities. If MIE or certain other Subsidiary Guarantors incur indebtedness under a Credit Facility, the guarantee provided by the Subsidiary Guarantor will become a senior subordinated guarantee. See "Description of the Notes." Thus, payment of all obligations by such Subsidiary Guarantor on or relating to the Notes, including its Subsidiary Guarantee, will be subordinated in right of payment to the prior payment in full in cash or cash equivalents of all obligations due in respect of such Credit Facilities and the holders of such Credit Facilities will be entitled to receive payment in full in cash or cash equivalents of all obligations due in respect of such indebtedness before the holders of the Notes will be entitled to receive any payment or distribution of any kind or character with respect to the Notes, including the Subsidiary Guarantee, in the event of any distribution to creditors of the Subsidiary Guarantor. In addition, as a result of the subordination provisions described above in the event of a bankruptcy, liquidation or reorganization of such Subsidiary Guarantor, holders of the Notes may recover less ratably than creditors who are holders of Credit Facilities Indebtedness.

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

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

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

As a holding company we depend significantly on dividends from our subsidiaries to meet our financial commitments, including those under the Notes. Agreements with our joint venture partners in Sino Gas and Condor restrict, and agreements we may enter into with future joint venture partners may restrict, the ability of our subsidiaries to pay dividends to us. Our joint venture agreements also grant, and future joint venture agreements may grant, rights of first refusal over pledges, sales and other transfers of capital stock of those joint ventures, which may adversely impact their value.

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

Covenants contained in the Indenture will restrict our ability and any Restricted Subsidiary to, among other things:

- incur or guarantee additional indebtedness and issue certain redeemable or preferred stock;

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

All of these covenants are subject to the limitations, exceptions and qualifications described in "Description of the Notes — Certain Covenants." These covenants could limit our ability to pursue our growth plan, restrict our flexibility in planning for, or reacting to, changes in our business and industry, and increase our vulnerability to general adverse economic and industry conditions. Restrictions in the 2011 Notes, our credit facilities and any additional financing arrangements in the future, which could further restrict our flexibility. Any breach of covenants contained in the Notes may lead to an event of default under the Notes and the Indenture and may lead to cross-defaults under our other indebtedness. We cannot assure you that we will be able to pay any amounts due to Noteholders in the event of such default, and any default may significantly impair our ability to pay, when due, the interest of, and principal on, the Notes and the Subsidiary Guarantors' ability to satisfy their obligations under the Subsidiary Guarantees.

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

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

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

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

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

The Indenture permits us to enter into future Credit Facilities. If we or the Restricted Subsidiaries are unable to comply with the restrictions and covenants in the Indenture, the indenture governing the 2011 Notes, our existing credit facilities or future debt and other agreements entered into by us or the Restricted Subsidiaries, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us or the Restricted Subsidiaries, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some debt agreements entered into by us or the Restricted Subsidiaries, including the Indenture, could contain cross-acceleration or cross-default provisions. As a result, default by us or a Restricted Subsidiary under one debt agreement may cause the acceleration of debt, including the Notes, or result in a default under other debt agreements entered into by us or the Restricted Subsidiaries, including the Indenture. If any of these events occurs, we cannot assure you that our cash flow would be sufficient to repay in full all such indebtedness, or that we or Restricted Subsidiaries would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

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

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

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

In addition, the definition of Change of Control Triggering Event for purposes of the Indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control Triggering Event for purposes of the Indenture also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly leveraged transaction or a sale of less than all of our assets may be uncertain.

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

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

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

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

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

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

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

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

The Notes have been assigned a rating of "B+" by Standard & Poor's and "B" by Fitch. The ratings reflect the opinions of the rating agencies regarding our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment, circumstances in the future so warrant. We have no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

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

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

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

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

We have been advised by our Cayman Islands legal counsel, Maples and Calder that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), a judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (a) is given by a foreign court of competent jurisdiction; (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given; (c) is final; (d) is not in respect of taxes, a fine or a penalty; and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

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

We have been advised by Maples and Calder, our counsel as to British Virgin Islands law, that the United States and the British Virgin Islands do not have a treaty providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters and that a final judgment for the payment of money rendered by any general or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be automatically enforceable in the British Virgin Islands. We have also been advised by Maples and Calder that a final and conclusive judgment obtained in the federal or state courts of the United States under which a sum of money is payable as compensatory damages (i.e. not being a sum claimed by a revenue authority for taxes or other charges of a similar nature by a governmental authority, or in respect of a fine or penalty or multiple or punitive damages) may be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issues would be necessary provided that (a) such federal or state courts of the United

States had jurisdiction in the matter; (b) such judgment was not obtained by fraud; (c) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and (d) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

The PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. In addition, there is doubt as to (i) whether a judgment of a United States court based solely upon the civil liability provisions of the United States federal or state securities laws would be enforceable in the Cayman Islands, Hong Kong or the PRC against us or any of our subsidiaries or any of our directors and officers; and (ii) whether an original action could be brought in the Cayman Islands, Hong Kong or the PRC against us or any of our subsidiaries or any of our directors and officers to enforce liabilities based solely upon the United States federal or state securities laws.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

USE OF PROCEEDS

We estimate that the net proceeds of this offering, after deducting the Initial Purchasers' discounts, fees, commissions and other estimated expenses payable in connection with this offering, will be approximately US$195 million. We intend to use the net proceeds (i) to repay substantially all of the Group's existing indebtedness to Minsheng Bank and (ii) for capital expenditures, working capital and general corporate purposes.

The above is based on the Company's current intention subject to market conditions and other factors.

EXCHANGE RATES

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

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

	Noon buying rate			
	Period end	**Average[(1)]**	**Low**	**High**
	(RMB per US$1.00)			
2008	6.8225	6.9193	6.7800	7.2946
2009	6.8259	6.8295	6.8176	6.8470
2010	6.6000	6.7603	6.6000	6.8330
2011	6.2939	6.4475	6.2939	6.6364
2012				
July	6.3610	6.3717	6.3487	6.3879
August	6.3484	6.3593	6.3484	6.3738
September	6.2848	6.3200	6.2848	6.3489
October	6.2372	6.2673	6.2372	6.2877
November	6.2265	6.2338	6.2221	6.2454
December	6.2301	6.2328	6.2251	6.2502
2012	6.2301	6.2990	6.2221	6.3879
2013				
January (through January 18)	6.2152	6.2221	6.2134	6.2303

Note:

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

CAPITALIZATION AND INDEBTEDNESS

The following table shows our consolidated capitalization and indebtedness:

- as of June 30, 2012; and
- as adjusted to give effect to the issue of the Notes (after deducting the Initial Purchasers' discounts, fees, commissions and other estimated expenses payable in connection with this offering but not the intended use of proceeds thereof).

You should read this table in conjunction with our financial statements contained elsewhere in this offering memorandum, "Use of Proceeds" and "Description of Other Indebtedness."

Except as disclosed in this offering memorandum, there have been no material adverse changes in our capitalization since June 30, 2012.

	As of June 30, 2012			
	Actual		As Adjusted	
	RMB'000	US$'000	RMB'000	US$'000
Cash and cash equivalents	371,955	58,548	1,610,790	253,548
Bank borrowings:				
Non-current[1]	233,905	36,818	233,905	36,818
Current[1]	50,000	7,870	50,000	7,870
	283,905	44,688	283,905	44,688
2011 Notes	2,477,677	390,001	2,477,677	390,001
Notes issued hereby	—	—	1,238,835	195,000
Total borrowings	2,761,582	434,689	4,000,417	629,689
Equity:				
Capital and reserves attributable to equity holders of the Group:				
Ordinary shares	17,629	2,775	17,629	2,775
Share premium	836,374	131,650	836,374	131,650
Other reserves	157,286	24,758	157,286	24,758
Retained earnings	2,230,125	351,035	2,230,125	351,035
Equity attributable to the owners of the Company	3,241,414	510,218	3,241,414	510,218
Non-controlling interest	3,088	486	3,088	486
Total equity	3,244,502	510,704	3,244,502	510,704
Total capitalization[2]	6,006,084	945,393	7,244,919	1,140,393

Notes:

(1) Subsequent to June 30, 2012, we entered into an additional credit facility with Minsheng Bank and China Construction Bank. As of the date of this offering memorandum, an aggregate of US$140 million is outstanding under the Minsheng Bank credit facilities and nil under the China Construction Bank credit facility. See "Description of Other Indebtedness."

(2) Total capitalization means total borrowings plus total equity.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

You should read this selected financial information and other data in conjunction with our audited consolidated financial information, including the notes thereto, included elsewhere in this offering memorandum and information set forth in "Use of Proceeds," "Summary Financial Information and Other Data," "Description of Other Indebtedness" and "Description of the Notes." The summary audited consolidated financial information as at and for the years ended December 31, 2009, 2010 and 2011 set forth below are derived from the Company's published audited consolidated financial statements (which have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong) of the Company as at and for the years ended December 31, 2010 and 2011 included elsewhere in this offering memorandum and should be read in conjunction with the published audited consolidated financial statements of the Company as at and for the years ended December 31, 2009, 2010 and 2011 and the notes thereto.

The selected unaudited consolidated financial information of the Company for the six months ended June 30, 2011 and 2012 set forth below is derived from the Company's unaudited condensed consolidated financial information for the six months ended June 30, 2012, which are included elsewhere in this offering memorandum, and should be read in conjunction with such unaudited condensed consolidated financial information and the notes thereto. The financial position and results of operations of the Company for the six months ended June 30, 2012 should not be taken as an indication of the expected financial position and results of operations for the full year ended December 31, 2012. The consolidated financial information has been prepared in accordance with IFRS. Our historical financial information is not necessarily indicative of the results to be expected for any other period.

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Consolidated statements of comprehensive income:							
Revenue	1,166,827	1,804,976	2,827,141	445,009	1,282,917	1,756,012	276,407
Operating expenses							
Purchases, services and other	(123,587)	(126,517)	(185,494)	(29,198)	(70,857)	(115,991)	(18,258)
Geological and geophysical expense	—	—	—	—	—	(791)	(125)
Employee compensation costs	(67,651)	(110,346)	(197,052)	(31,017)	(110,540)	(118,996)	(18,731)
Depreciation, depletion and amortization	(445,824)	(528,582)	(542,002)	(85,314)	(231,412)	(376,673)	(59,291)
Distribution expenses	(21,861)	(28,424)	(31,472)	(4,954)	(14,890)	(16,620)	(2,616)
Administrative expenses	(62,253)	(50,154)	(90,297)	(14,213)	(35,044)	(55,518)	(8,739)
Taxes other than income taxes	(73,308)	(289,296)	(656,766)	(103,379)	(295,434)	(424,014)	(66,742)
Other income/(loss)	(131,124)	(37,644)	(24,898)	(3,919)	(12,458)	18,040	2,840
Total operating expenses	(925,608)	(1,170,963)	(1,727,981)	(271,994)	(770,635)	(1,090,563)	(171,662)
Profit from operations	241,219	634,013	1,099,160	173,015	512,282	665,449	104,745
Finance income	1,552	35,344	74,728	11,763	32,479	3,684	580
Finance costs	(58,832)	(86,788)	(234,482)	(36,909)	(101,485)	(141,104)	(22,211)
Financial costs — net	(57,280)	(51,444)	(159,754)	(25,146)	(69,006)	(137,420)	(21,631)
Investment income	—	—	—	—	—	66	10
Gain arising from acquisition of Emir-Oil, LLC	—	—	460,345	72,461	—	—	—
Profit before income tax	183,939	582,569	1,399,751	220,330	443,276	528,095	83,124
Income tax (expense)	(73,462)	(161,705)	(293,909)	(46,263)	(139,412)	(181,042)	(28,497)
Net profit for the year	110,477	420,864	1,105,842	174,067	303,864	347,053	54,627
Attributable to							
Owners of the company	110,477	420,864	1,106,072	174,103	303,864	347,469	54,692
Non-controlling interest	—	—	(230)	(36)	—	(416)	(65)
Net profit for the period	110,477	420,864	1,105,842	174,067	303,864	347,053	54,627
Other comprehensive income	—	(10,941)	(44,697)	(7,036)	(20,100)	1,632	257
Total comprehensive income for the period	110,477	409,923	1,061,145	167,031	283,764	348,685	54,884
Attributable to							
Owners of the company	110,477	409,923	1,061,375	167,067	283,764	349,101	54,949
Non-controlling interest	—	—	(230)	(36)	—	(416)	(65)
Total comprehensive income for the period	110,477	409,923	1,061,145	167,031	283,764	348,685	54,884

	As at December 31,				As at June 30,	
	2009	2010	2011		2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Consolidated statements of financial position:						
Non-current assets	2,738,102	3,070,656	5,895,349	927,963	6,672,958	1,050,363
Current assets	988,030	1,156,075	1,530,976	240,985	996,600	156,871
Cash and cash equivalents	290,271	680,033	533,029	83,902	371,955	58,548
Other current assets	697,759	476,042	997,947	157,083	624,645	98,323
Total assets	3,726,132	4,226,731	7,426,325	1,168,948	7,669,558	1,207,234
Total equity	1,253,446	1,959,931	2,962,653	466,339	3,244,502	510,704
Non-current liabilities	1,506,576	1,347,424	2,893,842	455,508	3,170,640	499,077
Current liabilities	966,110	919,376	1,569,830	247,101	1,254,416	197,453
Total liabilities	2,472,686	2,266,800	4,463,672	702,609	4,425,056	696,530
Total equity and liabilities	3,726,132	4,226,731	7,426,325	1,168,948	7,669,558	1,207,234

	For the Year Ended December 31,		For the Six Months Ended June 30,
	2010	2011	2012
Operating data:			
Crude oil production, net (bbl per day)	9,349	12,705	13,369
Average realized price for crude oil sales (US$ per barrel)(1)	77.99	108.80	114.61

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Other financial information:							
Total Debt (at period end)(2)	1,345,386	1,291,203	2,463,004	387,691	2,524,589	2,761,582	434,689
Net Debt (at period end)(3)	1,055,115	611,170	1,929,975	303,790	651,043	2,389,627	376,142
EBITDA(4)	687,043	1,162,595	2,101,507	330,790	743,694	1,042,188	164,046
Adjusted EBITDA(4)	821,301	1,236,716	1,725,317	271,576	809,340	1,062,600	167,259
Credit statistics:							
Total Debt/Adjusted EBITDA(5)	1.64	1.04	1.43	1.43	1.56	1.30	1.30
Net Debt/Adjusted EBITDA(5)	1.28	0.49	1.12	1.12	0.40	1.12	1.12
Adjusted EBITDA/Net Finance Cost	14.34	24.04	10.80	10.80	11.73	7.73	7.73

Notes:

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.13 per barrel (applicable to the Daan, Moliqing and Miao 3 oilfields only).

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

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

(4) EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude certain non-cash and one-time items, including share-based compensation expense, impairment of property, plant and equipment, impairment of inventory, net loss/(gain) on forward foreign exchange contract, realized and unrealized loss/(gain) on the oil put option and accrual/write-back of safety fees. EBITDA and Adjusted EBITDA are not standard measures under IFRS. We have included EBITDA and Adjusted EBITDA as we believe EBITDA is a financial measure commonly used in the oil and gas industry. We believe that EBITDA and Adjusted EBITDA are used as supplemental financial measures by our management and by investors, research analysts and others, to assess our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure. However, EBITDA and Adjusted EBITDA should not be considered in isolation or construed as alternatives to profit from operations or any other

measure of performance or as an indicator of our operating performance or profitability. EBITDA and Adjusted EBITDA do not account for tax, finance income, finance costs and other non-operating cash expenses. EBITDA and Adjusted EBITDA do not consider any functional or legal requirements of the business that may require us to conserve and allocate funds for any purposes. EBITDA and Adjusted EBITDA should not be considered alternatives to net profit for the year, profit from operations or any other measure of financial performance or liquidity presented in accordance with IFRS. Our EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate EBITDA or Adjusted EBITDA in the same manner. In addition, EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net profit for the period for each of the periods indicated:

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Reconciliation of net profit for the period to EBITDA and Adjusted EBITDA:							
Net profit for the period	110,477	420,864	1,105,842	174,067	303,864	347,053	54,627
Income tax expense	73,462	161,705	293,909	46,263	139,412	181,042	28,497
Finance income	(1,552)	(35,344)	(74,728)	(11,763)	(32,479)	(3,684)	(580)
Finance costs	58,832	86,788	234,482	36,909	101,485	141,104	22,211
Depreciation, depletion and amortization	445,824	528,582	542,002	85,314	231,412	376,673	59,291
EBITDA	687,043	1,162,595	2,101,507	330,790	743,694	1,042,188	164,046
Share-based compensation expense	3,484	29,429	18,042	2,840	49,573	32,120	5,056
Gain arising from acquisition of Emir-Oil, LLC	—	—	(460,345)	(72,461)	—	—	—
Loss on disposal of property, plant and equipment	—	—	1,089	171	—	26	4
Impairment of inventory	—	—	—	—	—	260	41
Geological and geophysical expense	—	—	—	—	—	791	125
Net loss/(gain) on forward foreign exchange contract	(5,478)	—	—	—	—	—	—
Realized loss/(gain) on oil put option	(70,991)	20,285	—	—	—	—	—
Unrealized loss/(gain) on oil put option	207,243	24,407	32,137	5,059	16,073	(4,286)	(675)
Gain from changes of fair value of option to ACAP	—	—	—	—	—	(8,499)	(1,338)
Other acquisition expenses	—	—	8,760	1,379	—	—	—
Expense related to issuance of senior notes	—	—	24,127	3,798	—	—	—
Adjusted EBITDA	821,301	1,236,716	1,725,317	271,576	809,340	1,062,600	167,259

(5) Adjusted EBITDA is annualised for the calculation of Total Debt/Adjusted EBITDA and Net Debt/Adjusted EBITDA for the six months ended June 30, 2011 and 2012.

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

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

Overview

We are an independent oil and gas company engaged in the exploration and production of oil and gas in China, Kazakhstan and the United States. We are also the largest independent upstream oil company operating onshore in China in terms of gross production.

In China, we operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, a subsidiary of CNPC, the largest oil company in China. We hold a 90% participating interest in the foreign contractors' entitlement and obligations under these three production sharing contracts and generate revenues from the sale of the Group's share of crude oil to PetroChina. We also operate the Dagang production sharing contract in Hebei province, China, through the PCR Acquisition in December 2012, in which we hold 100% participating interest in the foreign contractor's entitlement and obligations, and generate revenues from the sale of the Group's share of crude oil to PetroChina. We own 51% of Sino Gas, whose principal activities are the exploration of unconventional gas assets in China pursuant to two production sharing contracts, namely Linxing PSC and Sanjiaobei PSC, both of which are located on the eastern flank of the Ordos Basin.

In Kazakhstan, we hold the three Emir-Oil Production Contracts covering Aksaz, Dolinnoe and Kariman producing oilfields, and the Emir-Oil Exploration Contract covering the ADEK Block that includes the Emir oilfield but excludes the area covered by the three Emir-Oil Production Contracts. The contract areas are located in the Mangistau province in the southwestern region of Kazakhstan.

In the United States, we entered into the emerging shale oil market through the Niobrara Acquisition in November 2011, which provide us with a 61.25% working interest covering 7,923 net acres of oil and gas leases in the Niobrara formation. Through the White Hawk Acquisition, we acquired 50% of White Hawk, which has a 7.94% non-operating working interest (106 net acres) in the Eagle Ford Shale project.

As of December 31, 2011, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 61.0 million barrels, 49.8 million barrels and 28.0 barrels of crude oil, respectively. The Group's (including its net interest entitlement in White Hawk and excluding PCR) net oil production in the fourth quarter of 2012 was 14,857 barrels of crude oil per day. Together with the net oil production of 15,590 barrels per day in the third quarter of 2012, the net oil production for the second half of 2012 was 15,223 barrels per day, an increase of 1,854 barrels per day or 13.9% over the first half of 2012 average oil production of 13,369 barrels per day.

The table below sets out a summary of our revenue, EBITDA, Adjusted EBITDA and net profit for the years ended December 31, 2009, 2010, 2011 and for the six months ended June 30, 2011 and 2012.

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB million	RMB million	RMB million	US$ million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	US$ million (unaudited)
Revenue	1,166.8	1,805.0	2,827.1	445.0	1,282.9	1,756.0	276.4
EBITDA[1]	687.0	1,162.6	2,101.5	330.8	743.7	1,042.2	164.0
Adjusted EBITDA[1]	821.3	1,236.7	1,725.3	271.6	809.3	1,062.6	167.3
Net profit	110.5	420.9	1,105.8	174.1	303.9	347.1	54.6

Note:

(1) See "Summary Financial Information and Other Data" for information on how we calculate EBITDA and Adjusted EBITDA

General Factors Affecting Our Results of Operations

Crude Oil Prices

The table below sets forth our sales volume, average realized crude oil prices and revenue for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2009	2010	2011	2011 (unaudited)	2012 (unaudited)
Sales volume (millions of barrels) (unaudited)	2.92	3.42	4.03	1.82	2.42
Average realized crude oil price[1] (US$ per barrel) (unaudited)	58.58	77.99	108.80	107.63	114.61
Revenue (in RMB million)	1,166.80	1,805.00	2,827.14	1,282.92	1,756.01

Note:

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.13 per barrel (applicable to Daan, Moliqing and Miao 3 oilfields only).

China Crude Oil Prices

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

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

Crude oil prices are affected by, among other things, global oil supply and demand, changes in economic conditions, supply estimates from oil producing countries and other geopolitical factors, which are difficult to predict and beyond our control. The price we receive for the Daan, Moliqing and Miao 3 crude oil that we deliver to PetroChina is determined each month in accordance with the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, for the previous calendar month, whereas the price we receive for the Dagang crude oil that we deliver to PetroChina is determined each month in accordance with the prior three month rolling average price of CINTA crude oil price published in Platts Oilgram. The price received for the Daan, Moliqing and Miao 3 crude oil is then reduced by a total fee for oil transportation and sales of RMB52 per ton or US$1.13 per barrel in the sales contract. The price of Daqing crude oil at Dalian Harbor closely follows the price of West Texas Intermediate crude oil, which is an international crude oil price benchmark. The table below sets forth the average price of West Texas Intermediate crude oil, average prices of Daqing crude oil at Dalian Harbor as published in Platts Oilgram, and our average realized crude oil prices for the periods indicated.

Average Prices for Crude Oil

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2009	2010	2011	2011	2012
	US$ per barrel				
West Texas Intermediate	61.99	79.07	97.58	100.76	99.42
Daqing.	59.75	78.41	117.64	114.56	119.29
Realized price for our China oilfields[(1)] .	58.58	77.99	109.99	107.63	119.61

Note:

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.13 per barrel (applicable to the Daan, Moliqing and Miao 3 oilfields only).

Any volatility in the outlook in crude oil prices impacts our planning decisions for future investments and our production budget, which govern our expected volume of production for future periods. The joint management committee meets at least twice each year and reviews and approves our annual production budget for each of our oilfields, which provides for the estimated annual production volume and makes adjustments if necessary. The production budget is impacted by crude oil prices, the supply and demand outlook of crude oil and the amount of oil we can recover. In 2009, 2010, 2011 and the first half of 2012, our net production of crude oil amounted to 2.8 million barrels, 3.4 million barrels, 4.1 million barrels and 2.4 million barrels, respectively. In the same periods, our net production averaged 7,637 barrels, 9,349 barrels, 12,705 barrels and 13,369 barrels of crude oil per day, respectively.

See "Risk Factors — Risks Relating to our Business — PetroChina controls, to a significant extent, the volume of our net production through its status as our major customer and the influence it has over the management of the Daan, Moliqing, Miao 3 and Dagang oilfields through the joint management committee. If our net production of crude oil decreases, our business, financial condition and results of operations may be materially and adversely affected."

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

Fluctuations in oil prices also affect the amount of crude oil available to us to be apportioned as cost recovery oil and profit-sharing oil and, therefore, significantly impact our revenue and profitability. See "Business — Daan, Moliqing and Miao 3 Production Sharing Contracts — Cost Recovery Oil and Profit-Sharing Oil" for a description of cost recovery oil and profit-sharing oil. An increase in crude oil prices tends to increase the rate of recovery of our operating costs and pilot-test and development costs and the amount of profit-sharing oil. A prolonged downturn in oil prices generally slows down our cost recovery amounts and forces us to decrease the level of our development and production activities and reduces the amount of profit-sharing oil. See "– Production Sharing Contracts" for more details. Crude oil prices will also impact the amount of the special levy payable to the PRC government. A special levy is payable starting at US$55 per barrel and the rate increases according to the price of crude oil. See "– Special Levy" for more details. As a result of the factors discussed above, our results of operations will continue to be affected by changes in crude oil prices in the future.

Kazakhstan Crude Oil Prices

Crude oil prices are affected by, among other things, global oil supply and demand, changes in economic conditions, supply estimates from oil producing countries and other geopolitical factors, which are difficult to predict and beyond our control. The price we receive for crude oil that we deliver to Emir-Oil's export customer, Titan Oil, is based on the oil price realized by Titan Oil on the sale of the oil to its final customer. Titan Oil determines the actual sale date but the date cannot be more than 75 days after the transfer of the Company's oil to Titan Oil. Such price is then reduced by a total fee for transportation related expenses and commissions charged by Titan Oil. The table below sets forth the average price of Brent crude oil, our average realized domestic crude oil prices, and our average realized export crude oil prices for the periods indicated.

	For the Three Months Ended December 31,	For the Six Months Ended June 30,
	2011(1)	2012
	US$ per barrel	
Brent	103.25	109.18
Realized (domestic sale)	31.02	53.87
Realized (export sale)	90.01	89.64

Note:

(1) Acquisition of Emir-Oil was closed in September 2011.

The revenue Emir-Oil receives for its crude oil is influenced by: (i) fluctuations in the price of international crude oil (i.e. Brent crude oil); and (ii) the discount to this price for oil transportation and commissions. After such discount, the amount we receive represents the realized price for Emir-Oil's export crude oil.

Our results of operations are significantly affected by crude oil prices. Any volatility in the outlook in crude oil prices impacts our planning decisions for future investments and our production budget, which govern our expected volume of production for future periods. See "Risk Factors — Risks Relating to our Operations in Kazakhstan — The Kazakhstan economy and currency are highly dependent on oil exports. Accordingly, the Kazakhstan economy and our business in Kazakhstan may be affected by oil and gas price volatility."

Production Sharing Contracts

We perform a significant portion of our business activities through our production sharing contracts with PetroChina, the largest oil and gas company in China. See "Business — Daan, Moliqing and Miao 3 Production Sharing Contracts" and "Business — Recent Acquisitions" for more details.

Uncertainty of Reserves Estimates

Our proved reserves are those quantities of oil and natural gas which, by analysis of geoscience and engineering data, we estimate with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions. Probable reserves are additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Possible reserves are additional reserves that are less certain to be recovered than probable reserves. As such, the probability of achieving or exceeding the proved plus probable plus possible reserves is low.

Our reserve estimates include only crude oil and natural gas, and we prepare a reserve estimation for each oilfield within oil regions and using prices and costs prevailing at the time of the estimate. For accounting purposes, under IFRS, we accounted for the unit of production for depreciation, depletion and amortization for the years ended December 31, 2009, 2010 and 2011 and the first half of 2012 based on the reserve definition under PRMS, one of the most recognized systems for reporting reserves internationally.

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

Estimates of net reserves have been made by Ryder Scott, Chapman, GLJ and RISC in the Ryder Scott Reports, the 2011 Chapman Report, the 2011 GLJ Report and the 2011 RISC Report. See "Risk Factors — The crude oil and natural gas reserves data in this offering memorandum are only estimates and the actual production, revenue and expenditures with respect to our net reserves under each of the production sharing contracts may differ materially from these estimates."

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

Special Levy

We pay a special levy to the PRC government with respect to the sale of domestic crude oil. The special levy is paid or payable on the portion of income realized by any petroleum exploration companies from the sale of domestic crude oil at prices higher than US$55 per barrel. The levy is calculated and charged at progressive ad valorem rates for five grades, ranging from 20% to 40% according to the price of crude oil. In early 2012, the Ministry of Finance of the People's Republic of China ("MOF") issued a notice regarding the increase of the threshold of the special oil levy (Cai Qi 2011 No. 480) (the "Notice") paid by crude oil producers. Pursuant to the Notice, as approved by the State Council, MOF has decided to increase the threshold of the special oil levy from US$40 to US$55 per barrel, effective from November 1, 2011.

Notwithstanding such adjustment, the special oil levy will continue to have five levels and will be calculated and charged according to the progressive and valorem rates on the excess amounts. The special oil levy will continue to be calculated on a monthly basis and paid on a quarterly basis.

In 2009, 2010, 2011 and the first half of 2012, we recorded a special levy of RMB73.3 million, RMB288.1 million, RMB595.4 million and RMB292.7 million, respectively.

Hedging Policy

From time to time, we may enter into hedging transactions in order to protect against downward movements in the price of oil. See "Business — Our Hedging Policy" for more details.

Critical Accounting Policies and Estimates

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

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

Property, Plant and Equipment

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

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

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

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

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

Exploration and evaluation assets and oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as exploration and evaluation assets pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions (i.e., prices and costs) as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not of escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditures will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any costs of unproved properties capitalized in oil and gas properties.

Identifiable exploration assets acquired are recognized as assets at their fair value, as determined by the requirements for business combinations. Exploration and evaluation expenditures incurred subsequent to the acquisition of an exploration asset in a business combination is accounted for in accordance with the policy outlined above.

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

Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. The factors we consider when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income. As of December 31, 2009, 2010 and 2011 and the first half of 2012, there were no trade receivables past due which are impaired.

Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the territories where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Estimation of proved and probable reserves

Proved reserves are those quantities of petroleum that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed producing reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery. Probable reserves are additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

The Group's reserve estimates were prepared for each oilfield and include only reserves that the Group believes can be reasonably produced within current economic and operating conditions.

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

Proved and probable reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. The Group classified its proved reserves into proved developed producing reserves and proved undeveloped reserves. Probable reserves are also classified into probable developed producing reserves and probable undeveloped reserves. Prior to January 1, 2011, proved developed producing reserves were used for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Group's consolidated financial information for property, plant and equipment related to oil and gas production activities. From January 1, 2011, the Group has applied the unit of production rates based on proved and probable developed producing reserves. An increase/decrease in proved and probable developed producing reserves will decrease/increase depreciation, depletion and amortization charges (assuming constant production) and increase/reduce net profit. Proved and probable reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

In general, changes in the technical maturity of reserves resulting from new information becoming available from development and production activities and change in oil and gas price have tended to be the most significant cause of annual revisions.

Employee benefits

(i) Defined contribution plan

The Group has various defined contribution plans for state pensions, housing fund and other social obligations in accordance with the local conditions in China and Kazakhstan and practices in the municipalities and province in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expenses when they are due.

(ii) Equity-settled share-based compensation — Stock options

The Group operates a stock incentive compensation plan for share-based payment transactions, including stock options under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options on the grant date. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and other reserves when the options are exercised.

(iii) Cash-settled share-based compensation — Stock appreciation rights

Compensation under the stock appreciation rights is measured based on the fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each reporting period to its fair value until settlement with all the changes in liability related to the vested portion recorded as employee compensation costs in the consolidated statement of comprehensive income, the related liability is included in the salaries and welfare payable.

Intangible assets

Intangible assets represent computer software, mineral extraction rights and mining rights. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 years.

Mineral extraction rights are amortized using the straight-line method over the licensed period. Mining rights are amortized using the unit of production method.

Estimation of Asset Retirement Obligations

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

Taxation

Both the Company and MIE are incorporated in the Cayman Islands. Maples and Calder, our Cayman Islands counsel, has advised us that under the current law of the Cayman Islands, neither the Company nor MIE are subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

For the periods ended December 31, 2009, 2010 and 2011, we were subject to enterprise income tax, or EIT, on our income that was effectively connected to the PRC at the rate of 25%, in the PRC. Prior to January 1, 2008, under applicable PRC tax laws, companies established in the PRC were generally subject to national and local EIT at statutory rates of 30.0% and 3.0%, respectively. We are not subject to the local EIT as our business is located in the economic development zone in Songyuan, Jilin Province.

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

We recorded income tax expenses of RMB73.5 million, RMB161.7 million, RMB293.9 million and RMB181.0 million for the years ended December 31, 2009, 2010 and 2011 and the first half of 2012, respectively.

Petroleum exploration companies also pay a special levy on the portion of income realized from the sales of domestic crude oil at prices higher than a specific level set by the PRC government. This levy was imposed by the PRC government and became effective from March 26, 2006. See "— General Factors Affecting Our Results of Operations — Special Levy."

Contingencies

On August 28, 2000, MIE, the Company's wholly owned subsidiary, entered into a PSC with Sinopec for exploration and development of the Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at the Shengli oilfield and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at the Shengli oilfield.

On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial- development phase had expired and MIE had not met its investment commitment of at least US$2 million under the PSC. MIE had invested RMB23.1 million into Luojiayi Block 64 prior to December 31, 2003 and believes its investment in the project at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not formally terminated and the dispute has not entered any judicial proceedings.

Review of Operating Results

Our operating results for the six months ended June 30, 2011 and 2012 and the three years ended 2009, 2010 and 2011 are set out below:

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	US$'000 (unaudited)
Consolidated statements of comprehensive income:							
Revenue	1,166,827	1,804,976	2,827,141	445,009	1,282,917	1,756,012	276,407
Operating expenses							
Purchases, services and other	(123,587)	(126,517)	(185,494)	(29,198)	(70,857)	(115,991)	(18,258)
Geological and geophysical expense	—	—	—	—	—	(791)	(125)
Employee compensation costs	(67,651)	(110,346)	(197,052)	(31,017)	(110,540)	(118,996)	(18,731)
Depreciation, depletion and amortization	(445,824)	(528,582)	(542,002)	(85,314)	(231,412)	(376,673)	(59,291)
Distribution expenses	(21,861)	(28,424)	(31,472)	(4,954)	(14,890)	(16,620)	(2,616)
Administrative expenses	(62,253)	(50,154)	(90,297)	(14,213)	(35,044)	(55,518)	(8,739)
Taxes other than income taxes	(73,308)	(289,296)	(656,766)	(103,379)	(295,434)	(424,014)	(66,742)
Other income/(loss)	(131,124)	(37,644)	(24,898)	(3,919)	(12,458)	18,040	2,840
Total operating expenses	(925,608)	(1,170,963)	(1,727,981)	(271,994)	(770,635)	(1,090,563)	(171,662)
Profit from operations	241,219	634,013	1,099,160	173,015	512,282	665,449	104,745
Finance income	1,552	35,344	74,728	11,763	32,479	3,684	580
Finance costs	(58,832)	(86,788)	(234,482)	(36,909)	(101,485)	(141,104)	(22,211)
Net financial costs	(57,280)	(51,444)	(159,754)	(25,146)	(69,006)	(137,420)	(21,631)
Investment income	—	—	—	—	—	66	10
Gain arising from acquisition of Emir-Oil, LLC	—	—	460,345	72,461	—	—	—
Profit before income tax	183,939	582,569	1,399,751	220,330	443,276	528,095	83,124
Income tax (expense)	(73,462)	(161,705)	(293,909)	(46,263)	(139,412)	(181,042)	(28,497)
Net profit for the year	110,477	420,864	1,105,842	174,067	303,864	347,053	54,627
Other comprehensive income	—	(10,941)	(44,697)	(7,036)	(20,100)	1,632	257
Total comprehensive income for the year	110,477	409,923	1,061,145	167,031	283,764	348,685	54,884

Six-Month Period Ended June 30, 2012 Compared to Six-Month Period Ended June 30, 2011

Revenue

Our revenue increased by RMB473.1 million, or 36.9%, from RMB1,282.9 million for the six-month period ended June 30, 2011 to RMB1,756.0 million for the six-month period ended June 30, 2012.

This increase was due to an increase in the crude oil prices and our sales volume. Our average realized oil price was US$114.61 per barrel for the six-month period ended June 30, 2012, compared to US$107.63 per barrel for the six-month period ended June 30, 2011. Sales volume was 2.42 million barrels for the six-month period ended June 30, 2012, compared to 1.82 million barrels for the six-month period ended June 30, 2011. The increase in sales volume is consistent with the trend in production volume.

- China

In the six-month period ended June 30, 2012, our China oilfields realized revenue of RMB1,539.7 million. The average realized oil price was US$119.61 per barrel for the six-month period ended June 30, 2012, compared to US$107.63 per barrel for the six-month period ended June 30, 2011. Our sales volume was 2.04 million barrels for the six-month period ended June 30, 2012, compared to 1.82 million barrels for the six-month period ended June 30, 2011.

- Kazakhstan

During the six-month period ended June 30, 2012, Emir-Oil realized revenue from oil sales of RMB210.6 million. Emir-Oil exported 95% of its sales volume of oil through Titan Oil and realized prices based on Brent less transportation and marketing commissions for these sales. The average realized oil price comprising export and domestic sales was US$87.81 per barrel for the six-month period ended June 30, 2012. The average realized oil price for the six-month period ended June 30, 2012 was US$89.64 per barrel from export sales (after transportation and marketing commissions of US$21.21 per barrel) and US$53.87 per barrel from domestic sales. Revenue from export sales of oil accounted for 97% of Emir-Oil's total oil revenue during the six-month period ended June 30, 2012. Emir-Oil's oil sales volume was 380,288 barrels for the six-month period ended June 30, 2012, comprising 360,859 barrels from export sales and 19,429 barrels from domestic sales. Emir-Oil commenced sales of domestic oil to PetroChina International Kazakhstan LLP for 7,368 barrels and 12,061 barrels of oil in May and June 2012 at a price of US$55.02 and US$53.17 per barrel for May and June 2012, respectively. In the past, Emir-Oil, under the ownership of BMB Munai, Inc., sold oil to the domestic market at a substantially lower price.

During the six-month period ended June 30, 2012, Emir-Oil realized revenue from gas sales of RMB5.7 million with a realized gas price of US$1.15 per Mscf and a gas sales volume of 795,424 Mscf.

Operating expenses

The Group's operating expenses increased by RMB320.0 million, or 41.5%, from RMB770.6 million for the six-month period ended June 30, 2011 to RMB1,090.6 million for the six-month period ended June 30, 2012, primarily due to an increase in depreciation, depletion, amortization, taxes other than income taxes, purchases, services and other expenses, other gain or loss and administrative expenses.

For the six months ended June 30, 2012, the operating expenses for our China and Kazakhstan operations amounted to RMB833.7 million and RMB209.7 million.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB45.1 million, or 63.6%, from RMB70.9 million for the six-month period ended June 30, 2011 to RMB116.0 million for the six-month period ended June 30, 2012. The increase in purchase, services and other expenses was primarily due to: (i) the increase in sales volume for our China operations; (ii) increase in electricity expense due to more productive wells and higher unit electricity fee; (iii) the increase in number of productive wells for our China oilfields resulting in the increase in downhole operating costs, repair and maintenance costs, and safety fee expenses (for the China oilfields, we operated 1,832 productive wells as at June 30, 2011 and 2,206 productive wells as at June 30, 2012); and (iv) the acquisition of Emir-Oil in September 2011, (the results for the period ended June 30, 2012 included six months of Emir-Oil's purchases, services and other expenses amounting to RMB31.5 million).

- *Employee compensation costs*. The Group's employee compensation costs increased by RMB8.5 million, or 7.7%, from RMB110.5 million for the six-month period ended June 30, 2011 to RMB119.0 million for the six-month period ended June 30, 2012. The increase in employee compensation costs was primarily due to: (i) the acquisition of Emir-Oil in September 2011 (the results for the period ended June 30, 2012 included six months of Emir-Oil's employee compensation costs amounting to RMB21.9 million); and (ii) in the first half of 2012, we increased wages for the workers in our China oilfield operation and hired more employees in our China oilfields. As at June 30, 2011, we had 1,743 employees, and as at June 30, 2012, we had 1,894 employees in our China oilfields. The increase in employee compensation cost was partially offset by the decrease in share-based compensation expenses, which decreased from RMB49.6 million for the first half of 2011 to RMB32.1 million for the first half of 2012, and a reduction in bonuses in the first half of 2012.

- *Depreciation, depletion and amortization*. The Group's depreciation, depletion and amortization increased by RMB145.3 million, or 62.8%, from RMB231.4 million for the six-month period ended June 30, 2011 to RMB376.7 million for the six-month period ended June 30, 2012. The increase in depreciation, depletion and amortization was mainly due to: (i) the increase in our sales volume in China oilfields in the first half of 2012; (ii) the acquisition of Emir-Oil in September 2011, (the results for the period ended June 30, 2012 included six months of Emir-Oil's depreciation, depletion and amortization amounting to RMB53.1 million); and (iii) more depreciation, depletion and amortization from the Daan and Moliqing oilfields.

- *Distribution and administrative expenses*. The Group's distribution and administrative expenses increased by RMB22.2 million, or 44.5%, from RMB49.9 million for the six-month period ended June 30, 2011 to RMB72.1 million for the six-month period ended June 30, 2012. The increase in distribution and administrative expenses was primarily due to: (i) more business travel expenses due to the business expansion; and (ii) the acquisition of Emir-Oil in September 2011 (the results for the period ended June 30, 2012 included six months of Emir-Oil's administrative expenses amounting to RMB9.9 million).

- *Taxes other than income taxes*. The Group's taxes other than income taxes increased by RMB128.6 million, or 43.5% from RMB295.4 million for the six-month period ended June 30, 2011 to RMB424.0 million for the six-month period ended June 30, 2012. The following table summarizes taxes other than income taxes for the six month period ended June 30, 2012 and June 30, 2011:

	Six Months Ended June 30,	
	2011	**2012**
	RMB'000 (unaudited)	
China		
Special oil levy	289,363	292,715
Others	6,071	8,396
	295,434	301,111
Kazakhstan		
Mineral extraction tax	—	13,765
Rent export tax	—	55,139
Rent export duty expenditures	—	12,021
Property tax	—	11,652
	—	92,577
Others	—	30,326
Withholding tax	295,434	424,014

This increase in taxes other than income taxes for our China operations was primarily due to an increase in the special oil levy we paid to the PRC government in the first half of 2012 due to increase in sales volume. The sales volume was 2.04 million barrels for the six-month period ended June 30, 2012, compared to 1.82 million barrels for the six-month period ended June 30, 2011. Although the average realized oil price increased from US$107.63 per barrel for the six months ended June 30, 2011 to US$119.61 per barrel for the six months ended June 30, 2012, the Ministry of Finance increased the threshold for the payment of the special oil levy from US$40 to US$55 per barrel with effect from November 1, 2011. This increase in the threshold offset the increase in special oil levy payable due to the increase in sales volume.

During the six months ended June 30, 2012, Emir-Oil's taxes other than income taxes amounted to RMB92.6 million. Please refer to above for a breakdown of the different types of taxes other than income taxes paid by Emir-Oil.

- *Other gain or losses*. The Group had other gains of RMB18.0 million for the six-month period ended June 30, 2012, compared to other losses of RMB12.5 million for the six-month period ended June 30, 2011, primarily due to: (i) the non-cash unrealized gain of RMB4.3 million from the oil hedge options due to the movement in the fair value of the oil hedge options (the accounting standard requires us to perform a fair value valuation on the unexpired portion of any oil hedge option at each reporting period. The fair value valuation is determined by, amongst other things, the spot price and the forward curve of oil prices at the reporting period); and (ii) the non-cash unrealized gain of RMB8.5 million from the option granted by the Company to Acap. The change in fair value of the option to ACAP is recognized in the consolidated statement of comprehensive income.

In October 2010, the Group entered into the following oil hedge options with Merrill Lynch Commodities, Inc ("MLCI Oil Hedge") for the years ended December 31, 2011 and 2012:

Contract Period	Monthly Notional Quantity (barrel)	Annual Notional Quantity (barrel)	Sold put option at strike price (WTI price per barrel)	Bought put option at strike price (WTI price per barrel)
Year ended December 31, 2011	150,000	1,800,000	US$55	US$70
Year ended December 31, 2012	150,000	1,800,000	US$55	US$70

The premium of US$8.74 million (RMB57.86 million) for the above option is payable over eight instalments on a quarterly basis from April 2011.

The fair value of MLCI Oil Hedge asset as at June 30, 2012 was US$0.52 million and the fair value of MLCI Oil Hedge asset as at December 31, 2011 is US$1.45 million. We recorded a loss from MLCI Oil Hedge of US$0.93 million (RMB5.8 million) to write down the financial derivative asset.

In October 2011, the Group entered into three separate oil hedge options (the "October 2011 Hedges") with JPMorgan Chase Bank. N.A. ("JPMorgan"), Deutsche Bank AG ("Deutsche") and Standard Bank Plc ("SB Plc") at monthly notional quantity of 60,000 barrel each for the year ended December 31, 2012 (or a total notional quantity of each contract of 720,000 barrels) at zero premium:

Counterparty	Bought put option at strike price (IPE Brent price per barrel)	Sold call option at strike price (IPE Brent price per barrel)	Bought call option at strike price (IPE Brent price per barrel)
JPMorgan.	US$60.00	US$131.00	US$170.00
Deutsche	US$60.00	US$131.50	US$170.00
SB Plc	US$60.00	US$146.00	US$186.00

The fair value of the October 2011 Hedges as at December 31, 2011 and June 30, 2012 were as follows:

Counterparty	Fair value (liability)/ asset as at December 31, 2011	Fair value (liability)/ asset as at June 30, 2012	Changes in fair value (liability)/ asset
	US$m	US$m	US$m
JPMorgan.	(0.74)	(0.05)	0.69
Deutsche	(0.82)	(0.05)	0.77
SB Plc	(0.13)	0.03	0.16

The changes in fair value (liability)/asset of the October 2011 Hedges resulted in a gain of US$1.62 million (RMB10.1 million).

The MLCI Oil Hedge and the October 2011 Hedges expired on December 31, 2012.

Profit from operations

The Group's profit from operations increased by RMB153.1 million, or 29.9%, from RMB512.3 million for the six-month period ended June 30, 2011 to RMB665.4 million for the six-month period ended June 30, 2012. This change was primarily due to an increase in revenue, partially offset by an increase in operating expenses.

During the six months ended June 30, 2012, the China operations and Kazakhstan operations generated profit from operations of RMB706.0 million and RMB6.6 million, respectively.

Finance income/(costs), net

The Group's finance cost, net, increased by RMB68.4 million, or 99.1%, from RMB69.0 million for the six-month period ended June 30, 2011 to RMB137.4 million for the six-month period ended June 30, 2012. This increase was primarily due to finance cost of RMB141.1 million for the period ended June 30, 2012 compared to RMB101.5 million for the period ended June 30, 2011, caused by: (i) the 2011 Notes to finance the acquisition of Emir-Oil and to repay the US$200 million LIBOR + 4.5% CITIC bank loan, which resulted in a significant increase in interest expenses; and (ii) the RMB50 million working capital bank loan from China Construction Bank ("CCB") in January 2012 which was repaid on July 16, 2012. The effective interest rate of the CCB loan is 7.015% per annum which also increased our interest expenses. In the first half of 2011, before we issued the 2011 Notes, we only had the US$200 million LIBOR + 4.5% CITIC bank loan.

Profit before income tax

As a result of the foregoing, the Group's profit before income tax increased by RMB84.8 million, or 19.1%, from RMB443.3 million for the six-month period ended June 30, 2011 to RMB528.1 million for the six-month period ended June 30, 2012.

During the six months ended June 30, 2012, the China operations and Kazakhstan operations generated profit before income tax of RMB700.2 million and loss of RMB17.0 million, respectively.

Income tax expense

The Group had income tax expense of RMB181.0 million for the six-month period ended June 30, 2012, compared to income tax expense of RMB139.4 million for the six-month period ended June 30, 2011. This change was primarily due to an increase in our taxable income. The effective tax rate for the six months ended June 30, 2012 was 34% compared to an effective tax rate for the six months ended June 30, 2011 of 31%. The increase in effective tax rate is mainly due to higher non-deductible expenses relating to interest expense for the 2011 Notes, share-based compensation expense, and other expenses incurred by non-operating members of the Group.

Net profit

As a result of the foregoing, our net profit increased by RMB43.2 million, or 14.2% from RMB303.9 million for the six-month period ended June 30, 2011 to RMB347.1 million for the six-month period ended June 30, 2012.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue

The Group's revenue increased by RMB1,022.1 million, or 56.6%, from RMB1,805.0 million for the year ended December 31, 2010 to RMB2,827.1 million for the year ended December 31, 2011. This increase was primarily due to an increase in the crude oil prices and our sales volume.

The average realized oil price was US$108.80 per barrel for the year ended December 31, 2011, compared to US$77.99 per barrel for the year ended December 31, 2010. Our sales volume of crude oil was 4.03 million barrels for the year ended December 31, 2011, compared to 3.42 million barrels for the year ended December 31, 2010.

During the three months ended December 31, 2011 that we controlled Emir-Oil, revenue contributed by Emir-Oil was RMB103.5 million.

- China

In 2011, our China oil fields realized revenue of RMB2,723.7 million. The average realized oil price was US$109.99 per barrel for the year ended December 31, 2011, compared to US$77.99 per barrel for the year ended December 31, 2010. Our sales volume was 3.84 million barrels for the year ended December 31, 2011, compared to 3.42 million barrels for the year ended December 31, 2010.

- Kazakhstan

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil realized revenue from oil sales of RMB100.3 million. Emir-Oil exported 90% of its sales volume of oil and realized Brent prices for these sales. The average realized oil price comprising export and domestic sales was US$84.38 per barrel for the three months ended December 31, 2011. The average realized oil price for the three months ended December 31, 2011 was US$90.01 per barrel from export sales (after transportation and marketing commissions of US$20.22 per barrel) and US$31.02 per barrel from domestic sales. Revenue from export sales of oil accounted for 96% of Emir-Oil's total oil revenue during the three months ended December 31, 2011. Emir-Oil's oil sales volume was 187,912 barrels for the three months ended December 31, 2011, comprising 169,984 barrels from export sales and 17,928 barrels from domestic sales.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil realized revenue from gas sales of RMB3.2 million with a realized gas price of US$1,148.51 per MMscf and a gas sales volume of 439.7 MMscf.

Operating expenses

The Group's operating expenses increased by RMB557.0 million, or 47.6%, from RMB1,171.0 million for the year ended December 31, 2010 to RMB1,728.0 million for the year ended December 31, 2011, primarily due to an increase in special oil levy in China as a result of the increase in realized crude oil prices and sales volume, and an increase in other taxes in Kazakhstan and employee compensation costs.

Emir-Oil's operating expenses for the three months ended December 31, 2011 amounted to RMB111.0 million.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB59.0 million, or 46.6%, from RMB126.5 million for the year ended December 31, 2010 to RMB185.5 million for the year ended December 31, 2011. The increase in purchase, service and other expenses for our China operations was primarily due to: (i) the increase in sales volume in 2011 resulting in the increase in electricity and fuel consumptions and transportation cost; (ii) the increase in number of productive wells for our China operations resulting in the increase in repair and maintenance cost, materials, safety and environment protection expenses. For our China operations, we operated 1,641 productive wells as at December 31, 2010 and 2,071 productive wells as at December 31, 2011; and (iii) we performed more technical analysis in 2011 in our China oilfields to stabilize and improve production levels.

  During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's purchases, services and other expenses amounted to RMB17.6 million.

- *Employee compensation costs*. The Group's employee compensation costs increased by RMB86.8 million, or 78.7%, from RMB110.3 million for the year ended December 31, 2010 to RMB197.1 million for the year ended December 31, 2011. The increase in employee compensation costs for our China operations was primarily due to: (i) higher compensation of employees to retain and hire qualified and talented people after our initial public offering; and (ii) in 2011, we also hired more employees in our China oilfields. As at December 31, 2010, we had 1,610 employees, and as at December 31, 2011, we had 1,844 employees for our China operations.

  During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's employee compensation costs amounted to RMB15.6 million.

- *Depreciation, depletion and amortization*. The Group's depreciation, depletion and amortization increased by RMB13.4 million, or 2.5%, from RMB528.6 million for the year ended December 31, 2010 to RMB542.0 million for the year ended December 31, 2011. The increase in depreciation, depletion and amortization for our China operations was mainly due to the increase in sales volume in 2011, which was partially offset by the change in the method of calculation for unit of production rates. The cost of oil properties is amortized at the field level based on the unit of production method. Unit of production rates were previously based on proved developed producing oil reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements. From January 1, 2011, the Group applied the unit of production rates based on proved and probable developed producing oil reserves estimated to be recoverable from existing facilities based on current terms of the respective production agreements. The change in estimate is due to management's view that inclusion of probable developed producing reserve is more reflective of the reserve base available to the Company from its investment in the oil fields.

  During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's depreciation, depletion and amortization amounted to RMB28.1 million, which is also calculated using unit of production rates based on proved and probable developed producing reserves.

- *Distribution and administrative expenses*. The Group's distribution and administrative expenses increased by RMB43.2 million, or 55.0%, from RMB78.6 million for the year ended December 31, 2010 to RMB121.8 million for the year ended December 31, 2011. The increase in distribution and administrative expenses was primarily due to the following: (i) we issued the 2011 Notes and incurred professional fees and other related expenses of RMB24.7 million which were recorded in administrative expenses; (ii) in 2011, more crude oil was allocated to foreign contractors at 80% compared to 48% as our investments in the oilfields increased, so we had to bear more administrative expenses for these three oilfields; and (iii) after our initial public offering, the Company incurred more reporting, legal expenses and other miscellaneous expenses for the compliance with Listing Rules of the Hong Kong Stock Exchange and other disclosure obligations.

  During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's administrative expenses amounted to RMB3.3 million.

- *Taxes other than income taxes*. The Group's taxes other than income taxes increased by RMB367.5 million, or 127.0%, from RMB289.3 million for the year ended December 31, 2010 to RMB656.8 million for the year ended December 31, 2011. The following table summarizes taxes other than income taxes for the years ended December 31, 2011 and 2010:

	Year Ended December 31,	
	2010	**2011**
China		
Special oil levy	288,133	595,368
Urban construction tax and education surcharge	1,163	13,825
	289,296	609,193
Kazakhstan		
Mineral extraction tax	–	6,699
Rent export tax	–	25,458
Rent export duty expenditures	5,527	–
Property tax	–	7,549
Others	–	2,340
	47,573	–
	289,296	656,766

This increase in taxes other than income taxes for our China operations was primarily due to an increase in the special oil levy we paid to the PRC government in 2011 due to: (i) increased realized crude oil prices of year 2011 as the special oil levy is calculated and charged at progressive ad valorem rates based on the price of crude oil; and (ii) an increase in sales volume. For our China operations, the average selling price for the years ended December 31, 2010 and 2011 was US$77.99 and US$109.99 per barrel, respectively, and the sales volume for the year ended December 31, 2010 and 2011 was 3.42 million and 3.84 million barrels, respectively. During most of the year ended December 31, 2011, we had to pay the special oil levy based on the old rules starting at US$40 per barrel and the rate increases according to the crude oil price.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's taxes other than income taxes amounted to RMB47.6 million. Please refer to above for a breakdown of the different types of taxes other income taxes paid by Emir-Oil.

- *Other losses*. The Group's other losses decreased by RMB12.7 million, or 33.8%, from approximately RMB37.6 million for the year ended December 31, 2010 to approximately RMB24.9 million for the year ended December 31, 2011. We had other losses of RMB24.9 million for the year ended December 31, 2011, primarily due to the non-cash unrealized loss of RMB32.1 million from the oil hedge options purchased in October 2010 and October 2011 due to the movement in the fair value of the oil hedge options. The accounting standard requires us to perform a fair value valuation on the unexpired portion of any oil hedge option at each reporting period. The fair value valuation is determined by, among other things, the spot price and the forward curve of oil prices at the reporting period.

In October 2010, the Group entered into the following oil hedge options with Merrill Lynch Commodities, Inc ("MLCI Oil Hedge") for the year ended 31 December 2011 and year ending 31 December 2012:

Contract Period	Monthly Notional Quantity (barrel)	Annual Notional Quantity (barrel)	MIE sold put option at strike price (WTI price per barrel)	MIE bought put option at strike price (WTI price per barrel)
Year ended December 31, 2011	150,000	1,800,000	US$55.00	US$70.00
Year ending December 31, 2012	100,000	1,200,000	US$55.00	US$70.00

The premium of US$8.74 million (RMB57.86 million) for the above option is payable over 8 instalments on a quarterly basis from April 2011.

The spot price of WTI as at December 30, 2011 was US$99.0 per barrel and the forward curve for WTI for that date was higher than the spot price. Given the WTI spot price and forward curve for WTI was higher than the strike price of US$70 per barrel for MLCI Oil Hedge, the fair value valuation requires us to book a non-cash loss of RMB21.3 million for the MLCI Oil Hedge to write down the financial derivative asset.

In October 2011, the Group entered into three separate oil hedge options with JPMorgan, Deutsche and SB Plc at monthly notional quantity of 60,000 barrel each for the year ending December 31, 2012 (or a total notional quantity of each contract of 720,000 barrels) at zero premium:

Counterparty	Company bought put option at strike price (IPE Brent price per barrel)	Company sold call option at strike price (IPE Brent price per barrel)	Company bought call option at strike price (IPE Brent price per barrel)
JPMorgan.	US$60.00	US$131.00	US$170.00
Deutsche	US$60.00	US$131.50	US$170.00
SB Plc.	US$60.00	US$146.00	US$186.00

The IPE Brent price as at December 30, 2011 was US$106.51 per barrel and the forward curve for IPE Brent price for that date was higher than the spot price. Given the IPE Brent price and forward curve were approaching the strike price of the sold put option, the fair value valuation requires us to book a net non-cash loss of RMB10.9 million for the October 2011 Hedges and recognize the financial derivative liabilities.

Profit from operations

The Group's profit from operations increased by RMB465.2 million, or 73.4%, from RMB634.0 million for the year ended December 31, 2010 to RMB1,099.2 million for the year ended December 31, 2011. This increase was primarily due to an increase in revenue, partially offset by the increase in special oil levy, other taxes in Kazakhstan and employee compensation cost.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil incurred a loss from operations of RMB7.5 million.

Finance income/(costs), net

The Group's finance cost (net) increased by RMB108.4 million, or 210.9%, from RMB51.4 million for the year ended December 31, 2010 to RMB159.8 million for the year ended December 31, 2011. This increase was primarily due to the following: (i) the 2011 Notes to finance acquisition of Emir-Oil and to repay the US$200 million CITIC bank loan resulted in a significant increase in interest expenses; (ii) early repayment of the CITIC bank loan in May 2011 resulted in writing off the unamortized non-cash expenses related to the CITIC bank loan of RMB29.3 million and an early repayment penalty of US$1.0 million (RMB6.8 million) to CITIC bank; and (iii) CITIC bank charged us US$0.4 million waiver fee to allow us to proceed with the 2011 Notes fund raising. The increase in finance costs was partially offset by the increase in finance income due to the exchange gain caused by the appreciation of the Renminbi against the U.S. dollar in 2011 as our borrowings were denominated and settled in U.S. dollars.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil incurred finance costs of RMB9.4 million.

Gain arising from acquisition of Emir-Oil

On September 19, 2011, the Group acquired 100% of the share capital of Emir-Oil and intercompany loans payable by Emir-Oil to BMB Munai, Inc. for US$159,601,000 (RMB1,014.2 million).

According to the valuation report prepared by an independent appraisal firm, the fair value of identifiable net assets of Emir-Oil at the date the Group assumed control is RMB1,594.9 million and total acquisition related cost was RMB120.3 million. The net gain arising from acquisition of Emir-Oil was RMB460.3 million accordingly.

Profit before income tax

As a result of the foregoing, the Group's profit before income tax increased by RMB817.2 million, or 140.3%, from RMB582.6 million for the year ended December 31, 2010 to RMB1,399.8 million for the year ended December 31, 2011.

Income tax expense

The Group had income tax expense of RMB161.7 million for the year ended December 31, 2010, compared to income tax expense of RMB293.9 million for the year ended December 31, 2011. This increase was primarily due to an increase in profit before income tax in 2011.

Net profit for the year

As a result of the foregoing, our net profit for the year increased by RMB684.9 million, or 162.7%, from RMB420.9 million for the year ended December 31, 2010 to RMB1,105.8 million for the year ended December 31, 2011.

Emir-Oil's loss for the three months ended December 31, 2011 was RMB14.7 million.

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

Revenue

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

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

Operating expenses

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

- *Purchases, services and other expenses*. Our purchases, services and other expenses increased by RMB2.9 million, or 2.4%, from RMB123.6 million for the year ended December 31, 2009 to RMB126.5 million for the year ended December 31, 2010, primarily due to the increase in sales volume in 2010, which was offset by more stringent cost control.

- *Employee compensation costs*. Our employee compensation costs increased by RMB42.7 million, or 63.1%, from RMB67.7 million for the year ended December 31, 2009 to RMB110.3 million for the year ended December 31, 2010 primarily due to (i) an increase in non-cash share-based compensation expenses arising from fair value of stock options and stock appreciation rights; (ii) higher compensation to employees because of the Company's improved financial performance in 2010; and (iii) an increase in the number of our staff hiring in connection with our increased production.

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

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

- *Taxes other than income taxes*. Our taxes other than income taxes increased by RMB216.0 million, or 294.6%, from RMB73.3 million for the year ended December 31, 2009 to RMB289.3 million for the year ended December 31, 2010. This increase was primarily due to (i) an increase in the special levy we paid to the PRC government in 2010 due to (a) increased realized crude oil prices in 2010 as the special levy is calculated and charged at progressive ad valorem rates based on the price of crude oil and (b) an increase in sales volume; and (ii) PetroChina's payment of the special levy to the PRC government on our behalf during the first half of 2009 as compensation for special levy payments we had paid in 2008 on the excess entitlement. In 2009, PetroChina paid RMB41.8 million of the special levy due on settlement of the excess entitlement. In 2008, due to the excess entitlement, we paid PetroChina's portion of the special levy. In 2009, we settled the excess entitlement with PetroChina by letting PetroChina take more oil and pay the special levy associated with such oil. As a result, in 2009, we paid a lower special levy. A special levy is payable starting at US$40 per barrel and the rate increases according to the crude oil price.

- *Other losses*. Our other losses decreased by RMB93.5 million, or 71.3%, from approximately RMB131.1 million for the year ended December 31, 2009 to approximately RMB37.6 million for the year ended December 31, 2010. We had other losses of RMB37.6 million for the year ended December 31, 2010, primarily due to a non-cash loss of RMB20.3 million from oil put option purchased from Standard Bank ("Standard Bank Oil Hedge") which expired on December 31, 2010 and a non-cash unrealized loss of RMB24.4 million from the MLCI Oil Hedge purchased in October 2010 due to the movement in the fair value of the oil put option. The Standard Bank Oil Hedge, which had a carrying value of RMB20.3 million as at December 31, 2009, expired on December 31, 2010. The accounting standard requires us to perform a fair value valuation on the unexpired portion of any oil hedge at each reporting period. The fair value valuation is determined by, among other things, the spot price and the forward curve of oil prices at the reporting period. The spot price of WTI as at December 31, 2010 was US$90.8 per barrel and the forward curve for WTI for that date was higher than the spot price and upward sloping. Given WTI spot price and forward curve for WTI was higher than strike price for the new MLCI Oil Hedge, the fair value valuation requires us to book a non-cash unrealized loss of RMB24.4 million for the MLCI Oil Hedge to write down the derivative financial instruments.

We had other losses of RMB131.1 million for the year ended December 31, 2009, primarily due to non-cash unrealized loss of RMB207.2 million from the movement in the fair value of the oil put option, which was partially offset by a realized gain of RMB71.0 million on the oil put option. WTI spot price was at US$44.1 per barrel and the forward curve was downward sloping as at December 31, 2008. Given the WTI spot price and forward curve was below the strike price for the Standard Bank Oil Hedge, we recognized a non-cash unrealized gain and wrote up the derivative financial instruments by RMB129.8 million for the year end December 31, 2008. However, by December 31, 2009, the WTI spot price was approximately US$79.49 per barrel and the forward curve was upward sloping above the strike price of the Standard Bank Oil Hedge, so we had to book a non-cash unrealized loss and write down the derivative financial instrument by approximately RMB207.2 million.

Profit from operations

Our profit from operations increased by RMB392.8 million, or 162.8%, from RMB241.2 million for the year ended December 31, 2009 to RMB634.0 million for the year ended December 31, 2010. This increase was primarily due to an increase in revenue, partially offset by an increase in the special levy.

Finance costs, net

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

Profit before income tax

As a result of the foregoing, our profit before income tax increased by RMB398.7 million, or 216.7%, from RMB183.9 million for the year ended December 31, 2009 to RMB582.6 million for the year ended December 31, 2010.

Income tax expense

We had income tax expense of RMB73.4 million for the year ended December 31, 2009, compared to income tax expense of RMB161.7 million for the year ended December 31, 2010. This increase was primarily due to an increase in profit before income tax in 2010.

Net profit for the year

As a result of the foregoing, our net profit for the year increased by RMB310.4 million, or 281.0%, from RMB110.5 million for the year ended December 31, 2009 to RMB420.9 million for the year ended December 31, 2010.

Liquidity and Capital Resources

Overview

Our primary sources of cash during the six-month period ended June 30, 2012 and the years 2011 and 2010 were cash flow from operating activities and cash flow from financing activities. We used cash primarily to fund capital spending program and dividends, and in 2011, to repay the US$200 million CITIC bank loan and to acquire Emir-Oil.

In the first half of 2012, we had net cash generated from operating activities of RMB687.5 million, net cash used in investing activities of RMB1,034.2 million and net cash generated from financing activities of RMB183.3 million and a translation income of foreign currency of RMB2.3 million, resulting in a net decrease in cash and cash equivalent of RMB161.1 million compared to the cash balance of RMB533.0 million as of December 31, 2011.

In 2011, we had net cash generated from operating activities of RMB1,246.1 million, net cash used in investing activities of RMB2,476.5 million, net cash generated from financing activities of RMB1,093.8 million and a translation loss of foreign currency of RMB10.4 million resulting in a net decrease in cash and cash equivalent of RMB147.0 million.

In 2010, we had net cash generated from operating activities of RMB1,015.0 million, net cash used in investing activities of RMB1,001.8 million and net cash generated from financing activities of RMB376.7 million, resulting in a net increase in cash and cash equivalent of RMB389.8 million compared to the cash balance as of December 31, 2009.

Cash generated from operating activities

Net cash generated from operating activities was RMB687.5 million in the six-month period ended June 30, 2012. In the first half of 2012, our net cash generated in operating activities included profit before income tax of RMB528.1 million adjusted for, among other things, depreciation, depletion and amortization of RMB376.7 million, net interest expenses of RMB128.9 million, a fair value non-cash gain on oil put option of RMB4.3 million, write off of inventory of RMB0.3 million, gain from changes of fair value of option to ACAP of RMB8.5 million, employee share option expense of RMB33.4 million and an unrealized foreign exchange loss of RMB7.3 million. The cash movements from changes in working capital in the six-month period ended June 30, 2012 included decrease in trade and other receivables of RMB75.7 million, a decrease in trade and other payables of RMB182.6 million and an increase in inventories of RMB2.6 million.

Net cash generated from operating activities was RMB1,246.1 million in the year ended December 31, 2011. In the year ended December 31, 2011, our net cash generated in operating activities included profit before income tax of RMB1,399.8 million adjusted for, among other things, depreciation, depletion and amortization of RMB542.0 million, gain arising from the acquisition of Emir-Oil, LLC of RMB460.3 million, net interest expenses of RMB220.2 million, unrealized foreign exchange gain of RMB70.7 million, and a fair value loss on oil hedge Option of RMB32.1 million, offset by changes in working capital which included an increase in trade and other payables of RMB221.0 million, an increase in trade and other receivable of RMB209.8 million and an increase in inventories of RMB17.6 million.

Net cash generated from operating activities was RMB1,015.0 million in the year ended December 31, 2010. In the year ended December 31, 2010, our net cash generated in operating activities included profit before income tax of RMB582.6 million adjusted for, among other things, depreciation, depletion and amortization of RMB528.6 million, higher net interest expenses of RMB86.6 million, a fair value loss on oil hedge option of RMB44.7 million and an unrealized foreign exchange gain of RMB35.2 million, offset by changes in working capital which included an increase in trade and other payables of RMB9.5 million, a decrease in trade and other receivable of RMB86.4 million; and a decrease in inventories of RMB41.0 million.

Net cash used in operating activities was RMB70.3 million in the year ended December 31, 2009. In the year ended December 31, 2009, our net cash used in operating activities included profit before income tax of RMB183.9 million adjusted for, among other things, depreciation, depletion and amortization of RMB445.8 million, interest expenses of RMB54.9 million, an unrealized fair value loss on oil put option of RMB207.2 million, an unrealized fair value gain on currency forward of RMB25.2 million and an unrealized foreign exchange gain of RMB2.2 million. Our profit before income tax was also lower in 2009 due to lower realized oil prices and sales volume. The cash movements in the year ended December 31, 2009 included a decrease in trade and other payables of RMB581.6 million primarily due to repayment to PetroChina for the excess entitlement (see the paragraph immediately below for more details) and payments to third party suppliers, an increase in trade and other receivables of RMB226.5 million due to more oil being sold in December 2009, the proceeds from which were not received until early 2010, and a slight increase in inventory of RMB22.2 million.

Cash used in investing activities

Net cash used in investing activities in the six-month period ended June 30, 2012 amounted to RMB1,034.2 million, mainly as a result of project development costs of RMB1,168.0 million, and loans granted to GOC of RMB94.6 million and payment of RMB9.2 million for acquiring 50% equity interest in White Hawk and warrants from PEDCO, partially offset by a reduction in pledged deposits of RMB233.9 million and the interest received of RMB3.7 million.

Net cash used in investing activities in the year ended December 31, 2011 amounted to RMB2,476.5 million, mainly as a result of project development costs of RMB1,241.9 million, net cash payment of RMB985.9 million for acquiring of Emir-Oil, increase in pledged deposits of RMB205.3 million, payment of RMB18.9 million for acquiring preferred shares and mineral extraction right from PEDCO and net loans granted to GOC of RMB28.6 million, partially offset by interest received of RMB4.1 million.

Net cash used in investing activities in the year ended December 31, 2010 amounted to RMB1,001.8 million, mainly as a result of project development costs of RMB910.2 million, and loans granted to GOC of RMB91.6 million.

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

Cash generated from financing activities

Net cash generated from financing activities in the six-month period ended June 30, 2012 amounted to RMB183.3 million due to: (i) proceeds from the bank loan from Minsheng Bank of RMB283.9 million in June 2012; and (ii) proceeds from the bank loan from CCB of RMB50 million, partially offset by: (i) 2011 final cash dividend of RMB95.1 million paid in June 2012, and (ii) payment of RMB5.9 million for share buy back.

Net cash generated from financing activities in the year ended December 31, 2011 amounted to RMB1,093.8 million due to proceeds from the issuance of 2011 Notes of RMB2,524.6 million in May 2011, partially offset by: (i) RMB1,308.3 million used for the repayment of US$200 million CITIC bank loan in May 2011; (ii) 2010 final cash dividend of RMB76.8 million paid in May 2011; (iii) payment of RMB10.7 million for the fees incurred during the initial public offering; (iv) payment of RMB34.5 million for the expenses related to the issuance of the 2011 Notes; and (v) repayment of RMB0.3 million for capital lease liability.

Net cash generated from financing activities in the year ended December 31, 2010 amounted to RMB376.7 million due to: (i) proceeds from initial public offering of RMB605.2 million in December 2010, partially offset by: (i) a cash dividend of RMB136.5 million paid in March 2010; (ii) payment of RMB64.9 million for the fees incurred during initial public offering; and (iii) payment of RMB27.1 million for arrangement fee for the US$200 million CITIC bank loan.

Net cash generated from financing activities in the year ended December 31, 2009 amounted to RMB860.2 million due to (i) a drawdown of US$182 million (RMB1,243.2 million) from our CITIC long-term credit facility, (ii) a drawdown of US$30 million (RMB204.8 million) from our CITIC short-term revolving credit facility, and (iii) net proceeds from the issuance of series A preferred shares of RMB339.6 million, partially offset by (i) a repayment of US$119.3 million (RMB825.0 million) under our Standard Bank loan facility and (ii) a repayment of US$15 million (RMB102.4 million) under our CITIC short-term revolving credit facility. The Standard Bank loan facility was terminated on July 31, 2009.

Market Risks

Our market risk exposures primarily consist of fluctuations in oil prices and exchange rates.

Oil price risk

Our realized oil prices are determined by reference to oil prices in the international market, changes in international oil prices will have a significant impact on us. Unstable and high volatility of international oil prices may have a significant impact on our revenue and profit.

Currency risk

The majority of the Group's China operation sales are in U.S. dollars, while production and other expenses in China are incurred in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

The functional currency of the Kazakhstan subsidiary is in U.S. dollars and all export sales are in U.S. dollars. The transactions of the Kazakhstan subsidiary which are denominated in the Kazakhstan Tenge are exposed to fluctuations in the U.S. dollars and Kazakhstan Tenge exchange rate. Management is not in a position to anticipate changes in the PRC foreign exchange regulations or the fluctuations between the U.S. dollar and Kazakhstan Tenge exchange rates, and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates.

Recently Issued Accounting Pronouncements

New and amended standard adopted by the Group during the financial year beginning January 1, 2012:

- IAS 12 (Amendment), 'Deferred tax: Recovery of underlying assets', effective for annual periods beginning on or after January 1, 2012. IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes — recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

  The adoption of this new standard did not have a material impact on the Group's financial statements.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning January 1, 2012 and have not been early adopted:

- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 1, 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

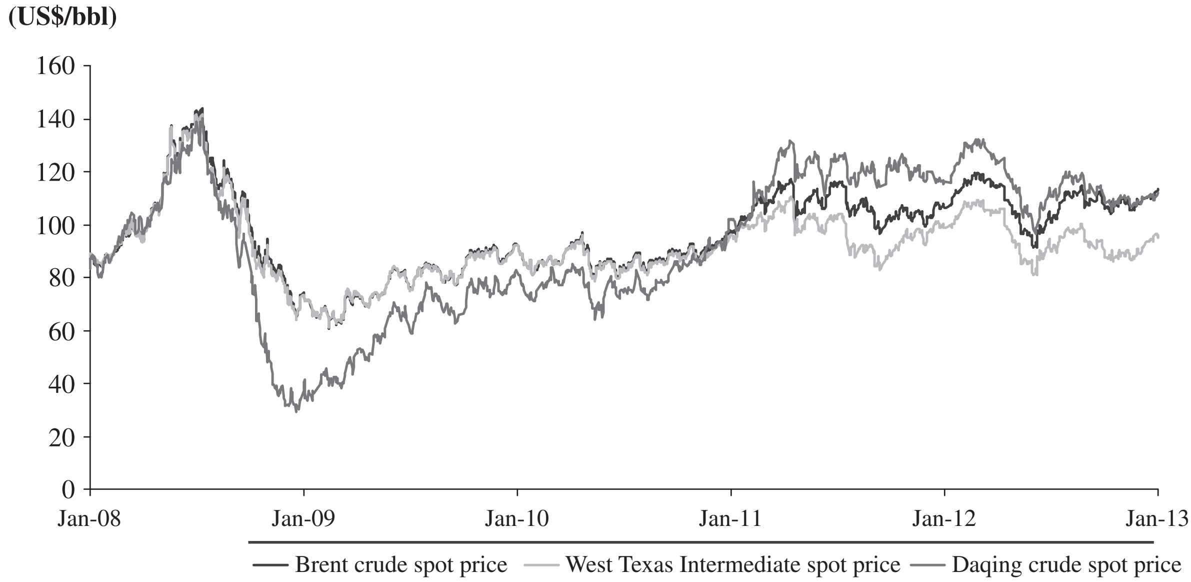
- IAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. The group is yet to assess the amendments to IAS 19's impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

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

Overview

Growing energy demand and robust oil prices are driving growth in the global oil and gas industry. Crude oil remains a core source of global energy demand, with oil consumption representing 33.1% of total global fuel consumption in 2011, according to the BP Statistical Review (June 2012). Global oil consumption has historically grown at a steady pace, representing a CAGR of 1.3% from 2001 to 2011. Oil prices have fluctuated in recent years in response to global economic conditions, and on the back of improved macroeconomic conditions, West Texas Intermediate spot oil prices have recovered from the lows of US$31.41 per barrel in December 2008 to US$97.16 per barrel on December 31, 2011. This compares with a peak of US$145.29 per barrel reached on July 3, 2008. The chart below illustrates the Brent crude spot prices, West Texas Intermediate spot prices and Daqing crude spot prices from January 1, 2008 to January 24, 2013. Going forward, the oil and gas industry is expected to experience continued growth in order to meet growing demand for oil.



Source: Bloomberg

In particular, the global oil demand growth outlook is increasingly dependent on the economic growth in China. Rapid economic growth over the past three decades has generated significant growth in demand for oil in China. From 2001 to 2011, China's gross domestic product, or GDP, grew at a CAGR of 10.6%, and its industrial production grew at a CAGR of 14.6%, according to the Economist Intelligence Unit (the "EIU"). Over the same period, oil consumption grew at a CAGR of 7.2%. Robust economic growth in China is expected to continue to drive oil consumption, with the International Energy Agency (the "IEA"), estimating that oil consumption in China will grow at a CAGR of 5.1% during the period from 2011 to 2015, compared to a CAGR of only 1.2% globally.

In 2011, China consumed approximately 9.8 million barrels of oil per day, ranking after the United States as the second largest consumer of oil globally. However, oil consumption in China on a per capita basis still lags far behind that in OECD nations, indicating significant further growth potential for oil consumption in China. The table below sets forth an overview of energy consumption data for China and selected OECD nations in 2011.

	Primary Energy Consumption	**Crude Oil Consumption**	**Per Capita Crude Oil Consumption**
	(Million tons of equivalent)	**(Thousands of barrels per day)**	**(Barrels per day per 1,000 people)**
Canada	330	2,293	66.7
United States	2,269	18,835	60.4
Australia	123	1,003	44.6
Japan	478	4,418	34.9
United Kingdom	198	1,542	22.8
China	2,613	9,758	7.4

Source: BP Statistical Review (June 2012), Population data from EIU

As consumption growth outpaces production growth, China's domestic oil production is increasingly insufficient to meet the demand for oil. Domestic oil production in China grew at a CAGR of 2.1% from 2001 to 2011, compared to a CAGR of 7.2% for oil consumption in the same period. China has been a net importer of oil since 1993 as domestic supply is insufficient to meet strong demand for oil. In 2011, the net importation of oil in China amounted to 4.2 million barrels per day, or 43.5% of the total oil consumption of 9.8 million barrels per day. In December 2009, China overtook the United States, for the first time, as the largest importer of Saudi Arabia's oil, exceeding 1 million barrels per day, according to the Financial Times. Imports will be increasingly critical to meeting China's domestic oil demand in the future.

As a result, there is a strong impetus by the Chinese government to encourage both onshore and offshore oil production activities in China. In 2011, China's domestic crude oil production totaled 4.1 million barrels per day, ranking as the world's fifth largest producer. Governmental initiatives to stimulate domestic oil production are expected to drive growth of large National Oil Companies (the "NOCs"), as well as for independent oil companies operating in China, including foreign contractors. An indication of the level of investment and growth experienced in the oil and gas sector in China is the strong capital expenditure growth by China's three largest NOCs, namely PetroChina, Sinopec and CNOOC. The following table sets forth the capital expenditure on oil and gas exploration and production by these three NOCs for the periods indicated.

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**CAGR (2004 to 2011)**
	RMB'000,000, except percentages								
PetroChina	70,217	92,233	115,024	146,855	168,569	138,396	173,142	173,760	13.82%
Sinopec	21,234	23,095	35,198	54,498	57,646	54,272	52,680	58,749	15.65%
CNOOC	13,958	17,898	24,998	31,003	35,858	42,714	51,907	67,028	25.13%

Source: Annual reports (Form 20-F) for PetroChina, Sinopec and CNOOC (2004–2011)

Overview of the PRC Oil Industry

Industry Structure

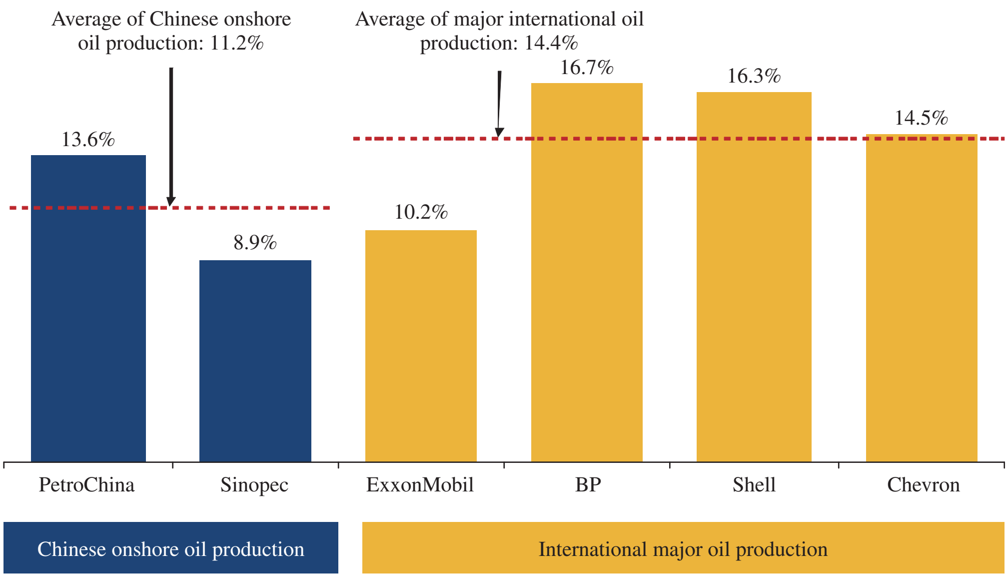
China's oil and gas industry is dominated by the three NOCs. PetroChina is the largest among the three by proved reserves and net production. As of December 31, 2011, PetroChina has proved crude oil reserves of 11,128 million barrels, compared to 2,848 million barrels for Sinopec and 1,969 million barrels for CNOOC, based on their respective annual reports. In addition to these three NOCs, there are also other state-owned oil and gas companies, such as Shaanxi Yanchang Petroleum (Group) Co., Ltd.

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

The NOCs remain primarily focused on production optimization of large and mature oilfields such as the Daqing oilfield complex for PetroChina and the Shengli oilfield complex for Sinopec, as well as major onshore and offshore discoveries. We believe there remains many smaller but significant oilfields that independent oil companies are well-positioned to develop in cooperation with the NOCs. Independent oil companies such as MIE, often characterized by their streamlined management structure and operating expertise in specific field conditions, are often best able to operate and extract commercial returns from these smaller oilfields. As a result, there are a number of independent oil companies operating onshore in China, including MIE, ROC Oil and Central Asia Oil.

An important feature of the onshore oil and gas sector in China is the general availability of oilfield service providers and the related ability to control costs, making onshore operations in China a commercially attractive option for independent oil companies. From this perspective, operating onshore in China compares favorably to operating offshore in China as well as internationally. The average 7-year CAGR of lifting costs for PetroChina and Sinopec, the two largest onshore upstream producers in China, was 11.2% from 2004 to 2011. In contrast, four of the largest international oil companies, including ExxonMobil, BP, Shell and Chevron, experienced an average lifting cost increase of 14.4% over the same period. The following chart shows lifting cost growth at PetroChina, Sinopec, and four of the largest international oil companies globally.

7-year CAGR of Lifting Cost (2004–2011)



Source: Annual reports for PetroChina, Sinopec, ExxonMobil, BP, Shell and Chevron (2004–2011)

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

Expansion of International Cooperation

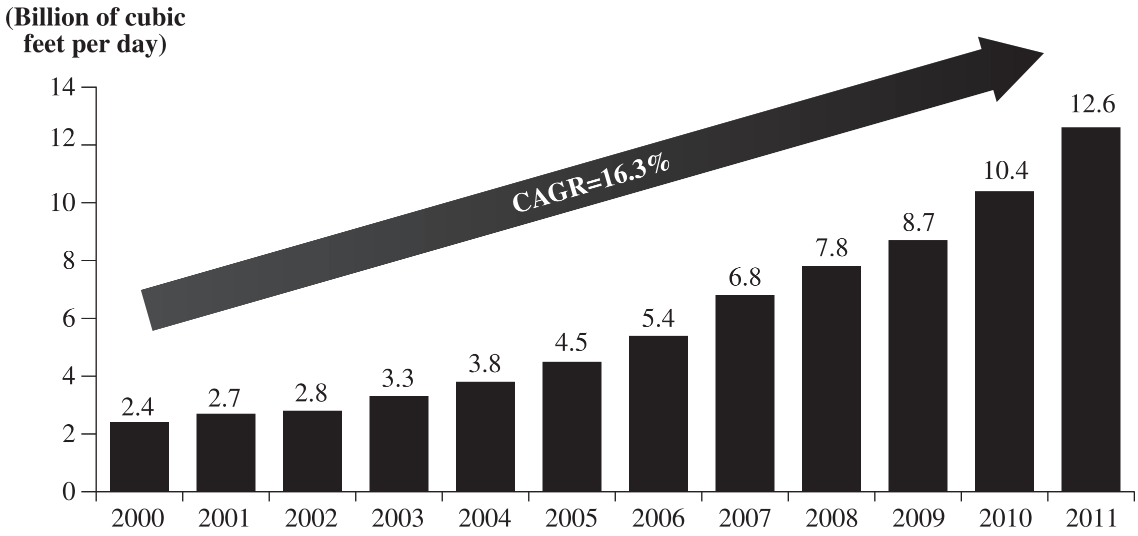
The NOCs and other independent upstream oil producers in China are increasingly exploring overseas investment and acquisition opportunities. The PRC government encourages outbound investment by oil companies to secure strategic resources, particularly in the context of China's increasing reliance on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

Overview of the PRC Gas Industry

Gas consumption in China

Gas, as a cleaner energy source compared with crude oil, is playing an increasingly important role in China energy sector. China is currently the 5th gas market after the U.S., EU, Russia and Iran according to BP Statistical Review. In 2011, China produced 3.6 trillion cubic feet of natural gas, up around 9% from 2010, while the country consumed 4.6 trillion cubic feet. The following chart shows the growth in gas consumption in China, demonstrating an increase from 2.4 billion cubic feet per day in 2000 to 12.6 billion cubic feet per day in 2011.

Gas Consumption in China (2000–2011)



Source: BP Energy Review

Despite the strong growth in the past decade, gas use in China today accounts for just 1.0% of total energy consumption, compared with 23.7% globally. According to U.S. Energy Information Administration ("EIA"), China gas demand is expected to grow to more than triple to over 11 trillion cubic feet per year by 2035, growing about 5% per year.

Currently majority of the gas demand in China is from power generation, buildings and agriculture and industrial users. There is significant scope for using more gas in China's quickly expanding power sector. In addition, China aims for a 17% reduction in carbon dioxide emissions by 2015, signaling promotion of clean energy. The National Development and Reform Commission ("NDRC") is targeting natural gas to make up 7.5% of total primary energy consumption by 2015 vs. 3.7% in 2010. China recently adopted 12th Five-Year Plan strongly favours gas consumption and provides economic incentives in the form of pricing structure and infrastructure investment. In particular, in December 2011, the NDRC published a new gas pricing mechanism (market net back pricing) to replace the older or existing nation-wide gas pricing model (cost plus model). The new mechanism has been tested in Guangdong and Guangxi provinces and is expected to begin to roll out nationally this year. This new pricing mechanism links domestic prices to global energy values, with imported fuel and imported LPG providing the key variables to the domestic model. As a result Chinese domestic prices are set to fluctuate in line with global prices, thus meaning the discount between Chinese domestic assets and international equivalents, should start to narrow.

Upstream supply

China's gas production more than tripled over the last decade, according to EIA. China became a net natural gas importer for the first time in almost two decades in 2007, and imports have increased dramatically in the past few years alongside China's thirst for natural gas and rapidly developing infrastructure. Gas imports have become a significant part of the gas portfolio, jumping from a 12% share of the consumption in 2010 to 22% in 2011. Gas from overseas LNG projects accounts for nearly 50% of total gas imports.

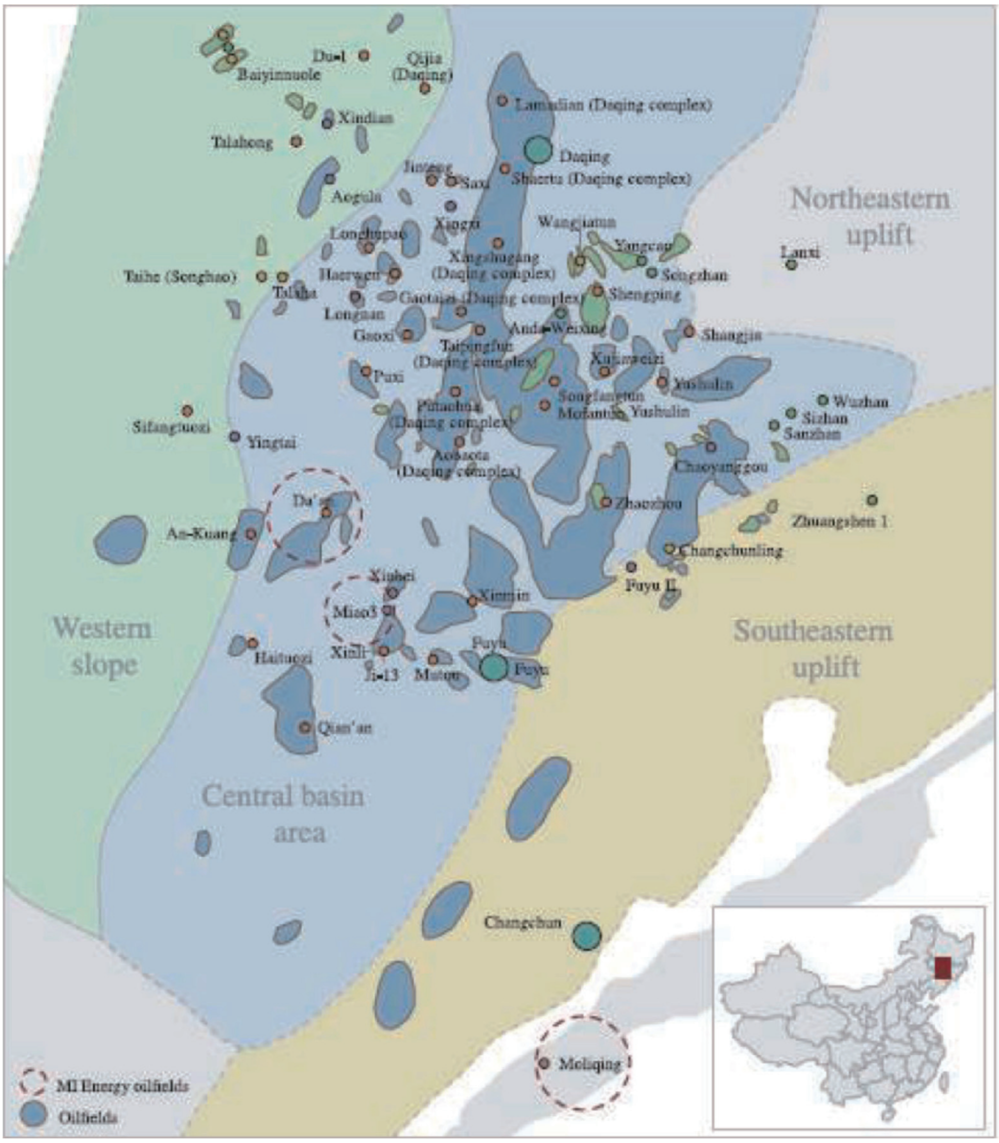
According to EIA, China has total proved gas reserves of 107 trillion cubic feet as of 2011, of which majority is conventional gas reserves. Like the oil sector in China, upstream gas assets are highly concentrated in the hands of the three big national oil firms — CNPC, Sinopec and CNOOC. As of December 31, 2011, CNPC, Sinopec and CNOOC had 66,653, 6,709 and 5,627 billion cubic feet of proved natural gas reserves.

Unconventional gas supply in China

Apart from conventional upstream supply, there is also increasing attention paid to unconventional gas as future gas supply in China. Unconventional gas include coalbed methane, tight gas and shale gas. Coalbed methane (CBM), also known as Coal Seam Gas (CSG), is a form of natural gas found in coal seams rather than in the sandstone reservoirs that hold conventional natural gas. Tight gas is found in relatively impermeable geological formations which means that the gas does not flow as well as it would in a conventional reservoir and it requires specialized technologies to bring it to the surface. Shale gas is found in shale deposits that can hold enormous quantities of gas. The unconventional gas require unconventional methods and expertise to economically access and produce these hydrocarbons. Access, higher gas prices and advances in technology have made it possible to commercially develop unconventional gas resources in China. Chinese government also welcomes non state-owned enterprise with techniques and capital to participate in the unconventional gas projects.

According to EIA, China is estimated to have 10.2 trillion cubic feet so far of proven CBM reserves in 2011, though estimates for recoverable reserves are much higher at over 350 trillion cubic feet. Most of China's CBM volumes are from the basins in the North and Northeast, the Sichuan basin in the Southwest, and the Junggar and Tarim basins in the West. Total CBM production in 2010 was 315 billion cubic feet and expects production to rise to 1,570 billion cubic feet per year by 2030, accounting for 12% of total natural gas production. Currently, the unconventional gas sector in China is mainly in early stage. China's first commercial CBM pipeline became operational in late 2009, linking the Qinshui Basin with the West-East pipeline. Major projects that are expected to start production in the next 4 years are Ordos CBM projects in Inner Mongolia, Junggar CBM project in Xinjiang and other coal-to-gas projects.

Overview of the Songliao Basin



Source: *U.S. Geological Survey*

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

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

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

There are also extensive established pipelines, refineries and other storage infrastructure in place in the Songliao Basin, facilitating the development of oilfields in the region. The extensive pipeline network, storage facilities, and large-scale refineries in the region provide important points of sale and price benchmarks for crude oil produced in the Songliao Basin. The following map shows the oil and gas infrastructure network that connects major refineries across China, including the Songliao Basin.

Source: PetroChina 2011 Interim Results Presentation; CNPC and Sinopec corporate websites

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

The level of oil production activities at the Songliao Basin is expected to remain strong. In November 2008, PetroChina announced substantial work plans at the Daqing oilfield complex, where the production level is expected to remain over 40 million tons per year until 2020. PetroChina believes it can extract a further 7 billion barrels of oil from the Daqing oilfield complex through the use of advanced technologies to extend the life of the oilfield. Conventional technologies provide access to only 20% of oil-bearing layers in this area. There are various enhanced oil recovery methods that are being tested and implemented at the Daqing oilfield complex, including waterflooding, alkaline-surfactant-polymer flooding and polymer flooding. In November

2008, PetroChina outlined the use of polymer flooding and other technologies in reservoir engineering, recovery process and surface engineering at the Daqing oilfield complex to improve recovery rates. This again is an indication of the strong technology expertise available locally, and industry best practices being applied to optimize the development of onshore fields in the Songliao Basin.

Overview of the Kazakhstan Oil and Gas Industry

Investment in Kazakhstan's Oil and Gas Industry

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

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

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

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

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

Oil Supply and Demand

As at December 31, 2011, Kazakhstan ranked eleventh in the world by oil reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet Republics and has the Caspian region's largest recoverable crude oil reserves. Kazakhstan's proved oil and gas reserves were 30.0 billion barrels (representing 1.8% of the world's proved oil reserves) and 66.4 trillion cubic feet (representing 0.9% of the world's proved gas reserves), respectively, as at December 31, 2011.

Between 2001 and 2011, Kazakhstan's oil production grew at a compounded annual growth rate of approximately 7.8%. Kazakhstan produced approximately, 72.0 million tonnes of oil and gas condensate in 2008, 78.2 million tonnes in 2009, 81.6 million tonnes in 2010 and 82.4 million tonnes for 2011. The Kazakhstan Government has stated that it expects oil and gas production to increase to 80 million tonnes per year and 47 billion cubic meters per year in 2010 and 130 million tonnes per year and 50 billion cubic meters per year by 2015 respectively. Most of this growth is expected to come from the Tengiz, Karachaganak and Kashagan fields.

The Asia Pacific region was the world's largest geographical region for oil consumption in 2011 accounting for approximately 32.4% of world consumption. The United States was the largest consumer of oil by country accounting for 20.5% of world consumption of oil. Europe together with the former Soviet Republics represented the world's largest geographical region for the consumption of natural gas in 2011 accounting for 34.1% of world consumption. The United States was the largest consumer of natural gas by country accounting for 21.5% of world consumption in 2009.

Kazakhstan has three major oil refineries supplying the northern region (at Pavlodar), the western region (at Atyrau) and the southern region (at Shymkent), with an estimated total refining capacity of 21.0 million tonnes per year (approximately 427,000 bpd). Crude oil is also processed at mini-refineries (private small refineries). The refinery at Pavlodar is supplied mainly by crude oil from western Siberia; the Atyrau refinery runs solely on domestic crude from the western region of Kazakhstan; and the Shymkent refinery generally uses oil from the southern region of Kazakhstan. The Atyrau refinery is undergoing modernization to provide some additional capacity and to allow the refinery to meet current European fuel standards.

Gas Supply and Demand

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

Gas production in Kazakhstan has increased significantly since 1999 when the Government passed a law requiring subsoil users (primarily oil companies) to include gas utilization projects in their development plans. As a result, gas production in 2000 doubled compared to 1999, reaching 314 billion cubic feet, the highest level since independence in 1991. Gas production increased from 307 billion cubic feet in 2010 to 401 billion cubic feet in 2011, an increase of 30.7%.

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

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

Gas Consumption						
2005	2006	2007	2008	2009	2010	2011
billion cubic feet per year						
476.7	521.4	441.1	313.2	304.4	303.3	1,354.3

Source: U.S. Energy Information Administration

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

Transportation

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

Crude Oil

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

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

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

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

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

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

In December 2005, China and Kazakhstan put into operation the 614-mile Atasu-Alashankou pipeline, forming part of the Atasu-Dushantsty pipeline. The initial capacity of the Atasu-Alashankou pipeline is approximately 10 million tonnes (200 thousand bpd) per year, with a projected increase up to 20 million tonnes per year. In 2006, 2.2 million tonnes of oil were pumped through the pipeline. The construction of the first stage of the second phase project, i.e. the Kenkiyak-Kumkol-Atasu pipeline, is fully completed in December 2010.

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

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

State Pre-Emptive Rights

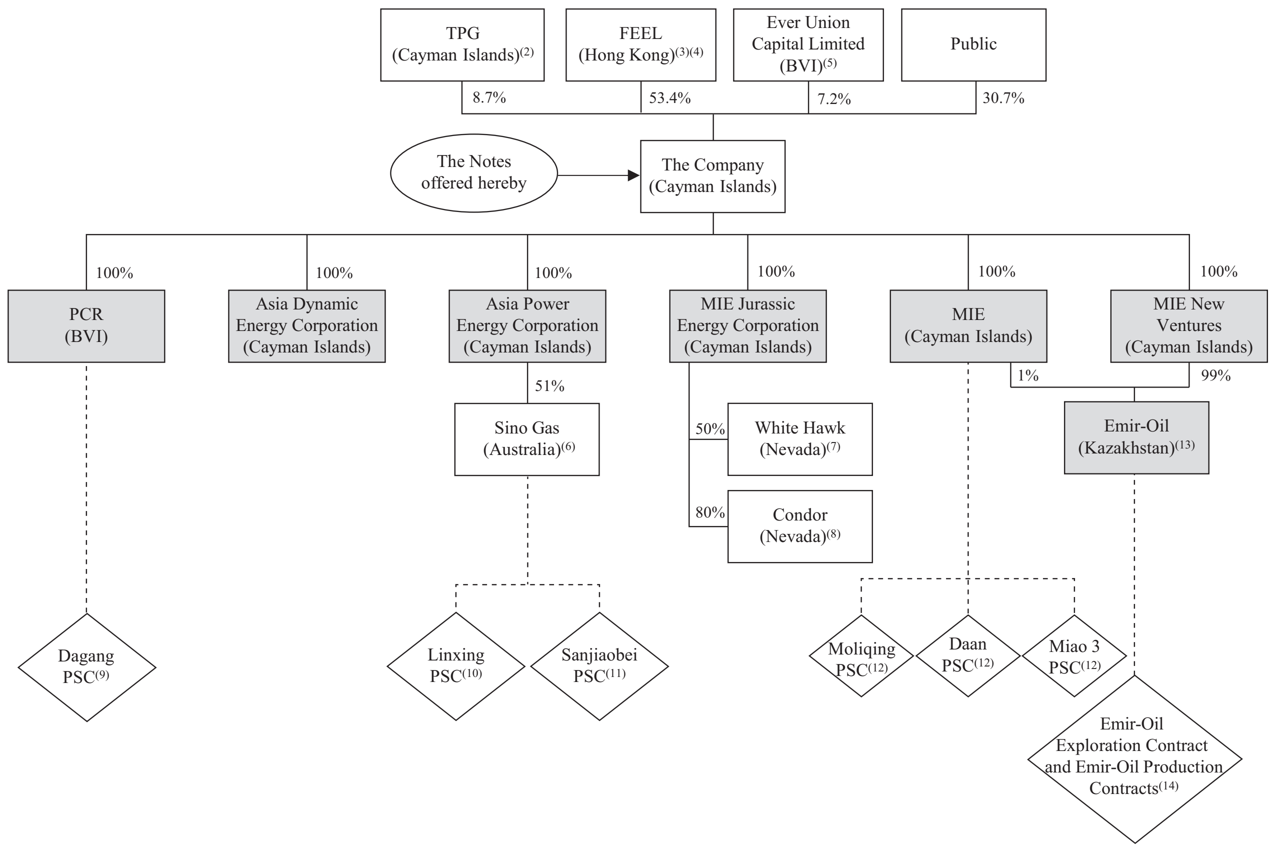
The Subsoil Law contains pre-emptive rights for the State in connection with any transfer of subsoil use rights and/or any transfer of the shares, participation interests, securities confirming title to shares or securities convertible into shares of a legal entity directly or indirectly controlling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

DESCRIPTION OF THE ISSUER AND THE GROUP

We were incorporated as a limited liability company under the laws of Cayman Islands on March 20, 2008. Our shares have been listed on the Main Board of the Hong Kong Stock Exchange since December 14, 2010.

Our Group primarily engages in the development, production and sale of: (i) oil and gas through production sharing contracts in China; (ii) oil and gas through the Emir-Oil Exploration Contract and the three Emir-Oil Production Contracts in Kazakhstan and; (iii) oil and gas through Condor's working interest in the Niobrara shale asset and White Hawk's working interest in the Eagle Ford shale asset in the United States.

The diagram below provides an overview of the organizational structure of the Group.



Notes:

(1) The shaded boxes indicate the Subsidiary Guarantors in the corporate structure of the Group.

(2) TPG is a leading global private investment firm and its 8.7% interest in the Company includes interest held by its affiliates.

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

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

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

(6) The remaining 49% in Sino Gas is held by SGE Holdings, an independent third party.

(7) The remaining 50% in White Hawk is held by PEDCO, an independent third party.

(8) The remaining 20% in Condor is held by PEDCO, an independent third party.

(9) PCR has a production sharing contract with PetroChina which covers an area located within Dagang oilfield in Hebei Province, China.

(10) Sino Gas has a production sharing contract with CUCBM which covers an area located on the eastern flank of the Ordos Basin, close to the Changqing oilfield in China.

(11) Sino Gas has a production sharing contract with PetroChina CBM which covers an area located on the eastern flank of the Ordos Basin, close to the Changqing oilfield in China.

(12) We operate the Daan, Moliqing and Miao 3 oilfields pursuant to the respective production sharing contracts. These oilfields are located in the Songliao Basin in China. MIE holds the Daan and Moliqing PSCs through its wholly-owned subsidiaries, Gobi Energy Limited and Riyadh Energy Limited, respectively.

(13) Emir-Oil is 100% held by Palaeontol B.V., which is 100% held by Palaeontol Coöperatief U.A. MIE and MIE New Ventures, which are both wholly-owned subsidiaries of the Company, own 1% and 99% of Palaeontol Coöperatief U.A., respectively.

(14) Emir-Oil owns the three Emir-Oil Production Contracts for the Aksaz, Dolinnoe and Kariman producing oilfields, and the Emir-Oil Exploration Contract that covers the Emir oilfield and the rest of the 850 square kilometer ADEK Block located in the Mangistau Oblast in the southwestern region of Kazakhstan.

Overview

We are an independent oil and gas company engaged in the exploration and production of oil and gas in China, Kazakhstan and the United States. We are also the largest independent upstream oil company operating onshore in China in terms of gross production.

In China, we operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, a subsidiary of CNPC, the largest oil company in China. We hold a 90% participating interest in the foreign contractors' entitlement and obligations under these three production sharing contracts and generate revenues from the sale of the Group's share of crude oil to PetroChina. We also operate the Dagang production sharing contract in Hebei province, China, through the PCR Acquisition in December 2012, in which we hold 100% participating interest in the foreign contractor's entitlement and obligations, and generate revenues from the sale of the Group's share of crude oil to PetroChina. We own 51% of Sino Gas, whose principal activities are the exploration of unconventional gas assets in China pursuant to two production sharing contracts, namely Linxing PSC and Sanjiaobei PSC, both of which are located on the eastern flank of the Ordos Basin.

In Kazakhstan, we hold the three Emir-Oil Production Contracts covering Aksaz, Dolinnoe and Kariman producing oilfields, and the Emir-Oil Exploration Contract covering the ADEK Block that includes the Emir oilfield but excludes the area covered by the three Emir-Oil Production Contracts. The contract areas are located in the Mangistau province in the southwestern region of Kazakhstan.

In the United States, we entered into the emerging shale oil market through the Niobrara Acquisition in November 2011, which provide us with a 61.25% working interest covering 7,923 net acres of oil and gas leases in the Niobrara formation. Through the White Hawk Acquisition, we acquired 50% of White Hawk, which has a 7.94% non-operating working interest (106 net acres) in the Eagle Ford Shale project.

As of December 31, 2011, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 61.0 million barrels, 49.8 million barrels and 28.0 barrels of crude oil, respectively. The Group's (including its net interest entitlement in White Hawk and excluding PCR) net oil production in the fourth quarter of 2012 was 14,857 barrels of crude oil per day. Together with the net oil production of 15,590 barrels per day in the third quarter of 2012, the net oil production for the second half of 2012 was 15,223 barrels per day, an increase of 1,854 barrels per day or 13.9% over the first half of 2012 average oil production of 13,369 barrels per day.

The table below sets out a summary of our revenue, EBITDA, Adjusted EBITDA and net profit for the years ended December 31, 2009, 2010, 2011 and for the six months ended June 30, 2011 and 2012.

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2009	2010	2011		2011	2012	
	RMB million	RMB million	RMB million	US$ million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	US$ million (unaudited)
Revenue	1,166.8	1,805.0	2,827.1	445.0	1,282.9	1,756.0	276.4
EBITDA*	687.0	1,162.6	2,101.5	330.8	743.7	1,042.2	164.0
Adjusted EBITDA*	821.3	1,236.7	1,725.3	271.6	809.3	1,062.6	167.3
Net profit	110.5	420.9	1,105.8	174.1	303.9	347.1	54.6

* See "Summary Financial Information and Other Data" for information on how we calculate EBITDA and Adjusted EBITDA

Our Strengths

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

The largest independent onshore upstream oil company in China in terms of gross production with a strong asset base

We are the largest independent onshore upstream oil company in China in terms of gross production, with estimated net proved, probable and possible reserves of approximately 34.0 million barrels, 16.3 million and 9.5 million barrels, respectively, as of December 31, 2011. As of December 31, 2011, our net proved undeveloped reserves in China equaled approximately 12.4 million barrels, representing approximately 36.5% of our total net proved reserves in China. Our net proved developed reserves in China increased from 19.2 million barrels as of December 31, 2009, to 21.5 million barrels as of December 31, 2011, and net production from our proved developed reserves in China averaged 7,637 barrels, 9,349 barrels, 10,601 barrels and 12,186 barrels of crude oil per day in 2009, 2010, 2011 and the third quarter of 2012, respectively. Our large base of net proved undeveloped reserves in China will enable us to quickly grow our annual production of crude oil in the near term without the need to undertake further exploration.

We have potential to continue increasing our proved reserves in several ways. During 2011, we drilled 467 wells, a record year in terms of number of wells drilled since we became the operator of Daan, Moliqing and Miao 3 oilfields in May 2001. Included in the 467 wells are 118 infill wells. As of December 31, 2011, we had identified 2,432 potential locations in Daan, Moliqing and Miao 3 oilfields for future drilling and we had attributed net undeveloped reserves of 12.4 million barrels, 9.6 million barrels and 5.8 million barrels, respectively, to these locations. During 2012, we drilled another 431 wells in the Daan, Moliqing and Miao 3 oilfields, which included 177 infill wells. Furthermore, we anticipate in the future, some of the probable and possible reserves attributed to higher waterflood recovery factors will be realized.

The recent acquisitions demonstrate our acquisition track record and ability to identify value accretive opportunities in China and overseas, which will also serve as a platform for our long term growth and asset portfolio diversification. In July 2012, we acquired a 51% interest in Sino Gas. Sino Gas' estimate of reserves and contingent prospective resources (Mid Case) is 3,682 Bcf. The Sino Gas acquisition allows us to participate in the highly prospective China unconventional tight gas sector under two existing production sharing contracts with significant potential, aligning us for more effective future participation in the rapidly expanding exploration and development of Chinese unconventional gas resources. In December 2012, we acquired PCR, a company which conducts oil and gas development and production operations in China. PCR holds 100% participating interest in a production sharing contract with PetroChina covering the Kongnan block in Dagang oilfield as well as 1.85% gross overriding royalty in Zhaozhou oilfield, both of which are conventional oilfields similar to our existing Northeast China operations. Based on data provided in Ivanhoe Energy Inc's annual report, PCR has proved reserves and probable reserves of 1.6 million barrels and 0.8 million barrels, respectively, as at 31 December 2011. For the nine months ended 30 September 2012, PCR's net production was 243,399 barrels of oil or an average of 888 barrels per day. We believe that the recent acquisitions in China will further solidify our position as the largest independent onshore upstream oil company in China in terms of gross production.

Establishing international footprint outside China for long term growth and realizing significant reserves and production additions

We completed the acquisition of Emir-Oil and obtained the three 25-year Emir-Oil Production Contracts for each of Aksaz, Dolinnoe and Kariman oilfields in September 2011 from the MOG in the Republic of Kazakhstan. The acquisition of Emir-Oil added 27.0 million barrels, 60.5 million barrels and 79.0 million of net proved, proved and probable and proved and probable and possible crude oil reserves as at December 31, 2011. All of Emir-Oil's proven reserves and 85.6% of its probable reserves are attributable to the three Emir-Oil Production Contracts. As a consequence of the Emir-Oil acquisition, the Group's total estimated net proved, proved and probable and proved and probable and possible crude oil reserves were approximately 61.0 million barrels, 110.8 million barrels and 138.8 million barrels respectively as at December 31, 2011. As of December 31, 2011, the reserves life index of the Group's net proved reserves was 12.9 years.

During 2012, we substantially increased Emir-Oil production as gains from drilling new wells and work-over of existing wells were realized. Emir-Oil's average daily production increased from 2,104 barrels of crude oil per day during 2011 to 3,576 barrels of crude oil per day during the fourth quarter of 2012 (an increase of 1,472 barrels of crude oil per day or 70.0%). This takes the Group's (including its net interest entitlement in White Hawk and excluding PCR) total daily net oil production in the fourth quarter of 2012 to 14,857 barrels of crude oil per day, an increase of 2,885 barrels of crude oil per day or 22.7% over 2011. We plan to continue performing work-overs to repair additional wells to further improve production.

We have also entered the shale oil and gas industry in the United States to improve our operating and technical expertise with regard to horizontal drilling and shale oil and gas development. In 2011, through the acquisition of Condor, the operator of 7,923 net acres in the Niobrara shale oil play, we have established our first production in the area after one horizontal well discovery in the first half of 2012. We have also identified more locations to drill and optimize development on our U.S. Niobrara leases, drilling two more horizontal wells in December 2012, which will be fractured and brought on production in early 2013. In May 2012, we also acquired 50% interest in White Hawk, which we have a 7.9% working interest and a 6.0% net revenue interest covering 106 net acres in the Eagle Ford Shale oil trend and including three existing producing wells. The undeveloped acreage has room for 24 additional wells based on eighty-acre spacing.

Proven track record of developing and operating oilfields, in particular low permeability oilfields

Low permeability oilfields represent approximately 31% of China's overall oil reserves. For example, approximately 73% of oil reserves in the Jilin complex are categorized as low permeability oilfields. We have developed strong expertise in drilling and operating wells under low permeability conditions through the effective use of water injection and other techniques and the application of our know-how. Our strong operating capabilities are particularly evidenced by our low development and lifting costs, high oil recovery rate and high success rate of developing oil wells. Such capabilities have enabled us to recover costs quickly under the production sharing contracts in China and reduce the risk associated with future investments in these oilfields.

We had a large team of 1,851 production and technical service employees as of June 30, 2012. Our experienced team allows us to implement our development plans quickly, including drilling a large number of wells in a short time. From January 1, 2001 to June 30, 2012, we operated 2,346 gross productive wells comprising 2,319 wells in China, 26 wells in Kazakhstan and one well in the United States. In 2009, 2010, 2011 and 2012, we drilled 189, 200, 467 and 455 gross development wells, respectively.

Through its subsidiaries, the Company is the sole operator of the Daan, Moliqing, Miao 3 and Dagang oilfields, as well as the Niobrara Asset. The Company also operates the gas assets at Sanjiaobei and Linxing through Sino Gas. Our wholly owned subsidiary, Emir-Oil, holds an exploration contract and three production contracts that allow us to conduct exploration and production activities in Mangistau province in the southwestern region of Kazakhstan. This status enables us to exercise significant control over the amount and timing of expenses and capital allocations, and other logistical aspects of the development and operation of our oil and gas assets. We currently work with over 300 vendors in China and, over the years, we have gained in-depth knowledge of China's petroleum and gas industry. In addition, the large number of wells we have drilled to date in our oilfields has provided us with a large amount of drilling and well performance data, which we believe maximizes the predictability of future well performance and will further reduce the dry hole risks related to developing our oilfields. We have a history of optimizing field performance and enhancing oil production by instituting an effective waterflood program. As of December 31, 2009, 2010 and 2011, we had installed a total of 259, 320 and 403 injectors, respectively, at our three oilfields. We believe we have effectively enhanced production with our current injector pattern, and we plan to continue to install injectors and expand the areas under waterflood where economic circumstances allow. We are able to optimize production by minimizing the decline rate.

Competitive cost structure and operational efficiency

Our key operations being in China and Kazakhstan and our active cost management allow us to leverage low equipment and labor costs in China and use the Chinese drilling and oil servicing companies which has lower cost of service in Kazakhstan. Since our acquisition of Emir-Oil in September 2011, we have been able to lower our drilling costs in Kazakhstan significantly by engaging the services of Chinese drilling companies. We also apply advanced drilling and production technologies that allow us to produce more oil at lower cost. We achieved a success rate of approximately 99.7% for gross development wells drilled from January 1, 2001 to June 30, 2012.

We believe we are able to control our costs effectively due to several factors. Starting from the planning stages, our experienced management team and technical personnel are able to prepare exploitation and development plans that maximize crude oil production relative to our development and operating costs. In addition, as a non-state-owned enterprise, we believe that we have greater flexibility to plan and execute projects, manage the size of our operations, implement cost containment initiatives, and source cost-effective subcontractors at each stage in the development and operation of our oil and gas assets. As a result of these factors, we have historically operated at a consistently lower overall lifting cost than PetroChina and Sinopec. We believe we adapt more quickly to oil price fluctuations than large state-owned enterprises and can compete effectively with our competitors even in a low crude oil price environment.

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

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

- Development of our existing oilfields involves low exploration risk because most of our existing reserve base has already been discovered and delineated. This low exploration risk is evidenced by the 1,097 successful development wells drilled in our existing oilfields between January 1, 2010 and December 31, 2012, representing a success rate of 99.9%.

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

- We have recovered all of our past development costs in the Daan, Moliqing, Miao 3 and Dagang oilfields, but continue to invest and develop new portions of each oilfield in accordance with approved overall development plans and joint management committee approved budgets.

Long standing and strong relationship with PetroChina

We have a long standing relationship and a history of close cooperation with PetroChina, with which we currently have five production sharing contracts. PetroChina is the largest oil company in China and has the highest number of production sharing contracts covering onshore oilfields among China's state-owned oil companies. We have worked closely with PetroChina since 2001. Our cooperation has deepened as the Daan, Moliqing and Miao 3 oilfields entered commercial production phases. During this time, PetroChina has proven to be a reliable partner and customer, as it has had sufficient demand to purchase the oil allocated to us as well as a consistent track record of timely payments. Our production sharing contract for the Dagang oilfield is also with PetroChina. In addition, Sino Gas also has a production contract, namely the Sanjiaobei PSC, with PetroChina CBM, for the exploration of unconventional gas assets. We work with many different entities and departments within PetroChina, which has allowed us to form close relationships with key personnel at multiple levels within PetroChina. PetroChina Kazakhstan is also one of our customers in Kazakhstan.

The production sharing contracts in our Northeast China and Dagang oilfields as well as the Sanjiaobei gas asset provide for a joint management committee which consist of our representatives and representatives from PetroChina, to perform supervisory functions for each oilfield. This arrangement allows us to leverage PetroChina's local knowledge, technical abilities and other strengths. Many of our senior managers and staff members worked for PetroChina before joining our company. We believe that our strong relationship with PetroChina is one of the key factors that will contribute to the future growth of our company, and we are well-positioned to further develop our working relationship with PetroChina in current and future projects.

Strong management team with international experience

We believe the extensive experience of our management team in developing and operating oilfields in China and abroad distinguishes us from other independent upstream oil and gas producers. Our management team has built an extensive network of relationships within the industry both inside and outside of China. Our management team consists of domestically and internationally trained oil and gas professionals, some of whom have worked with established oil and gas companies such as PetroChina, Texaco and ARCO. The international experience and local knowledge of our management team has enhanced our ability to obtain financing, to communicate effectively with PetroChina and our subcontractors and to stay at the forefront of technological advances in our industry.

Our chairman, Mr. Zhang, has more than 20 years of experience in the oil industry in China. We have also engaged international specialists and consulting firms to advise our management team on key operational and management areas, such as Mercer on employment compensation, Ryder Scott on reserves estimation in Northeast China oilfields, Chapman on reserves estimation in Kazakhstan, GLJ on reserves estimation in relation to the Dagang oilfield, RISC on reserves and resources estimation in relation to the Linxing and Sanjiaobei gas assets, ENSR International on environmental evaluation and Aon-COFCO on insurance policy, to help us adopt international best practices. We are able to leverage the local knowledge and international experience of our management team to facilitate our growth and expansion effectively.

Our Strategies

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

Increase production through the development of proved undeveloped reserves

We plan to increase production to meet the growing demand for oil in China and globally. As of December 31, 2011, the total proved undeveloped reserves of our China oilfields and Kazakhstan oilfields were estimated to be 12,449 thousand barrels and 6,769 thousand barrels of crude oil, respectively. We are expanding our operations by drilling more wells in the oilfields we operate, which we believe will substantially increase our net production over the next few years. As of December 31, 2011, 31.5% of our net proved reserves of crude oil were classified as undeveloped, which means we have the opportunity to achieve substantial production growth even without the discovery of new reserves.

We plan to increase production and improve our production yield through continued use and application of different techniques such as infill drilling, water injection at existing wells, fracturing stimulations, horizontal drilling with multi-stage hydraulic fracture completions and monitoring and balancing injectors to improve water sweeping efficiencies.

Realizing benefits from recent acquisitions

Following the successful completion of acquisition of Emir-Oil, we expect Emir-Oil to become a platform for our overseas expansion into Central Asia and to nearby countries. We believe we can realize Emir-Oil's production growth potential and operate Emir-Oil more profitably than it was operated historically by relying on our strong operating capabilities and techniques. We plan to perform work-overs, acid-fracs and acid-wash on existing wells and drilling new wells to increase production from Emir-Oil.

Through the Sino Gas Acquisition, we believe that we are attractively positioned to participate in the unconventional gas sector in China. We are committed to US$100 million for the acquisition of Sino Gas, of which US$90 million will be used to fund Sino Gas's current and future work programs and to achieve commercial production in 2014. Through our entry into the shale oil and gas industry in the United States, we believe that we will be able to improve our operating and technical expertise in relation to horizontal drilling, and multi-stage fracturing which is also necessary for shale gas development opportunities in China. We also remain open to further opportunistic acquisitions in North America. Through the PCR Acquisition, we believe that we can apply techniques such as infill drilling, optimizing water injection, fracturing stimulations and horizontal drilling developed from the Group's existing operations to extend the reserve life, increase production and reduce production costs in the Dagang oilfield and solidify our position as the leading independent onshore oil company operating in China.

Continue to pursue opportunities to further increase our reserves and resources and production

We believe we are in an advantageous position to secure new production sharing contracts in China given our strong technical expertise, operating track record, established relationship with PetroChina and access to capital. We intend to leverage our relationship with PetroChina to selectively enter into new production sharing contracts in China. We believe we have the opportunity to selectively acquire existing production sharing contracts from other independent oil producers in China that may be capital-constrained or lack sufficient technical ability and expertise to successfully develop their areas under contracts and unconventional gas projects such as the recent Sino Gas Acquisition and the PCR Acquisition. In addition, we believe that we will have opportunities to participate in China shale gas development in the near future. Pursuant to the "Development Plan of Shale Gas (2011–2015)" published on March 13, 2012 by the NDRC, the Ministry of Finance, the Ministry of Land and Resources and the NEB, PRC companies and institutions are encouraged to cooperate with foreign research institutions on technologies of shale gas exploration and production. PRC enterprises engaging in shale gas exploration and production, with approvals from the Ministry of Land and Resources, the NDRC and the State Council, can cooperate with experienced international companies to promote the import of advanced technologies in this field. The production sharing contracts do not contain any non-competition clause which may restrict us from cooperating with other parties to explore or extract crude oil from other domestic or overseas oilfields, and we do not have to obtain approval from PetroChina for the cooperation.

We examine factors such as the following when evaluating production sharing contracts: (i) stage of development; (ii) the amount of additional reserves that could be obtained by investing more capital and using new technology; (iii) risk profile; and (iv) the expected return for our shareholders. We believe our proven track record in developing and operating low-permeability oilfields, which represent approximately 31% of China's overall oil reserves, will help us secure new production sharing contracts or acquire existing production sharing contracts in China. After acquiring a new oilfield, we seek to add value by lowering the operating costs and improving the operating efficiency of the oilfield.

Overseas, we intend to review and screen projects, giving priority to opportunities in Asia emerging markets countries, areas that provide synergies with our operations in China and Kazakhstan, and in countries with low political and low economic risk, including in North America.

Improve operational efficiency through the application of advanced technologies

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

- efficiently and effectively develop reserves within contract areas, compile development databases and build accurate reserve models;
- increase production and reserves by conducting geological studies and analyses of drilling pattern and well density;
- optimize production from oilfields including those with low permeability through multi-layer fracturing, water injection, horizontal drilling and other technologies; and
- optimize production from unconventional resources through techniques such as horizontal drilling with multi-stage hydraulic fracture completions.

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

Reserves Summary

The following table sets forth our net reserve data as of December 31, 2009, 2010 and 2011.

	As of December 31,		
Net Reserves	**2009**	**2010**	**2011**
		Barrels ('000)	
Crude Oil			
Total proved developed	**19,195**	**20,501**	**41,782**
China oilfields[1]	19,195	20,501	21,539
Kazakhstan oilfields	—	—	20,243
Total proved undeveloped	**11,699**	**12,435**	**19,218**
China oilfields[1]	11,699	12,435	12,449
Kazakhstan oilfields	—	—	6,769
Total proved	**30,894**	**32,936**	**61,000**
Total probable developed	**7,059**	**7,627**	**28,935**
Total probable undeveloped	**17,048**	**11,978**	**20,908**
Total probable	**24,107**	**19,605**	**49,843**
Total possible	**11,161**	**13,859**	**27,972**
Total proved and probable (2P)	**55,001**	**52,541**	**110,843**
Total proved and probable and possible (3P)	**66,162**	**66,400**	**138,815**
		MMscf	
Gas			
Total proved developed	—	—	**22,879**
Kazakhstan oilfield	—	—	22,879
Total proved undeveloped	—	—	**6,464**
Kazakhstan oilfield	—	—	6,464
Total proved	—	—	**29,343**
Total probable developed	—	—	**16,310**
Kazakhstan oilfields	—	—	16,310
Total probable undeveloped	—	—	**17,687**
Kazakhstan oilfields	—	—	17,687
Total probable	—	—	**33,997**
Total possible	—	—	**30,084**
Kazakhstan oilfields	—	—	30,084

Sources: Ryder Scott for the Daan, Moliqing and Miao 3 oilfields and Chapman for Emir-Oil's assets (oil reserves only).

Notes:

(1) Daan, Moliqing and Miao 3 oilfields only.

(2) The information contained in the table above only reflects the Daan, Moliqing and Miao 3 oilfields in China and Emir-Oil's oil reserves in Kazakhstan.

(3) The information contained in the table above are all as of December 31, 2011 and does not take into account result of any ongoing evaluation.

(4) Based on data provided in 2011 GLJ Report, PCR had proved oil reserves of 1.6 million barrels and probable oil reserves of 0.8 million barrels, including in total proved and probable oil reserves of approximately 2.4 million barrels as at December 31, 2011. Based on data provided in 2011 RISC Report, Sino Gas' estimate of gas reserves plus contingent resources plus prospective resources (100%, mid case resources) is 3,682 Bcf, as at December 31, 2011.

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

Proved reserves are quantities of oil which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward. Probable reserves are additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Possible reserves are additional reserves that are less certain to be recovered than probable reserves and thus the probability of achieving or exceeding the proved plus probable plus possible reserves is low.

Proved, probable and possible reserves are estimated using a deterministic method and presented as incremental quantities. The deterministic method is a common method of estimating reserves that uses a single value for each parameter (from the geoscience, engineering or economic data) in the reserves calculation for the reserves estimation procedure. Discrete quantities of reserves are assigned separately as proved, probable or possible based on their individual level of uncertainty. Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserve categories. Furthermore, the reserves quantities attributable to the different reserve categories have not been adjusted to reflect these varying degrees of risks associated with them and thus are not comparable.

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

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

See also "Risk Factors — Risks Relating to our Business — The crude oil and natural gas reserves data in this offering memorandum are only estimates and the actual production, revenue and expenditures with respect to our net reserves under each of the production sharing contracts may differ materially from these estimates."

Internal Controls Over Reserves and Resources Estimates

Responsibility for compliance in reserve bookings is delegated to our reserves and resources and long-term planning department and requires qualified geologists and engineers in our Beijing office to review all data used for internal reserves estimates for our different oilfields. We engage independent petroleum engineering consulting firms to prepare independent reserve reports for our oil and gas projects. Ryder Scott prepares the Daan, Moliqing and Miao 3 reserve reports, Chapman prepares the Emir-Oil reserve report, GLJ prepares the PCR reserve report and RISC prepares the Sino Gas reserve reports.

These reserve estimates are reviewed and approved by regional management and senior engineering staff with final approval by members of our senior management. For reserve data security, we have internal servers located in both our Beijing and Songyuan offices to store our accounting and reserve data content, to provide back-up data support and to avoid system error or failure due to a sudden and significant increase in traffic or a bottleneck in inter-provincial network connections.

Technologies Used in Reserves Estimation

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

Northeast China

Daan, Moliqing and Miao 3 Oilfields

Through its wholly owned subsidiaries, the Company is the sole operator and one of the two foreign contractors of the oilfields at Daan, Moliqing and Miao 3. The Daan and Miao 3 projects were established in 1997, and the Moliqing project was established in 1998. The duration of those three projects are 30 years with the commercial production period being up to 20 years. The Daan, Moliqing and Miao 3 production sharing contracts will expire in 2024, 2028 and 2028, respectively. The Daan oilfield holds our largest net proved reserves and is currently our largest crude oil production area and it extends over an area of approximately 253.0 square kilometers. Situated in Daan, Jilin Province and near the center of the Songliao Basin, the Daan oilfield entered into the commercial production phase of the production sharing contract on January 1, 2005 and has historically been our most productive oilfield.

The Moliqing oilfield is situated in Yitong, Jilin Province and near the center of the Songliao Basin and extends over an area of approximately 71.5 square kilometers. The Moliqing oilfield entered into the commercial production phase of the production sharing contract on December 1, 2008.

The Miao 3 oilfield is situated in Qianguo, Jilin Province, and near the center of the Songliao Basin and extends over an area of approximately 81.0 square kilometers. The Miao 3 oilfield entered into the commercial production phase on October 1, 2008.

Daan, Moliqing and Miao 3 Production Sharing Contracts

Under the production sharing contracts with PetroChina, we, through our wholly owned subsidiaries, conduct our oil operations in the capacity of the sole operator and one of the two foreign contractors of the oilfields. We hold a 90% participating interest in the foreign contractors' entitlements and obligations in each of our production sharing contracts, and GOC holds the remaining 10% interest. GOC is not directly involved in the operations of the oilfields and does not vote at the meetings of the joint management committee. Each production sharing contract has a maximum term of 30 years. The commercial production phase lasts for a term of 20 consecutive years, which may be extended with the approval of the PRC government. Our production sharing contracts typically involve three phases: the pilot-test phase, the development phase and the commercial production phase.

Under each of the production sharing contracts, we provide funding, technology and managerial experience for the development and production of oil resources in these oilfields. In exchange, we share in the production of crude oil with PetroChina after the successful development of oil reserves according to the formula set forth in the production sharing contracts. In a given period during the commercial production phase under the production sharing contracts, the revenue and operating costs may be allocated to the foreign contractors in the range of 48% to 80%, based on whether the foreign contractors have fully recovered their development costs. PetroChina holds the exploitation permits for the development and production of crude oil, issued by the PRC Ministry of Land and Resources, at the Daan, Moliqing and Miao 3 oilfields.

All of the oil produced in these three oilfields is sold to PetroChina. We have already recovered our development costs in the Daan, Moliqing and Miao 3 oilfields.

Payment of Value-Added Tax and Royalties

Any revenue from crude oil produced during the year is first paid to the authorities as value added tax and royalties. The value-added tax rate payable to the PRC government is 5% of annual gross production. PetroChina and the foreign contractors are also required to pay royalties to the PRC government based on the gross production of each oilfield covered by the production sharing contracts pursuant to the Interim Regulation on the Payment of Mining Royalty for the Sino-Foreign Cooperative Exploitation of Onshore Petroleum. Although the aforesaid Interim Regulation was repealed by the Petroleum Regulations as amended on September 30, 2011 and effective on November 1, 2011, the payment of such royalties shall continue within the contractual period of contracts on Sino-foreign cooperative exploitation of onshore petroleum resources lawfully executed prior to November 1, 2011. The royalties payable each year vary from 0.0% to 12.5% of annual crude oil production based on the level of production for a particular oilfield. The following table describes the royalty rates payable at various annual gross crude oil production levels.

Annual Gross Oil Production	**Royalty Rate**
Less than 0.5 million tons	0.0%
0.5 to 1.0 million tons	2.0%
1.0 to 1.5 million tons	4.0%
1.5 to 2.0 million tons	6.0%
2.0 to 3.0 million tons	8.0%
3.0 to 4.0 million tons	10.0%
More than 4.0 million tons	12.5%

Cost Recovery Oil and Profit-Sharing Oil

Under our production sharing contracts, production of crude oil is allocated among the foreign contractors and PetroChina during the commercial production phase, after deducting value-added tax and royalties, as follows:

- *Cost recovery oil*. We define "cost recovery oil" as the oil to be allocated to PetroChina and the foreign contractors for the recovery of the operating costs and pilot-test and development costs. Cost recovery oil is payable until all costs incurred by the foreign contractors have been fully recovered.

PetroChina and the foreign contractors each bear a part of the operating costs. In any period in which the foreign contractors have not fully recovered their pilot-test and development costs (including any supplemental development costs) for such period and any prior periods, the PetroChina bears 20% of the operating costs and foreign contractors bear 80% of the operating costs. Conversely, in any period in which the foreign contractors have fully recovered their pilot-test and development costs for such period and any prior periods, PetroChina bears 52% of the operating costs and foreign contractors bear 48% of the operating costs. Therefore, in a given period during the commercial production phase, foreign contractors bear 48% to 80% of the operating costs.

After recovering the operating costs incurred, the foreign contractors are also entitled to recover all of their pilot-test and development costs incurred for development of the oilfields. As long as these costs have not yet been fully recovered by the foreign contractors, the foreign contractors are entitled to 80% of the remaining oil as payment in kind for these costs while PetroChina is entitled to the remaining 20%.

- *Profit-sharing oil*. After the full recovery of the operating costs and the pilot-test and development costs incurred by the foreign contractors, the remaining crude oil is allocated between PetroChina and the foreign contractors. PetroChina and the foreign contractors are entitled to 52% and 48% of the allocable remaining oil, respectively. We call the remaining crude oil the "profit-sharing" oil.

Management and Operations

The Daan, Moliqing and Miao 3 production sharing contracts provide for a joint management committee to perform supervisory functions for each oilfield. Currently, there are eight members on the joint management committee. PetroChina may appoint four representatives while the foreign contractors together may appoint the other four representatives. We appoint the four representatives for the foreign contractors. Each party shall designate one chief representative. The chairman of the joint management committee is the chief representative designated by PetroChina, whereas the vice chairman is the chief representative designated by the foreign contractors. GOC, as a passive foreign contractor, has no voting rights on the joint management committee. When a decision is to be made on any proposal, the chief representative from each party shall have the sole right to vote on behalf of the party.

In the absence of the chief representative, each party may designate another member to act as its chief representative at the meeting. Decision of the joint management committee shall be made unanimously, and each decision made unanimously shall be deemed as a formal decision and shall be equally binding on the parties. When an agreement cannot be reached, the parties may convene another meeting in an attempt to find a new solution based on the principle of mutual benefit.

The joint management committee meets at least twice a year and has the authority to, among other things, review and approve operational and budgetary plans, review and adopt the overall development plan and any supplemental overall development plan, review and examine matters required to be submitted to the relevant PRC authorities, and approve significant procurements, expenditures and insurance coverage.

We have been designated as the operator for each of the oilfields under the production sharing contracts. The obligations of the operator include the following:

- applying the appropriate technology and managerial experience to perform the oil operations reasonably, economically and efficiently in accordance with sound international practice;
- preparing and carrying out work programs and budgets;
- procuring equipment and supplies and subcontracting services related to the oil operations;
- preparing, budgeting and executing annual personnel training programs; and
- maintaining complete and accurate accounting records of all costs and expenditures of the oil operations and keeping the accounting books secure and in good order.

As the operator, we are solely responsible for carrying out the daily operations of the oilfields. We are also responsible for determining and executing operational and budgetary plans and routine operational matters.

After we have fully recovered our pilot-test and development costs stipulated to be expended by the overall development plan, PetroChina has the right under the production sharing contracts to take over the operations of the oilfields at its sole discretion. If PetroChina takes over the operations at any of the Daan, Moliqing and Miao 3 oilfields, we will remain entitled to our allocation of the operating portion of the cost recovery oil and the profit-sharing oil for the remaining term of the relevant production sharing contract and continue to participate on the joint management committee. However, we will not be able to invest in additional capital expenditures to generate more production and revenue.

Ownership of Assets and Data

PetroChina owns all data, records, samples, vouchers and other original data obtained by the foreign contractors in the course of performing the oil operations. After the earlier of (i) full recovery by the foreign contractors of their development costs or (ii) expiration of the production sharing contracts, PetroChina shall own all the assets purchased, installed and constructed under the production sharing contracts in accordance with the laws and regulations of the PRC, prior to which PetroChina and we jointly control the assets for each field and the ownership of the assets for each field that is not explicitly defined in the production sharing contracts. The total net book value of the assets amounted to RMB4,215.8 million as of June 30, 2012. We amortized this amount using the unit of production method over the remaining term of the relevant production sharing contract, which method is not affected by the ownership of the assets. PetroChina has not obtained ownership of the assets purchased, installed and constructed under the production sharing contract of any of our oil fields.

The Daan, Moliqing and Miao 3 production sharing contracts specifically provide that, regardless of who has ownership of the assets, during the term of the relevant production sharing contract the assets are to be used solely for the petroleum operations of the relevant oilfield. Without the consent of both PetroChina and the foreign contractors, the assets cannot be used for any other purpose. Furthermore, according to the Petroleum Regulation and the production sharing contracts, should PetroChina take ownership of the assets before the expiration of the production sharing contracts, our entitlement to our allocation of the cost recovery oil and the profit sharing oil will not change for the remaining term of the relevant production sharing contract. Our ability to realize future economic benefits under the production sharing contracts stems from our entitlement to the oil produced over the term of the production sharing contract, and such entitlement does not depend on our ownership of the assets. For these reasons, the Directors believe that PetroChina's eventual ownership of the assets in this respect will not materially affect our financial position.

Sale of Crude Oil to Third Party Purchasers

The Daan, Moliqing and Miao 3 production sharing contracts and the sales contract with PetroChina permit the foreign contractors to sell their share of the crude oil to other third party purchasers. Foreign contractors may also export their share of crude oil to purchasers overseas and shall obtain, with the assistance of PetroChina, any necessary licenses or permits. See "— Sales and Marketing" for a description of the sales contract between us and PetroChina. Under applicable oil trade laws and regulations in the PRC, any exports shall be made only by licensed vendors.

Abandonment of Production or Termination of Production Sharing Contract

During the commercial production stage, production from a contract area may be abandoned due to the lack of economic feasibility. Pursuant to the production sharing contracts, if any party to the production sharing contracts plans to abandon production from the contract area, it must give prior written notice to the other party or parties. If the other party or parties agree to abandon production from the contract area, all parties shall pay abandonment costs in proportion to their respective percentage of participating interests in the contract area. Upon service of notice by the foreign contractors, if PetroChina decides not to abandon production, all of the foreign contractors' rights and obligations under the production sharing contract in respect of the contract area, including the obligation to pay abandonment costs, shall terminate automatically, provided that the foreign contractors' debt, liabilities and obligations in respect of the oilfields shall not be transferred to PetroChina.

In addition to abandonment, the production sharing contracts can be terminated in several circumstances, including: (i) the contractor can choose to terminate after pilot test period; (ii) the production sharing contract automatically terminates after 20 years of continuous commercial production; (iii) PetroChina can terminate in case of abandonment of production by the contractor; (iv) the production sharing contract automatically terminates 30 years from the date of execution; and (v) both parties can terminate upon a material breach of the contract terms by the other party, subject to arbitration as provided in the production sharing contract. For details of the applicable laws and regulations governing production sharing contracts in the PRC, see "Regulations — Regulatory Framework For Sino-Foreign Cooperation In The Exploitation Of Onshore Petroleum Resources."

Kazakhstan

Emir-Oil owns the three Emir-Oil Production Contracts for the Aksaz, Dolinnoe and Kariman producing oilfields, and the Emir-Oil Exploration Contract that covers the Emir oilfield and the rest of the 850 square kilometer ADEK Block located in the Mangistau Oblast in the southwestern region of Kazakhstan.

Emir-Oil Production Contracts

Emir-Oil obtained the three 25-year Emir-Oil Production Contracts for each of Aksaz, Dolinnoe and Kariman oilfields in September 2011 from the MOG in the Republic of Kazakhstan. All of Emir-Oil's proven reserves and 85.6% of its probable reserves are attributable to these three Emir-Oil Production Contracts.

Pursuant to these Emir-Oil Production Contracts, we are obligated to perform minimum work program during the life of the production contracts. According to the production contracts for 3 blocks in Kazakhstan, the Group is obligated to perform minimum work program during the life of the production contracts.

Set out below is the commitments for the minimum work program:

	As at	
	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
<1 year	494,584	440,808
1–2 year	418,777	420,509
2–5 year	1,342,918	1,294,990
>5 year	6,244,025	6,470,097
	8,500,304	8,626,404

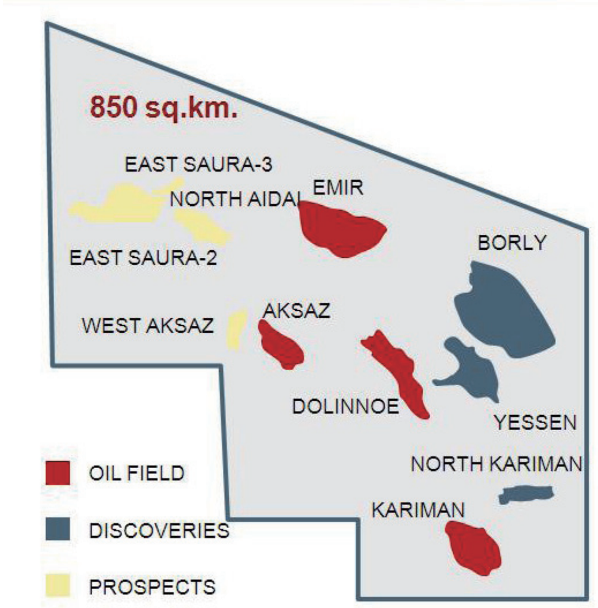
As at December 31, 2012, there were 27 production wells in the ADEK block of which 20 were in production and 7 were waiting on repairs, work-overs or completion after finishing drilling. We plan to ramp up production of Emir-Oil as quickly as possible by repairing old wells shut-in, performing modern acid fracturing stimulation on existing wells and drilling new wells. At the end of 2012, three development wells were in the process of being drilled.

Emir-Oil Exploration Contract

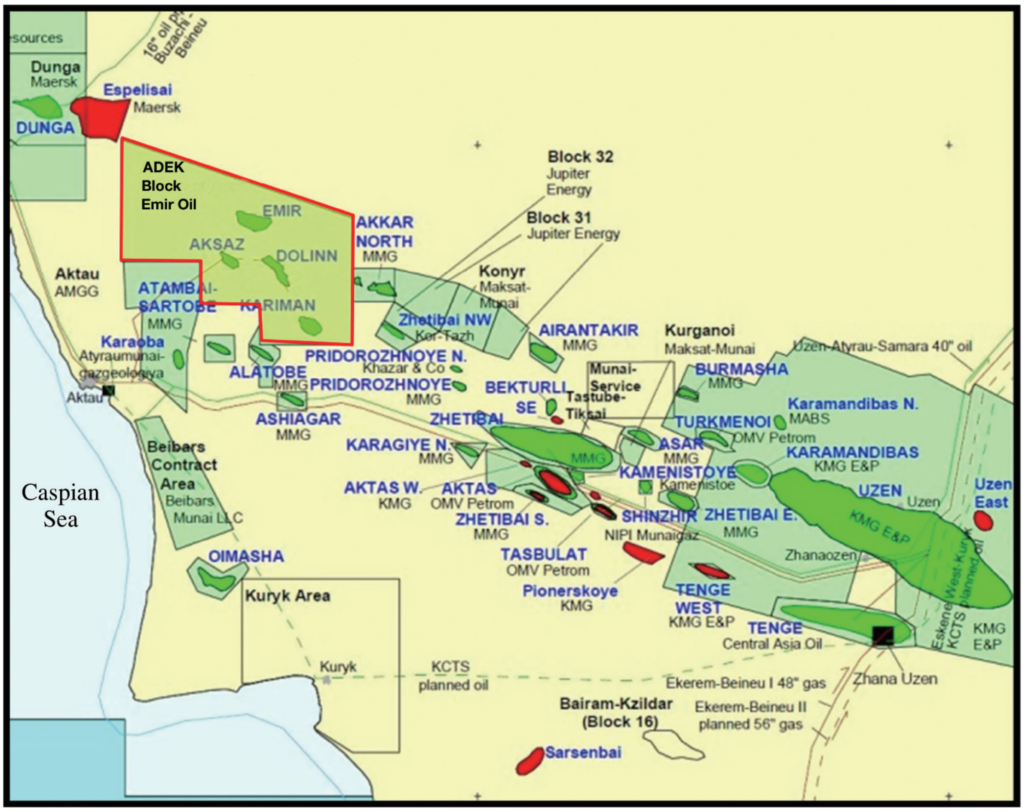
The Emir-Oil Exploration Contract allows Emir-Oil to conduct the exploration of hydrocarbons. The Emir-Oil Exploration Contract covers the 850 square kilometer area other than the areas covered by the Aksaz, Dolinnoe and Kariman production contracts and includes the Emir oilfield and the unexplored North Kariman, Borly and Yessen structures. The whole area covered by the Emir-Oil Exploration Contract is contiguous and has been covered by 3D seismic studies. Emir-Oil became the contractor under the Emir-Oil Exploration Contract in 2002 under an agreement of transfer of the subsoil use right. Since then, Emir-Oil has successfully negotiated several amendments to the Emir-Oil Exploration Contract that have extended its term to January 9, 2015. Under the extension work program pursuant to the Emir-Oil Exploration Contract, Emir-Oil's main commitment is 50 square kilometers of new 3D seismic survey and a minimum of one exploration well.

Under the terms of the Emir-Oil Exploration Contract, Emir-Oil has the right to sell all oil and natural gas produced in the contract area during the term of the Emir-Oil Exploration Contract and the exclusive right to apply for and negotiate a production contract with the MOG if its commercial discoveries are approved and put on balance with the State Reserves Committee of Kazakhstan. In respect of the Emir oilfield, the Company has submitted the application for the production contract, which is pending approval by the MOG. In 2012, a successful exploration well was drilled in each of North Kariman, Borly and Yessen.

The following map shows the area covered by the Emir-Oil Production Contracts covering the Aksaz, Dolinnoe and Kariman oilfields and the rest of the 850 square kilometer area covered by the Emir-Oil Exploration Contract.



The following is a map showing Emir-Oil's contract area and other oilfields in the Mangistau oblast in Kazakhstan:



Emir-Oil's production increased substantially as gains from drilling new wells and work-over of existing wells were realized. During the fourth quarter of 2012, Emir-Oil's production continued to increase. Average daily production of oil for the fourth quarter of 2012 was 3,576 barrels of oil per day. Together with the average daily production of oil of 3,334 barrels of oil per day in the third quarter of 2012, Emir-Oil's average daily production of oil was approximately 3,455 barrels of oil per day for the second half of 2012, an increase of 1,343 barrels of oil per day or 63.6% from the first half of 2012.

Emir-Oil's average realized oil price was US$82.39 per barrel for the fourth quarter of 2012. Together with the third quarter 2012 average realized oil price of US$87.96 per barrel, the average realized oil price for the second half of 2012 was US$85.12 per barrel.

Average export oil price for the fourth quarter of 2012 was US$87.49 per barrel (after deducting an average of US$20.17 per barrel transportation-related expenses paid for the exporting oil). Average export oil price for the second half of 2012 was US$90.83 per barrel (after deducting an average of US$19.76 per barrel for transportation-related expenses paid for the exporting oil), an increase of US$1.19 per barrel over the first half of 2012.

Average domestic oil price for the fourth quarter of 2012 was US$49.68 per barrel. Average domestic oil price for the second half of 2012 was US$49.94 per barrel, a decrease of US$3.93 per barrel over the first half of 2012.

Recent Acquisitions

In addition to operating in Northeast China and Kazakhstan, we have, through recent acquisitions: (i) secured the Dagang oilfield production sharing contract, through the acquisition of PCR in December 2012; (ii) diversified into the exploration and development of unconventional gas in China on the eastern flank of the

Ordos Basin, through an acquisition of 51% interest in Sino Gas in July 2012; and (iii) expanded our asset portfolio overseas and entered into the emerging shale oil market in the U.S. through our acquisition of an operating working interest in the Niobrara Asset through a 80% capital interest in Condor in November 2011 and our acquisition of a non-operating working interest in several Eagle Ford Shale leases through a 50% capital interest in White Hawk in May 2012.

PCR

In November 2012, we entered into an agreement with Sunwing Energy Limited ("Sunwing"), an independent third party, to acquire all of the issued and outstanding shares in PCR, a corporation formed under the laws of British Virgin Islands for a total purchase price of US$45,000,000 (subject to adjustment). We completed this PCR Acquisition on December 14, 2012 and the final adjusted acquisition price was US$39,600,000 (of which US$4,000,000 has been withheld for 180 days from closing).

The principal business activity of PCR is oil and gas development and production operations in China. Pursuant to a production sharing contract with PetroChina, PCR holds 100% participating interest in the foreign contractor's entitlement and obligations. The production sharing contract, originally signed in 1997 with a maximum term of 30 years, has been in the commercial production phase since 2009, currently covering an area of 31.29 square kilometers named Kongnan block within Dagang oilfield in Hebei province. PCR can conduct oil development and production operations in the contracted area and share in the production of crude oil with PetroChina after the successful development of oil reserves. Depending on whether the foreign contractor has fully recovered its development costs, the revenue and operating costs may be allocated to the foreign contractor in the range of 49% to 82%.

PCR's terms for cost recovery oil and profit sharing oil are very similar to those of the Daan, Moliqing and Miao 3 production sharing contracts.

Benefits of the PCR Acquisition

We believe that the PCR Acquisition will allow us to leverage our position in the PRC to better develop and more efficiently produce under another production sharing contract with PetroChina.

We believe the production sharing contract held by PCR is a low risk asset which is already in the cost recovery/profit share mode and generating cash flow, with which any new investment can be quickly recovered with low risk. Through the PCR Acquisition, we will be able to obtain cash flow directly from a producing asset. We expect to realize synergies since we will be able to use our high caliber management and technical teams which manage the Group's oil and gas production sharing contracts in the PRC to manage PCR's production sharing contract. We believe that it can provide more efficient reservoir management to mitigate production declines and improve recoveries. With our international management team, advanced technology and local expertise, we expect to increase oil production and lower operation expenses on unit barrel basis.

For the nine months ended September 30, 2012, PCR produced 243,999 barrels of oil on an average of 888 barrels per day.

Northwest China

Sino Gas Acquisition

In June 2012, we entered into an agreement with SGE Holdings, an independent third party, to acquire 51% of the issued share capital of Sino Gas, an entity organized under the laws of Australia, for an aggregate consideration of US$100 million.

The principal business activity of Sino Gas is the exploration of unconventional gas assets in China pursuant to two production sharing contracts, namely Linxing PSC and Sanjiaobei PSC, both of which are located on the eastern flank of the Ordos Basin. The contracted area is approximately 1,874 square kilometers for Linxing PSC and 1,124 square kilometers for Sanjiaobei PSC. The Sino Gas Acquisition will pave the way for our participation in the rapidly expanding exploration and development of Chinese unconventional gas resources.

We paid US$10 million to SGE Holdings at closing in July 2012. Upon closing, Sino Gas became our jointly controlled entity. The remaining US$90 million will be used to fund exploration and delineation, drilling of wells, preparation of Chinese reserve reports, and application for the overall development plans. We expect the Chinese reserve reports for the Linxing PSC and Sanjiaobei PSC to be prepared in 2013 and the application process for the approval of the overall development plans will commence in 2013.

Linxing and Sanjiaobei Production Sharing Contracts

Pursuant to the Sanjiaobei PSC entered into with PetroChina CBM, Sino Gas has a 100% interest in the production sharing contract during the exploration period. PetroChina has the right to participate in the project at the point of reaching commercial development by paying its share of development and production costs. During the development and production period, the interests in the Sanjiaobei PSC of Sino Gas and PetroChina CBM are 49% and 51% respectively. The Sanjiaobei PSC will expire in 2033 and the exploration period has been extended to August 2015.

Pursuant to the Linxing PSC entered into with CUCBM, which is currently 50%-owned by CNOOC, Sino Gas has a 100% interest in the production sharing contract during the exploration period. CUCBM has the right to participate in the project at the point of reaching commercial development by paying its share of development and production costs. During the development and production period, the interests in the Linxing PSC of Sino Gas, CUCBM and CBM Energy Associates (being an early participant) are 64.75%, 30% and 5.25% respectively. The Linxing PSC will expire in 2028 and the exploration period has been extended to August 2013.

Under the Linxing and Sanjiaobei PSCs, exploration costs are funded by Sino Gas and are recoverable from future revenues in production. Once in the commercial development stage, each party recovers its share of joint operating expenses before the contractor, being Sino Gas, recovers its sunk exploration costs, and the remainder is shared between the parties in proportion to their relevant interest. Currently, Sino Gas is the sole operator under the Linxing and Sanjiaobei PSCs.

Sino Gas's PSC gas assets are located in the resource-rich Ordos basin and cover approximately 3,000 square kilometers with existing gas discovery and significant exploration upside. The assets are close to Changqing oilfield, China's second largest onshore oil and gas field, which is producing around 347,000 barrels of oil and two billion cubic feet of gas per day. Nearby fields are:

- Changbei gas field operated by Shell under a production sharing contract between PetroChina and Shell, currently producing 300 million standard cubic feet per day;

- Sulige gas field under a production sharing contract between PetroChina and Total E&P Chine; and

- Sinopec's Tabamiao project.

It is an area where we believe there is great potential for significant commercial gas production. The map in Table 1 shows the contract area under the Sanjiaobei and Linxing PSCs relative to neighboring oil and gas fields.

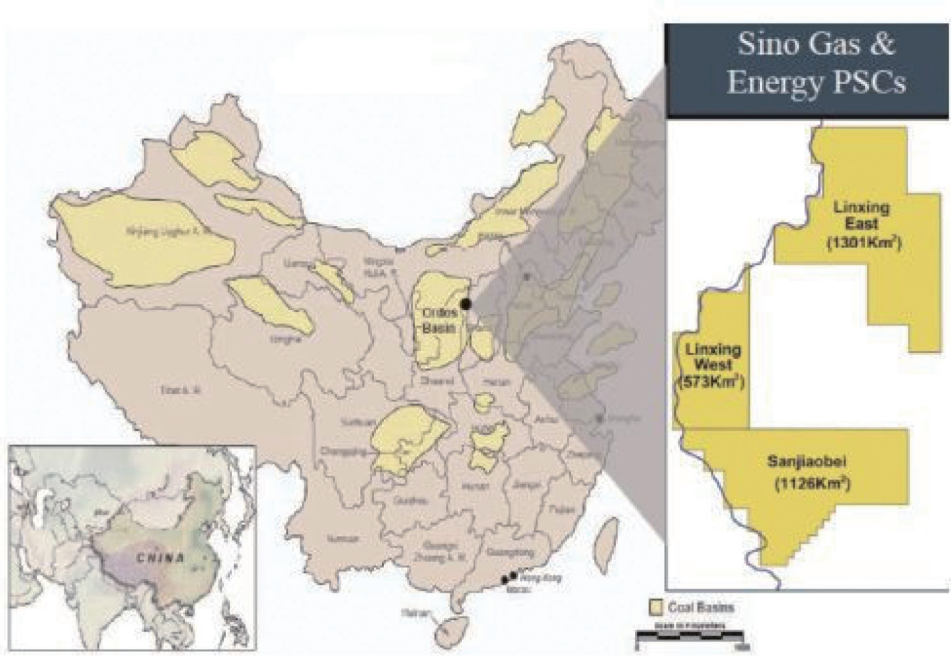


Table 1 Location of Linxing and Sanjiaobei Blocks

In the past, marketing gas in China has often been difficult. However, Sanjiaobei and Linxing blocks are located in a gas pipeline hub in central China with three existing major natural gas trunk lines transporting gas from west to east. We believe that the natural gas wellhead price in the Changqing field is attractive when compared to many other areas in the world.

Table 2 sets out a map showing the neighboring gas fields and pipelines.

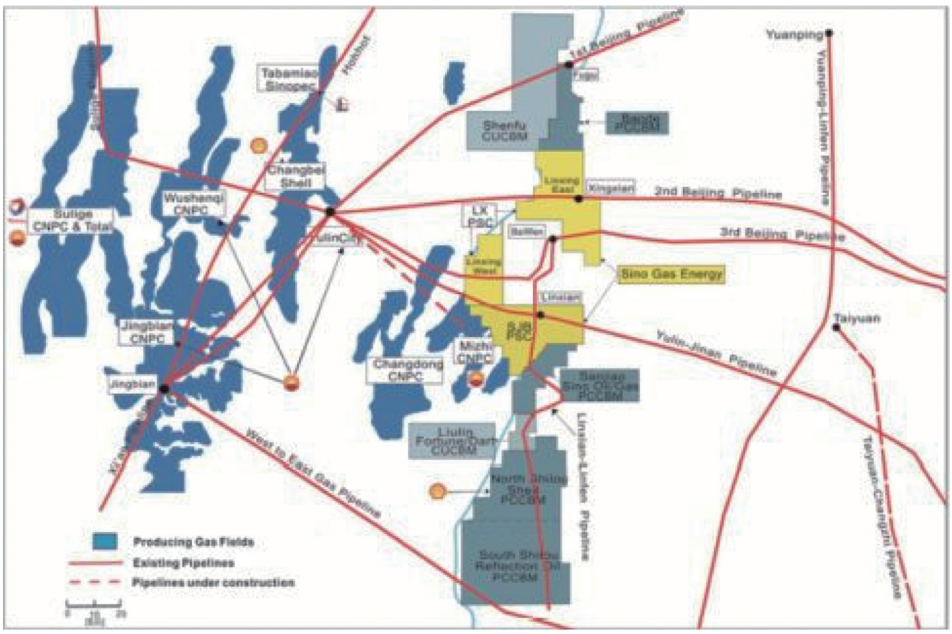


Table 2 Gas fields and Pipelines around Linxing and Sanjiaobei Blocks

Prior to our acquisition of Sino Gas, Sino Gas drilled 13 wells, all discovering gas, with an average well depth of around 2,100 meters. The well TB-07 drilled by Sino Gas in 2010 flowed during test at 1.86 mmscf per day (equivalent to 300 BOE per day) before fracturing, marking a successful milestone for the project. It plans to move these production sharing contracts toward commercial development by first obtaining the Chinese reserve reports and then approval of the overall development plans. Over the life of these production sharing contracts, approximately US$63.7 million has been expended building up a substantial resource base.

All the wells drilled by Sino Gas are vertical wells, although there exists the potential to improve production performance through use of horizontal and multi-zone completion techniques.

We continue to drill wells after the acquisition. During the fourth quarter of 2012, eight wells were drilled on the Sanjiaobei and Linxing production sharing contracts.

Benefits of the Sino Gas Acquisition

Gas supply in China is serviced by domestic production and supplemented by increasingly substantial imports of liquefied natural gas ("LNG") from Australia, Indonesia, Qatar and pipeline gas from Central Asia. In an effort to reduce its reliance on coal, oil and imported LNG, the Chinese government plans to invest heavily in unconventional natural gas within the domestic market.

To date, a total of US$63.7 million has been spent on the Linxing PSC and Sanjiaobei PSC. Sino Gas has drilled thirteen wells, all discovering gas. Extensive well testing has been done with significant commercial gas flows obtained. Hence, We believe there is a reasonably clear path to commercial production. We are entering these projects at the point of converting the resources into reserves and preparing Chinese reserve reports to apply for overall development plans which will lead to commercial production.

We believe that the Sino Gas Acquisition represents an attractive opportunity for us to gain access to the developing Chinese gas market at an attractive entry point capitalizing on the combination of a large scale project, strong management team and growing market with robust gas price. In 2012, we commenced horizontal well drilling and multi-zone fracturing in North America and China. The horizontal, multi-zone fracture technology developed by our Group in China and North America has significant potential to be applied in this project to enhance well rate and gas recovery. Our Group's China development and operations experience plus the horizontal drilling and completion experience gained through its U.S. and China projects provide additional leverage for the success of the Sino Gas Acquisition.

United States

We believe that the Niobrara Acquisition and the White Hawk Acquisition will expand our asset portfolio overseas, provide us with an entry into the shale oil play in the United States and grant us access to and experience in using the technologies and techniques used in developing shale oil and gas, and in particular, horizontal drilling.

Niobrara Acquisition

In November 2011, we entered the shale oil and gas industry in the U.S. by acquiring a 25% working interest in 7,923 net acres of oil and gas leases in the Niobrara formation within the DJ basin located at Weld County, Colorado, United States.

The acquisition was carried out through a strategic partnership with PEDCO, a privately held oil and gas company based in California, United States. Under the partnership, PEDCO acquired a 50% working interest in the Niobrara Asset and assigned 31.25% at nil consideration to a joint venture formed with us, Condor, which our Group and PEDCO own 80% and 20% respectively. In the first half of 2012, the owner of the remaining 50% interest in the Niobrara asset withdrew, increasing Condor's interest to 61.25%.

In connection therewith, we subscribed 4,000,000 shares of restricted Series A convertible preferred stock in PEDCO on October 31, 2011 for an aggregate consideration of US$3,000,000, representing approximately 17.8% of the issued share capital of PEDCO.

Condor will serve as the operator of the Niobrara Asset with a drilling program led by Houston-based South Texas Reservoir Alliance ("STXRA"). STXRA is managed by a team of professionals who possess experience in operations, drilling, petrophysics and energy finance. In 2010, this team was involved in drilling and completing over 30 horizontal wells with multi-stage hydraulic fracture completions in Texas (Eagle Ford shale oil trend) and Oklahoma. We will be able to work side by side with STXRA on the acreage.

Benefits of the Niobrara Acquisition

The 50% effective working interest (80% of Condor's 61.25%) in the Niobrara Asset and Company's alliance with a U.S. strategic partner will help to expand our asset portfolio overseas and pave the way for our entry into the emerging shale oil market in the United States. The Niobrara Acquisition is also expected to provide us with access the technologies used in developing shale oil and gas including those for horizontal drilling and completions. At present, we have some experience and expertise in hydraulic fracturing of low permeability reservoirs in China.

Horizontal drilling technology is a key technology to exploit shale gas which is an energy resource seen as having great potential in China. As reported by the U.S. Energy Information Administration, China has an estimated 1,275 trillion cubic feet of technically recoverable shale gas reserves, being the largest out of all countries with technically recoverable shale gas reserves. The resource is largely untapped and Chinese central government is taking initiatives to increase its shale oil and gas production capacity.

The Niobrara Acquisition is in line with our growth strategy and we believe that the Niobrara Acquisition will pave the way for us to enter into the U.S. market and to gain the key technology for exploring and developing shale oil and gas fields that is needed in the Chinese market, including on the light, tight oil reservoirs on our current production sharing contract within Northeast China.

White Hawk Acquisition

In May 2012, we acquired 50% capital interest in White Hawk from PEDCO for US$2 million through our wholly owned subsidiary MIE Jurassic Energy Corporation.

White Hawk is a newly formed Nevada LLC whose assets consist of a minority, non-operated interest in the Leighton — Mandurah Prospect Deep Contract Area in the Eagle Ford Shale oil trend, McMullen County, Texas. White Hawk has a 7.94% working interest covering 106 net acres and including three existing producing wells. Undeveloped acreage has room for 24 additional wells based on eighty-acre spacing.

Benefits of the White Hawk Acquisition

The White Hawk Acquisition will improve our operating and technical expertise in regard to horizontal drilling and completions by participation in another of the United States' most active shale oil plays.

Our Operating Success

Our operating success and effective application of know-how are evidenced by our strong track record and high success rates.

From January 1, 2001 to December 31, 2012, we drilled 2,478 gross development wells in our oilfields in China.

As of December 31, 2010, 2011 and 2012, we operated 1,641, 2,095 and 2,611 gross productive wells, respectively. The 2,611 gross productive wells as of December 31, 2012 comprise 2,580 wells in China (including 2,533 wells in our Northeast China oilfields and 47 wells in Dagang), 30 wells in Kazakhstan and one well in the United States. We believe our oilfields have strong growth potential, and we are continually expanding our operations by drilling more wells in the oilfields we operate, which we believe will substantially increase our net production of crude oil over the next several years.

Our ability to discover new reserves and to develop new and existing reservoirs expanded significantly with our technical, operational and economic successes in exploration and in horizontal drilling and completion. The Sino Gas Acquisition provides entry into China's unconventional gas exploration and development, where we believe our technical expertise and practical working experience in China can lead to future success and significant growth. New techniques combined with historical methods are expected to allow continued development of the base oil assets in Northeast China (Daan, Moliqing and Miao 3). Production increased in the second half of 2012 on our Kazakhstan properties, and we have identified more locations to drill to optimize development on our USA Niobrara Assets.

The table below sets forth our key operating data for 2009, 2010, 2011, and the six-month period ended June 30, 2011 and 2012:

	Year ended December 31,			Six-month period ended June 30,	
	2009	2010	2011	2011	2012
			(Note 1)		
Sales volume					
Crude oil (millions of barrels)	2.92	3.42	4.03	1.82	2.42
China oilfields	2.92	3.42	3.84	1.82	2.04
Kazakhstan oilfields	—	—	0.19	—	0.38
Export sales	—	—	0.17	—	0.36
Domestic sales	—	—	0.02	—	0.02
Gas (MMscf)	—	—	439.67	—	795.42
Kazakhstan oilfields	—	—	439.67	—	795.42
Net production volume					
Crude oil (millions of barrels)	2.79	3.41	4.06	1.82	2.43
China oilfields	2.79	3.41	3.87	1.82	2.05
Kazakhstan oilfields	—	—	0.19	—	0.38
Gas (MMscf)	—	—	446.93	—	841.58
Kazakhstan oilfields	—	—	446.93	—	841.58
Average daily net					
Crude oil production					
Crude oil (barrels)	7,637	9,349	12,705	10,028	13,369
China oilfields	7,637	9,349	10,601	10,028	11,257
Kazakhstan oilfields	—	—	2,104	—	2,112
Gas (MMscf)	—	—	4.9	—	4.6
Kazakhstan oilfields	—	—	4.9	—	4.6
Average realized price					
Crude oil (US$ per barrel of crude oil)	58.58	77.99	108.80	107.63	114.61
China oilfields	58.58	77.99	109.99	107.63	119.61
Kazakhstan oilfields	—	—	84.38	—	87.81
Export sales	—	—	90.01	—	89.64
Domestic sales	—	—	31.02	—	53.87
Gas (US$ per Mscf)	—	—	1.15	—	1.15
Kazakhstan oilfields	—	—	1.15	—	1.15
Lifting costs (US$ per barrel of crude oil) *(Note 2)*	6.08	6.06	7.29	7.83	8.24
China oilfields	6.08	6.06	7.16	7.83	8.03
Kazakhstan oilfields	—	—	9.70	—	9.38

Notes:

(1) The data of 2011 refers to the whole year of 2011 for China oilfields and the three months ended December 31, 2011 for Kazakhstan oilfields.

(2) Lifting cost includes directly controllable costs to produce a barrel of oil. Other production costs such as safety fees, environment expenses, technical & research expenses and overhead have not been included above since they are not directly attributable to the production of a barrel of oil.

	Year ended December 31			Six-month period ended June 30	
	2009	**2010**	**2011**	**2011**	**2012**
Wells drilled during the year (Gross)	189	200	467	263	254
China oil fields	189	200	466	263	248
Successful	188	200	466	262	248
Dry	1	—	1	1	—
Kazakhstan oilfields	—	—	—	—	4
Successful	—	—	—	—	4
Dry	—	—	—	—	—
U.S. oilfields	—	—	—	—	2
Successful	—	—	—	—	2
Dry	—	—	—	—	—

Northeast China Operations

During 2011 and 2012, we drilled 467 wells and 431 wells, respectively, in the Daan, Moliqing and Miao 3 oilfields. 2011 was a record year in terms of number of wells drilled in any one year since we became the operator of Daan, Moliqing and Miao 3 oilfields in May 2001, which also includes 118 infill wells. As of December 31, 2011, we had identified 2,432 potential locations in Daan, Moliqing and Miao 3 oilfields for future drilling and we had attributed net undeveloped proved, probable and possible reserves of 12.4 million barrels, 9.6 million barrels and 5.8 million barrels, respectively, to these locations.

During the fourth quarter of 2012, we drilled 62 gross wells in our northeast China Oilfields.

During the fourth quarter of 2012, our daily net production from the Daan, Moliqing and Miao 3 oilfields was 11,243 barrels of oil per day.

Northwest China Operations

During the fourth quarter of 2012, Sino Gas drilled eight wells in the areas covered by the Sanjiaobei and Linxing production sharing contracts. Together with the four wells drilled in the third quarter of 2012, a total of three and nine wells have been drilled on Sanjiaobei and Linxing, respectively.

Kazakhstan Operations

During the fourth quarter of 2012, Emir-Oil's production increased as a result of drilling work-over of existing wells. As at December 31, 2012, the total well counts were 30 wells comprising three exploration wells and 27 production wells in ADEK block of which 20 were in production and 7 were waiting on repairs, work-overs or completion after finishing drilling.

In 2012, three exploration wells were drilled, one on each of North Kariman, Borly and Yessen. All three exploration wells discovered pay zones with good production potential according to mud and wire line log data, of which two are now being tested while one is waiting for testing. During the fourth quarter of 2012, average daily production of oil was 3,576 barrels of oil per day. Together with the average daily production of oil of 3,334 barrels of oil per day for the third quarter of 2012, Emir-Oil's average daily production of oil was approximately 3,455 barrels of oil per day for the second half of 2012, an increase of 1,343 barrels of oil per day or 63.6% from over the first half of 2012.

U.S. Operations

Condor drilled two horizontal Niobrara wells in the fourth quarter of 2012. The Waves 1H well was drilled to a total depth of 11,114 feet, with a lateral length of 4,340 feet. The Logan 2H well was drilled to a total depth of 12,911 feet, with a lateral length of 6,342 feet. Both wells are being frac'd and completed during the first quarter of 2013.

Condor operated one horizontal well, being Ford Family Trust 2H, drilled in the second quarter of 2012. The well's net production averaged 27 barrels of oil per day (65 gross barrels of oil per day) during the fourth quarter of 2012.

White Hawk's non-operating interest in three producing wells in the fourth quarter of 2012 resulted in average net production of 11 barrels of oil per day (350 gross barrels of oil per day) and 20 Mscf/day (621 gross Mscf/day). Average realized prices in the fourth quarter of 2012 were US$100.18 per barrel and US$7.22 per Mscf.

Customers

Our Relationship with PetroChina

We have a long standing relationship and a history of close cooperation with PetroChina, with which we currently have five production sharing contracts. PetroChina, the largest of the three state-owned oil companies in the PRC, has the highest number of production sharing contracts covering onshore oilfields. We have worked closely with PetroChina since 2001, when we took over the operations of the Daan, Moliqing and Miao 3 oilfields in China. In 2009, 2010, 2011 and the first half of 2012, PetroChina was our sole customer in China and accounted for all of our revenue from the sale of oil in China. Our cooperation has deepened as the Daan, Moliqing and Miao 3 oilfields entered commercial production phases. We believe that our strong relationship with PetroChina is one of the key factors that will contribute to our future growth.

We have further developed our relationship with PetroChina in recent years. In particular:

- PCR has a production sharing contract with PetroChina which covers an area located within Dagang oil field in Hebei Province, China.

- Sino Gas has a production sharing contract with PetroChina CBM, which covers an area located on the eastern flank of the Ordos Basin, close to the Changqing oil field in China.

- PetroChina Kazakhstan is an important customer for us in Kazakhstan.

We believe we are well positioned to further develop our working relationship with PetroChina in current and future projects.

PetroChina is independent of and not connected with us or any of our subsidiaries, Directors, senior management or substantial shareholders. PetroChina also does not have any common shareholder or management to that of our company. Our production sharing contracts with PetroChina were negotiated on an arm's length basis between the parties, reflected normal commercial terms and have been approved by MOFCOM as required under PRC law. As set out in the sales contract, the price which we sell our portion of crude oil produced under the production sharing contracts is determined at market price each month in accordance with the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, which closely follows the price of West Texas Intermediate crude oil, an international crude oil price benchmark.

Our Board of Directors currently consists of four executive Directors and four non-executive Directors, each of whom is independent of PetroChina. Each Director is aware of his fiduciary duties as a Director which requires, among other things, that he acts for our benefit and in our best interests.

We operate independently of PetroChina and also have independent access to third party suppliers. Our management and operational decisions are made by our Directors and senior management, who are independent of PetroChina and have substantial experience in the oil and gas industry. We have the capability and personnel to perform our essential administrative functions including financial and accounting management. In addition, we maintain an independent financial management system and make financial decisions according to our business needs. In the past, we obtained financing from external sources to finance the development of the Daan, Moliqing and Miao 3 oilfields without reliance on PetroChina. Other than trade and other receivables incurred in the normal course of business, there is no amount due to or from PetroChina. As the sole oilfield operator under each of the production sharing contracts, we are solely responsible for carrying out daily operations of the oilfields.

Under our Daan, Moliqing and Miao 3 production sharing contracts with PetroChina, PetroChina has the right to take over the operational rights of the oilfields from us when all the development costs, including all costs incurred in both the pilot test and development phases, have been recovered by us in full and no additional overall development plan under which additional development costs will be incurred by us has been approved. We have recovered all of our past development costs in the Daan, Moliqing and Miao 3 oilfields, but continue to make additional investment under approved overall development plans and joint management committee approved budgets. Therefore, we do not believe PetroChina has the right to take over any of our oilfields.

If PetroChina exercises its right to take over the operational rights of the oilfields from the foreign contractors, PetroChina shall give written notice to the foreign contractors. The foreign contractors shall have 60 days to prepare a transfer plan, and the joint management committee shall have 30 days thereafter to review and approve the plan. PetroChina shall have 60 days after the joint management committee's approval to submit its list of personnel taking over the operations to the foreign contractors. The foreign contractors shall have 330 days from the original notice from PetroChina to complete its report on the completion of preparations for the transfer, and the joint management committee shall have 30 days to approve the report before formally commencing the transfer. If this were to occur, we would continue to operate the oilfields until PetroChina completely assumes control and takes over production operations, and we would continue to enjoy our right to the allocated portion of the oil produced until 2024 for the Daan oilfield and until 2028 for the Miao 3 and Moliqing oilfields (each being when the respective production sharing contracts expire). Further, we would focus our efforts on entering into new production sharing contracts, both with PetroChina and with other third parties, and on expanding into emerging markets outside of China.

Our Relationship with Titan Oil

Emir-Oil exports nearly all of its test production for sale. During the three months ended December 31, 2011 and the six months ended June 30, 2012, Emir-Oil sold approximately 87.8% and 93.9%, respectively, of its crude oil production to Titan Oil (formerly Euro-Asian Oil AG), one of the largest trading companies in Mangistau region (Western Kazakhstan). During these periods, revenue from oil sold to Titan Oil made up 93.5% and 93.0%, respectively, of its total revenue.

Based on current demand for crude oil and the fact that alternate purchasers are readily available, we believe, however, that a loss of Titan Oil would not materially adversely affect Emir-Oil's operations in the long-term.

Suppliers

China

We outsource a variety of oil operations work to third parties, including oil rig supply, well drilling services, fracturing and perforating services, well maintenance services, well logging services, oil tanker transportation services and reservoir studies. We typically procure independent third party service providers through invitations or a bidding process. We usually use an open bidding process for drilling, well logging, well repair services and other projects that exceed RMB500,000 in expected expenditures. We consider cost, work quality, track record and proposed delivery schedule in our selection process and seek to balance our cost considerations and desire for work quality. We also conduct detailed due diligence on the service providers such as reviewing their qualifications and track record. The joint management committee also has the right to approve our independent third party service providers.

For well-drilling services and fracturing and perforating services, we usually enter into a one-year minimum work commitment. These contracts cover both the supply of the drilling materials and the drilling work. A service provider's fees are usually paid in instalments according to the progress of the work it is engaged to perform. Consistent with market practice, we also make prepayments to certain service providers prior to the provision of services. We closely manage services provided by contractors and exercise extensive control over their performance, including their costs, schedule and quality of service. Our technicians are responsible for supervising the day-to-day drilling work to ensure compliance with relevant rules and regulations, and have regular meetings with the service providers and for conducting on-site inspection. These agreements also stipulate the liabilities of each party under various scenarios of breach of contract or non-performance, and providers are typically responsible for accidents arising from their performance of services resulting from their own fault. For losses resulting from force majeure, parties would bear their own respective losses.

We purchase equipment and drilling materials from third party suppliers. We award contracts for equipment and materials that exceed RMB1 million in expected expenditures to the winning bidder in a formal competitive bidding process. We also select vendors through invitations. Our procurement department makes assessments of equipment and materials based on price, quality, track record and delivery time to ensure the selection of the most appropriate vendor. We conduct due diligence on our vendors and manage the contract performance of our vendors with the same amount of scrutiny we use for our service providers. Consistent with market practice, we make prepayments to certain vendors prior to the delivery of equipment or materials. Under the supply agreements, we usually pay suppliers in instalments. Suppliers also agree to a product warranty period, during which they agree resolve any product quality problems free of charge, or will indemnify us for costs incurred as a result of any quality defects. The agreements also stipulate penalties for late delivery and non-delivery by suppliers and provide indemnities to us for losses incurred as a result of any third party claims against us arising from the equipment delivered.

Our suppliers of lifting cost-related materials and services are generally domestic companies located in the region. Purchase expenses from our five largest suppliers accounted for approximately 47.1%, 59.7%, 52.7% and 50.8%, of our total purchases for 2009, 2010, 2011 and the first half of 2012, respectively. Purchases from our largest supplier accounted for approximately 13.9%, 15.6%, 23.3% and 24.7%, respectively, of our total purchases for the same periods. We usually do not enter into long-term supply contracts with our suppliers or hedge against the price volatility of materials.

During 2009, 2010, 2011 and the first half of 2012, purchases from Jilin Guotai Petroleum Development Company, or Jilin Guotai, accounted for approximately 13.9%, 15.1%, 23.3% and 24.7% of total purchases, respectively. Jilin Guotai is a related party held 70% by Ms. Zhao Jiangbo, the wife of Mr. Zhang, our executive Director, chairman and chief executive officer, and 30% by Mr. Zhao, our executive Director, vice chairman and senior vice president. See "Related Party Transactions" for more information. Jilin Guotai provides to us various oilfield services, including well maintenance services, well logging services, oil tanker transportation services, oilfield construction related works and other oil operations related services. PetroChina, our sole customer, is our fourth-largest supplier, and purchases from PetroChina accounted for approximately 5.8%, 7.5%, 5.9% and 7.3% of our total purchases during 2009, 2010, 2011 and the first half of 2012, respectively. PetroChina supplies to us pipeline transportation and processes our sales transactions with them. Except for Jilin Guotai, none of our shareholders, Directors and their associates who hold more than 5% of our issued capital have any interest in our top five suppliers.

We have experienced cases in the past where third party suppliers to which we had already made prepayments failed to deliver equipment or provide services. We no longer use these third party suppliers. Since those occurrences, we have improved our credit risk management in an effort to reduce our exposure to our suppliers' credit risks by regularly reviewing the credit profiles of our suppliers. We manage credit risk by designating preferred suppliers based on past experience, identifying and assessing risks faced by our suppliers and monitoring the performance of our suppliers during the period of their engagement. Our credit risk management practices provide us with a better understanding of our suppliers and the markets in which they operate, and allow us to react quickly to volatile markets and our suppliers' changing credit profiles.

Kazakhstan

We outsource a variety of work to third parties in Kazakhstan, including drilling services, acid fracturing and perforating services.

Inventory Control

Our inventory consists of crude oil in our oil tanks and materials and supplies for drilling and extraction of crude oil, which we store in our own warehouses. Due to the nature of our oil production business, we do not stock up crude oil or materials and supplies for long periods. Our management monitors our oil inventory daily. For materials and supplies, we only stock up materials and supplies for our own production purposes. We conduct periodic stock-taking for accounting reporting and ad hoc stock-takes, and our management reviews inventory reports frequently and reviews the age of inventory at least monthly or as they may consider necessary, and uses computerized processes to track inventory movements and perform aging analysis.

Transportation

China

We use a combination of pipelines and third-party trucking services to transport oil from our wells to central collection stations located in the Daan and Moliqing oilfields and from the central collection stations to PetroChina, our sole customer. The oil extracted from the both the Daan and Miao 3 oilfields is sent directly by pipeline or truck to the central collection station located in the Daan oilfield and then transported by pipeline from the central collection station to PetroChina. Oil extracted from the Moliqing oilfield is first transported by pipeline to the Moliqing central collection station, and then transported by truck to PetroChina. We use third-parties to help with all trucking transportation.

Kazakhstan

Emir-Oil's crude oil exports are transported by rail from Emir-Oil's oilfields to the city of Aktau, and loaded onto ships via the Aktau sea port for delivery across the Caspian Sea. Pursuant to Emir-Oil's agreement with Titan Oil, delivery is FCA (Incoterms 2000) at the railway station in Mangishlak. Titan Oil is responsible for the transportation after the crude oil is loaded onto rail at the Emir-Oil oilfield and charges Emir-Oil for all the transportation related expenses.

Sales and Marketing

China

In 2009, 2010, 2011 and 2012, PetroChina was our sole customer in China and accounted for all of our revenue from the sale of oil in China. Under the sales contract, we and the other foreign contractor agreed to sell, and PetroChina agreed to buy, the foreign contractors' share of the crude oil produced from the oilfields during the lifespan of the production sharing contracts. See "— Northeast China — Daan, Moliqing and Miao 3 Production Sharing Contracts — Abandonment of Production or Termination of Production Sharing Contract" for more discussion on the termination of the production sharing contract.

Kazakhstan

A variety of factors affect the market for oil and natural gas, including the extent of domestic production and imports, the availability, proximity and capacity of pipelines and other transportation facilities, demand, the marketing of competitive fuels and the effects of state and government regulations on oil and natural gas production and sales.

Emir-Oil exports nearly all of its oil production. All export sales are sold to Titan Oil. Our revenues from the sale of oil and gas in Kazakhstan of approximately RMB96.8 million in 2011 and RMB201.1 million in the first half of 2012 are derived from Titan Oil, one of the largest trading companies in Mangistau region of Western Kazakhstan. The price we receive for crude oil delivered by us to Emir-Oil's export customer, Titan Oil, is based on the oil price realized by Titan Oil on the sale of the oil to its final customer. Titan Oil determines the actual sale date but the date cannot be more than 75 days after the transfer of the Company's oil to Titan Oil. Such price is then reduced by a total fee for transportation related expenses and commissions charged by Titan Oil. Based on current demand for crude oil and the fact that alternate purchasers are readily available, we believe, however, that such a loss of Titan Oil would not materially adversely affect Emir-Oil's operations in the long-term.

Properties

As of June 30, 2012, some parcels have been approved by relevant PRC governmental authorities for our temporary use pursuant to the production sharing contracts for the Daan, Moliqing and Miao 3 oilfields. This includes certain parcels of land that have been used temporarily by us for the installation of oil pipes and will be returned to the former owner after the term of temporary use expires, and certain permanent use parcels allocated to PetroChina and used by us for production and injection facilities, dormitories and collection stations. These permanent use parcels are used for development facilities, central collection stations, offices, ancillary facilities and dormitories for our workers.

Land parcels used for oil development and production facilities, ancillary facilities, offices and dormitories in China are generally granted by allocation. The term of an allocated land parcel is permanent subject to land resumption by the original approval authority. In our case, the State Council and the Ministry of Land and Resources are the competent approval authorities to allocate the land for our development and production use and an application for land use rights allocation is required to be submitted to the State Council and the Ministry of Land and Resources for approval. Since the three production sharing contracts provide that PetroChina is obligated to procure or assist in procuring land to the foreign contractors, normally we will provide all information required for an application to PetroChina and PetroChina will submit the allocation application. The application and approval process for allocation of petroleum operation related land use is a lengthy and ongoing process and generally takes between two to five years to complete.

Based on industry practice in China, oil companies commence operation with a temporary land use right approval and apply for a conversion into permanent land of such land parcels at a later stage. In addition, due to the special nature of the oil and gas industry, the Ministry of Land and Resources has issued several notices requiring oil and gas companies to apply for temporary land use right approvals for areas of proposed drilling and relevant facilities in order to facilitate the oil and gas company to commence its oil operations on a timely basis and then apply for the conversion at a later stage. During 2009, 2010, 2011 and the first half of 2012, there has been no past incident in which we failed to convert temporary land into permanent allocated land.

We and PetroChina have completed certain, but not all, of the necessary procedures required in obtaining the relevant land use rights certificates for these permanent use parcels. Though no land use right certificate in relation to the oilfields has been obtained, we are unaware of any legal impediments to obtaining the land use rights certificates from the relevant authorities. PetroChina holds legal and valid exploitation permits for the exploration, development and production of crude oil on these parcels and we and PetroChina are permitted to cooperate in respect of the exploitation of onshore oil resources at the Daan, Moliqing and Miao 3 oilfields under the relevant production sharing contracts, all of which have been approved by MOFCOM. Furthermore, the development and production activities at the three oilfields are based on the relevant oilfield's overall development plan, which has been duly approved by either the NDRC or the NEB. PetroChina is the applicant for the relevant land use right certificate and controls the process at its own pace. PetroChina has informed the Company that it intends to obtain all land use right certificates for the permanent use parcels by the end of 2011.

The Directors believe that the lack of land use rights certificates will not materially adversely affect our interest and rights in the production sharing contracts which give us sufficient influence in decisions over the exploration for and/or extraction of crude oil in the three oilfields in China. We and PetroChina have obtained the allocation letters for such permanent use lands. Pursuant to the contents of such allocation letters issued by the government authorities, the allocation letters serve as the legal basis for the land user to use the land and apply for the registration of land use right. Hence, we are legally entitled to use such lands.

We own one collection station and one transferring station in the Daan oilfield, one collection station in the Moliqing oilfield, several dormitories to house our employees and numerous production and injection facilities throughout the oilfields. We have constructed some buildings used for offices, dormitories, or other facilities. These buildings were constructed according to the overall development plans approved by the NDRC or the NEB in consultation with other relevant government authorities, including the Ministry of Land and Resources. We also lease several properties as offices and dormitories in the PRC, such as Beijing and Songyuan, Jilin Province, and in Houston, Texas. These leased properties are not critical to our operations, and we believe that if we were required to vacate these leased premises we would be able to relocate to alternative premises without materially affecting our operations.

Competition

China

Through its wholly owned subsidiaries, the Company is the sole operator of the three oilfields at Daan, Moliqing and Miao 3 through contractual arrangements with PetroChina. The Company also operates the gas assets at Sanjiaobei and Linxing through Sino Gas. We do not compete with other operators in our contract areas. However, we encounter competition when we seek to acquire new properties, secure additional production sharing contracts with state-owned oil and gas companies or hire trained personnel. We may face competition from both existing players and new emerging players for the contractual right to cooperate with PetroChina and Sinopec, which are the only entities permitted to cooperate with foreign companies in onshore crude oil and natural gas exploration and production in the PRC, and for the development and production of oil resources in the PRC.

Our competitors include ROC Oil, Central Asia Oil and Bright Oceans. We understand that there are a number of barriers to enter into the independent upstream industry, such as technical capability, financial resources, experience and track record, and relationship with PetroChina and Sinopec.

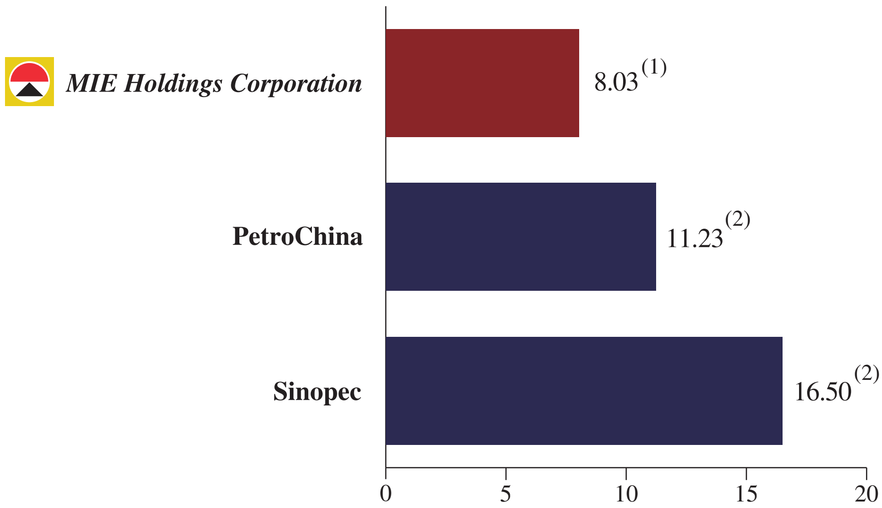
We believe our major competitive advantages include:

- significant experience, expertise and proven track record in developing low-permeability and low-pressure oilfields;
- competitive cost structure and operational efficiency;
- long standing and strong relationship with PetroChina; and
- strong management team with international experience and local knowledge.

We achieve our competitive advantages by applying best available technologies and international best practices. We have historically operated at consistently lower overall lifting costs than PetroChina and Sinopec. We believe competition from specialized oilfield operators in China will continue to be strong in the future.

The following table shows our current lifting costs compared to those of PetroChina and Sinopec:

Current Lifting Cost in China Operation (US$/bbl)



Source: PetroChina and Sinopec 2011 Form 20-F

(1) For the six months ended June 30, 2012
(2) For the year ended 2011; exchange rate for Sinopec: RMB6.2939/U.S. dollar

Furthermore, there has been increasing participation of independent oil companies in the Songliao Basin, particularly in the Jilin complex. MIE, Central Asia Oil and Bright Oceans are among the independent oil companies involved, and have continued to increase the scale of their operations. For example, PetroChina's production from the Songliao Basin remained relatively flat from 2001 to June 2012, while our gross production from the same region increased from 8,057 tons in January 2012 to 494,808 tons in June 2012.

Finally, we intend to acquire oil properties outside the PRC and may face competitors who are able to pay more for productive oil properties and exploratory prospects. Our ability to acquire future prospects will depend on our ability to evaluate and select suitable properties and to consummate transactions in a competitive environment. In addition, the upstream oil industry is capital-intensive and requires specialized industry and market knowledge.

Kazakhstan

Emir-Oil's competition in Kazakhstan and Central Asia includes other small oil and gas exploration companies, mid-size producers and major exploration and production companies. Emir-Oil competes for additional exploration and production properties with these companies, which in many cases have greater financial resources and larger technical staffs.

Emir-Oil believes it has a competitive advantage in Kazakhstan in that its management team is comprised of Kazakh nationals who have developed trusted relationships with many of the relevant departments and ministries in the Kazakhstan government. In addition, given our relationships in China with the state-owned oil companies in China and the drilling and service companies in China which also operate in Kazakhstan, we could use these relationships to bring new customers to Emir-Oil such as the recent domestic sales of crude oil to PetroChina, Kazakhstan, and switching to Chinese drilling and servicing companies to lower production costs as shown in the Group's June 30, 2012 interim results.

Development of Technology and Know-How

We believe our strong commitment to developing our technology and know-how has been one of the factors in our success. The industry in which we operate is characterized by rapid development in oil exploration, development and production techniques. We have focused our efforts in the following major areas:

- efficiently and effectively developing new reserves within contract areas, compiling development databases and building accurate reserve models. We have used new techniques to increase the amount of oil that can be recovered in our contract areas, such as core sampling and two dimensional and three-dimensional seismic studies. During the planning and development of the low permeability reservoirs in these contract areas, we have reviewed, reprocessed and reinterpreted seismic data with the assistance of Chinese and international consultants such as Ultrado Technology Development Inc. and Weinman Geophysical Services Inc.

- increasing production and reserves through conducting geological studies and analysis of drilling pattern and well density. We have conducted geological studies, including analysis and interpretation of core and well log data, and developed integrated core and wireline log petrophysical models to improve our understanding of reservoir properties and to help us define and quantify in-place and moveable oil volumes. These measures allow us to conduct more precise drilling and increase our chance of developing productive wells.

- optimizing production from oilfields through techniques such as multi-layer fracturing, water injection and infill drilling, even in areas of low permeability. To enhance recovery of oil, we have installed injectors for waterflooding.

- optimizing production from unconventional resources through techniques such as horizontal drilling with multi-stage hydraulic fracture completions

Our efforts to develop technology and know-how are led by our senior management team.

In addition, we have developed a customized database for collecting information from on-site operations that allows for sharing of data between software systems to ensure consistency and timeliness of data. We have licensed and use a range of software products that provide advanced tools for technical and economic analysis of development and production projects. Such tools include Halliburton DiscoveryTM Geoscience Interpretation suite, Schlumberger Oil Field Manager for production surveillance, analysis and forecasting, and TRC Consultants PHDWin for analysis and formulating economic decline curves.

Intellectual Property

We have not filed any patent applications. In the course of their work, our engineers and technicians have developed various know-how and techniques relating to reserve management improvement and optimizing oil recovery. Our intellectual property rights consist of trademarks used by us and the domain names we use for marketing and business development purposes. As of June 30, 2012, we had registered our trademarks in China, Hong Kong, Japan, South Korea, the European Union, the United Arab Emirates, Saudi Arabia, Kuwait, Indonesia and the United States, among others. We registered with the Chinese Internet Network Information Center the www.mienergy.com.cn domain name in February 2004.

We recognize the importance of protecting and enforcing our intellectual property rights. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. We were not aware of any material infringement of our intellectual property rights in 2009, 2010, 2011 and the first half of 2012 and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. We are currently not aware of any pending or threatened claims against us or our subsidiaries relating to the infringement of any material intellectual property rights owned by third parties. Our employment contracts and procurement contracts contain confidentiality provisions designed to protect our confidential information and know-how.

Environmental Matters

China

Our operations in the PRC are required to comply with various PRC environmental laws and regulations administered by central and local government environmental protection bureaus. We are also subject to environmental rules introduced by provincial and local PRC governmental agencies where we conduct business. The Ministry of Environmental Protection sets national environmental protection standards and local environmental protection bureaus may set stricter local standards.

We are required to obtain approval of our environmental impact assessment statement before the overall development plan can be submitted to the NDRC or the NEB for approval. We must file an environmental impact statement with the relevant environmental protection agency before approval can be obtained. The filing must demonstrate that the project conforms to applicable environmental standards. Once we obtain the approval from the NDRC or the NEB, the local and provincial environmental protection agencies supervise our compliance with environmental protection laws and regulations and conduct inspections of our oilfields from time to time.

We have a centralized safety and environmental protection department. Each oilfield also has its own staff and each well operation team has a dedicated worker responsible for monitoring and ensuring that environmental and safety measures are followed. Our environmental protection measures focus on top soil preservation, anti-leakage treatment and waste substance treatment. Our environmental protection measures also involve establishing our own environment protection policy, implementing environmental protection work plans in compliance with relevant policy and regulations of the national and local governments, PetroChina and CUCBM, establishing employee evaluation criteria based on environmental protection-related performance, studying the feasibility and environmental impact of new projects or project expansions, and actively monitoring our operations and the works of contractors.

Our environmental protection policy sets standards for properly processing, monitoring and managing waste water and other pollutants emitted during the production process, such as the requirement to take anti-leakage measures during the drilling process and the collection and recycling of waste water and other pollutants. The policy also defines responsibilities of our employees and mandates the implementation of our annual environmental protection plan and environmental protection training for our employees. We have emergency measures to manage, report and investigate any potential incident related to pollution, leakage and other environmental damage. Our emergency management measures follow similar procedures established by PetroChina, CUCBM and the PRC government to handle emergencies such as fire, personal injuries, vehicular accidents, environmental pollution and equipment malfunction.

We have implemented emergency plans and response control procedures. Our production team also analyzes the feasibility of the emergency plans before their implementation. We also conduct quarterly project-wide drills based on these emergency plans, and have designated coordinators under these emergency plans in case of an emergency. PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments may at their own discretion close or suspend any facility that fails to comply with orders requiring it to cease or cure operations causing environmental damage. In 2009, 2010, 2011 and the first half of 2012, no incidents on our oilfields or the aggregate amount of the fines imposed on us had a material adverse impact on our business or results of operations.

PRC environmental laws do not currently require us to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantling and abandonment of oil wells of approximately RMB7.0 million, RMB9.3 million, RMB11.7 million and RMB14.0 million in 2009, 2010, 2011 and the first half of 2012, respectively.

We make provisions for costs associated with the dismantling and abandonment of oil wells based on our estimates of the present value of the amount of cash payment associated with dismantling and abandonment for each well and the number of wells to be dismantled and abandoned. When the production sharing contracts expire, we will no longer be an operator under the production sharing contracts, nor a contracting party to production sharing contracts, and therefore will have no abandonment obligations and will not be obligated to pay for any abandonment costs in respect of wells abandoned.

According to the production sharing contracts, the operator shall, after the completion of various petroleum operation level, restore or reclaim the land of the operating sites in accordance with relevant local rules and regulations. Also according to the production sharing contracts, all fees and expenses related to ecological and environmental protection measures (such as well abandonment and land remediation) undertaken for the petroleum operations carried out within the contract area pursuant to relevant statutory regulations formulated by the authorities concerned or programs agreed to by the parties shall be chargeable to the joint account at operator's net cost and borne by the contracting parties. Hence, we are obligated to dismantle and abandon wells and restore the land if we are the operator at the time the wells are dismantled and abandoned. In addition, all abandonment costs related to the wells abandoned during the contractual period under the production sharing contract, which are considered as ecological and environmental protection expenses, shall be chargeable to the joint account and shall be borne by the contracting parties pursuant to the production sharing contracts.

Management reviews on a regular basis our estimates of the costs associated with dismantling and abandonment of wells and the numbers of wells to be dismantled and abandoned. Our directors believe that we have sufficient funding plans for remediation, rehabilitation, closure and removal of facilities in a sustainable manner. When we incur costs associated with dismantling or abandoning a well, including costs to remediate, rehabilitate, close and remove facilities in a sustainable manner, we record such costs as operating costs, which are recovered from the oil production in that period through the production sharing contract structure.

Environmental protection and prevention costs and expenses in connection with the operation of onshore oil exploitation are covered under each production sharing contract. Our environmental protection and prevention costs and expenses were RMB7.3 million, RMB7.2 million, RMB13.0 million and RMB2.4 million in 2009, 2010, 2011 and the first half of 2012, respectively. We expect our environmental protection and prevention costs to increase in the future as we drill new wells due to, among other things, waste materials generated by our drilling activities and land remediation costs. Based on our current plans, we expect to incur environmental protection and prevention costs of approximately RMB10.8 million for the year ended December 31, 2012.

Other than the incremental increase in environmental and prevention costs associated with drilling new wells, we do not anticipate any material changes to our environmental protection and prevention costs in the near future. During 2009, 2010, 2011 and the first half of 2012, we were not involved in any environmental claims and we believe that our environmental protection systems and facilities are adequate for us to comply with applicable national and local environmental protection regulations. The PRC government may impose new or stricter regulations which would require additional environmental protection expenditures.

Kazakhstan

Oil and gas operations are subject to numerous laws and regulations controlling the generation, use, storage and discharge of materials into the environment or otherwise relating to the protection of the environment. These laws and regulations may:

- require the acquisition of a permit or other authorization before construction or drilling commences;
- restrict the types, quantities and concentrations of various substances that can be released into the environment in connection with drilling, production, and natural gas processing activities;
- suspend, limit or prohibit construction, drilling and other activities in certain lands lying within wilderness, wetlands, areas inhabited by threatened or endangered species and other protected areas;
- require remedial measures to mitigate pollution from historical and on-going operations such as the use of pits and plugging of abandoned wells;

- restrict the injection of liquids into subsoil strata that may contaminate groundwater; and
- impose substantial liabilities for pollution resulting from Emir-Oil's operations.

Environmental permits that the operators of properties are required to possess may be subject to suspension or revocation by a court. Governmental authorities have the power to enforce compliance with their regulations and permits, and violations are subject to injunction, civil penalties, administrative fines and criminal penalties. Changes in existing environmental laws and regulations or interpretations thereof could have a significant impact on Emir-Oil's operations as well as the oil and gas industry in general, and thus it is unable to predict the ultimate cost and effects of future changes in environmental laws and regulations.

Emir-Oil is not currently involved in any administrative, judicial or legal proceedings arising under environmental protection laws and regulations, which would have a material adverse effect on its respective financial positions or results of operations. Emir-Oil does not maintain insurance against the costs of clean-up operations and it is not otherwise fully protected against all such risks. A serious incident of pollution may result in the suspension or cessation of operations in the affected area.

Employees

As at June 30, 2012, we had 2,264 employees, with 1,908 based in China, 354 based in Kazakhstan and two based in the United States.

In accordance with PRC laws, we employ local staff through Jilin Foreign Enterprise Service Co., Ltd., or Jilin FESCO, a third-party service provider authorized to enter into employment contracts with local employees on behalf of foreign enterprises. We pay a monthly lump sum to Jilin FESCO as employee compensation, which includes salaries, social insurance and contributions to the housing fund. As of June 30, 2012, we had 1,884 employees employed through Jilin FESCO. We did not experience any labor shortage in 2009, 2010, 2011 or the first half of 2012.

An enterprise hiring employees through FESCO is subject to the same labor laws and regulations, and fulfill the legal obligations under PRC law and the dispatching agreement entered into between the enterprise and FESCO. Although it is a usual practice for a branch of a foreign enterprise to hire employees through FESCO, there is no potential implication for such arrangement.

Compensation for our full-time employees typically consists of base salary, performance-based salary and other allowances such as seniority pay and subsidies. In addition, based on our results of operations, we may award year-end bonuses to our employees solely at our discretion. Performance appraisals for administrative and technical staff are conducted twice a year to ensure that our employees receive feedback on their performance. We also participate in certain insurance plans for our employees.

We invest in continuing education and training programs for our management and other employees to upgrade periodically their skills and knowledge. We have not had any strikes or other labor disturbances that have interfered with our operations, and we believe that we maintain a good working relationship with our employees.

Insurance

China

As protection against operating hazards, we maintain insurance coverage on our properties and equipment, including pipelines, rigs, other machinery and supplies. We maintain property damage insurance, insurance for operator's extra expenses such as limited redrilling, seepage and pollution expenses, third party liability insurance as well as business interruption insurance and workplace injury insurance for our operations. We also carry key person insurance. We believe that our level of insurance is adequate and comparable to that maintained by oil companies internationally. However, we may not have sufficient coverage for all foreseeable risks, either because insurance is not available or because of higher premium costs.

Kazakhstan

We maintain insurance coverage for losses that may arise from injuries, ownership of dangerous objects, vehicles, cargo, property and ecological matters.

Labor and Safety Matters

We base our safety rules on government regulations and require our employees and PetroChina secondees to follow these safety rules. Our safety and environmental protection department is responsible for formulating and implementing safety guidelines and operational procedures and standards. We also assign a manager to each oilfield to help ensure our field employees are in compliance with our policies. We conduct safety training periodically for our employees.

We require our employees to follow our workplace safety rules and policies, which are based on the PRC Production Safety Law and other applicable government regulations. Our safety rules and policies also comply with ISO9000 and ISO9001. During 2009, 2010, 2011 and the first half of 2012, we complied with all applicable labor and safety laws and regulations in all material respects. We have made, and will continue to make, efforts and take necessary measures to ensure the safety of our employees. These measures include ensuring that the design, installation, use and maintenance of our equipment meet national and industrial standards, providing occupational safety education and training to employees to enhance their awareness of safety issues, and providing suitable protective devices to our employees. However, our preventive measures may not always be effective given the hazardous nature of this industry, and from time to time we may experience employee injuries. In 2009 there was a fatal accident at the Miao 3 oilfield involving an employee's improper operation of machinery. See "Risk Factors — Risks Relating to Our Business — Our operations may be affected by significant operating hazards and natural disasters and we have limited insurance coverage for any resulting losses."

Legal Proceedings, Disputes and Regulatory Matters

We are not currently a party to any material legal or administrative proceedings, and we are not aware of any legal claims or proceedings that may have an influence on our rights to develop or exploit our oilfields. However, we may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. We are required by laws and regulations to obtain a number of licenses, permits and approvals from the relevant authorities to conduct our business and operations. The Group has obtained all relevant licenses, permits and approvals. In addition, PetroChina is responsible for obtaining some of the key licenses, permits and approvals relating to the oil properties, including the exploitation permit. The ability to obtain such licenses, permits and approvals are not within the Group's control and those key licenses, permits and approvals belong to PetroChina.

Luojiayi Production Sharing Contracts

On August 28, 2000, we entered into a 25-year production sharing contract with Sinopec for exploration and development of a contract area identified as Luojiayi block 64 at the Shengli oilfield in Shandong Province. Shengli oilfield is one of the largest oil production bases in China. In 2000, we began the trial-development phase of our operations at Luojiayi and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, we requested an extension from Sinopec to restart the project at Luojiayi. On September 27, 2006, we received a letter from Sinopec denying our request to restart the project and seeking to terminate the production sharing contract on the grounds that the one-year extension period of the trial-development phase had expired on December 31, 2003 and we had not met our investment commitment of at least US$2 million under the production sharing contract prior to such expiration. We believe our initial investment of RMB23.1 million in the project at the Shengli oilfield, which was made prior to December 31, 2003, met the required commitment amount under the production sharing contract. Since we received Sinopec's denial letter in 2006, we delivered additional written requests to them asking for further discussions on the matter. We intend to negotiate in good faith with Sinopec to resolve this issue. Therefore, we have chosen not to pursue the termination of this production sharing contract.

Our dispute with Sinopec has not entered any judicial proceedings. However, our investment in the Shengli oilfield project was completely written off in 2004. We have accounted for losses and liabilities in connection with the production sharing contract for the project at the Shengli oilfield and we believe there are no additional liabilities and claims in relation to the Shengli oilfield project. Sinopec has not initiated any legal proceedings against us. We believe our investment in the project at the Shengli oilfield has met the required commitment amount under the production sharing contract with Sinopec. As the statute of limitation for claims of compensation or damages has lapsed under relevant PRC laws and regulations, we believe that no provision is necessary in the financial statements. Furthermore, because there has not been any further development relating to this project since the end of 2004, we did not include any operating or reserve data relating to Luojiayi in this offering memorandum.

Our Hedging Policy

As at December 31, 2012, our oil hedges have expired and we have not entered into any new oil hedges. When we decide to enter into oil hedges, we consider the Group's total oil production and sales. Our hedging policy prohibits speculative oil hedging. From time to time, oil hedging may be entered into to cover a reasonable portion of our monthly oil production. When management makes oil hedging decisions, it takes into account factors including annual oil production, forward curve of oil prices, expected investments into drilling each year and the production derived from such investments, tax and government policies, among others.

Our oil hedging transactions are restricted to cover a reasonable period when oil prices can be determined with greater degree of certainty, usually up to two years and also focus on protection against downside risk. We mitigate counterparty risk by choosing only reputable leading banks that are active in the oil hedging market and have well-capitalized financial positions and by requesting deferred premium payments, allowing us to spread our payments across the term of the hedging arrangement. After entering into a hedging transaction, we monitor oil prices closely and remain alert as to any news concerning our counterparties, their financial performance and any changes to their financial position. Our management team also holds frequent meetings to review trends in oil prices and the effectiveness of our hedging positions and strategy.

Regulations of the PRC

Fiscal Regime And Regulatory Framework

Overview

The Chinese government has enacted legislation and implemented policies to support continued foreign participation in the domestic oil and gas industry. The Rules on the PRC Sino-Foreign Cooperative Exploitation of Onshore Petroleum Resources, or the Petroleum Regulations, are the primary regulations that govern the exploration and development activities of foreign oil companies operating onshore in China.

Background of Production Sharing Contracts

In countries with large or potentially large oil and gas deposits, the resource and its extraction tend to become vital cornerstones of the economy. However, uncertainties involved in finding commercial quantities of oil and gas and the intensive capital required for undertaking exploration and production result in significant business risks. Considerable time may elapse between investment in the mineral industry and the realization of profits. Investment is therefore long-term. The government may find it difficult to gain access to risk capital and may be unwilling to take the business risks. It may also lack the expertise needed for resource exploration and development. The petroleum fiscal systems in many developing countries are opting for production-sharing contracts as a model of agreement for the exploration and production of oil and gas resources. To avoid these uncertainties and asymmetric information, the principal (i.e. the national oil company) needs to design an incentive contract that induces the agent (i.e. the foreign oil company) to undertake actions that will maximize the principal's welfare. Under a production sharing contract, the state has to offer contract terms that are attractive enough for the foreign oil company to enter into an agreement. At the same time, the terms must allow the state to receive maximum economic returns from the venture.

Production sharing contracts are among the most common types of contractual arrangements for petroleum exploration and development. Under a production sharing contract the state as the owner of mineral resources engages a foreign oil company as a contractor to provide technical and financial services for exploration and development operations. The state is traditionally represented by the government or one of its agencies such as the national oil company. The foreign oil company acquires an entitlement to a stipulated share of the oil produced as a reward for the risk taken and services rendered. The state remains the owner of un-produced minerals, but the state and contractor share in the ownership of the minerals as they are produced.

The government or its national oil company usually has the option to participate in different aspects of the exploration and development process. In addition, production sharing contracts frequently provide for the establishment of a joint committee where both parties are represented and which monitors the operations.

Production sharing contracts also address the important issue of ownership of oil reserves which has made this contract form politically acceptable in most developing countries.

The production sharing contract is attractive to foreign firms because they own the reserves after they are produced. The rationale is that the Company is entitled to produce for a long period of time, in many cases for as long as the field is alive. During this time it can book the reserves because of long term entitlement to share in the reserves as they are produced.

Production sharing contracts do not divide profits out of market proceeds but instead divide the physical production after allowing a portion of output to be retained by the foreign oil company for the recovery of pre-production and production costs. This means that costs can only be recovered once oil is produced.

Production Sharing Contracts in China

Many foreign companies have had successful participation in China's oil and gas industry underproduction sharing contracts. Since the 1990's, the Chinese government has encouraged foreign participation in the oil and gas industry, particularly with a focus on low-permeability oilfields in the Songliao Basin and other areas that PetroChina did not find it commercially feasible to develop. Under the Foreign Investment Industry Guidance Catalog issued in 2007 and revised in 2011 by NDRC and MOFCOM that divides industries into those that are prohibited, restricted, permitted and encouraged, the development of low-permeability oilfields is classified as an encouraged industry where foreign participation is welcomed. Foreign participants have introduced new technologies and expertise in operating low-permeability oilfields to China's oil and gas industry. They have also helped improve industry standards in terms of increasing efficiency and streamlining management, as well as provided personnel training and working team development.

Between 2000 and 2008, according to the CNPC Yearbooks, CNPC entered into 15 new production sharing contracts with foreign contractors. By the end of 2008, CNPC had a total of 23 operating production sharing contracts. We believe that independent oil development production operations under the production sharing contract arrangement are becoming increasingly important to the oil and gas sector in onshore China.

As part of this industry development, there has also been increased acquisitions and merger activities by independent oil and gas companies relating to onshore production sharing contracts. For example, in January 2009, China Era Energy, which entered into a production sharing contract with CNPC to develop the North Kashi Block in the Tarim Basin, was acquired by the China Energy Development, a company listed in Hong Kong. We believe that this trend towards increasing market activity will continue to facilitate the development of independent oil companies operating onshore in China.

In China, production sharing contracts are generally entered into through bilateral negotiation instead of competitive bidding. Onshore production sharing contracts in China are structured on the basis of a royalty-based regime, which we believe provides attractive commercial terms when compared to those in many other countries. In China, royalties are calculated based on annual gross production and are payable in kind by instalments to PRC tax authorities.

In addition, the enforceability of onshore production sharing contracts in China has remained strong since these contracts are governed under the Petroleum Regulations and usually receive direct approval from the MOFCOM and other central government agencies.

In 1995, the Interim Regulation on the Payment of Mining Royalty of the Sino-Foreign Cooperative Exploitation of Onshore Petroleum (中外合作開採陸上石油資源繳納礦區使用費暫行規定) was amended to raise the minimum amount of annual production under which enterprises are exempt from royalties from 50,000 tons to 500,000 tons or 1,000,000 tons, as an added incentive for foreign cooperation in oil exploitation. Although the Interim Regulation on the Payment of Mining Royalty of the Sino-Foreign Cooperative Exploitation of Onshore Petroleum was abolished in November 2011, according to Notice of the General Office of the Ministry of Land and Resources on Managing Well the Collection of the Compensation Fee for Sino-foreign Cooperative Exploitation of Petroleum Resources (國土資源部辦公廳關於做好中外合作開採石油資源補償費徵收工作的通知), contractors under contracts on Sino-foreign cooperative exploitation of onshore or offshore petroleum resources lawfully concluded prior to November 1, 2011, shall continue to be governed by the then prevailing provisions on payment of the mining royalties for use of the mining areas within the term of validity of such contracts.

This section sets forth a summary of the most significant laws and regulations that affect our business in China and the industry in which we operate in. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

Regulatory Framework For Sino-Foreign Cooperation In The Exploitation Of Onshore Petroleum Resources

The PRC Constitution and the Mineral Resources Law provide that all mineral and oil resources in the territory of the People's Republic of China belong to the state. Therefore, China's oil and gas industry is subject to extensive government regulation. In 1993, the State Council promulgated the Rules on the PRC Sino-Foreign Cooperative Exploitation of Onshore Petroleum Resources (amended in 2001, 2007 and 2011), or the Petroleum Regulations, to regulate onshore crude oil and natural gas exploration and production in China by foreign entities.

Under the Petroleum Regulations, foreign companies may conduct onshore oil and gas exploration, development and production only in areas approved by the State Council. Foreign enterprises must enter Sino-foreign cooperation projects with either CNPC or Sinopec in order to conduct onshore exploitation of petroleum resources in the areas approved by the State Council. CNPC and Sinopec have the exclusive right to negotiate, sign and execute production sharing contracts with foreign enterprises. Production sharing contracts provide foreign enterprises with exclusive rights, subject to supervision by CNPC or Sinopec, to explore oil in a defined cooperative block approved by the State Council. These contracts also regulate the exploration, development, and production processes of the cooperative exploitation. All production sharing contracts are subject to the approval of the MOFCOM. CNPC or Sinopec may also enter into other cooperative contracts relating to the exploitation of onshore oil resources in the approved cooperative blocks, and such contracts must be filed with the MOFCOM.

The Petroleum Regulations in conjunction with the Plan on Reform of State Council Organs, approved by the National People's Congress in 2008, provide that the NEB, established under the administration of the NDRC, is responsible for dividing and assigning cooperative blocks for Sino-foreign cooperation projects based on the areas approved by the State Council, determining the forms of cooperation, organizing the formulation of relevant plans and policies, and reviewing and approving the overall development plans for the oil or gas fields submitted by the foreign contractors.

Investment Protection for Foreign Contractors

The Petroleum Regulations protect the cooperative exploitation activities, investments, profits and lawful interests of foreign contractors in order to promote Sino-foreign cooperation projects for the exploitation of onshore petroleum resources. Under PRC law, the state cannot lawfully expropriate the investments and incomes of foreign contractors except when required by public policy. Under these special circumstances, the state may expropriate a part or all of the oil receivable by foreign contractors from the cooperative exploitation for adequate compensation and in accordance with legal procedures.

Production Sharing Contracts

Foreign enterprises must cooperate with CNPC or Sinopec in order to conduct exploitation of onshore oil and gas resources in China. Foreign enterprises generally enter into these cooperative relationships by means of a bidding process or bilateral negotiations with CNPC or Sinopec. The foreign entity and its cooperative Chinese petroleum company must set out the terms of their cooperation and the cooperative project in a production sharing contract. Under the production sharing contract, CNPC or Sinopec, on behalf of the state, grants the foreign enterprise exclusive rights, subject to supervision by CNPC or Sinopec, to explore oil in a defined cooperative block within the areas approved by the State Council. The NDRC, or a department designated by the State Council, may periodically adjust the pre-defined cooperative block, subject to the conditions of the production sharing contract. All production sharing contracts are subject to MOFCOM's approval. Foreign contractors and its cooperative Chinese petroleum company may also enter into other cooperative contracts relating to the exploitation of onshore oil resources in the approved cooperative blocks. These contracts must be filed with the MOFCOM.

Under the current PRC law, PetroChina, a subsidiary of CNPC, does not have the right to negotiate and execute production sharing contracts directly with foreign oil and gas companies. However, CNPC may assign its commercial and operational rights and obligations under a production sharing contract to PetroChina, subject to the approval of MOFCOM.

Development Plans and Operatorship of Petroleum Fields

Under the Petroleum Regulations, the operator is responsible for formulating the overall development plans for the oil and gas fields assigned under the production sharing contract. The overall development plans should discuss the economical, environmental, geological, geophysical, legal and technological aspects of the proposed development. All overall development plans are subject to NDRC or NEB's approval.

Unless otherwise provided in PRC law or the production sharing contract, the foreign contractor is solely responsible for implementing the overall development plans until the cooperative Chinese petroleum company takes over the operation. The foreign contractor must provide the full investment for prospecting the cooperative block and is solely responsible for the prospecting operations and all related risks. If the foreign contractor discovers an oil or gas field of commercial exploitation value, the cooperative Chinese petroleum company shall then jointly invest in the cooperative development of the field with the foreign contractor. As provided in the production sharing contract, the foreign contractor will remain solely responsible for the development and production operations of the cooperative block until the cooperative Chinese petroleum company takes over the operation of the oil or gas field, as agreed in the production sharing contract. Production sharing contracts typically provide that the cooperative Chinese petroleum company may replace the foreign contractor as the operator of the cooperative project once the foreign contractor has fully recovered its developmental costs. The investments of foreign contractors shall be in U.S. dollars or other freely convertible currencies.

Sale of Petroleum Production and Compensation of Foreign Contractors

In accordance with the production sharing contract, the foreign contractor may recover its expenses and investments in the cooperative block and may be entitled to returns from the cooperative petroleum production. The foreign contractor may send its recovered investment, profits, and other lawful income abroad in accordance with PRC law and the production sharing contract. The foreign contractor may also ship abroad its petroleum receivable or any purchased petroleum, in accordance with PRC law. If the foreign contractor wants to sell its petroleum receivable within the PRC, the sale will generally be made either to CNPC or Sinopec or be made in a manner mutually agreed upon by the foreign contractor and CNPC or Sinopec, as long as such sale is in accordance with state laws governing the sale of petroleum products in the PRC.

Ownership of Data and Assets

In accordance with the Petroleum Regulations and the terms of the production sharing contracts, foreign contractors are required to timely and accurately report the status of their cooperative petroleum operations to the cooperative Chinese petroleum company. The foreign contractor must obtain and submit data, records, samples, evidence and other similar original materials from its petroleum operations to the cooperative Chinese petroleum company. The foreign contractor must also submit technological, economic, administrative, financial and accounting reports to the cooperative Chinese petroleum company. The ownership of all data, evidence, reports, and other information belongs to the cooperative Chinese petroleum company. Any use, transfer, donation, exchange, sale, publication, or shipment of such data, records, samples, evidence, reports, or other original materials submitted by the foreign contractor must be conducted in accordance with PRC laws.

All assets purchased and created by foreign contractors pursuant to their performance of a production sharing contract, except for equipment leased from a third party, shall vest in the cooperative Chinese petroleum company once the foreign contractor has been fully compensated in accordance with the terms of the production sharing contract or upon the expiration of the production period for the cooperative oil or gas fields. During the term of the contract, use of the assets by the foreign contractor is governed by the terms of the production sharing contract.

Foreign Exchange Issues Relating to Implementing the Production Sharing Contracts

Capital account items, such as direct equity investments, loans, and repatriation of investments, require prior approval from SAFE, or its local counterpart for conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Currently, PRC laws and regulations do not provide clear criteria for obtaining SAFE approval. Generally speaking, SAFE and its local branches have broad discretion on the issuance of approval. On August 10, 2006, SAFE issued Reply No. 222 on the topic of the Settlement and Surrender of Foreign Exchange for the CNPC relating to the Exploitation of Onshore Oil Resources in Cooperation with Foreign Parties to provide further guidance regarding obtaining SAFE approvals. Reply No. 222 states that foreign contractors may apply to SAFE or its local branches for approval of a foreign exchange settlement plan by providing required and valid documentation; upon receiving approval from SAFE, foreign contractors may then apply for foreign exchange settlements with an Authorized Financial Institution.

Land Remediation

The Mineral Resources Law and its supplementary regulations govern the exploring and mining of mineral resources within the PRC. These laws also regulate the process of closing down mines to promote land recovery and environmental protection. In order to close down a mine, the mine operator must develop and submit a closing-down geological report and an application to the relevant governmental authorities one year prior to the completion of exploitation. After the closing-down geological report being approved, the closure report should be prepared and the submitted for approval. Upon receiving approval of the closure report, the mine operator must either take land remediation actions to promote soil conservancy, land recovery and environmental protection of the mined area or pay the full cost for land remediation. After remediation of the mined area is complete, the mine operator can apply for a revocation of its mining license to the original licensing authorities upon presentation of evidence of completed land remediation. Under the terms of the production sharing contracts, the operator of the cooperative block shall level, restore or reclaim the exploitation sites upon completion of petroleum production in accordance with the Mineral Resources Law and relevant local rules and regulations.

Exploration Licenses and Production Licenses

The Mineral Resources Law authorizes the Ministry of Land and Resources to exercise administrative authority over the exploration and production of mineral resources within the PRC, including the authority to issue exploration and production licenses. Applicants for exploration and production licenses must be approved by the State Council as companies which may engage in oil and gas exploration and production activities in the PRC.

In order to receive a license to explore a specified block of land, applicants for exploration licenses must register their intended exploration blocks with the Ministry of Land and Resources. Holders of exploration licenses are required to make progressively increasing annual minimum exploration investments in their registered exploration blocks. The required minimum investment in an exploration block is RMB2,000 per square kilometer for the first year of exploration, RMB5,000 per square kilometer for the second year, and RMB10,000 per square kilometer for subsequent years. Additionally, each license holder has to pay an annual exploration license fee that starts at RMB100 per square kilometer for each of the first three years of exploration and increases by an additional RMB100 per square kilometer each subsequent year up to a maximum of RMB500 per square kilometer. The maximum term of an oil and natural gas exploration license is seven years, but the license holder may renew the license, each time for a two-year term, upon the expiration of the previous term. At the exploration stage, an applicant may also apply for a progressive exploration and production license that allows the holder to test and develop reserves not yet fully proven.

Once the exploration license holder has detected and confirmed the quantity of reserves in its block of land, the holder must in a timely manner submit reserve reports to the relevant authorities for approval and apply for a production license. The Ministry of Land and Resources grants production licenses to applicants based on their approved reserve reports, which present economic evaluations of the reserves, market conditions, and plans for development of the land. Production license holders must pay an annual production right usage fee of RMB1,000 per square kilometer. Administrative rules issued by the State Council provide that the maximum term for a production license is 30 years. With special approval from the State Council, the Ministry of Land and Resources can issue production licenses for terms that are coextensive with the productive life of assessed proved reserves as projected in the reserve reports. Generally, the holders of a full production license must also obtain a land use rights certificate for industrial land use in order to use a block of land for development and production of mineral resources.

Production Safety

The PRC Production Safety Law and its implementation rules provide stringent production safety requirements for mining operations, including: (i) mining entities shall establish an administrative organ for production safety or have full-time personnel for the administration of production safety; (ii) these persons in charge of production safety must have passed production safety examinations; (iii) safety appraisals shall be made for mining construction projects according to the relevant regulations; (iv) the safety facility designs of the mining construction projects shall be subject to the examination and approval of the relevant departments according to the relevant regulations; (v) safety facilities shall be constructed according to the approved safety facility designs and the mining entities shall be responsible for the quality of these constructions; (vi) after a mining construction project is completed, but before it is put into production or use, the safety facilities constructed for the project shall be subject to review and approval according to the relevant laws and administrative regulations; and (vii) mining entities shall establish emergency rescue organizations. If a production or business operation is small in scale, it may designate part-time emergency rescue persons instead of establishing an emergency rescue organization. The mining entities shall always be equipped with regularly serviced and maintained rescue and emergency equipment.

According to the PRC Safety Production Permit Regulation and the implementation rules for non-coal mining enterprises, a mining enterprise shall obtain a safety production license for its operation. According to the Administrative Measures for the Accrual and Utilization of Work Safety Funds of Enterprises (企業安全生產費用提取和使用管理辦法), "work safety funds" refers to the funds that are listed under and disbursed from their costs by enterprises in accordance with specified standards, and are earmarked for improving and enhancing the work safety conditions of the enterprises or their projects. Enterprises engaged in the exploration and production of oil must set aside work safety funds that are equal to RMB17 per ton of crude oil produced monthly. When the balance of the preceding year's work safety funds of a small, medium-sized or micro enterprise and a large enterprise accounts for 5% and 1.5%, respectively, of their business revenue of the preceding year, enterprises may defer or reduce the accrual of the work safety funds for the current year with the consent of the relevant departments.

Environmental Protection

China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. There are national and local standards applicable to emissions control, discharges to surface and subsurface water, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials.

According to the Environmental Protection Law of the PRC, The Law of the PRC on Appraising Environmental Impacts, the Law of the PRC on Appraising Environmental Impacts, Measures for Environmental Protection Check and Acceptance of Completed Construction Projects, a company is required to register or file an environmental impact report with the relevant environmental bureau for approval before it undertakes any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau finds that the facility has installed sufficient environmental equipment to meet its environmental protection requirements. A company that wishes to discharge pollutants, whether it is in the form of emission, water or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. After reviewing the pollutant discharge declaration, the relevant environmental bureau will determine the amount of discharge permitted under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If a company discharges more than what is permitted in the pollutant discharge license, the relevant environmental bureau can fine the Company up to several times the discharge fees payable by the offending company for its allowable discharge, or require the offending company to close its operation to remedy the problem.

Supervision and Administration Over the Use of Land

All land in the PRC is either state-owned or collectively owned by local residents, depending on the location of the land. All land in the urban areas of a city or town is state-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned by local residents.

In April 1988, the PRC Constitution was amended by the National People's Congress to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law was amended to permit the transfer of land use rights for value. In accordance with the Land Administration Law amended in 2004, a construction unit may obtain state-owned land use rights through grant or by other means with consideration. But the following land may be obtained through governmental allocation with the approval of the people's government at and above the county level according to law: (i) land for use by government organs and for military use; (ii) land for building urban infrastructure and for public welfare undertakings; (iii) land for building energy, communications and water conservancy and other infrastructure projects supported by the state; and (iv) other land as provided for by the law and administrative decrees.

Under the Interim Regulation of the People's Republic of China Concerning Granting and Transferring of State-Owned Land Use Rights in Urban Areas, or the Urban Land Regulations, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The state cannot resume possession of land use rights lawfully obtained by the land user prior to expiration of the term of grant, unless public interest requires the reclamation of land by the state, at which time the state will provide just compensation for the land. A land user may lawfully assign, mortgage or lease its granted land use rights to a third party for the remainder of the term of grant. Under the Urban Land Regulations, there are different maximum periods of grant for different uses of land: 70 years for residential purposes; 40 years for commercial, tourism and entertainment purposes; 50 years for industrial, public utilities, comprehensive or other purposes.

On March 16, 2007, the National People's Congress promulgated the Property law of the PRC effective from October 1, 2007, which stipulates that the construction land use rights may be created through grant or allocation. For land used for industrial, business, entertainment or commercial residential purposes, the construction land use rights must be granted by means of public tender, auction or listing-for-sale. According to the Reply regarding Construction Land Used for Drilling and Auxiliary Facilities for Petroleum and Natural Gas Industry, lands used for drilling and auxiliary facilities may be approved by land administration authorities at the county level for temporary uses firstly according to features of the land use. By the end of each quarter, a petroleum enterprise may submit application for use of land in accordance with relevant land administration laws and regulations to the land administration authorities at the county level, who will submit the application to competent land administrative authorities for approval. Pursuant to the Land Administration Law of the PRC, a petroleum enterprise applying for land use rights shall execute contracts for the use of the land with the proper land administrative departments or rural collective organizations or villagers committees, depending on the ownership of the land, and pay land compensation fees for the use of the land.

Supervision and Administration Over Foreign Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Currency Administration Rules (promulgated and amended on August 5, 2008) and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange. Under the above-referenced rules, for current account items such as trade and service-related foreign exchange transactions, entities or individuals inside the PRC can either retain their foreign exchange income or sell it to financial institutions engaged in the business of foreign exchange settlements and sales; additionally, they can make foreign exchange payments with their own foreign exchange or with foreign exchange purchased from an authorized financial institution. Capital account items, such as direct equity investments, loans, and repatriation of investments, require prior approval from SAFE or its local counterpart for conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC.

The PBOC, publishes the Renminbi exchange rate against other major currencies. The PBOC rate is set by reference to the previous day Renminbi trading price on the inter-bank foreign exchange market compared to the trading prices of other major currencies. When conducting foreign exchange transactions, the authorized financial institutions may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

Notice of the State Administration of Foreign Exchange on Exchange Control Issues Relating to Financing and Reverse Investment by Persons Resident in the PRC Through Offshore Special Purpose Vehicles ("Notice 75")

Domestic residents who plan to establish or control an offshore special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority. Domestic residents who have contributed their assets or shares of a domestic enterprise into an offshore special purpose vehicle or who have raised funds offshore after such contribution must conduct foreign exchange registration or filing for the modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority. Domestic residents who are the shareholder of an offshore special purpose vehicle are required to go through registration for the modification of the record or the filing procedure with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no reverse investment is involved.

Notice of the State Administration of Foreign Exchange on Operational Rules of Administration of Foreign Exchange for Domestic Residents to Engage in Financing and Reverse Investment Through Offshore Special Purpose Vehicles

The SAFE published the Operational Rules on May 20, 2011 which came into effect on July 1, 2011. In addition to the reverse investment through offshore special purpose vehicles ("SPV") as defined in the Notice 75, the Operational Rules explicitly puts forward the concept of "non-SPV reverse investment" and provides that, where a domestic individual resident conducts direct investment in China through a non-SPV, such individual is not required to complete the SPV registration for the offshore companies; instead, the offshore companies shall be marked as "non-SPV reverse investment" in the foreign exchange administration information system for direct investment.

Taxes and Levies in the Petroleum Industry

Royalty

According to the Interim Regulation on the Payment of Mining Royalty for the Sino-Foreign Cooperative Exploitation of Onshore Petroleum, Sino-foreign enterprises that are involved in the exploitation of onshore petroleum resources are required to pay a royalty that is calculated and charged based on the total crude oil or natural gas output of each petroleum field for each calendar year and the mining area usage fee rate. However, the aforesaid Interim Regulation was repealed by the Petroleum Regulations as amended on September 30, 2011 and effective on November 1, 2011, except that the payment of mining royalties shall continue within the contractual period of contracts on Sino-foreign cooperative exploitation of onshore petroleum resources lawfully executed prior to November 1, 2011.

Resource Tax

The Petroleum Regulations as amended and effective in 2011 provides that, as of the date when the amended Petroleum Regulations came into effect, enterprises involved in the Sino-foreign cooperative exploitation of onshore petroleum resources shall pay resource taxes rather than the mining royalty, except that the parties to contracts on Sino-foreign cooperative exploitation of onshore petroleum resources lawfully executed prior to the effective date of the amended Petroleum Regulations shall continue to pay mining royalties until the expiration of the contracts when the resource tax then applies.

Pursuant to the Interim Regulation of Resource Tax, promulgated in 1993 and amended in 2011, and its implementation rules, enterprises and individuals engaging in mining exploitation shall pay the resource tax, the rates of which to be applied to crude oil and natural gas are 5%–10% of revenues from the sale.

Mineral Resource Compensation Fee

Pursuant to the Notice of the General Office of the Ministry of Land and Resources on Management of the Collection of the Compensation Fee for Sino-foreign Cooperative Exploitation of Petroleum Resources published on March 31, 2012 with a valid period of 8 years, enterprise engaged in Sino-foreign cooperative exploitation of onshore petroleum resources shall pay mineral resource compensation fees to be calculated pursuant to the Administrative Provisions on Collection and Management of Mineral Resource Compensation Fees promulgated in 1994 and amended in 1997, except for contracts on such cooperative exploitation lawfully executed prior to November 1, 2011, the payment of mining royalties shall continue within the contractual period.

Special Levy

According to the State Council's Decision to Levy Special Profit Charge of Petroleum, Measures for the Administration of the Collection of Special Profit Charge of Petroleum and the Supplementary Notice of the Ministry of Finance on Issues concerning the Levy of Special Profit Charge of Petroleum, the special profit charge of petroleum shall be levied on the excessive revenue obtained by petroleum exploitation enterprises on the rise in crude oil prices during their sales of domestically produced crude oil. Any and all the enterprises that exploit crude oil, independently or in the form of equity or cooperative joint venture, within China shall pay such special profit charge of petroleum, except for the value-added tax in kind, the mining royalty and the national conservation oil.

The special profit charge of petroleum levied at progressive ad valorem rates for five grades, ranging from 20% to 40%, with the threshold of such levy is increased to US$55 from November 1, 2011 as decided by the Ministry of Finance. The amount shall be calculated based on the production sharing prices periodically set by the parties, and may not be recovered as the cost of each party in the joint accounting book of the cooperative parties.

Starting from the declaration and payment of the special profit charge of petroleum of 2012, such charge is calculated monthly, declared quarterly and paid monthly. The special profit charge of petroleum payable by a joint venture shall be declared to competent authorities of finance by the party with the oil exploration and production license. No authority of finance shall, at its discretion, reduce the special profit charge or exempt petroleum exploitation enterprises from such charge.

Value Added Tax

Under the Provisional Regulations of the PRC Concerning Value Added Tax, a value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. Furthermore, pursuant to the Notice of the State Council on Relevant Problems Concerning the Application of the Provisional Regulations on Value Added Tax, Consumption Tax, Business Tax to Enterprises With Foreign Investment and Foreign Enterprises and the Notice of State Administration of Taxation on the Relevant Issues Concerning Payment of Value-Added Tax in Connection with Sino-Foreign Cooperative Exploitation of Petroleum Resources, a value added tax shall be levied in kind at rate of 5.0% on all crude oil and natural gas exploited from Sino-foreign cooperation oil and gas fields.

Regulations of Kazakhstan

Regulation of Subsoil Use Rights

In Kazakhstan, the subsoil and minerals contained therein are owned by the government of the Republic of Kazakhstan (the "State") in accordance with the Constitution of the Republic of Kazakhstan. The State shall ensure access to the subsoil on the terms, conditions and within the limits provided for by the Subsoil Use Law. Unless otherwise stipulated by Kazakhstan laws and subsoil use contracts, mineral raw materials shall be owned by the subsoil user under a right of ownership (except for a State-owned enterprise). The Competent Authority, on behalf of the State, grants exploration and production rights. Subsoil use rights are granted for a determinable period but may be extended before the expiration of the applicable contract and license (if permitted) subject to certain limitations and conditions. Subsoil use rights may be terminated by the Competent Authority if, among other things, subsoil users do not comply with their contractual obligations, inter alia, meeting minimum work program requirements, payment of royalties and taxes to the Government and compliance with other subsoil use, environmental and safety requirements or fail to obtain the waiver of the state's priority right (under the old Subsoil Law) or MOG's consent (under the Subsoil Use Law) for transfer of subsoil use right and (or) shares (direct or indirect) in a subsoil user.

Subsoil Use Law

Under the Subsoil Use Law, subsoil use rights may be permanent or temporary, alienable or inalienable, payable or free of charge. Most types of subsoil operations shall be carried out on the basis of temporary and payable subsoil use right.

Subsoil use rights shall normally be granted following a tender process with a number of exceptions, such as through direct negotiations with national companies, entities which have exclusive right to get the subsoil use right for production in connection with a commercial discovery made within the frameworks of the exploration contract; with subjects of industrial innovation activity under the Law of the Republic of Kazakhstan on State Support of Industrial Innovation Activity dated 9 January 2012. Subsoil use rights may be held by Kazakh and foreign individuals and legal entities. A subsoil user shall be guaranteed protection of its rights in accordance with Kazakhstan legislation. Any amendments and additions to legislation that worsen the results of a subsoil user's business activities under subsoil use contracts shall not apply to subsoil use contracts that were concluded prior to such amendments and additions. Such guarantees shall not apply to changes in Kazakhstan legislation in the areas of national security, defense capabilities, environmental protection, health, taxation and customs regulation.

The State's Pre-Emptive Rights

Under the Subsoil Use Law, the State has the pre-emptive right to acquire subsoil use rights and the objects related to the subsoil use rights ("Objects"). Objects are participatory interests (shares, securities confirming title to shares, securities convertible into shares) in a legal entity holding the subsoil use right, as well as a legal entity which may directly and/or indirectly determine and/or influence decisions adopted by a subsoil user (the "Controlling Legal Entity"), if the principal activity of such Controlling Legal Entity is related to subsoil use in the Republic of Kazakhstan. The State's pre-emptive rights apply retroactively to all existing contracts, as well as prospectively to future contracts.

With certain limited exemptions, described below, the State's waiver of its pre-emptive rights would need to be obtained for any transfer of subsoil use rights or Objects.

The State's pre-emptive rights are also applicable to any initial public offering of shares on an organized securities market or other securities confirming title to shares or securities convertible into shares in a subsoil user legal entity or a Controlling Legal Entity, including the initial public offering of additionally issued securities in such legal entities on an organized securities market. In addition, except for certain circumstances which are described below, such public offerings require the permission of the Competent Authority, which shall be granted in accordance with the provisions of the Subsoil Use Law.

The Right to Grant Consents for Transfer of Subsoil Use Rights and Objects, Related to Subsoil Use Rights

Subsoil use rights, or part thereof, and Objects can only be transferred, including in cases of foreclosure (including pledge), with the consent of the Competent Authority in accordance with the procedure established by Article 37 of the Subsoil Use Law. Failure to obtain such a consent according to the Subsoil Use Law entitles the Competent Authority to terminate a subsoil use contract in a unilateral order.

A credit facility secured by the pledge of subsoil use rights shall only be used for the purpose of subsoil use or for reorganizations or relocation of a subsoil user in a contract territory, as provided by the relevant subsoil use contract, by the subsoil user itself or by its wholly owned subsidiary. The initial public offering of shares on an organized securities market or other securities confirming title to shares or securities convertible into shares in a subsoil user legal entity or a Controlling Legal Entity, including the placement of additionally issued securities in such legal entities on an organized securities market, requires the permission of the Competent Authority. The Competent Authority's consent and the State's waiver of the State's pre-emptive rights shall not, however, be required in some cases.

Though the Subsoil Use Law somewhat clarifies the procedures for obtaining the State's waiver of the State's and the consent (and registration, where applicable) of the Competent Authority, such procedures remain unclear in many instances, and the Subsoil Use Law remains untested in this respect. According to the time schedule indicated in the Subsoil Use Law, such procedures would take minimum of 70 business days, however, it appears that the obtaining of the necessary authorizations may be a more lengthy procedure (e.g. several months).

If the State makes a decision to exercise its pre-emptive rights to acquire subsoil use rights or Objects, then such subsoil use right or Object should be acquired within no more than six months from the date of the State's decision.

Consents for Establishment of Pledges over Subsoil Use Rights and the Objects

The Subsoil Use Law explicitly requires that subsoil use rights and Objects may be pledged only with the permission of the Competent Authority. The pledgor of subsoil use rights or an Object is responsible for obtaining the Competent Authority's consent, which should be obtained according to the procedures provided by the Subsoil Use Law. Any transactions or other related actions effected without such Competent Authority's consent for the pledge will be deemed to be invalid as of the date of their conclusion or undertaking.

Termination of Subsoil Use Contracts

According to Article 72.3 of the Subsoil Use Law, the Competent Authority may prematurely terminate a subsoil use contract on a unilateral basis:

(1) if the subsoil user fails to timely eliminate more than two violations of obligations under its subsoil use contract or project documents within the time set in the Competent Authority's notice; and

(2) in the event of a transfer of a subsoil use right and/or an Object without the Competent Authority's consent, when such consent was required under the Subsoil Use Law.

Amendments to Subsoil Use Contracts in Relation to Strategic Deposit Rights

Under the Subsoil Use Law, the State has the right to initiate reviews of the terms of a subsoil use contract and to demand amendments and/or additions to subsoil use contracts in circumstances where the activities of the subsoil user in "strategic deposits" led to material changes in the economic interests of the State which threaten national security and, under these circumstances, the State has a right to unilaterally terminate the subsoil use contract. The list of strategic deposits is approved by decree of the State.

The Subsoil Use Law expressly provides that the amendments and/or additions to a subsoil use contract may also be effected in contracts that have been concluded. Amendments to a contract may also be made upon mutual agreement of the parties and in accordance with Kazakhstan legislation and the provisions of the contract.

The Subsoil Use Law generally requires subsoil users to comply with certain local content requirements, including the use of Kazakhstan suppliers and personnel.

These general requirements should be detailed in subsoil use contracts. Further, the Subsoil Use Law purports to extend to subsoil use contracts executed prior to the enactment of certain provisions of the Subsoil Use Law relating to certain Kazakh content reporting requirements.

See "Risks Relating to our Operations in Kazakhstan — Emir-Oil is exposed to the risk of adverse sovereign action by the Kazakhstan government."

The Competent Authority and Other Regulatory Authorities

The State

The State is responsible, among other things, for organizing and managing state-owned reserves, imposing restrictions on subsoil use for the purposes of national security, environmental security and the protection of life and health of the population, defining the procedures for the conclusion of contracts, approving model contracts, appointing the Competent Authority, appointing members of Interdepartmental Commission to exercise the State's pre-emptive rights and approving a number of normative legal acts in the sphere of oil and gas industry. The State also executes, implements and monitors subsoil use contracts through the Competent Authority, which has the power to execute and implement oil and gas contracts, and through a number of other State's agencies. The State's pre-emptive rights are exercised through the national management holding company (JSC National Welfare Fund Samruk-Kazyna), the national company (JSC National Company KazMunaiGas) and authorized state agencies.

The Ministry of Oil and Gas

According to resolutions of the State adopted in 2010, the MOG, is the Competent Authority. Under the Subsoil Use Law and other effective legislation, the MOG is responsible for, inter alia:

- implementing the State's policy in the oil and gas, petrochemical and hydrocarbon transportation industries;
- approving working programs related to oil and gas contracts;
- monitoring compliance with the terms of oil and gas contracts;
- issuing permits for the transfer of subsoil use rights and registration of transactions involving pledges of subsoil use rights, as applicable to oil and gas projects;
- suspending and terminating subsoil use contracts in oil and gas in accordance with the procedures set forth in the Subsoil Use Law; and
- monitoring compliance of oil and gas subsoil users with requirements to purchase certain amounts of goods and services from local providers.

Other Regulatory Authorities

Other governmental ministries and authorities which regulate aspects of hydrocarbon extraction in Kazakhstan include:

- the Ministry of Environmental Protection (the "MEP"), which is responsible for environmental protection and preservation of mineral resources;
- the Ministry of Industry and New Technologies (the "MINT"), which is the competent state body for geological study and use of the subsoil, and whose Committee for Standardization, Metrology and Certification supervises compliance of oil and gas equipment with Kazakhstan quality and safety standards;
- the Ministry of Emergency Situations, which, among other things, supervises mining operations, and whose Committee on State Control of Emergency Situations and Industry Safety (under the Ministry of Emergency Situations), among other things, supervises health and safety matters;
- the Ministry of Labor and Social Protection of the Population, which is responsible for investigating labor disputes and complaints from individual employees and which monitors compliance with the obligations of subsoil users to give preference in hiring, including to employ a certain minimum percentage of Kazakhstan nationals.

Anti-monopoly Consent

The Anti-monopoly Law establishes the requirement to obtain the prior approval of the Kazakhstan anti-monopoly authority, the Agency for Protection of Competition ("Anti-monopoly Agency"), in cases of, inter alia: acquisition by a market entity (group of persons) of more than 25% of the voting shares (participatory interest) in the charter capital of the market entity, if prior to such acquisition this entity (group of persons) did not own shares of the market entity or owned 25% or less of the voting shares (participatory interest) in the charter capital of the market entity, shares in which are being acquired, or acquisition by a market entity of the rights (including through a trust management agreement, joint venture agreement or suretyship agreement) which would allow the market entity to provide mandatory instructions to another market entity while the latter is conducting its entrepreneurial activity or to carry out functions of the executive body of the same market entity.

Obtaining such anti-monopoly approval is required only if:

(a) the combined book value of the assets or the combined volume of the sale of goods, works and services of the purchaser and the market entity whose shares are being acquired exceeds 2,000,000 times a monthly calculated index as of the date of filing a Kazakh anti-trust pleading (currently approximately US$23,080,000, where the monthly calculated index (i.e. an index used by the Government authorities of Kazakhstan for calculating various monetary obligations and setting legal thresholds) is set by the Republic Budget Law annually; or

(b) one of the parties to the transaction is a person with a dominant or monopolistic position in the relevant Kazakhstan market.

Thus, if any of the above thresholds are met, the transaction will require preliminary anti-monopoly approval. An application for anti-monopoly approval is submitted by the acquirer. If the transaction is a result of a tender or auction, an application for approval must be made within 30 days upon the date of the tender or auction.

In practice, the Anti-monopoly Agency does not interpret the Anti-monopoly Law in a consistent manner, and even an acquisition of a minor stake in the Company may be considered an "economic concentration," if the Anti-monopoly Agency believes the acquirer obtains rights which would allow the acquirer to control the

Company and its subsidiaries in Kazakhstan. Currently, the Kazakh Parliament is discussing a draft law purported to increase the foregoing threshold for seeking of the Kazakh anti-trust approval and introduce certain other changes to the Anti-monopoly Law.

Environmental Protection

Permits for Emissions

Emir-Oil is subject to laws, regulations and other requirements relating to the protection of the environment in Kazakhstan, including the discharge of substances into the air and water, the management of disposal of waste and the clean-up of mine sites, and the outdoor placement and storage of sulphur. Issues of environmental protection in Kazakhstan are regulated primarily by the Kazakh Environmental Code.

Depending on the nature of the industrial activity of a particular user, the Kazakh Ministry of Environmental Protection, or MEP, and Akimats (local executive authorities) issue permits for environmental emissions. In addition, MEP provides for approval of various activities, including construction and operation of industrial facilities and waste disposal facilities.

Under Kazakhstan Laws, subsoil users may be required to obtain a number of other certificates, permits and licenses from various Kazakhstan government ministries, departments and agencies in relation to water usage, the use of potentially toxic chemicals and transportation of hazardous materials.

The Kazakh Environmental Code establishes a "pay to pollute" regime administered by national and local authorities. Every natural resources user, including oil and gas companies, must not exceed limits of emissions and disposals of substances, waste disposal and sewage discharge and the outdoor placement and storage of sulphur. Such limits are provided by environmental permits obtained from environmental authorities. The Environmental Code provides different conditions for granting environmental permits depending on the type and scale of the environmental impact of the facility. As a condition of obtaining a permit, a plan for the reduction of the emissions or disposals must be developed by the Company and cleared with the appropriate governmental authority. The rates of fees for emissions are set out in the Tax Code. The local representative bodies (Maslikhats) are entitled to increase the rates set out in the Tax Code by two times and the rates for gas flaring can be increased by 20 times. Fees for pollution within the limits established for a particular source of pollution are paid at the rates established by the Tax Code. Payments for pollution in excess of the established limits are multiplied by ten. Payment of such fees does not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities, as well as to pay fines in accordance with the administrative proceedings and compensation for damages to the environment incurred as a result of pollution.

Enforcement

The Kazakh Environmental Code authorizes relevant state officials to:

- cooperate with users of natural resources, individuals and public associations;
- freely visit objects subject to inspection, including military and defence objects as set by the law;
- enter the territory of individuals and legal entities to make necessary measurements, collect samples (including samples of goods and materials) and analyze them;
- request and obtain documents, results of analysis and other materials as may be necessary for carrying out state ecological controls;
- initiate the revocation of a license and/or termination and withdrawal of contracts for the use of natural resources and/or the suspension or cancellation of environmental and other permits for the use of natural resources in cases of violation by the user of natural resources of the environmental norms and regulations causing material damage to the environment and/or the public health;

- file claims with courts seeking restriction or suspension of economic and other operations carried out in violation of Kazakhstan environmental law;

- consider cases of administrative offenses related to environmental protection and submit materials to relevant authorities seeking administrative or criminal liability of those violating environmental protection regulations;

- participate in the assessment of damage caused as a result of violation of environmental regulation, issue rulings with regard to damages and file claims with court; and

- apply to authorized authorities to terminate subsoil use contract's validity where a contractor has refused to eliminate the causes for suspension of certain exploration or extraction activities or construction or operation of underground facilities or has not eliminated such causes within a sufficient timeframe; or where the subsoil user has not taken measures required under environmental law; or where it is impossible to eliminate the causes of suspension of subsoil use operations; or where there has been a material violation of contract or work progress obligations by a contractor (set by the contract or work program) within its capacity.

The directives issued by environmental protection officers are mandatory but may be challenged in courts.

Taxation

Corporate Income Tax

The general corporate income tax rate in Kazakhstan is 20%. Taxable items include (i) taxable income, (ii) income taxable at the source of payment and (iii) net income of a non-resident legal entity which carries out activity in Kazakhstan through a permanent establishment. Taxable income is calculated as the difference between adjusted aggregated annual income and any applicable deductions. The taxable period for the corporate income tax is the calendar year, from January 1 to December 31.

Withholding Tax Implications

Under the Tax Code, non-resident individuals and legal entities that receive income from Kazakhstan sources are either obligated to register with the Kazakhstan tax authorities and to withhold and remit income taxes or their income tax will be withheld by a Kazakhstan resident entity. The Tax Code provides for a sliding scale of withholding rates, ranging from 5% to 20%. The list of income which is not subject to withholding tax is stipulated by the Tax Code. According to Kazakhstan tax legislation, double tax treaty provisions are applicable as to countries that have an effective double tax treaty with the Republic of Kazakhstan.

There is also withholding tax applicable on the interest on the shareholder loans from BMB Munai, Inc. to Emir-Oil.

Capital Gains Tax

Under the Tax Code non-resident individuals and legal entities which buy shares of Kazakhstan subsoil use companies are obliged to register with the Kazakhstan tax authorities and to withhold and remit income tax at a rate 15% on any taxable gains received by the sellers from the sale of shares. Tax obligations do not arise only in case if capital gain is received from selling shares of a subsoil use company which are listed at a Kazakhstan or foreign stock exchange on the date of the sale. In connection with the Acquisition withholding tax is payable in Kazakhstan.

Value Added Tax (“VAT”)

The VAT is imposed (i) on the supply of goods or services if the place of supply is considered to be a part of Kazakhstan, (ii) on the import of goods for use or consumption in Kazakhstan, and (iii) on the export of goods for use or consumption outside Kazakhstan. VAT does not apply to the sale or purchase of securities.

The VAT is charged at a rate of 12% of the taxable amount for domestic and import transactions; exports enjoy a zero rate VAT. To qualify for the a zero rate VAT treatment, taxpayers must provide documentary confirmation of the export, including a customs declaration. Certain types of revenue are exempt from VAT, such as certain categories of sales turnover; turnover from land and housing; financial activities; and the interest element of finance lease payments. Certain VAT payers, such as exporters, may claim a refund on excess VAT payments, provided that qualifying criteria are met.

When non-residents provide services to residents deemed Kazakhstan taxpayers, the services may be deemed to be provided in Kazakhstan under the place-of-supply rules, and the VAT will be levied. In such instances, the service purchasers are responsible to pay the VAT to the tax authorities.

Taxation of Subsoil Use Operations

According to the Tax Code, tax regime stability clauses in previously signed subsoil use contracts remain effective only for: (1) production sharing agreements which were concluded with the Government of Kazakhstan or the Competent Authority before January 1, 2009 and which have undergone a mandatory evaluation by the tax authorities; and (2) subsoil use contracts approved by the President of Kazakhstan. As a result, operations under subsoil use contracts executed before 2009 which are not covered by the above exceptions and any new subsoil use contracts will be subject to taxation in accordance with the tax legislation in effect at the time the respective tax obligations arise.

Excess Profits Tax

The Excess Profits Tax (“EPT”) is calculated based on the income and expenses generated from operations under a subsoil use contract. EPT liability arises when the ratio of net annual income, calculated for EPT purposes, to allowable EPT deductions is more than 25% for the reporting period (i.e. calendar year). The Kazakh Tax Code provides for a sliding scale of EPT rates ranging from 10% to 60%. Emir-Oil has not paid EPT historically; however, it anticipates paying EPT in the future.

Bonuses

Two types of bonus payments by subsoil users are provided for under the Kazakh Tax Code: subscription bonus and commercial discovery bonus. A subscription bonus is a one-time bonus paid upon the execution of a subsoil contract in an amount depending on the contract type and categories of minerals reserves. A commercial discovery bonus is payable if a commercial discovery is made on the area covered by a subsoil contract, in an amount equal to 0.1% of the value of the approved recoverable reserves determined based on world prices.

Rental Tax

The Kazakh Rental Tax on exports is paid by individuals and legal persons who sell for export crude oil, natural gas liquids or coal, unless the amount of crude oil or natural gas liquids exported is within the quantities established by certain contracts under the Tax Code. Quantities of crude oil, natural gas liquids and coal that are exported are recognized as taxable items for the rental tax on export. The tax rates of the Kazakh Rental Tax on exports currently ranges from 0% to 32%, depending on the price of the minerals.

Minerals Extraction Tax

The Tax Code currently provides for a minimum 5% mineral extraction tax rate (for production not exceeding 250,000 tons) on production of crude oil (gas condensate inclusive) sold to the export market, and a 2.5% tax rate (for production not exceeding 250,000 tons) on production of crude oil (gas condensate inclusive) sold to the domestic market. It is not necessary for any production to be sold for mineral extraction tax liability to arise. The mineral extraction tax is generally levied against the value of extracted mineral resources. Kazakh mineral extraction rates currently range from 0% to 18.5%, depending on the type of mineral.

The Payment for Compensation of Historic Costs

The payment for compensation of historic costs is a subsurface user's obligation to compensate the state for the total costs it incurred for geological surveys and improvements on the relevant contract territory and for the exploration of oilfields prior to the execution of a subsurface use contract.

MANAGEMENT

Board of Directors

Our Board of Directors is responsible for and has general powers for the management and conduct of our business.

Our Board consists of eight directors, of whom four are executive directors, one is a non-executive director and the remaining three are independent non-executive directors. The executive directors are appointed for a term not exceeding three years, and our non-executive director and independent non-executive directors are appointed for an initial period of three years. One-third of our directors will be subject to re-election at each annual general meeting and every director must be subject to re-election at an annual general meeting at least once every three years.

Name	Age	Position(s)
Zhang Ruilin	42	Executive director, chairman and chief executive officer
Zhao Jiangwei.	40	Executive director, vice chairman and senior vice president
Forrest L. Dietrich. .	60	Executive director, senior vice president and authorized representative
Allen Mak	51	Executive director, chief financial officer, joint company secretary, senior vice president and authorized representative
Wang Sing	50	Non-executive director
Tsang Chi Kin	47	Alternate to Mr. Wang Sing
Mei Jianping.	53	Independent non-executive director
Jeffrey W. Miller. . .	50	Independent non-executive director
Cai Rucheng.	62	Independent non-executive director

Directors

Executive Directors

Zhang Ruilin, aged 42, has been our executive director, chairman and chief executive officer since his appointment on March 20, 2008. He, along with Mr. Zhao, is the controlling shareholder of FEEL. Following the takeover of MIE by FEEL from Microbes Inc. in August 2003, Mr. Zhang joined us in September 2003 and has since been a director of MIE. He is primarily responsible for overseeing our overall strategies, planning and day-to-day management and operations. Mr. Zhang has over 23 years of experience in the oil and gas business, during which he acquired his experience as an oilfield worker and technician for PetroChina in 1989 and as the chairman and general manager at a local oilfield services company, Jilin San Huan Petrochemical Co., Ltd., for over five years. In May 2003, he founded FEEL in Hong Kong, through which he acquired MIE from Microbes Inc. Mr. Zhang is a member of the Songyuan Committee of the China's National People's Congress. Mr. Zhang graduated from Jilin Petroleum College in 1995.

Zhao Jiangwei, aged 40, has been our executive director, vice chairman and senior vice president since his appointment on December 19, 2008. He is one of our Controlling Shareholders. Mr. Zhao has over 21 years of experience in the oil and gas industry, during which he acquired his experience as a technician for PetroChina at the Jilin oilfields from 1993 to 1999 and as the manager of the technical department at Jilin San Huan Petrochemical Co., Ltd. From 2000 to 2003. Following the takeover of MIE by FEEL from Microbes Inc. in August 2003, Mr. Zhao joined our company in September 2003 and has since been a director of MIE. He is and will continue to be primarily responsible for assisting the chairman in overseeing the operations at the Daan, Moliqing and Miao 3 oilfields. Mr. Zhao obtained a bachelor of arts degree from Daqing Petroleum College in 1999.

Forrest Lee Dietrich, aged 60, has been our executive director and senior vice president since his appointment on December 19, 2008. Prior to joining us in January 2002, Mr. Dietrich joined Microbes, Inc. in 1994 and held various technical and management positions during different phases of development of the production sharing contracts. He is primarily responsible for mid-term and long-term planning and reserves management. Mr. Dietrich has over 38 years of experience in the oil and gas business, during which he acquired his experience as the vice president of operations for Greenwich Oil Corporation, an oil company based in Dallas, Texas, from 1985 to 1994 and served in various capacities as area engineering supervisor, evaluations specialist and planning coordinator and in various staff engineering positions at Texaco USA (Getty Oil) in Texas and California from 1974 to 1985. Mr. Dietrich has been a member of the Society of Petroleum Engineers since 1972 and has been a professional engineer in the State of Texas since 1984. He has authored and co-authored four technical papers for the Society of Petroleum Engineers regarding microbial enhanced oil recovery and presented three of those papers at their technical meetings. Mr. Dietrich obtained a bachelor's degree in science in Petroleum and Natural Gas Engineering from Pennsylvania State University in 1974.

Allen Mak, aged 51, has been our executive director since his appointment on July 9, 2009. He is also our chief financial officer, joint company secretary and senior vice president. Mr. Mak joined our company in November 2008 as chief financial officer and has about 30 years of experience in finance and accounting. He was previously the chief financial officer of CITIC 21CN Company Limited (Stock Code: 241), a company listed on the Hong Kong Stock Exchange, for over three years. Prior to his career as a chief financial officer, Mr. Mak was an investment banker and has over 11 years of experience in investment banking. He was an assistant director at Peregrine, executive director at Citicorp and the managing director and head of the investment banking group of a securities firm based in Hong Kong. Mr. Mak also worked in the private equity business for over three years as an investment director at CVC Asia Capital and Citicorp. Prior to Mr. Mak's career in investment banking and private equity, he worked for seven years in the accounting profession at Price Waterhouse (subsequently renamed as PricewaterhouseCoopers) in Hong Kong, and KPMG and Deloitte in Canada. Mr. Mak has a bachelor's degree in Commerce from the University of British Columbia in Canada. He is a chartered accountant certified by the Canadian Institute of Chartered Accountants.

Non-executive Director

Wang Sing, aged 50, has been our non-executive director since his appointment on June 22, 2010. Mr. Wang is a partner of TPG and also the co-chairman of TPG Greater China & Head of TPG Growth North Asia. Mr. Wang currently serves as a non-executive director and a member of the audit committee and investment committee of China Renewable Energy Investment Limited, a company listed on the Hong Kong Stock Exchange. Prior to joining TPG, he was chief executive officer and executive director of TOM Group Limited from July 2000 to January 2006. During the period from July 1993 to May 2000, he held various positions at Goldman Sachs in both New York and Hong Kong as executive director. Prior to joining Goldman Sachs, Mr. Wang was a strategic consultant with McKinsey & Co., in Chicago, United States. In addition, Mr. Wang is the chairman of Amerinvest Group of Companies. He is also a member of the Standing Committee of the 10th Yunnan Provincial Committee of the Chinese People's Political Consultative Conference. He is currently a Listing Committee Member of The Hong Kong Stock Exchange of Hong Kong Limited. Mr. Wang has a bachelor degree in science from Yunnan University, PRC; and a master of science in Forestry and its relation to Land Use, a bachelor of arts degree in Philosophy, Politics and Economics and a master of arts from University of Oxford, U.K.

Tsang Chi Kin, aged 47, has been appointed as the alternate of our non-executive director, Mr. Wang Sing, since September 30, 2012. Mr. Tsang is an operating partner of TPG. He joined TPG Growth as an operating partner in 2007 and leads portfolio management for TPG Growth's North Asia investments, notably the group's investments in ShangPharma Corporation and NT Pharma. Prior to joining TPG, Mr. Tsang was with Australian Capital Equity ("ACE") since 2000, both in their London and Beijing offices. He was the managing director of China who oversaw the group's investment activities in the region and also served as the managing director of the WesTrac China dealership. Mr. Tsang also served as chairman of the Caterpillar China Dealers' Association. Before joining ACE, Mr. Tsang worked for The Walt Disney Company from 1994 to 2000. During that time, he was the director of business planning and development of Asia-Pacific for Walt Disney Imagineering, the theme park and real estate division of Disney, where he initiated and shepherded the Hong Kong Disneyland deal to its completion. Prior to his time at Disney, Mr. Tsang worked at The Boston Consulting Group in Asia-Pacific and at Citibank in the United States. Mr. Tsang holds an MBA in Management and Marketing from Northwestern University, and a BS in Operations Research & Industrial Engineering from Cornell University. Mr. Tsang is an active member and the former Treasurer of the China

Venture Capital and Private Equity Association and also the inaugural President of its Young Venture Capitalist Club. He is also serving on the Executive Committee of the Hong Kong Venture Capital and Private Equity Association and on the Hong Kong Trade Development Council's Financial Services Advisory Committee.

Independent Non-Executive Directors

Mei Jianping, aged 53, has been our independent non-executive director since his appointment on November 27, 2010. Mr. Mei has been a professor of finance at Cheung Kong Graduate School of Business in Beijing, China since 2006 and a fellow at Financial Institutions Center, the Wharton School of University of Pennsylvania, since 2004. He was a tenured associate professor of finance from 1996 to 2005 and an assistant professor of finance from 1990 to 1995 at New York University. From 2003 to 2008, he also taught at Tsinghua University as a special term professor of finance. Mr. Mei has been a director of Cratings.com Inc., United States since 1999. Since 2009, Mr. Mei has served on the boards of Powerlong Real Estate Holdings Limited, a company listed on the Hong Kong Stock Exchange, and Zhong De Securities Company Limited. Mr. Mei worked as a consultant for various financial institutions, such as Deutsche Bank, UBS, Prudential Insurance of America and Asia Development Bank. He has published a number of books and articles on topics related to finance. Mr. Mei received a bachelor's degree in Mathematics from Fudan University in 1982, a master's degree in Economics and a Ph.D. in Economics (Finance) from Princeton University in 1988 and 1990, respectively.

Jeffrey W. Miller, aged 50, has been our independent non-executive director since his appointment on November 27, 2010. Mr. Miller has over 27 years of experience in the oil and gas industry. Since 2008, Mr. Miller has been the director of upstream and investments for Mercuria Energy Trading Inc., one of the world's largest independent physical energy trading firms. He is responsible for Mercuria and certain of its affiliates' global portfolio of oil and natural gas assets, the majority of which are located in North and South America. Prior to Mercuria, Mr. Miller spent four years, from 2004 to 2008, as president of Moncrief Oil International, a private oil and natural gas company with assets in the former Soviet Union as well as North America. Prior to his career at Moncrief, Mr. Miller was a managing director in global energy investment banking for UBS AG, the successor of Dillon, Read & Co, which he joined in 1993. Mr. Miller received a bachelor's degree, magna cum laude, in Petroleum Engineering from Texas A&M University and a master's degree in Business Administration from the Columbia Business School.

Cai Rucheng, aged 62, has been our independent non-executive director since his appointment on November 27, 2010. Mr. Cai has over 32 years of experience working in the oil and gas industry. From 1968 to 2004, Mr. Cai worked at the Shengli oilfield in the Shandong Province for Sinopec and held the positions of section head at the Oilfield Geology Division, division head at the Reservoir Engineering Division and chief geologist. From 1998 to 2003, Mr. Cai was also appointed and acted as a senior member of the Technology Committee of Sinopec and the group leader of the expert group for development under the Senior Members Committee of Sinopec. Since 2004, Mr. Cai has retired from the above positions. Mr. Cai is currently the vice chairman of and secretary to the board of directors of Shandong Petroleum Society. Mr. Cai is a senior engineer and received a bachelor's degree in Oil and Gas Exploration from China University of Geosciences (formerly known as Beijing Institute of Geology) in 1967.

Senior Management

Shou Xuancheng, aged 63, has been our senior vice president since November 1, 2009. Dr. Shou joined our Company in November 2009 and is responsible for our development and expansion. Dr. Shou has over 40 years of experience in the oil and gas industry, during which he held a number of high-level positions in the China National Petroleum Corporation and its subsidiaries between 1985 and 2004, including China National Oil & Gas Exploration and Development Corporation, CNPC International (Kazakhstan) Co. Ltd., PetroChina Company Limited and PetroChina International Limited, and as the vice chairman and executive director of CITIC Resources Holdings Limited, a company listed on the Hong Kong Stock Exchange, where he was responsible for the planning and development of oil investments and portfolio from 2005 to 2009. Dr. Shou holds a master's degree and a doctoral degree in Engineering from the Petroleum University of China.

Zhu Jiucheng, aged 43, has been our vice president since March 2011. Dr. Zhu joined our Company in March 2011 and is responsible for the operation of international business units and expansion of the Company. Dr. Zhu has over 18 years of experience in the oil and gas industry, during which he held various positions in China National Petroleum Corporation and its subsidiaries between 1996 and 2008, including China National Oil & Gas Exploration and Development Corporation, PetroChina Companies in Indonesia, PetroChina International Ltd. and CNPC International Ltd. and the executive president of UNIWE International Energy Service Ltd., a petroleum service company providing technical appraisal and asset evaluation for oil and gas assets, where he was in charge of the technical team from 2008. Dr. Zhu holds a doctoral degree in Petroleum Engineering from the Petroleum University in China.

Andrew S. Harper, aged 61, has been our chief geoscientist from 2001 to 2008 and rejoined us on April 1, 2010. Mr. Harper was our chief geologist and president of our international operations from 2001 to 2008. Mr. Harper has over 23 years of experience in the oil and gas industry, during which he acquired his experience working in the exploration and production team of ARCO International Oil & Gas Company prior to joining us in 2001. During his time with ARCO, Mr. Harper worked extensively overseas, including assignments in Chile, Dubai, Norway, the United Kingdom and Indonesia, and as ARCO's resident manager in Bogota, Colombia. Mr. Harper also worked as a basin studies director, Latin America exploration director and exploration project director at the headquarters of ARCO International in the United States from 1990 to 1996 and as an exploration manager at the Andean Basins in ARCO Latin America Inc. from 1999 to 2000. Mr. Harper received a bachelor's degree in Geology from Williams College and a master's degree in Geology from the University of Southern California.

Wang Changlin, aged 61, has been the senior advisor to our Chairman since October 2003 and the director for office of the Board of Directors. Mr. Wang is responsible for corporate level operation and management. He has over 33 years of experience in the oil and gas industry. Prior to joining MIE in 2003, Mr. Wang worked for PetroChina in the Jilin oilfields and held various positions such as section chief, office director and deputy factory manager and has extensive experience in the operation and management of oilfields. Mr. Wang obtained a bachelor's degree from Jilin Provincial Communist Party School and is a senior economist.

Cui Yujia, aged 36, has been the assistant to our chairman since December 2004. Mr. Cui has over 13 years of experience in corporate finance. Prior to joining MIE in 2004, Mr. Cui worked for Changchun Heat Shrinkable Materials Company Limited, which is a subsidiary of China Kinwa High Technology Company Limited, as financial manager. From 2004 to 2008, he was the financial manager of MIE. Mr. Cui graduated from Changchun Taxation College with a bachelor's degree in International Accountancy.

Yang Bo, aged 35, has been our financial controller since April 10, 2007. Mr. Yang has over 13 years of experience in finance and accounting. Mr. Yang is responsible for the management of financial reporting. Prior to joining us, Mr. Yang worked for Ernst & Young Hua Ming as an audit manager from 2006 to March 2007. From 2002 to 2005, Mr. Yang worked for PricewaterhouseCoopers Zhong Tian CPAs Company Limited as a senior auditor. From 2000 to 2002, Mr. Yang was an auditor at Arthur Andersen Hua Qiang CPAs. Mr. Yang graduated from Renmin University of China with a bachelor's degree in International Accounting in 1999. He is a Certified Public Accountant in China and he is a member of the Beijing Institute of Certified Public Accountants.

Lian Yunfei, aged 38, has been our general counsel since November 18, 2009. Ms. Lian joined our company in November 2009 and has over seven years of experience in the legal field. Prior to joining us, Ms. Lian worked as an associate at Baker & McKenzie's Hong Kong office from 2007 to March 2009 focusing on mergers and acquisitions and general corporate transactions, and Grandall Legal Group (Shanghai), during 2009, focusing on capital markets and private and public securities offerings. In her early career, starting in 2001, she worked in a law firm in Canada, focusing on general practice in Canada, for over three years. Ms. Lian obtained a juris doctor degree in the Faculty of Law from the University of British Columbia in 2007. She received a master's degree in Materials Science and Engineering from the University of Florida in 2001 and a bachelor's degree in Materials Science and Engineering from Shanghai University in 1996. She is admitted to practice law in New York.

Mei Liming, aged 31, has been our financial manager since May 27, 2009. Prior to his position as our financial manager, Mr. Mei held the position of vice financial manager from October 2006 to May 2009 and accountant from January 2005 to October 2006. Prior to joining our company, Mr. Mei worked as an accountant in SONY in 2004. Mr. Mei graduated from Beijing Institute of Petrochemical Technology with a bachelor's degree in Accounting in 2003.

Joint Company Secretaries

Allen Mak, CA, is our joint company secretary. Besides being a chartered accountant certified by the Canadian Institute of Chartered Accountants, Mr. Mak has over 30 years of experience in finance and accounting, as further set out in "— Directors."

Wong Sau Mei is our joint company secretary. Ms. Wong is a senior manager of corporate services division of Tricor and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She has over 16 years' experience in company secretarial area.

Relationship among Directors and Senior Management

Save for Mr. Zhao, our vice chairman, senior vice president and executive director, who is the brother-in-law of Mr. Zhang, our chairman, chief executive officer and executive director, there are no family relationships between any of our directors and senior management.

Remuneration of Directors and Senior Management

Our directors receive remuneration in the forms of fees, salaries, allowances and other benefits-in-kind, including our contribution to the pension plan on their behalf.

The aggregate remuneration that we paid to our directors for each of the three financial years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 was approximately RMB18,200,000, RMB24,078,000, RMB42,914,000 and RMB10,323,000, respectively.

The aggregate remuneration that we paid to our five highest paid individuals of our company for each of the three financial years ended December 31, 2009, 2010 and 2011 was approximately RMB20,035,000, RMB30,936,000 and RMB48,572,000, respectively.

Our directors' remuneration is subject to review by the remuneration committee and the Board of Directors at the end of each financial year of our company.

Stock Incentive Plan

The Board adopted the stock incentive compensation plan (the "Plan") prior to the listing of the Company on the Hong Kong Stock Exchange designed to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees and directors and promote the success of our business.

Share Option Scheme

On November 27, 2010, the Board adopted a new share option scheme (the "Scheme") to enable the Company to grant options to selected participants as incentives or rewards for their contributions to our Group. Participants of the Scheme include any executive director, non-executive director or full time employee of the Group as invited by the Board. The Scheme shall be valid and effective for a period of 10 years commencing from the approval of the Scheme.

Share Award Scheme

To supplement the Plan in respect of the operation of the share appreciation rights, the board of the Company resolved to adopt a Share Award Scheme on May 30, 2012, pursuant to which the Company granted to selected grantees who are persons holding Stock Appreciation Rights (“SAR”) under the Plan, such number of awarded shares as is equal to the number of outstanding notional shares to which the SAR of the selected grantees relates.

Audit Committee

Our company established an audit committee on November 23, 2010 with effect from December 14, 2010, the date of listing of our ordinary shares on the Main Board of the Hong Kong Stock Exchange with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our company.

The audit committee currently comprises three directors, namely Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive director. Mr. Miller is the chairman of the audit committee.

Remuneration Committee

Our company established a remuneration committee on November 23, 2010 with effect from December 14, 2010 with written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board regarding the compensation of our executive directors and senior management. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of our senior management.

The remuneration committee currently comprises Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive director. Mr. Mei is the chairman of the remuneration committee.

Nomination Committee

Our company established a nomination committee on November 23, 2010 with effect from December 14, 2010. The primary duties of the nomination committee are to assist the Board in selecting individuals qualified to become our directors and in determining the composition of the Board and its committees.

The nomination committee currently comprises Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive director. Mr. Mei is the chairman of the nomination committee.

Corporate Governance Measures

Our company has adopted the Code on Corporate Governance Practices (the “Code”) the Listing Rules. The Code sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders. Our company will state in its interim and annual report whether it has complied with the Code, and will provide details of, and reasons for, any deviations from it in the Corporate Governance Report which will be included in its annual report. Our company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers which provides, among other matters, prohibitions on directors’ dealings in securities. Our directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority shareholders’ rights. Furthermore, our directors are required to comply with provisions under the Listing Rules and certain matters are required to be reviewed by our independent non-executive directors.

Non-Competition Undertaking From Our Controlling Shareholders

In order to maintain a clear delineation of our respective businesses going forward, FEEL, Mr. Zhang and Mr. Zhao (together the "Covenantors") have jointly and severally entered into the Non-Competition Deed, pursuant to which each of the Covenantors has undertaken to our company (for itself and for the benefit of its subsidiaries) that, during the Non-Compete Period (as defined below), each of them will not, whether as principal or agent and whether undertaken directly or indirectly (including through any of their associates, subsidiaries, partnerships, joint ventures or other contractual arrangements) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in any business related to exploration, development and production of oil and such other business conducted or carried on by our company from time to time (the "Restricted Business").

Notwithstanding the foregoing, each of the Covenantors may:

(a) carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business where the opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business has first been offered or made available to our company and the Covenantors shall provide such information as may reasonably be required by our company in order to make an informed assessment of such business opportunity, and our company, after review and approval by our independent non-executive directors or shareholders as required under relevant laws and regulations, has declined such opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business, provided that the principal terms by which any Covenantor (or any of their associate(s)) subsequently engages in, invests in, participates in or otherwise is interested in such Restricted Business are not more favorable in any material aspect than those offered or made available to our company;

(b) have interests in shares or other securities (whether or not listed on any stock exchange) of a company conducting any Restricted Business provided that:

    (i) the Covenantors taken together are not so interested as to be able to exercise or control the exercise of 5% or more of the voting power at general meetings of such company or control the composition of a majority of the board of directors of such company; and

    (ii) at all times there is another independent shareholder who either alone is, or together with its or its associates taken together are, directly or indirectly interested so as to be able to exercise or control the exercise of a greater amount of voting power at general meetings of such company than the Covenantors are able, or control the composition of a majority of the board of directors of such company.

The "Non-Compete Period" stated in the Non-Competition Deed refers to the period commencing on December 14, 2010 and ending on the earlier of:

(a) the date on which the Covenantors (individually or collectively) and/or any of their associates, individually or collectively, cease to be a controlling shareholder of our company within the meaning of the Listing Rules; and

(b) the date on which the shares cease to be listed on the Hong Kong Stock Exchange.

Under the Non-Competition Deed, in the event that, during the Non-Compete Period, any of the Covenantors intends to dispose of any Restricted Business or any interest in any Restricted Business, the Covenantors shall first offer to our company the right to acquire such business or interest and it may only proceed with such disposal to any third party, on terms not more favorable than those offered to our company, following the rejection of such offer by our company.

Our Controlling Shareholders have also undertaken to provide an annual confirmation to the Company confirming that it and its associates have not breached the terms of the Non-Competition Deed and to provide all information necessary, subject to confidentiality restrictions owed by the Covenantors to a third party for the annual review by the independent non-executive directors and professional advisers (if they so require) for the enforcement of the Non-Competition Deed.

The following measures will be adopted by our company in respect of the enforceability of the Non-Competition Deed:

(a) our independent non-executive directors will review, on an annual basis, the compliance of the Non-Competition Deed, including any potential conflicts of interest and competition arising from the taking up by our Controlling Shareholders of opportunities rejected by our Group pursuant to the Non-Competition Deed; and

(b) our company will disclose decisions on matters reviewed by our independent non-executive directors relating to compliance and enforcement of the Non-Competition Deed in annual reports of our company or by way of announcement to the public.

Our directors are of the view that our Group's measures are adequate to safeguard the effectiveness of the Non-Competition Deed.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and its associates will be required to comply with the requirements of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements.

PRINCIPAL SHAREHOLDERS

So far as our directors are aware as of December 31, 2012, the following persons will be directly or indirectly interested in 5% or more of the issued Shares:

Shareholder	Number of Shares	Percentage of Shares
FEEL[(1)]	1,414,600,000	53.42%
David Bonderman[(2)]	230,838,000	8.72%
James Coulter[(2)]	230,838,000	8.72%
TPG[(2)]	211,855,234	8.02%
Mr. Fung Che[(3)]	189,596,000	7.16%
Ever Union Capital Limited[(3)]	189,596,000	7.16%
Harmony Energy	188,438,000	7.12%

Notes:

(1) FEEL is held by Mr. Zhang and Mr. Zhao as to 9.99% and 90%, respectively. On May 16, 2003, 9,999 shares in FEEL were issued to Mr. Zhang, who then transferred 9,000 shares out of his 9,999 shares to Mr. Zhao on October 4, 2003. Mr. Zhang and Mr. Zhao have entered into an Acting-in-Concert Agreement under which they agreed to act in concert in relation to all matters that require the decisions of the shareholders of FEEL. Pursuant to the Acting-in-Concert Agreement, if a unanimous opinion in relation to the matters that require action in concert is unable to be reached, Mr. Zhang shall be allowed to vote on both his and Mr. Zhao's shares.

(2) The interests deemed to be held by each of Mr. David Bonderman and Mr. James Coulter consists of 211,855,234 ordinary shares held by TPG and 18,982,766 ordinary shares held by TPG Star Energy Co-Invest, LLC. The sole shareholder of TPG is TPG Star, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Star GenPar, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Star GenPar Advisors, LLC., a Delaware limited liability company, whose sole member is TPG Holdings I, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Holdings I-A, LLC, a Delaware limited liability company, whose sole member is TPG Group Holdings (SBS), L.P., a Delaware limited partnership, which is managed by its general partner, TPG Group Holdings (SBS) Advisors, Inc., a Delaware company, whose shareholders are Mr. David Bonderman and Mr. James Coulter. TPG Star Energy Co-Invest, LLC is a Delaware limited liability company, whose managing member is TPG Star Advisors, L.L.C., a Delaware limited liability company, whose sole member is TPG Ventures Holdings, L.L.C., a Delaware limited liability company, whose managing member is TPG Ventures Partners, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Ventures Professionals, L.P., a Delaware limited partnership, which is managed by its general partner, Tarrant Advisors, Inc., a Texas company, whose sole shareholder is Tarrant Capital Advisors, Inc., a Delaware company, whose shareholders are Mr. David Bonderman and Mr. James Coulter.

(3) Consists of 188,438,000 ordinary shares held by Harmony Energy Limited and 1,158,000 ordinary shares held by Ever Union Capital Limited, a company incorporated in the British Virgin Islands. Harmony Energy Limited is a wholly owned subsidiary of Ever Union Capital Limited. Mr. Fung Che is the sole shareholder of Ever Union Capital Limited and has voting and investment control over the securities beneficially owned by Ever Union Capital Limited.

RELATED PARTY TRANSACTIONS

From time to time, the Company has entered into a number of transactions with its related parties. The Company believes that each of its related party transactions was entered into in the ordinary course of business on fair and reasonable commercial terms in the Company's interest and the interest of its shareholders as a whole. For further information, please refer to note 23, 31 and 29 of the notes to the consolidated financial statements of the years ended December 31, 2010 and 2011 and the six months ended June 30, 2012, respectively, from pages F-20, 65 and 104, respectively, of this offering memorandum.

As a listed company on the Hong Kong Stock Exchange, we are subject to Chapter 14A of the Listing Rules which require that certain connected transactions be subject to reporting, announcement, annual review, and/or independent shareholders' approval requirements under the Listing Rules. The Company has made an announcement regarding the following continuing connected transactions on December 31, 2012, brief information of which is set out below.

Lease of vehicles by Ms. Zhao Jiangbo to us

On December 31, 2012, Mrs. Zhang and the Company entered into the renewed vehicle rental agreement (the "Renewed Vehicle Rental Agreement") for a term of three years ending December 31, 2015, pursuant to which Mrs. Zhang agreed to rent to the Group from time to time a number of vehicles for the purpose of the day-to-day business operations of the Group, subject to the entering into of individual contracts as agreed between Mrs. Zhang and the Group from time to time, pursuant to the Renewed Vehicle Rental Agreement. The rental fees for the vehicles will be based on normal commercial terms and negotiated on arm's length basis between the parties with reference to prevailing market rates, and shall be no less favourable than those offered by independent third parties to the Group.

Historical amounts

The aggregate rental fees paid by us to Mrs. Zhang for the financial years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 were approximately RMB4.3 million, RMB3.3 million, RMB3.5 million and RMB1.9 million, respectively.

Proposed cap and basis of cap

The proposed annual caps for the transactions under the Renewed Vehicle Rental Agreement are RMB4.1 million, RMB4.6 million and RMB5.1 million for the three years ending 31 December 2013, 2014 and 2015, respectively. Such annual caps are determined by reference to the historical values of the transactions between Mrs. Zhang and the Group, and the expected increase in demand for vehicles to be rented by the Group from Mrs. Zhang taking into account the business growth prospects of the Group.

Provision of oilfield services by Jilin Guotai to us

On December 31, 2012, Jilin Guotai, Guotai Technology and the Company entered into the renewed oilfield services agreement (the "Renewed Vehicle Rental Agreement") for a term of three years ending December 31, 2015. Under the Renewed Oilfield Services Agreement, Jilin Guotai and Guotai Technology agreed to provide, and procure that their respective subsidiaries provide, and the Group agreed to utilise, from time to time various oilfield services including well maintenance services, well logging services, fracturing services, oil tanker transportation services, oilfield construction related works and other oil operations related services (the "Oilfield Services"), subject to the entering into of individual contracts as agreed between members of Jilin Guotai Group and members of the Group from time to time. In addition, the terms of the individual contracts between members of the Group and the members of Jilin Guotai Group are subject to review and approval of the joint management committee formed for the purpose of supervising the Group's petroleum operations and chaired by a chief representative designated by China National Petroleum Corporation pursuant to each production sharing contract.

As one or more of the applicable percentage ratios in respect of the continuing connected transactions under the Renewed Oilfield Services Agreement are, on an annual basis, more than 5%, the Renewed Oilfield Services Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions and are subject to independent shareholders' approval. The approval of the independent shareholders in respect of the Renewed Oilfield Services Agreement and the transactions contemplated thereunder will be sought at the annual general meeting, which is expected to be held in May 2013, by way of poll. Mr. Zhang and Mr. Zhao and their respective associates will abstain from voting in respect of the Renewed Oilfield Services Agreement and the transactions contemplated thereunder at the annual general meeting. For further information, please see our circular dated January 21, 2013.

If Jilin Guotai does not provide oilfield services to us, we do not foresee any difficulty in obtaining similar services from independent third parties.

Historical amounts

The aggregate annual service fees paid by us to Jilin Guotai for the provision of such oilfield services for each of the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 were approximately RMB77.3 million, RMB108.6 million, RMB163.3 million and RMB90.6 million, respectively.

Proposed cap and basis of cap

The proposed annual caps for the transactions under the Renewed Oilfield Services Agreement are RMB250.0 million, RMB280.0 million and RMB330.0 million for the three years ending December 31, 2013, 2014 and 2015, respectively. Such annual caps are determined by reference to the historical values of the transactions between the Group and members of Jilin Guotai Group for Daan, Moliqing and Miao 3 production sharing contracts and the anticipated demand for such services by the Group taking into account the requirements of Daan, Moliqing and Miao 3 production sharing contracts and the recent acquisitions of PCR and Sino Gas, which are primarily involved in oil and gas development and production and the exploration of unconventional gas assets in the PRC, respectively, and the business growth prospects of the Group.

DESCRIPTION OF OTHER INDEBTEDNESS

The following is a summary of our current indebtedness and their respective terms. The following summary does not purport to be complete.

Term Loan from Minsheng Bank

On June 18, 2012, MIE signed a US$80 million syndicated loan facility with Minsheng Bank. The term of the loan is 35 months and bears interest at LIBOR plus a margin with effect from September 7, 2012, repayable in three equal instalments on the 24th, 30th and 35th months after June 25, 2012. The loan is unsecured and guaranteed by the Company. During 2012, MIE had drawn down the full US$80 million facility. We intend to use a portion of the proceeds of this offering to repay this loan in full.

Second Term Loan from Minsheng Bank

On December 24, 2012, MIE signed a US$100 million syndicated loan facility with Minsheng Bank. The term of the loan is 35 months and bears interest at LIBOR plus a margin, repayable in three equal instalments on the 24th, 30th and 35th months after the first utilisation date. We have agreed to secure part of the facility with a charge over our bank accounts with Minsheng Bank, Hong Kong Branch and a pledge of our monthly entitlement to a share of the production of crude oil produced under the Moliqing PSC. The loan is also guaranteed by the Company. We have drawn down US$60 million under this loan. We intend to use a portion of the proceeds of this offering to repay substantially all of this loan.

Loan from CCB

MIE entered into a RMB60 million working capital loan agreement with CCB on January 25, 2013 for six months commencing on January 25, 2013. The interest rate is the base rate as published by the People's Bank of China at 5.6% per annum plus 15% of the base rate and the resulting effective interest rate is 6.44% per annum. The loan is guaranteed by two wholly owned subsidiaries of MIE, Gobi Energy Limited and Riyadh Energy Limited. We have not drawn down any amount under this facility as of the date of this offering memorandum.

2011 Notes

On May 12, 2011, the Company issued the 2011 Notes. The 2011 Notes bear a coupon rate of 9.75% per annum, payable semi-annually in arrears on May 12 and November 12 of each year, commencing on November 12, 2011. The 2011 Notes mature in May 2016.

The 2011 Notes are general senior obligations of the Company, guaranteed by certain subsidiaries of the Company and are secured by Capital Stock of the subsidiaries of the Company. The restrictive covenants in the indenture governing the 2011 Notes are similar to those in the Indenture governing the Notes being offered in this offering.

At any time on or after May 12, 2014, the Company may redeem the 2011 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing on May 12 of any year set forth below:

Period	**Redemption Price**
2014	104.8750%
2015	102.4375%

At any time prior to May 12, 2014, the Company may at its option redeem the 2011 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2011 Notes, plus a make-whole premium and accrued and unpaid interest to the redemption date.

In addition, at any time prior to May 12, 2014, the Company may redeem up to 35% of the aggregate principal amount of the 2011 Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 109.75% of the principal amount of the 2011 Notes, plus accrued and unpaid interest to the redemption date, provided that at least 65% of the aggregate principal amount of the 2011 Notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

DESCRIPTION OF THE NOTES

For purposes of this "Description of the Notes," the term "Company" refers only to MIE Holdings Corporation, a company incorporated with limited liability under the laws of the Cayman Islands, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a "Subsidiary Guarantor," and each such guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an indenture (the "Indenture"), to be dated as of the Original Issue Date, among the Company, the initial Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the "Trustee").

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees (as defined below). This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date during normal office hours at the corporate trust office of the Trustee at 50th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

Brief Description of the Notes

The Notes are:

- general senior obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- *pari passu* in right of payment with the US$400 million 9.75% Senior Notes due 2016 (the "Existing Notes") except to the extent of the collateral securing the Existing Notes, which comprises Capital Stock of certain of the Company's Restricted Subsidiaries;
- guaranteed by the Senior Guarantors on a senior basis, subject to the limitations described below under the caption "— The Subsidiary Guarantees" and in "Risk Factors — Risks Relating to the Notes and the Subsidiary Guarantees";
- guaranteed by Senior Subordinated Subsidiary Guarantors on a senior subordinated basis, subject to the limitations described below under the caption "— The Subsidiary Guarantees" and in "Risk Factors — Risks Relating to the Notes and the Subsidiary Guarantees";
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below) and any Unrestricted Subsidiaries; and
- effectively subordinated in right of payment to certain secured debt of the Subsidiary Guarantors permitted to be Incurred under the Indenture to the extent of such security, including Capital Stock of certain of the Company's Restricted Subsidiaries that secures the Existing Notes.

The Notes will mature on February 6, 2018 unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "— Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued. The Notes will bear interest at 6.875% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on February 6 and August 6 of each year (each an "Interest Payment Date"), commencing August 6, 2013.

Interest on the Notes will be paid to Holders of record at the close of business on the day 15 calendar days before each Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or premium (if any) or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Trustee, then payment of principal or premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360 day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in Dublin, Ireland (which initially will be the corporate trust administration office of the Paying Agent, currently located at Ground Floor, 1 North Wall Quay, Dublin 1, Ireland, Attention: Agency and Trust — PPA Payments), and the Notes may be presented for registration of transfer or exchange at such office or agency; provided that, at the option of the Company, payment of interest may be made by check mailed at the Company's expense to the address of the Holders as such address appears in the Note register.

The Subsidiary Guarantees

On the Original Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries and the initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than Condor Energy Technology LLC ("Condor") and Sino Gas and Energy Limited ("SGE"). All of the Restricted Subsidiaries that are not Subsidiary Guarantors are collectively referred to herein as the "Non-Guarantor Subsidiaries."

As of the Original Issue Date, the Company has no Subsidiaries organized under the laws of the PRC. None of the future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that the Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its Indebtedness and its trade creditors before it will be able to distribute any of its assets to the Company. See "Risk Factors — Risks Relating to the Notes and the Subsidiary Guarantees — We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries."

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

- is a general senior obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of any assets serving as security therefor, including Capital Stock of certain of the Company's Restricted Subsidiaries that secures the Existing Notes;

- is senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and

- ranks at least *pari passu* with all other existing and future unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor, including the guarantees in respect of the Existing Notes except to the extent of the collateral securing the Existing Notes (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

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

- is a general senior subordinated obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of any assets serving as security therefor, including Capital Stock of certain of the Company's Restricted Subsidiaries that secures the Existing Notes;

- is subordinated in right of payment to all future Designated Senior Indebtedness Incurred by such Subsidiary Guarantor;

- is senior in right of payment to all existing and future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and

- ranks at least *pari passu* with all existing and future Senior Subordinated Indebtedness of such Subsidiary Guarantor including the guarantees in respect of the Existing Notes except to the extent of the collateral securing the Existing Notes (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

On the Original Issue Date, (i) MIE New Ventures Corporation ("MIE New Ventures"), Palaeontol Coöperatief U.A., Palaeontol B.V., Emir-Oil LLC, MIE Jurassic Energy Corporation, Asia Dynamic Energy Corporation, Asia Power Energy Corporation, and Pan-China Resources Limited will be Senior Guarantors, (ii) MIE, Gobi Energy Limited and Riyadh Energy Limited will be Senior Subordinated Subsidiary Guarantors and (iii) Condor and SGE will be Non-Guarantor Subsidiaries.

The material indebtedness of the Company and its Restricted Subsidiaries comprises (i) US$140 million under the China Minsheng Facility and (ii) US$400 million aggregate principal amount of the Existing Notes, which are secured by Capital Stock of certain Restricted Subsidiaries of the Company.

The Company will cause each of its future Subsidiaries (other than Subsidiaries that are organized under the laws of the PRC), within 10 Business Days (which period will be increased by the number of days required by law or regulation to obtain any governmental consent or approval required, if any, in order to provide such Guarantee) after becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes. Each Subsidiary of the Company that guarantees the Notes after the Original Issue Date is referred to as a "Future Subsidiary Guarantor" and, upon execution of the applicable supplemental indenture to the Indenture, will be a "Subsidiary Guarantor." Notwithstanding the foregoing, the Company shall not be obligated to cause a Restricted Subsidiary to Guarantee the Notes, or shall be entitled to limit the value of any such Guarantee, as applicable, to the extent that such Guarantee would be expected to give rise to or result in (now or in the future) any violation of applicable law or regulation or if after using reasonable best efforts, it is commercially unreasonable to provide such Guarantee.

Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Notes and the Subsidiary Guarantees — The Subsidiary Guarantees may be challenged under applicable financial assistance, insolvency, corporate benefit or fraudulent transfer or unfair preference laws, which could impair the enforceability of the Subsidiary Guarantees."

Subordination of the Senior Subordinated Subsidiary Guarantors

The Subsidiary Guarantors have the ability to incur additional Indebtedness of up to the greater of (i) US$400.0 million and (ii) 30% of Consolidated Tangible Assets as Permitted Indebtedness under Credit Facilities as set forth under clause (b)(1) of "— Certain Covenants — Limitation on Indebtedness and Preferred Stock." The Indebtedness Incurred by MIE and its Subsidiaries under Credit Facilities is Designated Senior Indebtedness and the Subsidiary Guarantee provided by such Subsidiary Guarantors is subordinated and considered a Senior Subordinated Subsidiary Guarantee.

The payment of all Obligations by any Senior Subordinated Subsidiary Guarantor on or relating to the Notes, including the Subsidiary Guarantee of each Senior Subordinated Subsidiary Guarantors, will be subordinated in right of payment to the prior payment in full in cash or cash equivalents of all Obligations due in respect of Designated Senior Indebtedness. As of the Original Issue Date, each of the China Minsheng Facility and the CCB Facility is Designated Senior Indebtedness and MIE, Gobi Energy Limited and Riyadh Energy Limited are Senior Subordinated Subsidiary Guarantors.

The holders of Designated Senior Indebtedness will be entitled to receive payment in full in cash or cash equivalents of all Obligations due in respect of such Indebtedness before the Holders will be entitled to receive any payment or distribution of any kind or character with respect to any Obligations on or relating to the Notes, including the Subsidiary Guarantee, in the event of any distribution to creditors of the relevant Senior Subordinated Subsidiary Guarantor:

- in a total or partial liquidation, dissolution or winding up of such Senior Subordinated Subsidiary Guarantor;
- in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to such Senior Subordinated Subsidiary Guarantor or its assets;
- in an assignment for the benefit of creditors; or
- in any marshalling of such Senior Subordinated Subsidiary Guarantor's assets and liabilities.

In addition, the Senior Subordinated Subsidiary Guarantor may not make any payment or distribution of any kind or character with respect to any Obligations on or relating to the Notes, including the Subsidiary Guarantee, or acquire any Notes for cash or assets or otherwise, if:

- a payment default on any Designated Senior Indebtedness occurs and is continuing; or

- any other default occurs and is continuing on any Designated Senior Indebtedness that permits holders of such Indebtedness to accelerate its maturity and the Trustee receives a notice of such default (a "Payment Blockage Notice") from the representative of such Indebtedness.

Payments on and distributions with respect to any Obligations on or with respect to the Notes may and shall be resumed:

- in the case of a payment default, upon the date on which all payment defaults are cured or waived; and

- in case of a nonpayment default, the earliest of (1) the date on which all such nonpayment defaults are cured or waived, (2) 179 days after the date on which the applicable Payment Blockage Notice is received or (3) the date on which the Trustee receives notice from the representative for relevant Designated Senior Indebtedness rescinding the Payment Blockage Notice, unless the maturity of such Indebtedness has been accelerated.

No new Payment Blockage Notice may be delivered unless and until 360 days have elapsed since the effectiveness of the immediately prior Payment Blockage Notice.

No nonpayment default that existed or was continuing on the date of delivery of any Payment Blockage Notice to the Trustee shall be, or be made, the basis for a subsequent Payment Blockage Notice unless such default shall have been cured or waived for a period of not less than 90 consecutive days. Any subsequent action or any breach of any financial covenants for a period ending after the date of delivery of the initial Payment Blockage Notice that in either case would give rise to a default pursuant to any provisions under which a default previously existed or was continuing will constitute a new default for this purpose.

Notwithstanding anything to the contrary, payments and distributions made from the trust established pursuant to the provisions described under "— Defeasance" will be permitted and will not be subordinated so long as the payments into the trust were made in accordance with the requirements described under "— Defeasance" and did not violate the subordination provisions when they were made.

The Company must, or must procure that the relevant Senior Subordinated Subsidiary Guarantor, promptly notify the representative of relevant Designated Senior Indebtedness if payment of the Notes is accelerated because of an Event of Default.

As a result of the subordination provisions described above in the event of a bankruptcy, liquidation or reorganization of a Senior Subordinated Subsidiary Guarantor, Holders may recover less ratably than creditors of the Company who are holders of Designated Senior Indebtedness. See "Risk Factors — Risks Relating to the Notes and the Subsidiary Guarantees — Your right to receive payment on the Senior Subordinated Subsidiary Guarantees is subordinated to any future Designated Senior Indebtedness."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;

- upon a defeasance as described under "— Defeasance — Defeasance and Discharge";

- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture;

- upon the sale or disposition (including by way of merger or consolidation) of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants described under the captions "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Certain Covenants — Limitation on Asset Sales," and "— Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture;

- upon a Kazakh Business IPO, provided that the sale of shares complies with "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries";

- upon a Permitted IPO, *provided that* (1) any Indebtedness incurred by the relevant Subsidiary Guarantor and any Subsidiary of such Subsidiary Guarantor under clause (b)(1) under "— Certain Covenants — Limitation on Indebtedness and Preferred Stock" shall be deemed to constitute an Incurrence not permitted by clause (b)(1) under "— Certain Covenants — Limitation on Indebtedness and Preferred Stock" and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the terms of the Indenture.

On the Original Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries and each of the Restricted Subsidiaries other than Condor and SGE will be a Subsidiary Guarantor. However, under the circumstances described below under the caption "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture and will not guarantee the Notes.

Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; provided that the issuance of any such Additional Notes shall then be permitted under clause (a) of the "— Certain Covenants — Limitation on Indebtedness and Preferred Stock" covenant described below and the other provisions of the Indenture.

Optional Redemption

At any time on or after February 6, 2016 the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to (but excluding) the redemption date, if redeemed during the 12-month period commencing on February 6 of any year set forth below:

Period	Redemption Price
2016	103.4375%
2017	101.71875%

At any time prior to February 6, 2016 the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but excluding) the redemption date.

In addition, at any time prior to February 6, 2016 the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 106.875% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but excluding) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed, the Trustee will select Notes for redemption as follows:

- if the Notes are listed on any securities exchange, in compliance with the requirements of the principal securities exchange on which the Notes are then traded; or

- if the Notes are not listed on any securities exchange, on a pro rata basis, by lot or by such other method as the Trustee deems fair and appropriate.

No Note of US$200,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following on the occurrence of a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Indebtedness of the Company may also (i) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event, (ii) provide that a Change of Control Triggering Event is a default or (iii) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The ability of the Company to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes and the Subsidiary Guarantees — We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The definition of Change of Control Triggering Event includes a phrase relating to the sale of "all or substantially all" of the assets of the Company. No precise definition of the phrase has been established under applicable law, and the phrase will likely be interpreted under applicable law of the relevant jurisdictions based on particular facts and circumstances. Accordingly, there may be a degree of uncertainty as to the ability of a Holder to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund; Offers to Purchase; Open Market Purchases

The Company is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Company may be required to offer to purchase Notes as described under the captions "— Repurchase of Notes Upon a Change of Control Triggering Event" and "— Certain Covenants — Limitation on Asset Sales." The Company may at any time and from time to time purchase Notes in the open market or otherwise provided that any such Notes, once purchased, must not be resold. The Notes so purchased, while held by or on behalf of the Company or any Affiliate of the Company, shall not entitle the holder to vote the Notes and shall not be deemed outstanding for purposes of calculating quorums.

Additional Amounts

All payments of principal of, and premium (if any) and interest on, the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "— Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor, as the case may be, is organized or resident for tax purposes or any jurisdiction from or through which payment is made (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note of such amounts payable under the Notes or the Subsidiary

Guarantees as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder or beneficial owner of such Note or Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, as the case may be, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30 day period;

(C) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner; or

(D) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(iii) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26–27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) any tax, duty, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest or any premium on the Note or payments under the Subsidiary Guarantees; or

(v) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii), (iii) and (iv); or

(b) to a Holder that is a fiduciary, partnership, limited liability company or person other than the sole beneficial owner of any payment, to the extent that such payment would be required to be included for tax purposes in the income under the laws of a Relevant Jurisdiction of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or limited liability company or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

In addition to the foregoing, the Company and the Subsidiary Guarantors will also pay and indemnify the holder for any present or future stamp, issue, registration, court or documentary taxes, or any other excise or property taxes, charges or similar levies (including penalties, interest and any other reasonable expenses related thereto) which are levied by any tax jurisdiction on the execution, delivery, issuance or registration of any of the Notes, this Indenture, any Subsidiary Guarantee or any other document referred to therein (other than a transfer of the Notes after this offering) or the receipt of any payments with respect thereto, or any such taxes, charges or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of any of the Notes or any Subsidiary Guarantee.

If the Company or any Subsidiary Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Subsidiary Guarantee, each of the Company or the relevant Subsidiary Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 45 days prior to that payment date, in which case the Company or the relevant Subsidiary Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information necessary to enable the Paying Agents to pay such Additional Amounts to holders on the relevant payment date. The Company and the relevant Subsidiary Guarantor will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts. The Trustee shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

The Company or the relevant Subsidiary Guarantor will make all withholdings and deductions required by law and will timely remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Company or the relevant Subsidiary Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Company or the relevant Subsidiary Guarantor will furnish to the Trustee (or to a holder upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Company or a Subsidiary Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee or the holder) by such entity.

The above obligations will survive any termination, defeasance or discharge of this Indenture, any transfer by a holder or beneficial owner of its Notes, and will apply, mutatis mutandis, to any jurisdiction in which any successor Person to the Company or any Subsidiary Guarantor is incorporated, engaged in business for tax purposes or resident for tax purposes or any jurisdiction from or through which such Person makes any payment on the Notes (or any Guarantee) and any department or political subdivision thereof or therein.

Whenever there is mentioned in any context the payment of principal, premium or interest in respect of any Note or any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Tax Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person (as defined under the caption "— Consolidation, Merger and Sale of Assets"), as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and reasonable notice in advance of such notice to the Holders to the Trustee and the Paying Agent (which notice shall be irrevocable), at a redemption price equal to

100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

(2) any change in the existing official position, or the stating of an official position, regarding the application, administration or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice),

which change or amendment becomes effective on or after (i) with respect to the Company or any initial Subsidiary Guarantor, the Original Issue Date or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, the date such Future Subsidiary Guarantor or Surviving Person becomes a Future Subsidiary Guarantor or Surviving Person, as the case may be, with respect to any payment due or to become due under the Notes or the Indenture, the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Subsidiary Guarantor or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before the Tax Redemption Date:

(1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person or such Subsidiary Guarantor, as the case may be, by taking reasonable measures available to it; and

(2) an Opinion of Counsel or an opinion of a tax consultant, in either case, of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts, withhold or deduct such taxes, duties or assessments or other governmental charges results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

(a) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness) and the Company will not permit any Restricted Subsidiary to issue any Preferred Stock; *provided* that the Company and any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.75 to 1.0.

(b) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary, may Incur each and all of the following ("Permitted Indebtedness"):

(1) Indebtedness of the Company or any Subsidiary Guarantor Incurred pursuant to Credit Facilities in an aggregate principal amount at any time outstanding not to exceed the greater of US$400.0 million or 30% Consolidated Tangible Assets; less the amount of any permanent repayments of such Indebtedness made with Net Cash Proceeds from Asset Dispositions in accordance with the provisions of "— Limitation on Asset Sales";

(2) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee;

(3) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (b)(1), (b)(2) or (b)(4) of this covenant (after giving effect to the application of the proceeds as described in this offering memorandum);

(4) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (x) any event which results in any such Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (b)(4) and (y) if the Company or any Subsidiary Guarantor is an obligor on such Indebtedness, such Indebtedness must be unsecured and be subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor;

(5) Indebtedness ("Permitted Refinancing Indebtedness") issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under clause (a) or clause (b)(2), (b)(3), this clause (b)(5), (b)(7) or (b)(15) of this covenant; *provided* that (A) the aggregate principal amount (or accreted value, if applicable), or if issued with original issue discount, aggregate issue price) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of the Indebtedness renewed, refunded, refinanced, replaced, exchanged, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith); (B) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee shall only be permitted under this clause (b)(5) if (x) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, (C) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (D) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause (b)(5) by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(6) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(7) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (i) all or any part of the purchase price (including any adjustment of purchase price or similar obligations) of assets, real or personal property, Capitalized Lease Obligations or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property, Capitalized Lease Obligations or equipment which will, upon such acquisition, become a Restricted Subsidiary or (ii) all or any part of the purchase price (including any adjustment of purchase price or similar obligations) or the cost of development, construction or improvement of assets, real or personal property, Capitalized Lease Obligations or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; provided, however, that in each case (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such assets, property, Capitalized Lease Obligations or equipment or completion of such development, construction or improvement, and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (b)(7) (together with refinancings thereof) plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to clause (15) below (together with any refinancings thereof) does not exceed an amount equal to 15.0% of Total Assets;

(8) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

(9) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 60 days following receipt by the Company or such Restricted Subsidiary, as applicable, of a demand for reimbursement;

(10) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary (other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition); provided that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Company or any Restricted Subsidiary from the disposition of such business, assets or Restricted Subsidiary;

(11) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of Incurrence;

(12) (i) guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (ii) guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (b)(6) or (b)(7) above or clause (b)(13) below;

(13) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; provided that the aggregate principal amount of Indebtedness permitted by this clause (b)(13) at any time outstanding does not exceed US$20.0 million (or the Dollar Equivalent thereof);

(14) the issuance of Preferred Stock by any Restricted Subsidiary to the Company or to any other Restricted Subsidiary that is a direct or indirect parent company of the issuing Restricted Subsidiary, provided, however, that any issuance, sale or transfer that results in any such Preferred Stock being held by a Person other than the Company or a Restricted Subsidiary that is such a parent will be deemed to constitute an issuance of such Preferred Stock that was not permitted by this clause (14); and

(15) Bank Deposit Secured Indebtedness or Cross Border Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; provided that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (15) (together with any refinancings thereof), plus (2) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to clause (7) above (together with any refinancings thereof), does not exceed an amount equal to 15.0% of Total Assets.

(c) For purposes of determining compliance with this "— Limitation on Indebtedness and Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first sentence of clause (a) of this covenant, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness provided, however any Indebtedness outstanding at any time under any Credit Facilities shall be deemed to be Incurred under clause (b)(1) of this covenant.

(d) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies. For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; provided that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-dominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-dominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (a) through (d) below being collectively referred to as "Restricted Payments"):

(a) declare or pay any dividend or make any distribution on or with respect to the Company's or any Restricted Subsidiary's Capital Stock (other than dividends or distributions payable solely in shares of the Company's or any Restricted Subsidiary's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(b) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock (including options, warrants or other rights to acquire such shares of Capital Stock) of the Company or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(c) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any Subsidiary Guarantee (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or

(d) make any Investment, other than a Permitted Investment;

unless, at the time of, and after giving effect to, the proposed Restricted Payment:

(A) no Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(B) the Company could Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock"; and

(C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall not exceed the sum (without duplication) of:

(i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the semi-annual fiscal period during which the Measurement Date occurred and ending on the last day of the Company's most recently ended semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been *provided* to the Trustee at the time of such Restricted Payment; plus

(ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) including the sale of options and warrants to purchase Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

(iii) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (w) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case, to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (x) the unconditional release of a guarantee provided by the Company or any Restricted Subsidiary after the Measurement Date of an obligation of another Person, (y) the net cash proceeds from the sale of any such Investment (except to the extent such proceeds are included in the calculation of Consolidated Net Income) or (z) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person; plus

(iv) the amount by which Indebtedness of the Company or any Subsidiary Guarantor is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any Subsidiary Guarantor convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus

(v) US$20.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); provided that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable on a pro rata basis or on a basis more favorable to the Company to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company; provided that dividends or distributions to a Person other than the Company or a Wholly Owned Restricted Subsidiary will be excluded in calculating whether the conditions of clause (C) of the preceding paragraph have been met;

(6) the redemption, repurchase or other acquisition of Capital Stock of the Company from employees, former employees, directors or former directors of the Company or any of its Restricted Subsidiaries (or permitted transferees of such persons), or their authorized representatives upon the death, disability or termination of employment of such employees or directors, in an aggregate amount not to exceed US$2.0 million (or the Dollar Equivalent thereof);

(7) any repurchase of Capital Stock deemed to occur upon the exercise of stock options to the extent such Capital Stock represent a portion of the exercise price of those stock options;

(8) the declaration and payment of regularly scheduled or accrued dividends to holders of preferred stock of a Restricted Subsidiary issued on or after the Original Issue Date in accordance with the Fixed Charge Coverage Ratio test described above under the caption "— Limitation on Indebtedness and Preferred Stock";

(9) payments of cash, dividends, distributions, advances or other Restricted Payments by the Company or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(10) payments of cash to employees, former employees, directors or former directors of the Company and any of its Restricted Subsidiaries in lieu of Capital Stock in connection with the Share Award Scheme as described in this offering memorandum, in an aggregate amount not to exceed US$5.0 million per year;

(11) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Subordinated Indebtedness (i) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness in the event of a Change of Control in accordance with provisions similar to the "— Repurchase of Notes Upon a Change of Control" covenant or (ii) at a purchase price not greater than 100% of the principal amount thereof in accordance with provisions similar to the "— Limitation on Asset Sales" covenant; provided that, prior to or simultaneously with such purchase, repurchase, redemption, defeasance or other acquisition or retirement, the Company has made the Change of Control Offer or Offer to Purchase, as applicable, as provided in such covenant with respect to the Notes and has completed the repurchase or redemption of all Notes validly tendered for payment in connection with such Change of Control Offer or Offer to Purchase;

provided that, in the case of clause (2), (3), (4), (8), (10) or (11) above, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph made after the Measurement Date shall be included in calculating whether the conditions of clause (C) of the first paragraph of this "— Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(a) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

(2) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

(3) make loans or advances to the Company or any other Restricted Subsidiary; or

(4) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(b) The provisions of paragraph (a) do not apply to any encumbrances or restrictions:

(1) existing in agreements as in effect on the Original Issue Date and any extensions, refinancings, renewals, supplements, amendments or replacements of any of the foregoing agreements; provided that the encumbrances and restrictions in any such extension, refinancing, renewal, supplement, amendment or replacement, taken as a whole, are no more restrictive in any material respect than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(2) in the Notes, the Subsidiary Guarantees or the Indenture;

(3) existing under or by reason of applicable law, rule, regulation or order;

(4) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(5) that otherwise would be prohibited by the provision described in clause (a)(4) of this covenant if they arise, or are agreed to in the ordinary course of business, and that (x) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, (y) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (z) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(6) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Limitation on Indebtedness and Preferred Stock" and "— Limitation on Asset Sales" covenants;

(7) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clause (b)(1), (b)(7) or (b)(13) of the "— Limitation on Indebtedness and Preferred Stock" covenant if, as determined by the Board

of Directors, such encumbrances or restrictions (x) are customary for such types of agreements and (y) are not expected to materially and adversely affect the ability of the Company to make required payments on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced; or

(8) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

(3) the sale of all of the shares of Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "— Limitation on Asset Sales" covenant;

(4) the issuance or sale of Capital Stock to a third party consultant pursuant to a co-invest right granted to the consultant in a Consultancy Agreement;

(5) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); provided that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant; and

(6) the issuance or sale of Capital Stock of a Restricted Subsidiary that does not remain a Restricted Subsidiary after such issuance or sale; provided that (a) the transaction complies with the "— Limitation on Restricted Payments" covenant and (b) the Company applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant.

Notwithstanding the foregoing, a Restricted Subsidiary may issue Common Stock to its shareholders on a pro rata basis or on a basis more favorable to the Company and its Restricted Subsidiaries.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted Subsidiary, unless (a)(1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for (x) an unsubordinated Subsidiary Guarantee in the case of a Restricted Subsidiary who is not an obligor under Designated Senior Indebtedness of payment of the Notes by such Restricted Subsidiary or (y) a Subordinated Subsidiary Guarantee in the case of a Restricted Subsidiary that is an obligor under Designated Senior Indebtedness and (2) such Restricted Subsidiary waives and will not in any manner whatsoever claim, or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (b) such Guarantee is permitted by clauses (b)(3), (b)(4), (b)(13) or (b)(15) (in the case of clause (b)(15), with respect to the Guarantee provided by the Company or any Restricted Subsidiary in connection with any Cross Border Secured Indebtedness or through the pledge of one or more bank accounts to secure, directly or indirectly, any Bank Deposit Secured Indebtedness), under the caption "— Limitation on Indebtedness and Preferred Stock." For the avoidance of doubt, the Kazakh Subsidiaries will at all times Guarantee the Notes on a senior basis.

If the Guaranteed Indebtedness (A) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall rank pari passu in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Additional Note Guarantees

The Company will, for the benefit of the Holders of the Notes, cause each of its future Subsidiaries (other than Persons organized under the laws of the PRC) after the Original Issue Date, within 10 Business Days (which period will be increased by the number of days required by law or regulation to obtain any governmental consent or approval required, if any, in order to provide such Guarantee) after becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to this Indenture pursuant to which such future Restricted Subsidiary will guarantee the payments of the Notes. Notwithstanding the foregoing, the Company shall not be obligated to cause a Restricted Subsidiary to Guarantee the Notes, or shall be entitled to limit the value of any such Guarantee, as applicable, to the extent that such Guarantee would be expected to give rise to or result in (now or in the future) any violation of applicable law or regulation or if after using reasonable best efforts, it is commercially unreasonable to provide such Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (a) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (b) with any Affiliate of the Company (each an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or an Affiliate of the Company or such Restricted Subsidiary; and

(2) the Company delivers to the Trustee:

(A) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(B) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$20.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(A) above, an opinion issued by an accounting, appraisal or investment banking firm of recognized international standing as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clause (a) or (b) of the first paragraph of the covenant described under the caption "— Limitation on Restricted Payments" if permitted by that covenant;

(4) (x) any agreement in effect on the Original Issue Date and disclosed in this offering memorandum, as in effect on the Original Issue Date or as thereafter amended or replaced in any manner, that, taken as a whole, is not more disadvantageous to the Holders or the Company in any material respect than such agreement as it was in effect on the Original Issue Date or (y) any transaction pursuant to any agreement referred to in the immediately preceding clause (x);

(5) any sale of Capital Stock (other than Disqualified Stock) of the Company;

(6) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme; and

(7) transactions with a Person (other than an Unrestricted Subsidiary of the Company) that is an Affiliate of the Company solely because the Company owns, directly or through a Restricted Subsidiary, an interest in the Common Stock of such Person.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "— Limitation on Restricted Payments" covenant, and (ii) any transaction between or among the Company and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; *provided* that in the case of clause (ii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clauses (a) or (b) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or a Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

(a) the Company or the relevant Restricted Subsidiary could have (1) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under clause (a) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock" and (2) incurred a Lien to secure such Indebtedness pursuant to the covenant described under the caption "— Limitation on Liens," in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;

(b) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(c) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or the relevant Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described under the caption "— Limitation on Asset Sales."

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(a) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(b) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(c) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur, at the time of and after giving pro forma effect to such Asset Disposition, at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock"; and

(d) at least 75% of the consideration received consists of cash or Temporary Cash Investments. For purposes of this provision, each of the following will be deemed to be cash:

    (A) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and

    (B) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

(1) satisfy all mandatory repayment obligations under Designated Senior Indebtedness arising by reason of such Asset Sale (and, if such Designated Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto); or

(2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets that will be used in the Permitted Business ("Replacement Assets").

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess proceeds of less than US$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds equals to or exceeds US$20.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

(i) accumulated Excess Proceeds, multiplied by

(ii) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use such Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any other *pari passu* Indebtedness tendered into (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes and such other *pari passu* Indebtedness will be purchased on a pro rata basis based on the principal amount of Notes and such other pari passu Indebtedness tendered (or required to be prepaid or redeemed). Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than a Permitted Business; *provided*, *however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant under the caption "— Limitation on Restricted Payments."

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than in the approximate amounts and for the purposes specified under the caption "Use of Proceeds" in this offering memorandum.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (a) no Default shall have occurred and be continuing after giving effect to such designation; (b) neither the Company nor any Restricted Subsidiary guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; (c) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary; (d) such Restricted

Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness, or any Lien on any property, of the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock" or such Lien would violate the covenant described under the caption "— Limitation on Liens"; (e) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated as Unrestricted Subsidiaries in accordance with this paragraph; (f) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under the caption "Limitation on Restricted Payments" under which the amount of such Investment would be equal to the Fair Market Value of the Issuer's proportionate interest in such Subsidiary on such date; and (g) such Restricted Subsidiary does not own or operate or possess any material license, franchise or right used in connection with the ownership or operation of any part of the Company's or its Restricted Subsidiaries' business.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided that (a) no Default shall have occurred and be continuing after giving effect to such designation; (b) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock"; (c) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "— Limitation on Liens"; (d) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (e) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor.

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (a) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Business, (b) preserve and maintain good and valid title to its properties and assets (including extraction and land-use rights) free and clear of any Liens other than Permitted Liens and (c) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (1) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (2) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not, and will not permit any Subsidiary Guarantor to, Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or guarantees securing or in favor of some but not all of such Indebtedness.

Provision of Financial Statements and Reports

(a) So long as any of the Notes remain outstanding, the Company will furnish to the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other securities exchange on which the Company's ordinary shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; provided that, if at any time the ordinary shares of the Company cease to be listed for trading on a recognized securities exchange, the Company will file with the Trustee and furnish to the Holders:

(1) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally recognized firm of independent accountants;

(2) as soon as they are available, but in any event within 60 calendar days after the end of the first semi-annual fiscal period of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally recognized firm of independent accountants;

(3) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third fiscal quarters of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period; and

(4) annual financial statements furnished pursuant to clause (1) shall be accompanied by a reserve report from an independent petroleum engineer dated as of the most recent year end relating to the Company and its Subsidiaries, prepared on a basis substantially similar to the reserve estimates included in this offering memorandum.

(b) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (1) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent semi-annual fiscal periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, together with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (2) as soon as possible and in any event within 10 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of such Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

(a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(c) default in the performance or breach of the provisions of the covenants described under the caption "— Consolidation, Merger and Sale of Assets," or "— Certain Covenants — Limitation on Liens," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Certain Covenants — Limitation on Asset Sales";

(d) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice of such default or breach to the Company by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(e) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (1) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (2) a failure to pay principal of when the same becomes due;

(f) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(g) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(h) the Company or any Significant Subsidiary (1) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (2) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary, or for all or substantially all of the property and assets of the Company or any Significant Subsidiary, or (3) effects any general assignment for the benefit of creditors; or

(i) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(x) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

(y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction. Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may (but shall not be obligated to) pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law, the Indenture that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to expend or risk its own funds or otherwise incur any financial liability in following such direction if it does not receive indemnity and/or security satisfactory to it. A Holder may not pursue any remedy with respect to the Indenture or the Notes unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders provide the Trustee with indemnity and/or security reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the indemnity and/or security; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Two Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company and its Restricted Subsidiaries have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Certain Covenants — Provision of Financial Statements and Reports."

If an Event of Default occurs as a result of a failure to deliver a required Officers' Certificate as referred to above in connection with another default (an "Initial Default"), then if, as and when such Initial Default is cured (if such Initial Default is capable of cure), the Event of Default which has subsequently occurred as a result of the failure to report or deliver a required certificate in connection with the Initial Default will also be cured without any further action and any Event of Default arising as a result of the failure to comply with any time period prescribed by the Indenture in relation to such Initial Default or otherwise to deliver any notice or certificate pursuant to any provision of the Indenture in relation to such Initial Default shall be deemed to be cured upon the delivery of any such report required by such covenant or notice or certificate, as applicable, even though such delivery is not within the relevant prescribed period.

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(a) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, the British Virgin Islands, Hong Kong, Canada, the United Kingdom or the United States or any jurisdiction thereof and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, or from or through which payment is made, and the Indenture and the Notes shall remain in full force and effect;

(b) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(c) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have either (a) a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction or (b) a Fair Market Value equal to or greater than the Fair Market Value of the Company prior to such transaction;

(d) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";

(e) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (c) and (d)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

(f) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under this covenant, shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and

(g) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with or merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless:

(A) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;

(B) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(C) immediately after giving effect to such transaction on a pro forma basis, the Company shall have either (a) a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction or (b) a Fair Market Value equal to or greater than the Fair Market Value of the Company prior to such transaction;

(D) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";

(E) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (C) and (D)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(F) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to (1) any sale or other disposition that complies with the "— Certain Covenants — Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "The Subsidiary Guarantees — Release of the Subsidiary Guarantees" and (2) a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the

Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(a) the Company has (1) deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (2) delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture;

(b) the Company has delivered to the Trustee an Opinion of Counsel in the jurisdiction of incorporation of the Company reasonably acceptable to such Trustee to the effect that the holders of the outstanding Notes will not recognize income, gain or loss for tax purposes in such jurisdiction as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to income tax in such jurisdiction on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred; and

(c) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound.

In the case of either discharge or defeasance, each of the Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the certain provisions of the Indenture will no longer be in effect upon the deposit with the Trustee, in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture or the Notes may be amended, without the consent of any Holder, to:

(a) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;

(b) comply with the provisions described under ''Consolidation, Merger and Sale of Assets'';

(c) evidence and provide for the acceptance of appointment by a successor Trustee;

(d) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(e) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(f) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;

(g) create or register Liens to secure the Notes or any Subsidiary Guarantee;

(h) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(i) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream or any applicable securities depositary; or

(j) make any other change that, in the good faith opinion of the Board of Directors, would provide any additional right or benefit to Holders or that does not materially and adversely affect the rights of any Holder.

Amendments With Consent of Holders

Amendments of the Indenture or the Notes may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; provided, however, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(a) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(b) reduce the principal amount of, or premium, if any, or interest on, any Note;

(c) change the currency, time or place of payment of principal of, or premium, if any, or interest on, any Note;

(d) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;

(e) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(f) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(g) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(h) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(i) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(j) after the occurrence of the Change of Control or Asset Sale, as the case may be, reduce the amount payable upon such Change of Control Offer or Offer to Purchase with the Excess Proceeds from such Asset Sale or change the time or manner by which such Change of Control Offer or Offer to Purchase with the Excess Proceeds from Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale;

(k) change the redemption date or the redemption price of the Notes from that stated under "— Optional Redemption" or "— Redemption for Tax Reasons";

(l) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(m) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Members, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, member, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under any applicable law.

Concerning the Trustee, the Registrar and the Paying Agent

Citicorp International Limited is to be appointed as Trustee under the Indenture and Citigroup Global Market, Deutschland AG is to be appointed as registrar (the "Registrar") and Citibank, N.A., London Branch is to be appointed as paying and transfer agent (the "Paying Agent") with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates and shall not be obligated to account for any profits therefrom; provided, however, that if the Trustee acquires any conflicting interest, it must eliminate such conflict or resign.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26–27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if a Global Note is exchanged for Certificated Notes, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, and make an announcement of such exchange through the SGX-ST that will include all material information with respect to the delivery of the Certificated Notes, including details of the paying agent in Singapore.

The Trustee is entitled to rely on all instructions, notices, declarations, calculations and certifications received pursuant to the Indenture without investigating or being responsible for the accuracy, authenticity and validity of these instructions, notices, declarations, calculations and certifications.

The Trustee, the Registrar or the Paying Agent, as the case may be, shall not be responsible for the performance by any other person appointed by the Company in relation to the Notes and, unless notified in writing to the contrary, shall assume that the same are being duly performed. The Trustee, the Registrar or the Paying Agent, as the case may be, shall not be liable to any Holders or any other person for any action taken by the Holders or the Trustee, the Registrar or the Paying Agent, as the case may be, in accordance with the instructions of the Holders. The Trustee, the Registrar or the Paying Agent, as the case may be, shall be entitled to rely on any written direction of the Holders which has been duly given by the Holders of the requisite principal amount of the Notes outstanding.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons and will initially be represented by a global note in registered form without interest coupons attached (the "Global Note"). On the Original Issue Date, the Global Note will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream. Any Additional Notes will be represented by additional Global Notes (the "Additional Global Notes" and, together with the Global Note, the "Global Notes").

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Global Notes

Ownership of beneficial interests in the Global Notes (the "Book-Entry Interests") will be limited to persons who have accounts with Euroclear and/or Clearstream or persons who hold interests through such participants. Except under the limited circumstances described below, Notes will not be issued in definitive form.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of those securities in definitive form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, Euroclear and/or Clearstream, as applicable, or their respective nominees will be considered the sole holder(s) of the Global Notes for all purposes under the Indenture and "holders" of Book-Entry Interests will not be considered the owners or "Holders" of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own Book-Entry Interests to transfer their interests or to exercise any rights of holders of Notes under the Indenture. Neither we nor the Trustee will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Payments on the Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and Additional Amounts, if any) will be made by us to the Paying Agent who will, in turn, make such payments to Euroclear and Clearstream. Euroclear and Clearstream will distribute such payments to participants in accordance with their procedures. Payments of all such amounts will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made by any applicable law or regulation as described under "Description of the Notes — Additional Amounts," then, to the extent described thereunder, such Additional Amounts will be paid as may be necessary in order that the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding will equal the net amounts that such holder or owner would have otherwise received in respect of such Global Notes or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that payments by participants to owners of Book-Entry Interests held through those participants will be governed by standing customer instructions and customary practices. Under the terms of the Indenture, we and the Trustee will treat the registered holder of the Global Note (e.g., Euroclear or Clearstream (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither the Company nor any of the Subsidiary Guarantors, the Trustee nor the Paying Agent will have any responsibility or liability for:

(1) any aspect of the records of Euroclear or Clearstream or of any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, or for maintaining, supervising or reviewing the records of Euroclear or Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest;

(2) Euroclear or Clearstream or any participant or indirect participant; or

(3) the records of the common depositary.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, each of Euroclear and Clearstream will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no Book-Entry Interest of US$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Notes, Euroclear and Clearstream reserve the right to exchange the Global Notes for definitive registered notes in certificated form, and to distribute such certificated notes to its participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear's and Clearstream's rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of individual definitive notes for any reason, including to sell Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such holder of Notes must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set forth in the Indenture.

Global Clearance and Settlement Under the Book-Entry System

Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The Book-Entry Interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Certificated Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with "— Events of Default" and the Company has received a written request from a Holder, the Company will issue certificated notes in registered form in exchange for the Global Notes. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Notes for certificated notes and cause the requested certificated notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for certificated notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such certificated notes. In all cases, certificated notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Certificated notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if a Global Note is exchanged for certificated notes, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, and make an announcement of such exchange through the SGX-ST that will include all material information with respect to the delivery of the certificated notes, including details of the paying agent in Singapore.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream. If and so long as any Notes are represented by one or more Global Notes and ownership of Book-Entry Interests therein are shown on the records of Euroclear, Clearstream or any successor clearing agency appointed by the common depositary at the request of the Company, notices will be delivered to such clearing agency for communication to the owners of such Book-Entry Interests. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint CT Corporation System currently at 111 Eighth Avenue, New York, New York 10011, for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary, whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Affiliate" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition or (iii) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (i) or (ii). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Applicable Premium" means with respect to a Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the redemption price of such Note on February 6, 2016 (such redemption price being described in the first paragraph in the "– Optional Redemption" section exclusive of any accrued interest), plus all required remaining scheduled interest payments due on such Note through (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Note on such Redemption Date.

"As Adjusted Total Assets" means, as of any date on or before a Kazakh Business IPO, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee; and as of any date after a Kazakh Business IPO, the total consolidated assets of the Company and its Restricted Subsidiaries excluding the total assets of the relevant Kazakh Subsidiary and any subsidiaries of such Kazakh Subsidiary measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee.

"Asset Acquisition" means (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"Asset Disposition" means (a) for the purposes of the covenant described under the caption "— Certain Covenants — Limitation on Asset Sales," the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of all or substantially all of the assets that constitute a division or line of business of the Company; and (b) for all other purposes, the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted

Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

"Asset Sale" means any sale, transfer or other disposition of any assets (including by way of merger, consolidation or Sale and Leaseback Transaction and including any sale or issuance of the Capital Stock of any Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; provided that "Asset Sale" shall not include:

(a) sales, transfers or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(b) the disposition of Temporary Cash Investments in the ordinary course of business;

(c) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the covenant described under the caption "— Certain Covenants — Limitation on Restricted Payments";

(d) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(e) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;

(f) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;

(g) a transaction covered by the covenant under the caption "– Consolidation, Merger and Sale of Assets";

(h) the sale or transfer (whether or not in the ordinary course of business) of oil and gas properties or direct or indirect interests in real property, *provided* that at the time of such sale or transfer such properties do not have associated with them any proved reserve;

(i) the abandonment, farm-out, lease or sublease of developed or undeveloped oil and gas properties in the ordinary course of business;

(j) the trade or exchange by any of the Subsidiary Guarantors of any oil and gas property owned or held by such Subsidiary Guarantor for any oil and gas property owned or held by another Person;

(k) the sale or transfer of hydrocarbons or other mineral products in the ordinary course of business;

(l) the issuance or sale of Capital Stock to a third party consultant pursuant to a co-invest right granted to the consultant in a Consultancy Agreement; and

(m) any sale, transfer or other disposition of any assets by the Company or any Restricted Subsidiary, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any other Restricted Subsidiary.

"Attributable Indebtedness" means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in such Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in such Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

"Average Life" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"Bank Deposit Secured Indebtedness" means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange currency.

"Board of Directors" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"Board Resolution" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution in lieu of a meeting executed by the requisite members of the Board of Directors.

"Business Day" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London, Singapore or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

"Capitalized Lease" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"Capitalized Lease Obligations" means the discounted present value of the rental obligations under a Capitalized Lease.

"CCB Facility" means the facility provided pursuant to the facility agreement dated January 25, 2013 between MIE as borrower and China Construction Bank as lender, and guaranteed by Gobi Energy Limited and Riyadh Energy Limited pursuant to guarantee agreements dated January 25, 2013.

"Change of Control" means the occurrence of one or more of the following events:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any "person" (within the meaning of Section 13(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than one or more Permitted Holders;

(2) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;

(3) the Permitted Holders are the beneficial owners of less than 35.0% of the total voting power of the Voting Stock of the Company;

(4) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of the total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(5) individuals who on the Original Issue Date constituted the Board of Directors (together with any new directors whose election was approved by a vote of at least two-thirds of the members of the Board of Directors then in office who were members of the Board of Directors on the Original Issue Date or whose election was previously so approved) cease for any reason to constitute a majority of the members of the Board of Directors then in office; or

(6) the adoption of a plan relating to the liquidation or dissolution of the Company.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Rating Decline.

"China Minsheng Facility" means (a) the facility agreement dated June 18, 2012 between MIE as Borrower, MIE Holdings Corporation as Guarantor, China Minsheng Banking Corporation Limited, Hong Kong Branch as Mandated Lead Arranger, the banks named therein as Original Lenders and China Minsheng Banking Corporation Limited, Hong Kong Branch as Agent, as amended by a supplemental agreement dated June 18, 2012 and (b) the facility agreement dated December 24, 2012 between MIE as Borrower, MIE Holdings Corporation as Guarantor, China Minsheng Banking Corporation Limited, Hong Kong Branch as Mandated Lead Arranger, the banks named therein as Original Lenders and China Minsheng Banking Corporation Limited, Hong Kong Branch as Agent and Security Agent.

"China Subsidiary" means MIE and its Subsidiaries.

"Clearstream" means Clearstream Banking, *société anonyme*, Luxembourg.

"Commodity Agreement" means any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

"Common Stock" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding on the Original Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares.

"Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes from the redemption date to.

"Comparable Treasury Price" means, with respect to any redemption date:

(1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense;

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains or losses or sales of assets); and

(3) depreciation expense, depletion expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income, all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP;

provided that (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any Restricted Subsidiary.

"Consolidated Fixed Charges" means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) the product of (a) all dividend payments on any series of Disqualified Stock of the Company or any Preferred Stock of any Restricted Subsidiary (other than any such Disqualified Stock or any Preferred Stock held by the Company or a Wholly-Owned Restricted Subsidiary or to the extent paid in Capital Stock (other than Disqualified Stock)) multiplied by (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of the Company and the Restricted Subsidiaries, expressed as a decimal.

"Consolidated Interest Expense" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations and imputed interest with respect to Attributable Indebtedness, (ii) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (iii) the interest portion of any deferred payment obligation, (iv) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (v) the net costs associated with Hedging Obligations (including the amortization of fees), (vi) interest accruing on Indebtedness of any other Person that is guaranteed by the Company or any Restricted Subsidiary proportionate to the extent that such Indebtedness is guaranteed or secured by a Lien on assets of the Company or any Restricted Subsidiary, (vii) any capitalized interest and (viii) all other non-cash interest expense;

provided that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"Consolidated Net Income" means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; provided that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting, except to the extent of the amount of net income actually paid in cash to, or the amount of loss actually funded in cash by, the specified Person or a Restricted Subsidiary of the Person during such period;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Company or any Restricted Subsidiary;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after-tax gains realized on the sale or other disposition of (A) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of business or (B) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or any Restricted Subsidiary);

(6) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains.

"Consolidated Net Worth" means, at any date of determination, stockholders' equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any Restricted Subsidiary, each item to be determined in accordance with GAAP.

"Consolidated Tangible Assets" means, with respect to any specified Person for any period, the aggregate of the total assets of such Person and its Restricted Subsidiaries for such period, less intangible assets on a consolidated basis, as shown in the balance sheet and as determined in conformity with GAAP.

"Consultancy Agreement" means any consultancy agreement entered into by a third party consultant on arms-length terms with the Company or any of its Restricted Subsidiaries which grants the consultant a co-invest right to purchase up to an aggregate of 9.9% of either the Voting Stock or economic interests (including options, warrants or other rights to purchase share of such Capital Stock) of any entity engaged or assets used in a Permitted Business, as approved by the Board of Directors, acquired by the Company or any of its Restricted Subsidiaries in one or a series of transactions.

"Continuing" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"Credit Facilities" means one or more debt facilities or commercial paper facilities, agreements, credit facility documentation or arrangements with banks, insurance companies or other institutional lenders or investors providing for revolving credit loans, term loans, receivables financing (including through the sale or factoring of receivables to such lenders or to special purpose entities formed to borrow from or issue securities to such lenders against such receivables), letters of credit or other forms of guarantees and assurances, including overdrafts, in each case, as amended, restated, modified, supplemented, renewed, refunded, replaced (whether upon or after termination or otherwise), refinanced, increased or extended in whole or in part from time to time and whether provided under one or more other credit agreements or financing agreements (without limitation as to amount outstanding or committed, or the maturity, terms, conditions, covenants, or other provisions thereof or parties thereto) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents).

"Cross Border Secured Indebtedness" means (i) Indebtedness the proceeds of which are disbursed in one jurisdiction but which Indebtedness or credit support therefor is guaranteed by a guarantor located in another jurisdiction, or secured by Liens over assets located in another jurisdiction, and (ii) any Guarantees or Indebtedness (including reimbursement obligations in respect of credit support) related to the Indebtedness referred to in clause (i).

"Currency Agreement" means any foreign exchange forward contract, currency swap agreement, currency hedge agreement, currency option agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Designated Senior Indebtedness" means Senior Indebtedness of a Senior Subordinated Subsidiary Guarantor under or in respect of the Credit Facilities incurred under clause (b)(1) under the "— Certain Covenants — Limitations on Indebtedness."

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"Disqualified Stock" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is one year after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is one year after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the date that is one year after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "— Certain Covenants — Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of the Notes as are required to be repurchased pursuant to the "— Certain Covenants — Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control" covenants.

"Equity Offering" means any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date to any Person other than a Wholly Owned Restricted Subsidiary or any Permitted Holder; *provided* that the aggregate gross cash proceeds received by the Company from such transaction shall be no less than US$20.0 million (or the Dollar Equivalent thereof).

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution; *provided however* for the purposes of determining Fair Market Value in connection with the covenant set forth under "— Consolidation, Merger and Sale of Assets," the Company will obtain an independent third party appraisal of Fair Market Value.

"Fitch" means Fitch Inc.

"Fixed Charge Coverage Ratio" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual fiscal periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee (the "Two Semi-annual Period") to (2) the aggregate Consolidated Fixed Charges during such Two Semi-annual Period. In making the foregoing calculation:

(A) pro forma effect shall be given to any Indebtedness or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Two Semi-annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-annual Period), in each case as if such Indebtedness or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; provided that in the event of any such repayment or redemption, Consolidated EBITDA for such Two Semi-annual Period shall not include any interest income actually earned by the Company or such Restricted Subsidiary during such Two Semi annual Period in respect of the funds used to repay or redeem such Indebtedness or Preferred Stock;

(B) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(C) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period;

(D) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

(E) pro forma effect shall be given to the creation, designation or re-designation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or re-designation had occurred on the first day of such Reference Period; and

(F) pro forma effect shall be given to any Permitted IPO as if such Permitted IPO occurred at the beginning of the two full semi-annual fiscal periods for which such determination is being made;

provided that to the extent that clause (C) or (D) of this paragraph requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full semi-annual fiscal periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"GAAP" means International Financial Reporting Standards as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

"guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"Hedging Obligation" of any Person means the obligations of such Person pursuant to any Commodity Agreement, Currency Agreement or Interest Rate Agreement.

"Holder" means the Person in whose name a Note is registered in the Note register.

"Incur" means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; provided that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments (excluding cash collateralized notes payable as described in the Company's financial statements);

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;

(7) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;

(8) to the extent not otherwise included in this definition, Hedging Obligations; and

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

The amount of Indebtedness of any Person at any time shall be the outstanding balance at such time of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* that:

(A) the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;

(B) money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(C) that the amount of or the principal amount of Indebtedness with respect to any Hedging Obligation shall be equal to zero if Incurred pursuant to clause (b)(6) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock"; *provided* that such amount shall be equal to the net amount payable if such Hedging Obligation terminated at or prior to that time due to a default by such Person.

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

"Investment" means:

(i) any direct or indirect advance, loan or other extension of credit to another Person,

(ii) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),

(iii) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or

(iv) any guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

For the purposes of the provisions of the "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" and "— Certain Covenants — Limitation on Restricted Payments" covenants: (i) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the portion of the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation representing the percentage ownership of such Unrestricted Subsidiary at such time and (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "–" indication, or an equivalent rating representing one of the four highest Rating Categories, by S&P, Fitch or any of their respective successors or assigns or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest Rating Categories, by Moody's or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Fitch's or both, as the case may be.

"Kazakh Business IPO" means an underwritten initial public offering of Common Stock (not Disqualified Stock) of a Kazakh Subsidiary on the Hong Kong Stock Exchange, the London Stock Exchange, the New York Stock Exchange, Nasdaq or another internationally recognized stock exchange to any Person other than a Wholly Owned Restricted Subsidiary; provided that the aggregate gross cash proceeds received by the Kazakh Subsidiary and any Wholly Owned parent company of such Kazakh Subsidiary who participates in such offering as a selling shareholder from such transaction shall be no less than US$50.0 million (or the Dollar Equivalent thereof) (excluding cash proceeds received from any Permitted Holder).

"Kazakh Subsidiaries" means MIE New Ventures and its Subsidiaries.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"Measurement Date" means May 12, 2011.

"MIE" means MI Energy Corporation and its successors.

"MIE New Ventures" means MIE New Ventures Corporation and its successors.

"Moody's" means Moody's Investors Service, Inc. and its affiliates.

"Net Cash Proceeds" means:

(a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of

(1) brokerage commissions and other fees and expenses (including fees and expenses of counsel and financial or other professional advisors) related to such Asset Sale;

(2) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;

(3) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

(4) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

(b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Offer to Purchase" means an offer to purchase the Notes by the Company from the Holders commenced by mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; provided that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor, one of the directors or executive officers of such Subsidiary Guarantor.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel which is addressed to the Trustee, is in form and substance reasonably acceptable to the Trustee, and meets the requirements of the Indenture. The counsel may be an employee of or counsel to the Company.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Permitted Business" means (1) the business of acquiring, exploiting, developing, producing, operating and disposing of interests in oil, natural gas, tight gas, shale oil, shale gas, liquid natural gas and other hydrocarbon and mineral properties or products produced in association with any of the foregoing; (2) the business of gathering, marketing, distributing, treating, processing, storing, refining, selling and transporting (including by rail cars or pipelines) of any production from such interests or properties and products produced in association therewith and the marketing of oil, natural gas, other hydrocarbons and minerals obtained from unrelated Persons; (3) any other related energy business, including power generation and electrical transmission business, directly or indirectly, from oil, natural gas and other hydrocarbons and minerals produced substantially from properties in which the Company or its Restricted Subsidiaries, directly or indirectly, participates; (4) any business relating to oil field sales and service; and (5) any business or activity relating to, arising from, or necessary, appropriate or incidental to the activities described in the foregoing clauses (1) through (4) of this definition.

"Permitted Holders" means any or all of the following:

(1) Far East Energy Limited, Mr. Zhang Ruilin and Mr. Zhao Jiangwei;

(2) any Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of "Affiliate") of either of the Persons specified in clause (1) of this definition; and

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are more than 80% owned by Persons specified in clauses (1) and (2) of this definition.

"Permitted Investment" means:

(1) any Investment in the Company or a Restricted Subsidiary;

(2) any Investment in a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(3) Temporary Cash Investments;

(4) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(5) stock, obligations or securities received in compromise or settlement of debts created in the ordinary course of business or satisfaction of judgments;

(6) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(7) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;

(8) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(9) any securities or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under the caption "– Certain Covenants – Limitation on Asset Sales";

(10) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under the caption "— Certain Covenants — Limitation on Liens";

(11) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers;

(12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of a Permitted Business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;

(13) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers, compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of a Permitted Business;

(14) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any Restricted Subsidiary, in each case, in the ordinary course of a Permitted Business;

(15) Guarantees of Indebtedness Incurred in accordance with the covenant "— Certain Covenants — Limitation on Indebtedness and Preferred Stock;" and

(16) other Investments which, when taken together with all other Investments pursuant to this clause (16) and then outstanding will not exceed US$30.0 million (or the Dollar Equivalent thereof).

"Permitted IPO" means an underwritten initial public offering of Common Stock (not Disqualified Stock) of any Restricted Subsidiary other than any Kazakh Subsidiary after the Original Issue Date on the Hong Kong Stock Exchange, the London Stock Exchange, the New York Stock Exchange, Nasdaq or other internationally recognized stock exchange to any Person other than the Company or a Wholly Owned Restricted Subsidiary; provided that (i) the aggregate gross cash proceeds received by the Restricted Subsidiary and any Restricted Subsidiary parent of such Restricted Subsidiary who participates in such offering as a selling shareholder from such transaction shall be no less than US$50.0 million (or the Dollar Equivalent thereof) (excluding an amount of the cash proceeds received by a selling shareholder equal to the percentage ownership attributable to any minority shareholder interest in any such Restricted Subsidiary parent and cash proceeds received from any Permitted Holder) and (ii) as of the balance sheet date of the latest available semi-annual financial statements of the Company, the aggregate As Adjusted Total Assets attributable to the Subsidiary Guarantors (calculated on an unconsolidated basis for each Subsidiary Guarantor, after intercompany eliminations and after giving pro forma effect to (x) the release of any Subsidiary Guarantee in such Permitted IPO and (y) any acquisition or disposition by the Company or any Subsidiary Guarantor that has occurred between such balance sheet date and the date of determination) shall be equal to or greater than 85% of the As Adjusted Total Assets.

"Permitted Liens" means:

(1) Liens securing Indebtedness and other obligations under Credit Facilities to the extent such Indebtedness is permitted under clause (b)(1) under the "— Certain Covenants — Limitation on Indebtedness and Preferred Stock" covenant; provided that any Liens comprising share pledges over the Capital Stock of any Kazakh Subsidiary will secure the Notes on an equal and ratable basis with the Indebtedness or obligation under the Credit Facilities secured by such Lien for so long as such Indebtedness or obligation is secured by such Lien;

(2) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(4) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(5) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;

(6) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

(7) any interest or title of a lessor in the property subject to any operating lease;

(8) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; provided further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(9) Liens in favor of the Company or any Restricted Subsidiary;

(10) Liens arising from attachment or the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;

(11) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(12) Liens existing on the Original Issue Date;

(13) Liens securing the Existing Notes;

(14) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (b)(5) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock"; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(15) Liens (including extensions and renewals thereof) upon real or personal property acquired after the Original Issue Date of the Company or any Restricted Subsidiary; provided that (a) such Lien is created solely for the purpose of securing Indebtedness Incurred under clause (b)(7) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock," (b) such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (c) the principal amount of Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (d) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; provided that, such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is Incurred in the ordinary course of business and (y) at the time such Lien is Incurred, the aggregate book value of property or assets as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets subject to Liens Incurred pursuant to this clause (15), does not exceed 150% of the aggregate principal amount of Indebtedness secured by such Liens;

(16) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;

(17) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (b)(6) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";

(18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(19) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property, land use rights or services related to a Permitted Business by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(20) Liens on property securing Indebtedness which is permitted to be Incurred under clause (b)(13) of the covenant "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";

(21) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(22) Liens in pipeline or pipeline facilities that arise under operation of law;

(23) Liens arising under operating agreements, joint venture agreements, partnership agreements, oil and gas leases, farm-out agreements, division orders, contracts for the sale, transportation or exchange of oil or natural gas, utilization and pooling declarations and agreements, area of mutual interest agreements and other agreements that are customary in the Permitted Business;

(24) Liens reserved in oil and gas mineral leases for bonus or rental payments and for compliance with the terms of such leases;

(25) Liens over cash paid into an escrow account pursuant to any purchase arrangement as part of any permitted acquisition or disposal by the Company or a Restricted Subsidiary on condition that the cash paid into such escrow account in relation to such acquisition or disposal (x) does not represent more than 20.0% of the purchase price or sales price of such acquisition or disposal or (y) if greater than the amount specified in (x), such Liens exist for no more than 10 Business Days;

(26) (i) Liens securing Cross Border Indebtedness permitted to be incurred under clause (b)(15) of the covenant "— Limitation on Indebtedness and Preferred Stock"; provided that the aggregate book value of any property or asset (as reflected in the most recent available consolidated financial statements of the Company or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (26)(i) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Lien and (ii) Liens incurred on one or more bank accounts to secure Bank Deposit Secured Indebtedness;

(27) Liens on cash collateralized accounts securing notes payable as described in the Company's financial statements; and

(28) other Liens securing obligations in an aggregate amount not exceeding US$5.0 million.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"PRC" means the People's Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan.

"Preferred Stock" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

"Rating Agencies" means (i) S&P, (ii) Moody's, (iii) Fitch and (iv) if none of S&P, Moody's or Fitch make a rating of the Notes publicly available, one or more "nationally recognized statistical rating organizations," as the case may be, as defined in Section 3(a)(62) under the Exchange Act, selected by the Company, which shall be substituted for S&P or Fitch or both, as the case may be.

"Rating Category" means (i) with respect to S&P or Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Moody's used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "–" for S&P and Fitch; "1," "2" and "3" for Moody's; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P or Fitch, a decline in a rating from "BB +" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"Rating Date" means (i) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (ii) in connection with actions contemplated under the caption "— Consolidation, Merger and Sale of Assets," that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"Rating Decline" means (i) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (ii) in connection with actions contemplated under the caption "— Consolidation, Merger and Sale of Assets," the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Notes are rated by two or more Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two Rating Agencies shall be below Investment Grade;

(b) in the event the Notes are rated by only one of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(c) in the event the Notes are rated below Investment Grade by two or more Rating Agencies on the Rating Date, the rating of the Notes by any two Rating Agencies shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the fifth Business Day preceding such redemption date.

"Renminbi" or *"RMB"* means the lawful currency of the PRC.

"Restricted Subsidiary" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"S&P" means Standard & Poor's Ratings Services and its affiliates.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"Senior Guarantor" means any Subsidiary Guarantor that is not a Senior Subordinated Subsidiary Guarantor.

"Senior Indebtedness" of the Company or any Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or such Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes or (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (i) any obligation to the Company or any Restricted Subsidiary, (ii) trade payables or (iii) Indebtedness Incurred in violation of the Indenture.

"Senior Subordinated Indebtedness" means with respect to the Senior Subordinated Subsidiary Guarantors (a) the Subsidiary Guarantee and (b) any other Indebtedness that is not Senior Indebtedness and ranks pari passu with the Subsidiary Guarantee.

"Senior Subordinated Subsidiary Guarantor" means any Subsidiary Guarantor that is both (i) an obligor in respect of any Credit Facilities and (ii) a China Subsidiary.

"Significant Subsidiary" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC replacing references therein to 10% with 5%.

"Stated Maturity" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"Subordinated Indebtedness" means any Indebtedness of the Company or any Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes or any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% of the outstanding Voting Stock is owned, directly or indirectly, by such Person and which is "controlled" and consolidated by such Person in accordance with GAAP; *provided*, *however*, that with respect to clause (ii) the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be "controlled" by such Person under GAAP and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of "— Designation of Restricted and Unrestricted Subsidiaries" covenant.

"Subsidiary Guarantee" means any guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"Subsidiary Guarantor" means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"Temporary Cash Investment" means any of the following:

(1) direct obligations of the United States of America, any state of the European Economic Area, the PRC and Hong Kong or any agency of the foregoing or obligations fully and unconditionally guaranteed by the United States of America, any state of the European Economic Area, the PRC and Hong Kong or any agency of the foregoing, in each case maturing within one year;

(2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America or any state thereof, any state of the European Economic Area, Hong Kong or the PRC (to the extent such amounts are permitted under current laws of the PRC to be freely remitted out of the PRC) and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing within 180 days of the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country, including Hong Kong, with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P;

(5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof and rated at least "A" by S&P or Moody's;

(6) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, China Development Bank, China Citic Bank, China Minsheng Bank, Hongkong and Shanghai Banking Corporation, Industrial and Commercial Bank of China and Pudong Development Bank (ii) any other bank or trust company organized under the laws of the PRC or Hong Kong, whose long-term debt rating by Moody's or S&P is as high or higher than any of those banks listed on clause (i) of this paragraph, (iii) any other commercial bank whose long-term rating is "Baa1" (or higher) according to Moody's or "BBB+" (or higher) according to S&P, (iv) JSC Bank CenterCredit; provided that, in the case of each of clauses (iii) and (iv), such deposits do not exceed US$50.0 million (or the Dollar Equivalent thereof) in the aggregate on any date of determination.

"Total Assets" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 90 days.

"Transaction Date" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"Unrestricted Subsidiary" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

"U.S. Government Obligations" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the holder thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"Wholly Owned" means, with respect to any Subsidiary of any Person, the ownership of 100% of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law or a minimum number of shares owned by a second shareholder as mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that solely for purposes of clause (b) of the first paragraph of the covenant described under the caption "— Certain Covenants — Limitation on Restricted Payments," a Restricted Subsidiary shall be considered a Wholly Owned Restricted Subsidiary if the ownership of 90% or more of the outstanding Capital Stock of such Restricted Subsidiary is owned, directly or indirectly, by the Company.

TAXATION

The following summary is based on tax laws of the Cayman Islands, BVI, Hong Kong, PRC, Kazakhstan and the Netherlands as in effect on the date of this offering memorandum, and is subject to the changes in Cayman Islands, BVI, Hong Kong, PRC, Kazakhstan and the Netherlands including changes that could have retroactive effect. The following summary does not take into account or discuss the tax laws of any countries other than the Cayman Islands, BVI, Hong Kong, PRC, Kazakhstan and the Netherlands. Prospective purchasers in all jurisdictions are advised to consult their own tax advisors as to Cayman Islands, BVI, Hong Kong, PRC, Kazakhstan or the Netherlands or other tax consequence of ownership and disposition of the Notes.

Cayman Islands Taxation

In the opinion of Maples and Calder, our Cayman Islands counsel, the following is a summary of the material Cayman Islands tax consequences relevant to the purchase, ownership and disposition of the Notes.

Payments of interest and principal on the Notes and dividends and capital in respect of the Shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Notes or Shares, as the case may be, nor will gains derived from the disposal of the Notes or Shares be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

   (i) on or in respect of the shares, debentures or other obligations of the Company; or

   (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from 2 April 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made to or by the Company.

BVI Taxation

Companies incorporated or registered under the BVI Business Companies Act 2004 (the "Act") are currently exempt from income and corporate tax. In addition, the British Virgin Islands currently does not levy capital gains tax on companies incorporated or registered under the Act.

Hong Kong Taxation

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong;
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the transfer of the Notes as the Notes should not be regarded as "Stocks" for the purposes of the Stamp Duty Ordinance Cap. 117.

PRC Taxation

Taxation of Interest

The New EIT Law imposes a withholding tax at the rate of 10% on interest paid by PRC "resident enterprises" to a holder of notes that is a "non-resident enterprise" so long as such "non-resident enterprise" holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent such interests are sourced within China. If we are considered a PRC "resident enterprise," interest payable to "non-resident enterprise" holders of the notes may be treated as income derived from sources within China and be subject to PRC withholding tax. It is unclear whether the PRC tax authorities would treat us as a PRC "resident enterprise." To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to holders of notes who qualify for such treaty benefits.

Taxation On Capital Gains

The New EIT Law imposes a tax at the rate of 10% on capital gains realized by a holder of notes that is a "non-resident enterprise" so long as any such "non-resident enterprise" holder does not have an establishment or place of business in China or, despite the existence of establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China, to the extent such capital gains are sourced within China. If we are considered a PRC "resident enterprise," capital gains realized by holders of notes may be treated as income derived from sources within China and be subject to PRC tax. It is unclear whether the PRC tax authorities would treat us as a PRC "resident enterprise," and the application of capital gains tax to holders of notes is uncertain. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to holders of notes who qualify for such treaty benefits.

Kazakhstan Taxation

Under Kazakhstan law as presently in effect, payments of principal or interest on the Notes by the Issuer to an individual who is a tax non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. Interest payable by the Issuer to residents of Kazakhstan or to tax non-residents who maintain a permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), other than to individuals, is subject to Kazakhstan income tax unless the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan.

In addition, gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax. Any gains derived by Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

Payments of interest to Non-Kazakhstan Holders under the Subsidiary Guarantee issued by Emir-Oil will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest under such Subsidiary Guarantee to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba, Switzerland and others) will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Payments of interest to Kazakhstan Holders under the Subsidiary Guarantee issued by Emir-Oil, other than to Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15%.

Dutch Taxation

For the purpose of this paragraph, "Dutch Taxes" shall mean taxes of whatever nature levied by or on behalf of the Netherlands or any of its subdivisions or taxing authorities.

"The Netherlands" means the part of the Kingdom of the Netherlands located in Europe.

Any payments made by Palaeontol Coöperatief U.A. and/or Palaeontol B.V. under the Subsidiary Guarantees to a holder of a Note will not be subject to withholding or deduction for, or on account of, any Dutch Taxes.

No Dutch Taxes of a documentary nature, such as capital tax, stamp or registration tax or duty, are payable by Palaeontol Coöperatief U.A. and/or Palaeontol B.V. by reason only of the execution or delivery of the Subsidiary Guarantees by either company.

No other Dutch Taxes of a documentary nature, such as capital tax, stamp or registration tax or duty, are payable by or on behalf of a holder of Notes by reason only of the issue, acquisition or transfer of the Notes.

PLAN OF DISTRIBUTION

We intend to offer the Notes through the Initial Purchasers. Subject to the terms and conditions contained in a purchase agreement dated January 30, 2013 (the "Purchase Agreement") by and among the Initial Purchasers, us and the Subsidiary Guarantors, we have agreed to sell to the Initial Purchasers and the Initial Purchasers have agreed to purchase from us the Notes.

Subject to the terms and conditions set forth in the Purchase Agreement, the Initial Purchasers have agreed to purchase all of the Notes being sold pursuant to the Purchase Agreement if any of these Notes are purchased. The price at which the Notes are offered and other selling terms may be changed from time to time without notice by the Initial Purchasers. The Initial Purchasers may offer the Notes in various jurisdictions through certain of their respective affiliates.

We and the Subsidiary Guarantors have agreed in the Purchase Agreement to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchasers may be required to make in respect thereof.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes and Subsidiary Guarantees, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchasers or their respective affiliates may purchase the Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or other securities of the Company, its subsidiaries or associates at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of Notes). The Initial Purchasers or certain of their respective affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

Commissions and Discounts

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any applicable state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Regulation S under the Securities Act. The Initial Purchasers will not offer or sell the Notes except pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S under the Securities Act.

Until 40 days following the commencement of this offering, an offer or sale of notes within the United States or to, or for the account or benefit of, U.S. persons by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with an exemption from registration under the Securities Act. Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons, except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

New Issue of Notes

The Notes are a new issue of securities with no established trading market. Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. We have been advised by the Initial Purchasers that they each presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the Notes will be made to investors on or about the closing date specified on the cover of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as "T+5").

No Sales of Similar Securities

We have agreed that we will not, for a period of 30 days after the date of this offering memorandum, without first obtaining the prior written consent of the Initial Purchasers, directly or indirectly, sell, offer, contract or grant any option to sell, issue, pledge or otherwise dispose or transfer (or enter into any transaction or device which is designed to, or could be expected to result in the deposition in the future of) any debt securities with a tenor of more than one year, except for the Notes sold to the Initial Purchasers pursuant to the Purchase Agreement.

Short Positions and Stabilizing Transactions

In connection with the offering, an Initial Purchaser may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchaser of a greater principal amount of Notes than it is required to purchase in the offering. Such Initial Purchaser must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchaser is concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, an Initial Purchaser's purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the Initial Purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Notice to Prospective Investors in the PRC

This offering memorandum does not constitute a public offer of the Notes, whether by sale or by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document.

Notice to Prospective Investors in Hong Kong

The Notes have not been and will not be offered or sold in Hong Kong, by means of any document, other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO or (ii) in circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. The Initial Purchasers have not issued or had in their possession for the purposes of issue, and will not issue or have in their possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are intended to be disposed of to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

Notice to Prospective Investors in Singapore

This offering memorandum or any other material distributed in relation to the Notes have not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered in Singapore pursuant to exemptions under Section 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, the Notes have not been offered or sold or been caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or be made the subject of an invitation for subscription or purchase, and has not been circulated or distributed, nor will this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, be circulated or distributed whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor under the SFA; or

(b) a trust (where the trustee is not an accredited investor under the SFA) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor under the SFA,

securities (as defined in Section 239(1) of the SFA) of that corporation, or the beneficiaries' rights and interest (however described) in that trust, as the case may be, shall not be transferable within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA unless:

(1) the transfer is to an institutional investor under Section 274 of the SFA, or to a relevant person defined in Section 275(2) of the SFA respectively, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given or the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

Notice to Prospective Investors in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "Financial Instruments and Exchange Law") and the Notes have not, directly or indirectly, been offered or sold and will not, directly or indirectly, be offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws and regulations of Japan.

Notice to Prospective Investors in the EEA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any Notes which are the subject of the offering contemplated by this offering memorandum may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Notes may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000; and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

(c) by the Initial Purchasers to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive) subject to obtaining the prior consent of the Initial Purchasers for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of the Notes shall result in a requirement for the publication by us or any Initial Purchasers of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. Any person making or intending to make any offer of the Notes within the EEA should only do so in circumstances in which no obligation arises for us or any of the Initial Purchasers to produce a prospectus for such offer. Neither we nor the Initial Purchasers have authorized, nor does it authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by the Initial Purchasers which constitute the final offering of the Notes contemplated in this offering memorandum.

For the purposes of this provision, and your representation below, the expression an "offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Notes to be offered so as to enable an investor to decide to purchase any Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under, the offer of the Notes contemplated by this offering memorandum will be deemed to have represented, warranted and agreed to and with us and each Initial Purchaser that:

(A) it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(B) in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Notes acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" (as defined in the Prospectus Directive), or in circumstances in which the prior consent of the Initial Purchasers has been given to the offer or resale; or (ii) where the Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

Notice to Prospective Investors in the United Kingdom

In the United Kingdom, this offering memorandum is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

Notice to Prospective Investors in the Cayman Islands

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes unless the Company is listed on the Cayman Islands Stock Exchange.

Notice to Prospective Investors in the British Virgin Islands

No invitation has been or will be made on our behalf, directly or indirectly, to any person resident in the British Virgin Islands to subscribe for any of the Notes.

Other Relationships

The Initial Purchasers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, charge or other transfer of the Notes.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only in offshore transactions outside of the United States in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Notes and the Subsidiary Guarantees by any dealer (whether or not participating in the offering) may violate the registration requirement of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a purchaser that is outside the United States;

2. represent that it is (i) purchasing such Notes in an offshore transaction in accordance with Rule 903 or Rule 904 under the Regulation S, (ii) not a U.S. person and (iii) not purchasing for the account or benefit of a U.S. person, in each case within the meaning of Regulation S of Securities Act;

3. acknowledge that the Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States;

4. acknowledge that the Notes are being offered and sold only outside the United States, to certain persons other than U.S. persons, in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act;

5. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;

6. acknowledge that the Company, the Subsidiary Guarantors, the Paying Agent, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Subsidiary Guarantors, the Paying Agent and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

7. acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to it with respect to us or the offering, other than the information contained in this offering memorandum;

8. represent that it is relying only on this offering memorandum in making its investment decision with respect to the Notes; and

9. represent that it has had access to such financial and other information concerning us and the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask questions of, and request information from, us.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Latham & Watkins as to matters of United States federal securities and New York law and Hong Kong law, Maples and Calder as to matters of Cayman Islands law and BVI law, Zhong Lun Law Firm as to matters of PRC law, GRATA Law Firm as to matters of Kazakhstan law and De Brauw Blackstone Westbroek N.V. as to matters of Dutch law. Certain legal matters with respect to the Notes will be passed upon for the Initial Purchasers by White & Case with respect to United States federal securities, New York law and Kazakhstan law and Jingtian & Gongcheng as to matters of PRC law.

INDEPENDENT AUDITOR

Our consolidated financial statements as of and for each of the fiscal years ended December 31, 2010 and 2011 reproduced in this offering memorandum have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as stated in their reports appearing herein. With respect to the unaudited financial information as of and for the six months ended June 30, 2012, reproduced in this offering memorandum, PricewaterhouseCoopers has reviewed the financial information in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board as stated in its review report appearing herein. The review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable it to obtain assurance that it would become aware of all significant matters that might be identified in an audit. Accordingly, it does not express an audit opinion. The degree of reliance on such information should be restricted in light of the limited nature of the review procedure applied.

INDEPENDENT TECHNICAL CONSULTANTS

The Group's estimated proved, probable and possible oil and gas reserves in relation to the Daan, Moliqing and Miao 3 oilfields presented in this offering memorandum are estimates that have been prepared by Ryder Scott Company, L.P., an independent petroleum engineering consulting firm based in the United States specializing in oil reservoir evaluation and economic analysis. Ryder Scott Company, L.P. has given and not withdrawn its written consent to the issue of this offering memorandum with the inclusion herein of its name, all references to the Ryder Scott Reports and the use of the information therein.

Emir-Oil's estimated proved, probable and possible oil and gas reserves presented in this offering memorandum are estimates that have been prepared by Chapman Petroleum Engineering Ltd., an independent appraisal firm located in Canada and Emir-Oil's independent petroleum engineering firm. Emir-Oil has given and not withdrawn its written consent to the issue of this offering memorandum with the inclusion herein of its name, all references to the 2011 Chapman Report and the use of the information therein.

The Group's estimated proved and probable oil reserves in relation to the Dagang oilfield presented in this offering memorandum are estimates that have been prepared by GLJ, an independent petroleum consulting firm based in Canada. GLJ has given and not withdrawn its written consent to the issue of this offering memorandum with the inclusion herein of its name, all references to the 2011 GLJ Report and the use of the information therein.

The Group's estimated proved, probable and possible oil reserves and resources in relation to the Linxing and Sanjiaobei gas assets presented in this offering memorandum are estimates that have been prepared by RISC, an independent advisory firm based in Australia. RISC has given and not withdrawn its written consent to the issue of this offering memorandum with the inclusion herein of its name, all references to the 2011 RISC Report and the use of the information therein.

INDEX TO FINANCIAL STATEMENTS

Page references included in the interim financial information for the six months ended June 30, 2012 and the consolidated financial statements for each of the years ended December 31, 2011 and 2010 set forth below refer to pages in such interim financial information or consolidated financial statements as appeared in our interim report for the six months ended June 30, 2012 or annual reports for the years ended December 31, 2011 and 2010, as the case may be. These interim report and annual reports are not incorporated by reference herein and do not form part of this offering memorandum.

pwc 羅兵咸永道

Report on Review of Interim Financial Information
To the Board of Directors of MIE Holdings Corporation
(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 54 to 106, which comprises the interim condensed consolidated statement of financial position of MIE Holdings Corporation (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 August, 2012

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Condensed Consolidated Interim Statement of Financial Position (Unaudited)

	Note	June 30, 2012 RMB'000 Unaudited	December 31, 2011 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	5,889,425	5,267,499
Intangible asset		560,611	584,322
Investments	*9*	15,910	3,966
Trade and other receivables	*12*	199,497	32,032
Restricted cash		7,515	7,530
		6,672,958	5,895,349
Current assets			
Inventories		54,420	51,837
Derivative financial instruments	*11*	3,890	9,151
Trade and other receivables	*12*	566,335	703,068
Pledged deposits		—	233,891
Cash and cash equivalents		371,955	533,029
		996,600	1,530,976
TOTAL ASSETS		7,669,558	7,426,325
EQUITY			
Capital and reserves attributable to equity holders of the Group			
Ordinary shares	*13*	17,629	17,627
Share premium	*13*	836,374	835,709
Other reserves	*13*	157,286	102,083
Retained earnings			
— Proposed final dividend		—	94,514
— Others		2,230,125	1,909,216
Equity attributable to owners of the Company		3,241,414	2,959,149
Non-controlling interest		3,088	3,504
Total Equity		3,244,502	2,962,653
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		28,300	21,876
Deferred tax liabilities — net		219,196	213,447
Trade and other payables	*14*	134,904	110,358
Borrowings	*15*	2,711,582	2,463,004
Derivative financial instruments	*11*	76,658	85,157
		3,170,640	2,893,842
Current liabilities			
Trade and other payables	*14*	1,097,369	1,495,602
Current income tax liabilities		106,378	63,610
Borrowings	*15*	50,000	—
Derivative financial instruments	*11*	669	10,618
		1,254,416	1,569,830
Total liabilities		4,425,056	4,463,672
TOTAL EQUITY AND LIABILITIES		7,669,558	7,426,325
Net current liabilities		(257,816)	(38,854)
Total assets less current liabilities		6,415,142	5,856,495

The notes on pages 60 to 106 are an integral part of the condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Comprehensive Income (Unaudited)

	Note	Six month period ended June 30, Unaudited 2012 RMB'000	2011 RMB'000
Revenue	*7*	1,756,012	1,282,917
Operating expenses			
Purchases, services and other		(115,991)	(70,857)
Geological and geophysical expense		(791)	—
Employee compensation costs		(118,996)	(110,540)
Depreciation, depletion and amortization	*8*	(376,673)	(231,412)
Distribution expenses		(16,620)	(14,890)
Administrative expenses		(55,518)	(35,044)
Taxes other than income taxes	*16*	(424,014)	(295,434)
Other income/(losses)	*17*	18,040	(12,458)
Total operating expenses		(1,090,563)	(770,635)
Profit from operations		665,449	512,282
Finance income	*18*	3,684	32,479
Finance costs	*18*	(141,104)	(101,485)
Finance cost — net		(137,420)	(69,006)
Investment income		66	—
Profit before income tax		528,095	443,276
Income tax expense	*19*	(181,042)	(139,412)
Net profit for the period		347,053	303,864
Attributable to:			
Owners of the Company		347,469	303,864
Non-controlling interest		(416)	—
Earnings per share, Basic			
(expressed in RMB per share)	*20*	0.13	0.12
Earnings per share, Diluted			
(expressed in RMB per share)	*20*	0.13	0.11
Dividends distributed during the period	*4*	95,070	76,842
Net profit for the period		347,053	303,864
Other comprehensive income			
Currency translation difference		1,632	(20,100)
Other comprehensive income for the period, net of tax		1,632	(20,100)
Total comprehensive income for the period		348,685	283,764
Attributable to:			
Owners of the Company		349,101	283,764
Non-controlling interest		(416)	—
Total comprehensive income for the period		348,685	283,764

The notes on pages 60 to 106 are an integral part of the condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

Six months ended June 30, 2012	Note	Ordinary shares	Share premium	Other reserves	Retained earnings	Non-controlling interest	Total equity
		Unaudited					
		Attributable to owners of the Company					
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2012		17,627	835,709	102,083	2,003,730	3,504	2,962,653
Comprehensive income for the period							
Net profit for the period		—	—	—	347,469	(416)	347,053
Transfer to safety fund reserve		—	—	26,004	(26,004)	—	—
Currency translation difference		—	—	1,632	—	—	1,632
		—	—	27,636	321,465	(416)	348,685
Transaction with owners							
Employees stock option scheme							
— value of employee services		—	—	33,433	—	—	33,433
— exercise of employee options		2	665	—	—	—	667
Share buy back		—	—	(5,866)	—	—	(5,866)
Cash dividend distribution	*4*	—	—	—	(95,070)	—	(95,070)
As at June 30, 2012		17,629	836,374	157,286	2,230,125	3,088	3,244,502

Six months ended June 30, 2011	Note	Ordinary shares	Share premium	Other reserves	Retained earnings	Non-controlling interest	Total equity
		Unaudited					
		Attributable to owners of the Company					
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2011		17,588	826,477	91,919	1,023,947	—	1,959,931
Comprehensive income for the period							
Net profit for the period		—	—	—	303,864	—	303,864
Transfer to safety fund reserve		—	—	18,791	(18,791)	—	—
Currency translation difference		—	—	(20,100)	—	—	(20,100)
		—	—	(1,309)	285,073	—	283,764
Transaction with owners							
Employees stock option scheme							
— value of employee services		—	—	1,803	—	—	1,803
— exercise of employee options		11	2,167	—	—	—	2,178
Cash dividend distribution	*4*	—	—	—	(76,842)	—	(76,842)
As at June 30, 2011		17,599	828,644	92,413	1,232,178	—	2,170,834

The notes on pages 60 to 106 are an integral part of the condensed consolidated interim financial information.

Condensed Consolidated Interim Cash Flow Statement (Unaudited)

	Note	Six months ended June 30, Unaudited 2012 RMB'000	Six months ended June 30, Unaudited 2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	*21*	952,376	766,166
Interest paid		(125,193)	(24,629)
Income tax paid		(139,704)	(94,768)
Net cash generated from operating activities		687,479	646,769
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,168,004)	(584,260)
Payment for acquiring 50% interest in White Hawk and the PEDCO Warrants	*9*	(9,201)	—
Decrease in pledged deposits		233,891	29,357
Loan granted to PSC partner		(94,555)	(28,780)
Interest received		3,684	1,734
Net cash used in investing activities		(1,034,185)	(581,949)
Cash flows from financing activities			
Proceeds from issue of share capital		369	—
Proceeds from borrowings		283,905	—
Proceeds from issue of Notes, net		—	2,524,589
Repayments of borrowings		—	(1,308,329)
Payment of fees relating to Global Offering		—	(10,725)
Cash dividends paid		(95,070)	(76,842)
Payment for share buy back	*13*	(5,866)	—
Net cash from financing activities		183,338	1,128,693
Net (decrease)/increase in cash and cash equivalents		(163,368)	1,193,513
Exchange income on cash and cash equivalents		2,294	—
Cash and cash equivalents at beginning of the period		533,029	680,033
Cash and cash equivalents at end of the period		371,955	1,873,546

The notes on pages 60 to 106 are an integral part of the condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

1. GENERAL INFORMATION

MIE Holdings Corporation (the "Company") and its subsidiaries' (together, the "Group") principal business is to engage in the development, production and sale of: (1) oil through four production sharing projects in China; (2) oil and gas through Emir-Oil, LLC's ("Emir-Oil, LLC") exploration contract and three production contracts in Kazakhstan and; (3) shale oil through Condor Energy Technology LLC's ("Condor") working interest in the Niobrara asset in the United States of America.

The Company was incorporated by Far East Energy Limited ("FEEL"), a company incorporated in Hong Kong with limited liability on March 20, 2008. The address of its registered office is Maples Corporate Services Limited, P.O. Box 309 Ugland House, Grand Cayman KY1-1104, Cayman Islands.

The Company's shares are listed on the Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial information is presented in Renminbi ("RMB") unless otherwise stated. This condensed consolidated interim financial information was approved for issue on August 21, 2012.

These condensed consolidated interim financial statements have not been audited.

On May 23, 2012, the Company acquired from Pacific Energy Development Corporation ("PEDCO") a 50% capital interest in White Hawk Petroleum LLC ("White Hawk"), an LLC registered in Nevada, USA, whose assets consist of a 7.939% working interest and a 5.95425% net revenue interest covering 1,650.75 gross acres in the Leighton-Mandurah prospect deep contract area in the Eagle Ford Shale oil trend, McMullen County, Texas. The purchase price of US$2 million, included the 50% interest in White Hawk and 1 million warrants in PEDCO, half of which are exercisable at US$1.25 per share and half of which are exercisable at US$1.50 per share exercisable within two years ("PEDCO warrants").

On June 25, 2012, the Company entered into an agreement with Sino Gas and Energy Holdings Limited ("SGEH") to acquire a 51% majority interest in Sino Gas and Energy Limited ("SGE"), an entity organized under the laws of Australia. The acquisition was at completion on July 6, 2012. For detail, please refer to Note 24.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended June 30, 2012 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRSs.

Net current liabilities

As at June 30, 2012, the Group has a deficiency in net current assets of RMB257,816,000 which was driven mainly by significant capital expansion program undertaken by the Company in the six months ended June 30, 2012 of RMB975,765,000. The Group generated positive cash flow from operating activities of RMB687,479,000 and RMB1,246,076,000 for the six months ended June 30, 2012 and the year ended December 31, 2011 respectively and expects to continue to generate positive cash flow in the second half of the year 2012. It has undrawn facility of USD40,000,000 from Minsheng Bank (Note 15) as at June 30, 2012 and a new facility from China Construction Bank ("CCB") of RMB60 million after the repayment of the RMB50 million facility to CCB on July 16, 2012 (Note 24).

After taking into consideration the positive operating cash flow and the availability of the undrawn loan facilities above, the Board of Directors believe that the Company has sufficient cash to enable it to pay its debts as and when they fall due.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those described in the annual financial statements for the year ended December 31, 2011.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group:

- IAS 12 (Amendment), 'Deferred tax: Recovery of underlying assets', effective for annual periods beginning on or after January 1, 2012. IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes — recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

The adoption of these new standards and amendments did not have a material impact on the Group's financial statements.

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning January 1, 2012 and have not been early adopted:

- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 1, 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

- IAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. The group is yet to assess the amendments to IAS 19's impact.

  There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

The Group is in the process of reviewing the impact of the above standard and do not expect it to have a material impact on the Group's or the Company's financial statements at the current stage.

4. EQUITY DISTRIBUTIONS

A dividend of HK$0.044 per share in respect of the year ended December 31, 2011 (year ended December 31, 2010 of HK$0.035 per share), amounting to a total dividend of HK$116,505,000 (RMB95,070,000) (December 31, 2010: HK$92,474,000 (RMB76,842,000)) was approved at the annual general meeting on May 18, 2012 and was paid on June 15, 2012.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to capital risk and a variety of financial risks, including market risk, credit risk and liquidity risk. The interim condensed consolidated financial statements do not include all financial risks management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2011.

The table below analyses the Group's financial liabilities and net-settled derivative financial assets and liabilities into relevant maturity groupings based on the remaining year at the end of the reporting period to their contractual maturity dates.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At June 30, 2012				
Borrowings	311,299	345,518	3,198,821	—
Derivative financial instruments				
— oil hedge option	669	—	—	—
Trade and other payables	1,042,021	117,336	7,027	10,541

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2011				
Borrowings	245,735	245,735	3,101,127	—
Derivative financial instruments				
— oil hedge option	10,618	—	—	—
Trade and other payables	1,386,266	91,628	6,894	11,487

6. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2011.

7. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board of Directors considers the business performance of the Group from a geographic perspective being China, Kazakhstan and United States of America ("USA").

The China segment derives its revenue from the sale of oil. Revenue is realized from the sale of the Group's share of crude oil to PetroChina pursuant to three PSCs: Daan, Moliqing and Miao 3. The Kazakhstan segment derives its revenue from the sale of oil and gas. The USA segment will derive its revenue from sale of shale oil, but had not commenced production as at June 30, 2012.

The Board of Directors assesses the performance of the operating segments based on each segment's profit from operation.

The segment information provided to the Board of Directors for the reportable segments for the six months ended June 30, 2012 is as follows:

	China	Kazakhstan	USA	Others*	Inter-segment transaction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	1,539,687	216,325	—	—	—	1,756,012
Revenue	**1,539,687**	**216,325**	**—**	**—**	**—**	**1,756,012**
Purchases, services and other	(84,484)	(31,507)	—	—	—	(115,991)
Geological and geophysical expense	—	(791)	—	—	—	(791)
Employee compensation costs	(77,437)	(21,890)	—	(19,669)	—	(118,996)
Depreciation, depletion and amortization	(323,494)	(53,070)	—	(109)	—	(376,673)
Distribution expenses	(16,620)	—	—	—	—	(16,620)
Administrative expenses	(29,981)	(9,914)	(2,428)	(13,195)	—	(55,518)
Taxes other than income taxes *(Note 16)*	(301,111)	(92,577)	—	(30,326)	—	(424,014)
Other (losses)/income	(582)	—	—	18,622	—	18,040
Profit from operations	**705,978**	**6,576**	**(2,428)**	**(44,677)**	**—**	**665,449**
Finance income	2,815	1,743	—	21,895	(22,769)	3,684
Finance cost	(8,568)	(25,315)	—	(129,990)	22,769	(141,104)
Investment income	—	—	66	—	—	66
Income tax expense	(184,055)	3,013	—	—	—	(181,042)
Net profit/(loss) for the period	**516,170**	**(13,983)**	**(2,362)**	**(152,772)**	**—**	**347,053**
Total assets	**5,275,168**	**2,174,870**	**70,397**	**145,233**	**—**	**7,665,668**
Total assets includes:						
Property, plant and equipment	4,321,313	1,534,560	32,072	1,480	—	5,889,425
Intangible assets	5,499	536,371	18,741	—	—	560,611
Additions to non-current assets	801,265	142,428	32,072	—	—	975,765
Total liabilities	**1,028,670**	**435,704**	**6,648**	**96,328**	**—**	**1,567,350**

As at June 30, 2011, the Group operated as a single operating segment in China. The segment information for six months ended June 30, 2011 is as follows:

	China	Others*	Total
	RMB'000	RMB'000	RMB'000
Segment revenue	1,282,917	—	1,282,917
Revenue	**1,282,917**	**—**	**1,282,917**
Purchases, services and other	(70,857)	—	(70,857)
Employee compensation costs	(102,691)	(7,849)	(110,540)
Depreciation, depletion and amortization	(231,412)	—	(231,412)
Distribution expenses	(14,890)	—	(14,890)
Administrative expenses	(26,299)	(8,745)	(35,044)
Taxes other than income taxes *(Note 16)*	(295,434)	—	(295,434)
Other losses	(12,458)	—	(12,458)
Profit from operations	**528,876**	**(16,594)**	**512,282**
Finance income	31,232	1,247	32,479
Finance cost	(66,067)	(35,418)	(101,485)
Income tax expense	(139,412)	—	(139,412)
Net profit for the period	**354,629**	**(50,765)**	**303,864**

* Others include costs incurred which are not directly attributable to oil and gas operations in China, Kazakhstan and USA.

The revenue reported to the Board of Directors is measured consistently with that in the consolidated statement of comprehensive income.

The assets and liabilities as at December 31, 2011 is as follows:

	China	Kazakhstan	Others*	Inter-segment transaction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**5,239,096**	**2,078,556**	**99,522**	**—**	**7,417,174**
Total assets includes:					
Property, plant and equipment	3,850,626	1,415,288	1,585	—	5,267,499
Intangible assets	6,275	559,377	18,670	—	584,322
Additions to non-current assets	1,347,546	74,254	1,648	—	1,423,448
Total liabilities	**1,331,285**	**354,077**	**187,044**	**—**	**1,872,406**

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The derivative financial instruments held by the Group are not considered to be segment assets.

Reportable segments' assets are reconciled to total assets as follows:

	As at	
	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
Segment assets for reportable segments	7,520,435	7,317,652
Other segments assets	145,233	99,522
	7,665,668	7,417,174
Unallocated:		
Current derivative financial instruments	3,890	9,151
Total assets per consolidated statement of financial position	7,669,558	7,426,325

The amounts provided to the Board of Directors with respect to total liabilities are measured in a manner consistent with that of the consolidated financial statements. These liabilities are allocated based on the operations of the segment.

The Group's derivative financial instruments and interest-bearing liabilities are not considered to be segment liabilities.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	As at	
	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
Segment liabilities for reportable segments	1,471,022	1,685,362
Other segments liabilities	96,328	187,044
	1,567,350	1,872,406
Unallocated:		
Current derivatives financial instrument premium	18,797	25,644
Non-current derivatives financial instrument premium	—	6,843
Current derivative financial instruments	669	10,618
Non-current derivative financial instruments	76,658	85,157
Current borrowings	50,000	—
Non-current borrowings	2,711,582	2,463,004
Total liabilities per consolidated statement of financial position	4,425,056	4,463,672

Breakdown of the revenue is as follows:

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Analysis of revenue by segment		
Sale of oil in China	1,539,687	1,282,917
Sale of oil and gas in Kazakhstan	216,325	—
	1,756,012	1,282,917

Revenues in China of approximately RMB1,539,687,000 (2011: RMB1,282,917,000) are derived from a single external customer, PetroChina.

Revenues in Kazakhstan of approximately RMB201,125,000 are derived from Titan Oil.

8. PROFIT FROM OPERATIONS

All significant unusual items in nature, size or incidence have been included in the Condensed Consolidated Interim Statement of Comprehensive Income. Included in employee compensation costs are share-based compensation expenses of RMB32,120,000 (2011: RMB49,573,000).

9. INVESTMENTS

	As at
	June 30, 2012
	RMB'000
Beginning of the period (a)	3,966
Addition (b)	11,878
Share of post-tax profits of jointly controlled entity	66
End of the period	15,910

(a) The beginning balance represents the value of 4,000,000 shares of restricted A convertible preferred stock in PEDCO at US$0.75 per share acquired in October 2011.The initial fair value of the preferred shares is approximately RMB3,966,000.

(b) On May 23, 2012, the Company acquired from PEDCO a 50% capital interest in White Hawk. The purchase price of acquisition of US$2 million included the 50% capital interest in White Hawk and 1 million PEDCO warrants (Note 11).

The Group's share of the results in White Hawk and its aggregated assets and liabilities are shown below:

	Six months ended June 30,
	2012
	RMB'000
Assets	13,166
Liabilities	1,242
Revenues	85
Share of profit	66
Percentage held	50%

10. PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment during the period amounted to RMB975,765,000 (2011: RMB650,637,000) and mainly related to costs associated with oil and gas properties.

11. DERIVATIVE FINANCIAL INSTRUMENTS

	As at	
	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
Assets		
Oil hedge options (a)	3,470	9,151
PEDCO warrants (b)	420	—
Current portion	3,890	9,151

	As at	
	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
Liabilities		
Current		
Oil hedge options (a)	669	10,618
Non-current		
Option to ACAP (c)	76,658	85,157
	77,327	95,775

(a) Oil hedge options

(i) In October 2010, the Group entered into the following oil hedge options with Merrill Lynch Commodities, Inc ("MLCI") for the year ended December 31, 2011 and year ending December 31, 2012:

Contract Period	Monthly Notional Quantity (barrel)	Annual Notional Quantity (barrel)	MIE sold put option at strike price (WTI price per barrel)	MIE bought put option at strike price (WTI price per barrel)
Year ended December 31, 2011	150,000	1,800,000	US$55.00	US$70.00
Year ending December 31, 2012	100,000	1,200,000	US$55.00	US$70.00

The premium of US$8.74 million (RMB57.86 million) for the above option is payable over 8 instalments on a quarterly basis from April 2011.

(ii) In October 2011, the Group entered into three separate oil hedge options with the following banks at monthly notional quantity of 60,000 barrel each for year ending December 31, 2012 (or total notional quantity of 720,000 barrels per annum) at zero premium:

Counterparty	The Company bought put option at strike price (IPE Brent price per barrel)	The Company sold call option at strike price (IPE Brent price per barrel)	The Company bought call option at strike price (IPE Brent price per barrel)
JPMorgan Chase Bank. N.A.	US$60.00	US$131.00	US$170.00
Deutsche Bank AG	US$60.00	US$131.50	US$170.00
Standard Bank Plc	US$60.00	US$146.00	US$186.00

The change in fair value of derivative financial instruments, which are not designated as cash flow hedges for accounting purposes, are recognized in the consolidated statement of comprehensive income (Note 17) and as assets or liabilities.

(b) PEDCO warrants

Connected with the purchase of the 50% interest in White Hawk on May 23, 2012, for a consideration of US$2,000,000, the Company also acquired 1 million PEDCO warrants, half of which are exercisable at US$1.25 per share and half of which at US$1.50 per share exercisable within two years. The initial fair value of the warrants is approximately RMB420,000 (Note 9).

(c) Option to ACAP

The Company has granted Acap Limited (''ACAP''), which provided general consulting services to the Company in relation to the acquisition of Emir-Oil, LLC, a right to co-invest with the Company or its associates for up to 9.9% of the assets acquired in the acquisition, on the same terms and conditions under the Purchase Agreement within 36 months from the closing of the transaction. The change in fair value of the option to ACAP is recognized in the consolidated statement of comprehensive income (Note 17).

12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables of RMB765,832,000 as at June 30, 2012 (December 31, 2011: RMB735,100,000) are trade receivables of RMB257,864,000 (December 31, 2011: RMB210,603,000).

The aging analysis of trade receivables were as follows:

	As at	
	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
0–30 days	257,830	197,123
31–180 days	1	13,441
over 180 days	33	39
	257,864	210,603

The Group's trade receivables have credit terms of between 30 days to 60 days.

As of June 30, 2012 and December 31, 2011, there were no trade receivables past due which are impaired.

13. SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Other reserves	Total
	(thousands)	RMB'000	RMB'000	RMB'000	RMB'000
Opening balance January 1, 2012	2,647,396	17,627	835,709	102,083	955,419
Transfer to safety fund reserve	—	—	—	26,004	26,004
Currency translation difference	—	—	—	1,632	1,632
Employees stock option scheme — value of employee services	—	—	—	33,433	33,433
Employees stock option scheme — exercise of employee options	445	2	665	—	667
Share buy back (a)	—	—	—	(5,866)	(5,866)
At June 30, 2012	2,647,841	17,629	836,374	157,286	1,011,289
Opening balance January 1, 2011	2,641,334	17,588	826,477	91,919	935,984
Transfer to safety fund reserve	—	—	—	18,791	18,791
Currency translation difference	—	—	—	(20,100)	(20,100)
Employees stock option scheme — value of employee services	—	—	—	1,803	1,803
Employees stock option scheme — exercise of employee options	1,701	11	2,167	—	2,178
At June 30, 2011	2,643,035	17,599	828,644	92,413	938,656

(a) To supplement the 2009 Stock Incentive Compensation Plan (the "Plan") in respect the operation of the share appreciation rights ("SAR"), the board of the Company resolved on May 30, 2012 that up to 44,415,800 shares of the Company will be purchased by a trustee from the market out of cash contributed by the Group and be held in trust for the benefit of the persons holding SAR and pending the exercise of the SAR ("Selected Grantees"). Upon exercise of the SAR, the trustee will sell the purchased shares to which the SAR so exercised relates and pay the selected grantees in satisfaction of the Company's payment obligations in relation to the SAR under the Plan.

In the current period, the trustee has acquired 3,822,000 shares through purchases from the market at an aggregate consideration of RMB5,866,000 (including transaction costs). The purchase shares are being held in trust and did not result in any share cancellation.

14. TRADE AND OTHER PAYABLES

At June 30, 2012 and December 31, 2011 the ageing analysis of the trade and other payable based on invoice date is as follows:

	As at	
	June 30, 2012	**December 31, 2011**
	RMB'000	**RMB'000**
< 6 months	893,328	1,299,650
6 months–1 year	244,917	160,788
1–2 years	58,480	123,733
2–3 years	19,365	2,954
> 3 years	16,183	18,835
Total	1,232,273	1,605,960

15. BORROWINGS

(a) Summary of borrowings

	As at	
	June 30, 2012	**December 31, 2011**
	RMB'000	**RMB'000**
Bank borrowings		
Non-current (i)	233,905	—
Current (ii)	50,000	—
	283,905	—
Senior Notes (iii)	2,477,677	2,463,004
Total borrowings	2,761,582	2,463,004

Bank Borrowings

(i) Loan from China Minsheng Bank

On June 18, 2012, MI Energy Corporation ("MIE") signed a US$80 million syndicated loan facility with China Minsheng Banking Corporation Limited head office and China Minsheng Banking Corporation Limited Hong Kong Branch ("Minsheng"). The term of the loan is 35 months and bears interest at LIBOR plus 5% per annum, repayable in three equal instalments on the 24th, 30th and 35th months after June 25, 2012. The loan is unsecured and guaranteed by the Company. As of June 30, 2012, MIE had drawn down US$40 million under the loan.

(ii) Loan from China Construction Bank

MIE entered into a RMB50 million working capital loan agreement with China Construction Bank ("CCB") on January 4, 2012 for 6 months commencing on January 13, 2012. The interest rate is the base rate as published by the People's Bank of China at 6.1% per annum plus 15% of the base rate and the resulting effective interest rate is 7.015% per annum. The loan is secured by a pledge of MIE's entitlement to the sales income from Moliqing and Miao 3. The loan was repaid on July 16, 2012 (Note 24).

(iii) Senior Notes

On May 12, 2011, the Company issued US$400,000,000 9.75% senior notes ("Notes") due 2016. The Notes bear a coupon rate of 9.75% per annum, payable semi-annually in arrears on May 12 and November 12 of each year, commencing on November 12, 2011. The net proceeds of the issuance of the Notes, after deduction of underwriting fees, discounts and commissions and other expenses payable in connection with the issuance of the Notes, amounted to approximately US$390 million. The Notes are listed on the Singapore Exchange Securities Trading Limited.

The Notes are general obligation of the Company and are senior in right of payment to any existing and future obligations of the Company and its subsidiaries expressly subordinated in right of payment to the Notes.

The Notes and the guarantees provided by the certain subsidiaries will limit the ability of the Company and certain of its subsidiaries to, among other things (and subject to certain qualifications and exceptions) incur additional indebtedness issue preferred stock and make investment.

At any time on or after May 12, 2014, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing on May 12 of any year set forth below:

Period	Redemption Price
2014	104.8750%
2015	102.4375%

At any time prior to May 12, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus the applicable premium and accrued and unpaid interest to the redemption date.

In addition, at any time prior to May 12, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 109.75% of the principal amount of the Notes, plus accrued and unpaid interest to the redemption date, provided that at least 65% of the aggregate principal amount of the Notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(b) Movements in borrowings is analysed as follows:

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Carrying amount as at January 1	2,463,004	1,291,203
Issue of the Notes	—	2,528,955
Borrowings from CCB	50,000	—
Borrowings from Minsheng	233,905	—
Amortization of the Notes	5,292	665
Repayments of borrowings	—	(1,291,203)
Exchange difference	9,381	(5,031)
Carrying amount of the borrowings and Notes as at June 30	2,761,582	2,524,589

(c) The effective interest rates at the dates of the consolidated statements of financial position are as follows:

	As at	
	June 30, 2012	December 31, 2011
Effective interest rates on the bank borrowings	7.02%	—
Effective interest rates on the Notes	10.91%	10.91%

Interest expense on borrowings for the six months ended June 30, 2012 is RMB129,775,000 (June 30, 2011: RMB91,851,000).

(d) The Group has undrawn borrowing facilities of US$40 million as of June 30, 2012 within nine months.

16. TAXES OTHER THAN INCOME TAXES

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
China		
Special oil levy	292,715	289,363
Others	8,396	6,071
	301,111	295,434
Kazakhstan		
Mineral extraction tax	13,765	—
Rent export tax	55,139	—
Rent export duty expenditures	12,021	—
Property tax	11,652	—
	92,577	—
Others		
Withholding tax	30,326	—
Total	424,014	295,434

17. OTHER INCOME/(LOSSES)

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Gain/(loss) on oil put option	4,286	(16,073)
Gain from changes of fair value of option to ACAP	8,499	—
Others	5,255	3,615
	18,040	(12,458)

18. FINANCE COST — NET

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Finance income		
Interest income	3,684	1,735
Exchange gain	—	30,744
	3,684	32,479
Finance cost		
Interest expense	(132,595)	(91,851)
Bank charges	(1,191)	(9,634)
Exchange loss	(7,318)	—
	(141,104)	(101,485)
Finance costs — net	(137,420)	(69,006)

19. INCOME TAX EXPENSE

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Current income tax — overseas	178,101	132,113
Deferred income tax	2,941	7,299
	181,042	139,412

Hong Kong profits tax has not been provided for as the Group did not have estimated assessable profit subject to profits tax in Hong Kong during the six months ended June 30, 2012 and 2011. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending December 31, 2012 is 34% (the estimated tax rate for the six months ended June 30, 2011 was 31%). The increase in average annual tax rate is mainly due to higher non-deductible expenses relating to interest expenses for the Notes which was issued in May 2011.

20. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six month period excluding ordinary shares purchased by the trustee and held in trust for the benefit of selected grantees pending the exercise of SARs to which these shares relate.

	Six months ended June 30,	
	2012	**2011**
	RMB'000	**RMB'000**
Profit attributable to equity holders of the Company	347,469	303,864
Weighted average number of ordinary shares (thousands)	2,647,237	2,641,726
Earnings per share, Basic (RMB per share)	0.13	0.12

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For six months ended June 30, 2012 and 2011, the Company only has share options outstanding which are potentially dilutive. A calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. The number of ordinary shares calculated above for basic earning per share is increased by the number of ordinary shares that would have been issued assuming the exercise of the share options at the date later of beginning of the relevant period or the date of issue.

	Six months ended June 30,	
	2012	**2011**
	RMB'000	**RMB'000**
Net profit attributable to equity holders of the Company	347,469	303,864
Profit used to determine diluted earnings per share	347,469	303,864
Weighted average number of ordinary shares in issue (thousands)	2,647,237	2,641,726
Adjustments for:		
— Share options (thousands)	17,962	18,418
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	2,665,199	2,660,144
Earnings per share, Diluted (RMB per share)	0.13	0.11

21. CASH GENERATED FROM OPERATING ACTIVITIES

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	528,095	443,276
Adjustments for:		
Depreciation, depletion and amortization	376,673	231,412
Interest expenses — net	128,911	90,116
Unrealized foreign exchange loss/(gain)	7,318	(30,744)
Write off of inventory	260	—
Fair value (gain)/loss on oil put option	(4,286)	16,073
Gain from changes of fair value of option to ACAP	(8,499)	—
Employee share option	33,433	2,526
Changes in working capital:		
Inventories	(2,583)	(8,284)
Trade and other receivables	75,687	(135,842)
Trade and other payables	(182,633)	157,633
Cash generated from operations	952,376	766,166

22. COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) The Group has operating lease commitment related to its non-cancellation operating lease for offices. The future aggregate minimum lease payments under the operating lease are as follows:

	As at	
	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
< 1 year	6,650	4,687
1–2 year	3,259	3,507
2–5 year	2,805	4,304
	12,714	12,498

(ii) According to the production contracts for 3 blocks in Kazakhstan, the Group is obligated to perform minimum work program during the life of the production contracts. Set out below is the commitments for the minimum work program:

	As at	
	June 30, 2012	December 31, 2011
	RMB'000	RMB'000
< 1 year	494,584	440,808
1–2 year	418,777	420,509
2–5 year	1,342,918	1,294,990
> 5 year	6,244,025	6,470,097
	8,500,304	8,626,404

(iii) Sino Gas and Energy Limited ("SGE") commitment

On June 25, 2012, the Group entered into an agreement to acquire 51% interest in SGE. The aggregate amount of consideration is US$100 million. This transaction has not been completed as of June 30, 2012. For details, please refer to Note 24.

(b) Contingencies

On August 28, 2000, MIE entered into a PSC with Sinopec for exploration and development of Luojiayi 64 block at Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at Luojiayi 64 block at Shengli and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at Shengli. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment of at least US$2 million under the PSC. MIE believes its investment in the project at Luojiayi 64 block at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings.

23. RELATED PARTY TRANSACTIONS

(a) The following transactions were carried out with related parties:

	Six months ended June 30,	
	2012	**2011**
	RMB'000	**RMB'000**
Transactions with PSC partners		
Global Oil Corporation ("GOC")		
— Amounts received on behalf of GOC arising from the PSCs	148,699	136,117
— Loan granted to GOC	94,555	28,780
— Costs incurred on behalf of GOC for the PSCs	138,705	132,614
PetroChina		
— Sales to PetroChina	1,539,687	1,282,917
— Cost incurred on behalf of PetroChina for the PSCs	69,461	69,712
Transactions with controlling shareholder of FEEL and a company/person related to the controlling shareholder of FEEL		
Jilin Guotai Petroleum Development Company		
Purchases of raw materials	150	151
Purchase for oil field services	90,635	75,149
Rental of vehicles	—	1,899
Purchase of vehicles	2,005	—
Zhao Jiangbo		
Rental of vehicles and office premises	2,251	2,400

(b) Amounts due from related parties included in trade and other receivables:

	As at	
	June 30, 2012	**December 31, 2011**
	RMB'000	**RMB'000**
Amounts due from related parties and PSC partners		
Current		
Zhao Jiangbo (non-trade)	375	—
GOC (non-trade)	41,849	142,500
PetroChina (trade)	353,357	300,914
PetroChina (non-trade)	38,667	37,993
	434,248	481,407
Non-current		
GOC (non-trade)	161,646	—
	595,894	481,407
Advance to supplier		
Jilin Guotai Petroleum Development Company (trade)	15,811	31,718

The above balances principally represent trade and unbilled receivables from PetroChina from sale of crude oil to PetroChina pursuant to the PSCs, advances to GOC which will be offset against amounts to be received from PetroChina on behalf of GOC, expenditures incurred by the Group on behalf of other PSC partners pursuant to the PSCs, and advances to Jilin Guotai Petroleum Development Company for oilfield related services.

(c) Key management compensation is presented below:

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Expense		
Short-term benefits:		
— Salaries	9,338	12,411
— Short-term bonuses	1,892	6,176
— Share options and share appreciation rights granted	21,497	26,713
— Benefits in-kind	1,008	1,023
Total	33,735	46,323
Accrued liability		
Short-term benefits:		
— Short-term bonuses	1,892	300
Total	1,892	300

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

(a) On June 25, 2012, the Company entered into an agreement with SGEH to acquire a 51% majority interest in Sino Gas and Energy Limited ("SGE"), an entity organized under the laws of Australia. The principal business activity of SGE is the exploration of unconventional gas assets in China pursuant to two PSCs, namely Linxing PSC and Sanjiaobei PSC, both of which are located on the eastern flank of the Ordos Basin. The aggregate amount of the consideration payable by the Company is US$100 million comprising (a) US$10 million for the purchase of certain existing shares of SGE payable in cash at completion; and (b) US$66,342,287 and US$23,657,713 for the subscription of new shares of SGE and certain loan notes to SGE payable in cash progressively after completion. US$10 million was paid on July 4, 2012 at completion, which was the date that SGE became a jointly controlled entity of the Group.

(b) On July 16, 2012, MIE repaid the balance of RMB50 million working capital loan as of June 30, 2012 to CCB.

On July 11, 2012, MIE entered into a new RMB60 million 6 months working capital loan agreement with CCB commencing from July 11, 2012. The interest rate is the base rate as published by the People's Bank of China plus an additional 15% of the base rate. The loan is secured by a pledge on MIE's entitlement on the sales income from Moliqing and Miao 3.

羅兵咸永道

To the shareholders of MIE Holdings Corporation
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of MIE Holdings Corporation ("the Company") and its subsidiaries (together, the "Group") set out on pages 82 to 204, which comprise the consolidated and company statements of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 26, 2012

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Consolidated Statement of Financial Position

	Notes	As at December 31, 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	5,267,499	3,024,482
Intangible asset	*7*	584,322	1,677
Investment	*8*	3,966	—
Derivative financial instruments	*9*	—	20,285
Trade and other receivables	*10*	32,032	24,212
Restricted cash	*12*	7,530	—
		5,895,349	3,070,656
Current assets			
Inventories	*11*	51,837	36,664
Derivative financial instruments	*9*	9,151	11,168
Trade and other receivables	*10*	703,068	398,294
Pledged deposits	*12*	233,891	29,916
Cash and cash equivalents	*13*	533,029	680,033
		1,530,976	1,156,075
Total Assets		7,426,325	4,226,731
EQUITY			
Capital and reserves attributable to owners of the Company			
Ordinary shares	*14*	17,627	17,588
Share premium	*15*	835,709	826,477
Other reserves	*15*	102,083	91,919
Retained earnings			
— Proposed final dividend	*27*	94,514	77,933
— Others		1,909,216	946,014
Equity attributable to owners of the Company		2,959,149	1,959,931
Non-controlling interest		3,504	—
Total Equity		2,962,653	1,959,931
LIABILITIES			
Non-current liabilities			
Asset retirement obligations	*16*	21,876	9,270
Deferred income tax liabilities — net	*17*	213,447	8,694
Trade and other payables	*18*	110,358	137,598
Borrowings	*19*	2,463,004	1,191,862
Derivative financial instruments	*9*	85,157	—
		2,893,842	1,347,424
Current liabilities			
Trade and other payables	*18*	1,495,602	775,137
Current income tax liabilities		63,610	44,898
Borrowings	*19*	—	99,341
Derivative financial instruments	*9*	10,618	—
		1,569,830	919,376
Total Liabilities		4,463,672	2,266,800
Total Equity and Liabilities		7,426,325	4,226,731
Net current (liabilities)/assets		(38,854)	236,699
Total assets less current liabilities		5,856,495	3,307,355

The notes on pages 91 to 204 are an integral part of these financial statements.

The financial statements on page 82 to 204 were approved by the Board of Directors on March 26, 2012 and were signed on its behalf.

Zhang Ruilin
Director

Allen Mak
Director

Statement of Financial Position

	Notes	As at December 31, 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,584	—
Investments in subsidiaries	*25*	1,418,594	1,400,552
Amount due from subsidiaries	*25*	3,329,987	602,021
Investment	*8*	3,966	—
Prepayments to third parties		12,063	—
		4,766,194	2,002,573
Current assets			
Amount due from subsidiaries	*25*	94,514	—
Other receivables		3	—
Cash and cash equivalents	*13*	52,381	342,950
		146,898	342,950
Total Assets		4,913,092	2,345,523
EQUITY			
Capital and reserves			
Ordinary shares	*14*	17,627	17,588
Share premium	*15*	835,709	826,477
Other reserves	*15*	1,332,718	1,367,599
Retained earnings			
— Proposed final dividend	*27*	94,514	77,933
— Others		59,144	11,316
Total Equity		2,339,712	2,300,913
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	2,463,004	—
		2,463,004	—
Current liabilities			
Salary payable		31,576	5,960
Interest payable		33,689	—
Stock appreciation rights liabilities	*18*	33,512	21,260
Derivative financial instruments	*9*	10,618	—
Other liabilities		981	17,390
		110,376	44,610
Total liabilities		2,573,380	44,610
TOTAL EQUITY AND LIABILITIES		4,913,092	2,345,523
Net current assets		36,522	298,340
Total assets less current liabilities		4,802,716	2,300,913

The notes on pages 91 to 204 are an integral part of these financial statements.

The financial statements on page 82 to 204 were approved by the Board of Directors on March 26, 2012 and were signed on its behalf.

Zhang Ruilin
Director

Allen Mak
Director

Consolidated Statement of Comprehensive Income

	Notes	Year ended December 31, 2011 RMB'000	2010 RMB'000
Revenue	*5*	2,827,141	1,804,976
Operating expenses			
Purchases, services and other		(185,494)	(126,517)
Employee compensation costs	*20*	(197,052)	(110,346)
Depreciation, depletion and amortization		(542,002)	(528,582)
Distribution expenses		(31,472)	(28,424)
Administrative expenses		(90,297)	(50,154)
Taxes other than income taxes	*21*	(656,766)	(289,296)
Other losses	*22*	(24,898)	(37,644)
Total operating expenses		(1,727,981)	(1,170,963)
Profit from operations		1,099,160	634,013
Finance income	*23*	74,728	35,344
Finance costs	*23*	(234,482)	(86,788)
Finance costs — net	*23*	(159,754)	(51,444)
Gain arising from acquisition of Emir-Oil, LLC	*30*	460,345	—
Profit before income tax		1,399,751	582,569
Income tax expense	*24*	(293,909)	(161,705)
Net profit for the year		1,105,842	420,864
Attributable to:			
Owners of the Company		1,106,072	420,864
Non-controlling interest		(230)	—
		1,105,842	420,864
Earnings per share, Basic (expressed in RMB per share)	*32*	0.42	0.19
Earnings per share, Diluted (expressed in RMB per share)	*32*	0.42	0.19
Dividends distributed during the year		76,842	217,584
Dividends proposed after the balance sheet date	*27*	94,514	77,933
Net profit for the year		1,105,842	420,864
Other comprehensive income:			
Currency translation difference		(44,697)	(10,941)
Other comprehensive income for the year, net of tax		(44,697)	(10,941)
Total comprehensive income for the year		1,061,145	409,923
Attribute to:			
Owners of the Company		1,061,375	409,923
Non-controlling interest		(230)	—
Total comprehensive income for the year		1,061,145	409,923

The notes on pages 91 to 204 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company Ordinary shares	Preferred shares	Share premium	Other reserves	Retained earnings	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2010		659	171	339,449	64,460	848,707	1,253,446
Comprehensive income for the year							
Net profit for the year		—	—	—	—	420,864	420,864
Transfer to safety fund reserve		—	—	—	28,040	(28,040)	—
Currency translation difference		—	—	—	(10,941)	—	(10,941)
		—	—	—	17,099	392,824	409,923
Transactions with owners							
Employees stock options	*14(b), 20*	—	—	—	10,360	—	10,360
Cancellation of ordinary shares	*14(a)*	(124)	—	(614,047)	—	—	(614,171)
Issuance of Series B preferred shares in exchange of ordinary shares		—	249	613,923	—	—	614,172
Cash dividend distribution		—	—	—	—	(136,532)	(136,532)
Deemed dividend distribution		—	—	—	—	(81,052)	(81,052)
Conversion of Series A shares to ordinary shares	*14(a)*	171	(171)	—	—	—	—
Conversion of Series B shares to ordinary shares	*14(a)*	124	(249)	125	—	—	—
Capitalization issuance of ordinary shares to shareholders registered on November 23, 2010	*14(a)*	13,822	—	(13,822)	—	—	—
Issuances of ordinary shares for Global Offering	*14(a)*	2,936	—	500,849	—	—	503,785
Total transactions with owners		16,929	(171)	487,028	10,360	(217,584)	296,562
As at December 31, 2010		17,588	—	826,477	91,919	1,023,947	1,959,931

	Note	Attributable to owners of the Company Ordinary shares	Share premium	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2011		17,588	826,477	91,919	1,023,947	1,959,931	—	1,959,931
Comprehensive income for the year								
Net profit for the year		—	—	—	1,106,072	1,106,072	(230)	1,105,842
Transfer to safety fund reserve		—	—	49,447	(49,447)	—	—	—
Currency translation difference		—	—	(44,697)	—	(44,697)	—	(44,697)
		—	—	4,750	1,056,625	1,061,375	(230)	1,061,145
Transactions with owners								
Employees stock options	*14(b), 20*	—	—	5,414	—	5,414	—	5,414
Cash dividend distribution	*27*	—	—	—	(76,842)	(76,842)	—	(76,842)
Exercise of employee stock option	*14(a)*	39	9,232	—	—	9,271	—	9,271
Capital contribution from Non-controlling interest	*8*	—	—	—	—	—	3,734	3,734
Total transactions with owners		39	9,232	5,414	(76,842)	(62,157)	3,734	(58,423)
As at December 31, 2011		17,627	835,709	102,083	2,003,730	2,959,149	3,504	2,962,653

The notes on pages 91 to 204 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	Year ended December 31, 2011 RMB'000	Year ended December 31, 2010 RMB'000
Cash flows from operating activities			
Cash generated from operations	*28*	1,657,769	1,344,234
Interest paid		(147,573)	(72,420)
Income tax paid		(264,120)	(256,915)
Net cash generated from operating activities		1,246,076	1,014,899
Cash flows from investing activities			
Acquisition of Emir-Oil, LLC, net of cash acquired	*30*	(985,925)	—
Acquisition of preferred shares and mineral extraction rights	*8*	(18,903)	—
Purchases of property, plant and equipment		(1,241,908)	(910,244)
Increase in pledged deposits		(205,271)	(114)
Loan granted to PSC partner		(92,330)	(91,586)
Repayment of loan by PSC partner		63,779	—
Interest received		4,066	143
Net cash used in investing activities		(2,476,492)	(1,001,801)
Cash flows from financing activities			
Proceeds from issue of Notes, net		2,524,589	—
Payment of expenses for issuance of Notes		(34,511)	—
Repayments of borrowings		(1,308,329)	—
Payment of loan arrangement fees		—	(27,114)
Capital element of finance lease rentals paid		(348)	—
Proceeds from Global Offering		—	605,219
Payment of fees relating to Global Offering		(10,725)	(64,909)
Cash dividends paid		(76,842)	(136,532)
Net cash generated from financing activities		1,093,834	376,664
Net (decrease)/increase in cash and cash equivalents		(136,582)	389,762
Exchange losses on cash and cash equivalents		(10,422)	—
Cash and cash equivalents at beginning of the year		680,033	290,271
Cash and cash equivalents at end of the year	*13*	533,029	680,033

The notes on pages 91 to 204 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

The Company was incorporated by Far East Energy Limited ("FEEL"), a company incorporated in Hong Kong with limited liability on March 20, 2008. The address of its registered office is Maples Corporate Services Limited, P.O. Box 309 Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares are listed on the Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries' ("the Group") principal business is to engage in the development, production and sale of crude oil through (1) MI Energy Corporation's ("MIE") four production sharing projects in China; (2) Emir-Oil, LLC's ("Emir-Oil, LLC") exploration contract and three production contracts in Kazakhstan and; (3) Condor Energy Technology LLC's ("Condor") working interest in the Niobrara asset in the United States of America.

On May 26, 2001, MIE was assigned all of Microbes, Inc.'s, its then parent company, 90% foreign participating interest in the production sharing contracts ("PSCs") of four oil blocks, namely, Daan, Moliqing and Miao 3 in Jilin Province with PetroChina and Luojiayi 64 block in Shengli of Shandong Province with China Petroleum and Chemical Corporation ("Sinopec"). The Daan and Miao 3 projects were established in 1997, and the Moliqing project was established in 1998. The duration of those three projects are 30 years with the commercial production period being up to 20 years. Daan, Moliqing and Miao 3 will expire in year 2024, year 2028 and year 2028 respectively. The Group acts as the operator of these four PSCs. The Group and Global Oil Corporation ("GOC"), hold a 90% interest and a 10% interest in the foreign participating interest in the PSCs for Daan, Moliqing and Miao 3, respectively (Note 2(c)). As of January 1, 2005, the Daan project was in the commercial production phase. As of October 1, 2008, the Miao 3 project attained commercial production. As of December 1, 2008, the Moliqing project reached commercial production. In 2006, the Luojiayi 64 block stopped work and in 2005 MIE's related investment was fully written off (Note 29(b)).

The financial statements are presented in Renminbi ("RMB") unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on March 26, 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of MIE Holdings Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(i) Net current liabilities

As at December 31, 2011, the Group has a deficiency in net current assets of RMB38,854,000 which was driven mainly by significant capital expansion program undertaken by the Company in 2011 of RMB1,398,147,000 that was funded by trade payables. The Group generated positive cash flow from operating activities of RMB1,246,076,000 and RMB1,014,899,000 for the years ended December 31, 2011 and 2010 respectively and expects to continue to generate positive cash flow in year 2012. It has also secured a facility for a term loan of RMB50,000,000 from a bank (Note 33).

After taking into consideration the positive operating cash flow and the availability of the undrawn loan facilities above, the Board of Directors believe that the Company has sufficient cash to enable it to pay its debts as and when they fall due.

(ii) Change in accounting estimates

The cost of oil and gas properties is amortized at the field level based on the unit of production method. Unit of production rates were previously based on proved developed producing oil reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements.

From January 1, 2011, the Group has applied the unit of production rates based on proved and probable developed producing oil reserves estimated to be recoverable from existing facilities based on current terms of the respective production agreements. The change in estimate is due to management's view that inclusion of probable developed producing reserve will be more reflective of the reserve base available to the Company from its investment in the oil and gas properties. The change resulted in increase of net profit by RMB128 million for the year ended December 31, 2011. It is impracticable to estimate the amount of impact for future years.

(iii) New accounting pronouncements

(A) New standards, amendments to and interpretations on existing standards adopted by the Group are as follows:

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

- IAS 1 (Amendment) 'Presentation of financial statements', effective for periods beginning on or after January 1, 2011. The amendment removes the requirement for each item of other comprehensive income to be presented separately in the statement of changes in equity.

- IFRS 7 (Amendment) 'Financial instruments: disclosures', effective for periods beginning on or after January 1, 2011. The amendment clarifies the nature and extent of risks arising from financial instruments.

The adoption of these new standards and amendments did not have a material impact on the Group's or Company's financial statements.

(B) New standards, amendments and interpretations to existing standards not yet effective and not early adopted by the Group:

- IAS 12 (Amendment), 'Income taxes' on deferred tax. This amendment currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. This amendment is not applicable until January 1, 2012 but is available for early adoption.

- Revised IAS 27, 'Separate financial statements'. This includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. This revised IAS 27 is not applicable until January 1, 2013 but is available for early adoption.

- Revised IAS 28, 'Associates and joint ventures'. This includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. This revised IAS 28 is not applicable until January 1, 2013 but is available for early adoption.

- IFRS 9, 'Financial instruments', issued in November 2009. This addresses the classification and measurement of financial assets and financial liabilities and is likely to affect the Group's accounting for its financial assets and financial liabilities. The standard is not applicable until January 1, 2015 but is available for early adoption.

- IFRS 10 'Consolidated financial statements'. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. This standard is not applicable until January 1, 2013 but is available for early adoption.

- IFRS 11, 'Joint arrangements'. This clarifies joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. Proportional consolidation of joint ventures is no longer allowed. This standard is not applicable until January 1, 2013 but is available for early adoption.

- IFRS 12, 'Disclosures of interests in other entities'. This includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is not applicable until January 1, 2013 but is available for early adoption.

- IFRS 13, 'Fair value measurement'. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. This standard is not applicable until January 1, 2013 but is available for early adoption.

The Group is in the process of reviewing the impact of the above standards and do not expect these standards to have a material impact on the Group's or Company's financial statements at the current stage.

(b) Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(i) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in consolidated statement of comprehensive income.

(ii) Separate financial statement

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) Production sharing contracts

The Group's development and production activities in China are conducted jointly with others through PSCs. These PSCs establish joint control over the development and production activities. The assets are not owned by a separate legal entity but are controlled by individual participants in the PSCs. Each participant is entitled to a predetermined share of the related output and bears an agreed share of the costs.

The consolidated financial statements reflect:

(i) MIE's assets used in jointly controlled operations;

(ii) any liabilities that MIE has incurred;

(iii) MIE's share of any liabilities incurred jointly with the other PSC partners in relation to the joint production;

(iv) any income from the sale or use of MIE's share of the output of the production, together with its share of any expenses incurred in the production; and

(v) any expenses that MIE has incurred in respect of its interest in the production.

Pursuant to the three PSCs with PetroChina, the annual gross production of the crude oil shall, after payment for value added tax and royalty, be firstly deemed as the cost recovery oil and shall be used for cost recovery in the following sequence:

- Payment in kind for the operating costs actually incurred by MIE and GOC (collectively "the foreign partners") and PetroChina.

- The remainder of the cost recovery oil shall, after payment for the operating costs, be deemed as investment recovery oil. Such investment recovery oil shall be used for the simultaneous recovery of the pilot test costs and the development costs incurred by foreign partners and the predevelopment costs spent by PetroChina in proportion of 20% by PetroChina and 80% by foreign partners. The unrecovered costs of the parties shall be carried forward to and recovered from the investment recovery oil in succeeding calendar years until being fully recovered.

- After all pilot test costs and development costs incurred up to that time have been recovered, the remainder of the gross production of crude oil for that period is referred to as profit oil and shall be allocated in proportion of PetroChina 52% and foreign partners 48%.

- The operating costs so incurred after the date of commencement of commercial production shall be paid respectively by PetroChina and foreign partners in accordance with the proportion of oil allocated to each party.

GOC is entitled to a 10% share of the foreign partners' interest in property, plant and equipment, income and expenses. The Group received income and paid expenses on behalf of GOC. These are recorded in the relevant accounts with GOC (Note 31).

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollar ("US$"). The presentation currency of the consolidated financial statements is the RMB.

(ii) Transactions and balances of each entity

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

(e) Property, plant and equipment

Property, plant and equipment, including oil and gas properties, is stated at historical cost less accumulated depreciation, depletion, amortization and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the reporting year in which they are incurred.

Except for oil and gas properties, depreciation is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Gas utilization facility	10 years
Buildings and improvements	7–10 years
Office equipment	3 years
Motor vehicles and production equipment	10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress is not depreciated until it is ready for its intended use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized within other income or other expense in the consolidated statements of comprehensive income.

(f) Exploration and evaluation assets and oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as exploration and evaluation assets pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any costs of unproved properties capitalized in oil and gas properties.

Identifiable exploration assets acquired are recognized as assets at their fair value, as determined by the requirements of Business Combinations (Note 2(b)(i)). Exploration and evaluation expenditure incurred subsequent to the acquisition of an exploration asset in a business combination is accounted for in accordance with the policy outlined above.

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

(g) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Intangible assets

Intangible assets represent computer software, mineral extraction rights and mining rights. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 years.

Mineral extraction rights are amortized using the straight-line method over the licensed period. Mining rights are amortized using the unit of production method.

(i) Loans and receivables

The Group's loans and receivables comprise 'trade and other receivables' in the consolidated statements of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for expected realization is greater than 12 months after the end of the reporting period, if these are classified as non-current assets.

(j) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For derivative instruments that do not qualify for hedge accounting, changes in the fair value of these derivative instruments are recognized immediately in the consolidated statement of comprehensive income.

(k) Leases

Leases where the Group is a lessee in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the term of the lease.

(l) Inventories

Inventories are crude oil and materials and supplies which are stated at the lower of cost and net realizable value. Materials and supplies costs are determined by the first-in first-out method. Crude oil costs are determined by the weighted average cost method. The cost of crude oil comprise direct labour, depreciation, other direct costs and related production overhead, but excludes borrowing costs.

(m) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income.

(n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less from the time of purchase.

(o) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the territories where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

(q) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(r) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts can be made.

Provision for future decommissioning and restoration is recognized in full on the installation of oil and gas properties. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than due to passage of time, which is regarded as interest expense, is reflected as an adjustment to the provision and oil and gas properties.

(s) Employee benefits

(i) Defined contribution plan

The Group has various defined contribution plans for state pensions, housing fund and other social obligations in accordance with the local conditions in China and Kazakhstan and practices in the municipalities and province in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expenses when they are due.

(ii) Equity-settled share-based compensation — Stock options

The Group operates a stock incentive compensation plan for share-based payment transactions, including stock options under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options on the grant date. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and other reserves when the options are exercised.

(iii) Cash-settled share-based compensation — Stock appreciation rights

Compensation under the stock appreciation rights is measured based on the fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each reporting period to its fair value until settlement with all the changes in liability related to the vested portion recorded as employee compensation costs in the consolidated statement of comprehensive income, the related liability is included in the salaries and welfare payable.

(t) Revenue recognition

Revenues are recognized only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and where the amount of revenue and the costs incurred or to be incurred in respect of the transactions can be measured reliably and probable economic benefit will flow to the Group.

In China, revenues are recognized upon delivery of crude oil that are allocated to MIE under PSC (See Note 2(c)).

For the year ended December 31, 2011 and 2010, PetroChina had taken more oil than its entitlement (over lifted) and hence MIE is deemed to have sold the over lift to PetroChina.

(u) Repairs and maintenance

Repairs and maintenance are recognized as expenses in the year in which they are incurred.

(v) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) Dividend distributions

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(x) Earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting the profit or loss attributable to equity holders of the Company accordingly for related amounts. The effect of potentially dilutive ordinary shares are included only if they are dilutive.

(y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors (Note 5).

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

The majority of the Group's China operation sales are in US dollars, while production and other expenses are incurred in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates. The Group may enter into forward foreign exchange contracts to manage the risk of unfavourable fluctuations in the foreign exchange rate.

At December 31, 2011 and 2010, if the US dollars had weakened/strengthened by 1% against the RMB with all other variables held constant, the Group's profit before income tax for the year would have been RMB12,535,000 and RMB9,660,000 higher/lower respectively, mainly as a result of foreign exchange gains/losses on translation of US-denominated trade and other receivables, bank deposits and borrowings.

The functional currency of the Kazakhstan subsidiary is in US dollars. The transactions of the Kazakhstan subsidiary which are denominated in the Kazakhstan Tenge are exposed to fluctuations in the US dollars and Kazakhstan Tenge exchange rate. If the US dollars had strengthen/weakened by 1% against Kazakhstan Tenge, the Group's profit before income tax would have been RMB5,000 higher/lower.

(ii) Cash flow interest rate risk

The Group has no material interest bearing cash assets. The Group's income and operating cash flows are substantially independent of the changes in market rates. The Group's interest rates risk arises from borrowings. As at December 31, 2011, the Group's borrowings comprise the Notes which bear interest at the rate of 9.75%, therefore, the Notes are not subject to any interest rate risk. A detailed analysis of the Group's borrowings, together with their respective effective interest rates and maturity dates, are included in Note 19.

(iii) Oil price risk

The Group is engaged in crude oil development, production and selling activities. Prices of crude oil are affected by both domestic and global factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Prior to 2008, the Group did not use any derivative instruments to hedge against potential price fluctuations of crude oil and therefore the Group was exposed to general price fluctuations of crude oil. During the year ended December 31, 2011 and 2010, the Group entered into oil hedge options contracts (Note 9) to manage its price risk. If the crude oil price were to increase or decrease by US$1, the impact on the Group's profit before income tax for the year ended December 31, 2011 as a result of revaluing the oil hedge options would be a decrease of RMB2,698,000 and increase of RMB2,326,000 (2010: decrease of RMB1,566,000 or increase of RMB1,652,000), respectively.

(b) Credit risk

As the majority of the cash at bank balance is placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. Therefore, credit risk arises primarily from trade and other receivables. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, pledged deposits, amounts due from a related party and trade and other receivables included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk.

The Group has no significant concentration of credit risk for its cash and cash equivalents. The Group has one customer in each of China and Kazakhstan which in aggregate accounts for almost 100% of the Group's revenue and as such, has concentration of credit risk for its trade and other receivables. However, the Group regards it as low risk as the customer in China is PetroChina, a state-owned enterprise with a high credit rating in China and the major customer in Kazakhstan, Titan Oil, is one of the largest trading companies in Mangistau region (Western Kazakhstan).

During the year ended December 31, 2011, the Group made a refundable deposit of RMB80,000,000 for the purchase of development property (Note 10). The Company decided not to proceed with the purchase and has taken steps to recover the refundable deposit and has also obtained certain security. The Group does not expect any non-performance by the counter party.

(c) Liquidity risk

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities and net-settled derivative financial assets and liabilities into relevant maturity groupings based on the remaining year at the end of the reporting period to their contractual maturity dates.

The amounts disclosed in the table are the contractual undiscounted cash flows of principal amount and interests.

Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2011				
Borrowings	245,735	245,735	3,101,127	—
Derivative financial instruments — oil hedge options *(Note 9)*	10,618	—	—	—
Trade and other payables *(Note 18)*	1,386,266	91,628	6,894	11,487
At December 31, 2010				
Borrowings	158,575	583,844	727,196	—
Trade and other payables *(Note 18)*	718,729	137,598	—	—

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of Debt over EBITDA. Debt is calculated as total borrowings including 'current and non-current borrowings' as shown in the consolidated statement of financial position. EBITDA is calculated as profit before finance income, finance cost, income tax and depreciation, depletion and amortization.

The Debt over EBITDA ratios at December 31, 2011 and 2010 were as follows:

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Total borrowings *(Note 19)*	2,463,004	1,291,203
Profit before income tax	1,399,751	582,569
Finance income	(74,728)	(35,344)
Finance cost	234,482	86,788
Depreciation, depletion and amortization	542,002	528,582
EBITDA	2,101,507	1,162,595
Debt over EBITDA ratio	1.2	1.1

The Debt over EBITDA ratio increase from 1.1 to 1.2 was mainly due to higher borrowings as at December 31, 2011 as compared to December 31, 2010.

3.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group are disclosed in the respective accounting policies. The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, pledged deposits, current portion of trade and other receivables, current portion of trade and other payables and current portion of borrowings.

The Group adopted the amendment to IFRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (ie. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at December 31, 2011 and 2010:

	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000
Assets			
As at December 31, 2011			
Derivative financial instruments			
— Oil hedge options	—	9,151	—
As at December 31, 2010			
Derivative financial instruments			
— Oil hedge options	—	31,453	—

	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000
Liabilities			
As at December 31, 2011			
Derivative financial instruments			
— Oil hedge options	—	10,618	—
— Option to ACAP	—	—	85,157
As at December 31, 2010			
Derivative financial instruments			
— Oil hedge options	—	—	—

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group's consolidated financial statements.

(a) Estimation of proved and probable reserves

Proved reserves are those quantities of petroleum that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed producing reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery. Probable reserves are additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

The Group's reserve estimates were prepared for each oilfield and include only reserves that the Group believes can be reasonably produced within current economic and operating conditions.

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

Proved and probable reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. The Group classified its Proved Reserves into Proved Developed Producing Reserves and Proved Undeveloped Reserves. Probable reserves are also classified into Probable Developed Producing Reserves and Probable Undeveloped Reserves. Prior to January 1, 2011, Proved Developed Producing Reserves was used for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Group's consolidated financial information for property, plant and equipment related to oil and gas production activities. From January 1, 2011, the Group has applied the unit of production rates based on Proved and Probable Developed Producing Reserves. An increase/decrease in Proved and Probable Developed Producing Reserves will decrease/increase depreciation, depletion and amortization charges (assuming constant production) and increase/reduce net profit. Proved and Probable Reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

In general, changes in the technical maturity of reserves resulting from new information becoming available from development and production activities and change in oil and gas price have tended to be the most significant cause of annual revisions.

(b) Estimation of impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

(c) Estimation of asset retirement obligations

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

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board of Directors considers the business performance of the Group from a geographic perspective being China and Kazakhstan.

The China segment derives its revenue from the sale of oil. Revenue is realized from the sale of the Group's share of crude oil to PetroChina pursuant to three PSCs: Daan, Moliqing and Miao 3. The Kazakhstan segment derives its revenue from the sale of oil and gas.

The Board of Directors assesses the performance of the operating segments based on each segment's profit from operation.

The segment information provided to the Board of Directors for the reportable segments for the year ended December 31, 2011 is as follows:

	China	Kazakhstan	Others*	Inter-segment transaction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	2,723,671	103,470	—	—	2,827,141
Revenue	2,723,671	103,470	—	—	2,827,141
Purchases, services and other	(167,912)	(17,582)	—	—	(185,494)
Employee compensation costs	(121,391)	(15,561)	(60,100)	—	(197,052)
Depreciation, depletion and amortization	(513,834)	(28,103)	(65)	—	(542,002)
Distribution expenses	(31,472)	—	—	—	(31,472)
Administrative expenses	(54,319)	(3,343)	(32,635)	—	(90,297)
Taxes other than income taxes *(Note 21)*	(609,193)	(47,573)	—	—	(656,766)
Other losses	(15,237)	1,200	(10,861)	—	(24,898)
Profit from operations	1,210,313	(7,492)	(103,661)	—	1,099,160
Finance income	72,174	—	11,918	(9,364)	74,728
Finance cost	(69,024)	(9,364)	(165,458)	9,364	(234,482)
Gain arising from acquisition of Emir-Oil, LLC *(Note 30)*	—	—	460,345	—	460,345
Income tax expense	(296,075)	2,166	—	—	(293,909)
Net profit for the year	917,388	(14,690)	203,144	—	1,105,842
Total assets	5,239,096	2,078,556	99,522	—	7,417,174
Total assets includes:					
Property, plant and equipment	3,850,626	1,415,288	1,585	—	5,267,499
Intangible assets	6,275	559,377	18,670	—	584,322
Additions to non-current assets	1,347,546	74,254	1,648	—	1,423,448
Total liabilities	1,331,285	354,077	187,044	—	1,872,406

The Group operates as a single operating segment in China in 2010. The segment information for the year ended December 31, 2010 is as follows:

	China	Others*	Total
	RMB'000	RMB'000	RMB'000
Segment revenue	1,804,976	—	1,804,976
Revenue	1,804,976	—	1,804,976
Purchases, services and other	(126,517)	—	(126,517)
Employee compensation costs	(108,244)	(2,102)	(110,346)
Depreciation, depletion and amortization	(528,582)	—	(528,582)
Distribution expenses	(28,424)	—	(28,424)
Administrative expenses	(50,081)	(73)	(50,154)
Taxes other than income taxes *(Note 21)*	(289,296)	—	(289,296)
Other losses	(37,644)	—	(37,644)
Profit from operations	636,188	(2,175)	634,013
Finance income	37,645	(2,301)	35,344
Finance cost	(86,788)	—	(86,788)
Income tax expense	(161,705)	—	(161,705)
Net profit for the year	425,340	(4,476)	420,864
Total assets	3,852,326	342,952	4,195,278
Total assets includes:			
Property, plant and equipment	3,024,482	—	3,024,482
Intangible assets	1,667	—	1,667
Additions to non-current assets	889,600	—	889,600
Total liabilities	875,025	44,610	919,635

* Others include costs incurred which are not directly attributable to oil and gas operations in China and Kazakhstan.

The revenue reported to the Board of Directors is measured consistently with that in the consolidated statement of comprehensive income.

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The derivative financial instruments held by the Group are not considered to be segment assets.

Reportable segments' assets are reconciled to total assets as follows:

	2011	2010
	RMB'000	RMB'000
Segment assets for reportable segments	7,317,652	3,852,326
Other segments assets	99,522	342,952
	7,417,174	4,195,278
Unallocated:		
Current derivative financial instruments	9,151	11,168
Non-current derivative financial instruments	—	20,285
Total assets per consolidated statement of financial position	7,426,325	4,226,731

The amounts provided to the Board of Directors with respect to total liabilities are measured in a manner consistent with that of the consolidated financial statements. These liabilities are allocated based on the operations of the segment.

The Group's derivative financial instruments and interest-bearing liabilities are not considered to be segment liabilities.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2011	2010
	RMB'000	RMB'000
Segment liabilities for reportable segments	1,685,362	875,025
Other segments liabilities	187,044	44,610
	1,872,406	919,635
Unallocated:		
Current derivatives financial instrument premium	25,644	33,577
Non-current derivatives financial instrument premium	6,843	22,385
Current derivative financial instruments	10,618	—
Non-current derivative financial instruments	85,157	—
Current borrowings	—	99,341
Non-current borrowings	2,463,004	1,191,862
Total liabilities per consolidated statement of financial position	4,463,672	2,266,800

Breakdown of the revenue is as follows:

	2011	2010
	RMB'000	RMB'000
Analysis of revenue by segment		
Sale of crude oil in China	2,723,671	1,804,976
Sale of oil and gas in Kazakhstan	103,470	—
	2,827,141	1,804,976

Revenues in China of approximately RMB2,723,671,000 (2010: RMB1,804,976,000) are derived from a single external customer, PetroChina.

Revenues in Kazakhstan of approximately RMB96,760,000 are derived from Titan Oil.

6 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Construction in progress	Office equipment	Motor vehicles and production equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010					
Cost	4,054,702	147,325	7,987	23,836	4,233,850
Accumulated depreciation	(1,558,951)	—	(4,317)	(5,439)	(1,568,707)
Net book value	2,495,751	147,325	3,670	18,397	2,665,143
Year ended December 31, 2010					
Opening net book value	2,495,751	147,325	3,670	18,397	2,665,143
Addition	2,038	878,266	1,108	7,196	888,608
Transfer in/(out)	835,415	(835,415)	—	—	—
Charge for the year	(525,890)	—	(755)	(2,624)	(529,269)
Closing net book value	2,807,314	190,176	4,023	22,969	3,024,482
At December 31, 2010					
Cost	4,892,155	190,176	9,095	31,032	5,122,458
Accumulated depreciation	(2,084,841)	—	(5,072)	(8,063)	(2,097,976)
Net book value	2,807,314	190,176	4,023	22,969	3,024,482

	Oil and gas properties	Construction in progress	Gas utilization facility	Exploration and evaluation assets	Buildings and improvements	Office equipment	Motor vehicles and production equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2011								
Opening net book value	2,807,314	190,176	—	—	—	4,023	22,969	3,024,482
Exchange differences	(9,872)	(628)	(1,217)	(38)	(90)	(7)	(139)	(11,991)
Acquisition of Emir-Oil, LLC *(Note 30)*	1,140,481	78,849	144,862	238	10,179	831	17,048	1,392,488
Additions	38,752	1,326,954	—	10,699	4,233	2,502	15,007	1,398,147
Disposals	(85)	—	—	(853)	(151)	—	—	(1,089)
Transfer in/(out)	1,304,336	(1,299,196)	—	—	(2,923)	(26)	(2,191)	—
Charge for the year	(523,776)	—	(3,916)	—	(473)	(825)	(5,548)	(534,538)
Closing net book value	4,757,150	296,155	139,729	10,046	10,775	6,498	47,146	5,267,499
At December 31, 2011								
Cost	7,361,858	296,155	143,524	10,046	11,214	12,366	60,684	7,895,847
Accumulated depreciation and impairment	(2,604,708)	—	(3,795)	—	(439)	(5,868)	(13,538)	(2,628,348)
Net book value	4,757,150	296,155	139,729	10,046	10,775	6,498	47,146	5,267,499

Included in property, plant and equipment are assets used in the PSCs. These assets amount to RMB3,850,477,000 comprising cost of RMB6,456,137,000 less accumulated depreciation and impairment of RMB2,605,660,000 as at December 31, 2011 (2010: RMB3,024,326,000 comprising cost of RMB5,121,063,000 less accumulated depreciation and impairment of RMB2,096,737,000) directly used in and operated under the Group's three PSCs with PetroChina in China.

The additions of oil and gas properties of the Group for the years ended December 31, 2011 and 2010 included RMB1,375,000 and RMB2,038,000 respectively relating to the asset retirement obligations recognized during the year (Note 16).

Depreciation charges of RMB8,380,000 and RMB11,837,000 relating to the years ended December 31, 2011 and 2010 respectively, have been capitalized in inventories (Note 11).

During the year ended December 31, 2011 and 2010, the Group did not capitalize any borrowing costs.

7 INTANGIBLE ASSET

	Software	Mineral extraction rights (Note 8)	Mining rights	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010				
Cost	6,049	—	—	6,049
Accumulated amortization	(3,450)	—	—	(3,450)
Net book amount	2,599	—	—	2,599
Year ended December 31, 2010				
Opening net book amount	2,599	—	—	2,599
Additions	992	—	—	992
Amortization charge	(1,914)	—	—	(1,914)
Closing net book amount	1,677	—	—	1,677
At December 31, 2010				
Cost	7,041	—	—	7,041
Accumulated amortization	(5,364)	—	—	(5,364)
Net book amount	1,677	—	—	1,677
Year ended December 31, 2011				
Opening net book amount	1,677	—	—	1,677
Exchange differences	693	—	(4,853)	(4,160)
Acquisition of Emir-Oil, LLC *(Note 30)*	43	—	577,305	577,348
Additions	6,630	18,671	—	25,301
Amortization charge	(2,720)	—	(13,124)	(15,844)
Closing net book amount	6,323	18,671	559,328	584,322
At December 31, 2011				
Cost	14,407	18,671	572,399	605,477
Accumulated amortization	(8,084)	—	(13,071)	(21,155)
Net book amount	6,323	18,671	559,328	584,322

8 INVESTMENT

On October 31, 2011, the Company paid US$3,000,000 (RMB18,903,000) to Pacific Energy Development Corp ("PEDCO") to acquire:

(a) 4,000,000 shares of restricted A convertible preferred stock in PEDCO at US$0.75 per share ("preferred share"). The initial fair value of the preferred shares is approximately RMB3,966,000.

(b) 31.25% working interest in the Niobrara formation within DJ basin located at Weld County, Colorado, United States ("mineral extraction rights") acquired by Condor Energy Technology LLC ("Condor") from PEDCO. MIE Jurassic Energy Corporation ("MIE Jurassic") (a wholly owned subsidiary of the Group) and PEDCO hold 80% and 20% interest respectively in Condor. As MIE Jurassic has control over Condor, and the Group has consolidated the 31.25% working interest as mineral extraction right with initial fair value of RMB18,671,000 *(Note 7)*, the Group's share of the 80% of the mineral extraction rights is approximately RMB14,937,000. The capital contribution from non-controlling interest is approximately RMB3,734,000.

9 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Assets		
Oil hedge options	9,151	31,453
Less: non-current portion:	—	(20,285)
Current portion	9,151	11,168

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Liabilities		
Current		
Oil hedge options	10,618	—
Non-current		
Option to ACAP *(Note 30)*	85,157	—

(a) Oil hedge options

(i) In October 2010, the Group entered into the following oil hedge options with Merrill Lynch Commodities, Inc ("MLCI") for the year ended December 31, 2011 and year ending 31, December 2012:

Contract Period	**Monthly Notional Quantity (barrel)**	**Annual Notional Quantity (barrel)**	**MIE sold put option at strike price (WTI price per barrel)**	**MIE bought put option at strike price (WTI price per barrel)**
Year ended December 31, 2011	150,000	1,800,000	US$55.00	US$70.00
Year ending December 31, 2012	100,000	1,200,000	US$55.00	US$70.00

The premium of US$8.74 million (RMB57.86 million) for the above option is payable over 8 instalments on a quarterly basis from April 2011 (Note 18).

(ii) On October 2011, the Group entered three into separate oil hedge options with the following banks at monthly notional quantity of 60,000 barrel each for year ending December 31, 2012 (or total notional quantity of 720,000 barrels per annum) at zero premium:

Counterparty	**The Company bought put option at strike price (IPE Brent price per barrel)**	**The Company sold call option at strike price (IPE Brent price per barrel)**	**The Company bought call option at strike price (IPE Brent price per barrel)**
JPMorgan Chase Bank. N.A.	US$60.00	US$131.00	US$170.00
Deutsche Bank AG	US$60.00	US$131.50	US$170.00
Standard Bank Plc	US$60.00	US$146.00	US$186.00

The change in fair value of derivative financial instruments, which are not designated as cash flow hedges for accounting purposes, are recognized in the consolidated statement of comprehensive income, and as an asset for oil hedge options entered into in October 2010 and as a liability for oil hedge options entered into in October 2011 in the consolidated statement of financial position as at December 31, 2011.

(b) Option to ACAP

The Company has granted Acap Limited ("ACAP"), which is providing general consulting services to the Company in relation to the acquisition of Emir, a right to co-invest with the Company or its associates for up to 9.9% of the assets acquired in the acquisition, on the same terms and conditions under the Purchase Agreement within 36 months from the closing of the transaction. The change in fair value of the option to ACAP is recognized in the consolidated statement of comprehensive income.

10 TRADE AND OTHER RECEIVABLES

(a) Summary of trade and other receivables

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Financial assets		
Current		
Trade receivables from PetroChina *(Note 31)*	166,204	25,973
Trade receivable from other third parties	44,399	—
Other receivables due from related parties		
— PetroChina *(Note 31)*	37,993	33,225
— Global Oil Corporation *(Note 31)*	142,500	137,590
Advances to employees	5,937	7,134
Unbilled receivables from PetroChina *(Note 31)*	134,710	145,011
Other receivables — others	4,409	576
	536,152	349,509
Non-current		
Amounts due from related party — Global Oil Corporation *(Note 31)*	—	24,212
Long term VAT recoverable	19,969	—
	556,121	373,721
Non-financial assets		
Current		
Advances to suppliers — others	45,717	1,210
Less: provision for impairment of advances to suppliers — others	(1,123)	—
Advances to suppliers — others — net	44,594	1,210
Refundable deposit paid for development property *(Note 3.1(b))*	80,000	—
Advances to suppliers — related party *(Note 31)*	31,718	45,283
Prepayments to third parties	9,657	2,292
Other deferred assets	947	—
	166,916	48,785
Non-current		
Prepayments to third parties	12,063	—
	178,979	48,785
Total	735,100	422,506
Total current	703,068	398,294
Total non-current	32,032	24,212
Total	735,100	422,506

(b) The fair values of trade and other receivables financial assets are as follows:

	As at December 31, 2011	As at December 31, 2010
	RMB'000	RMB'000
Trade receivables from PetroChina	166,204	25,973
Trade receivable from other third parties	44,399	—
Unbilled receivables from PetroChina	134,710	145,011
Other receivables due from related parties	180,493	195,027
	525,806	366,011
Other receivables — third parties	30,315	7,710
	556,121	373,721

(c) The aging analysis of trade receivables were as follows:

	As at December 31, 2011	As at December 31, 2010
	RMB'000	RMB'000
0–30 days	197,123	25,973
31–180 days	13,441	—
over 180 days	39	—
	210,603	25,973

As of December 31, 2011 and 2010, there were no trade receivables past due which are impaired.

(d) The carrying amounts of trade and other receivables are denominated in the following currencies:

	As at December 31, 2011	As at December 31, 2010
	RMB'000	RMB'000
Renminbi	364,887	218,297
United States Dollars	348,019	204,209
Kazakhstan Tenge	22,194	—
	735,100	422,506

(e) Movements in the provision for impairment of advance to suppliers are as follows:

	As at December 31, 2011	As at December 31, 2010
	RMB'000	RMB'000
At January 1	—	—
Provision for impairment of advance to suppliers	1,123	—
At December 31	1,123	—

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above. The Group does not hold any collateral as security.

(f) The Group's trade receivables have credit terms of between 30 days to 60 days.

11 INVENTORIES

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
At cost		
Oil in tank	11,873	15,648
Materials and supplies	39,964	21,016
	51,837	36,664

Depreciation charges of RMB8,380,000 and RMB11,837,000 have been included in the balance above for the years ended December 31, 2011 and 2010, respectively (Note 6).

12 PLEDGED DEPOSITS AND RESTRICTED CASH

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Pledged deposits	233,891	29,916

As at December 31, 2011, pledged deposit is interest bearing and represents bank deposit pledged for notes payable (Note 18). The carrying amounts of pledged deposits are denominated in Renminbi.

As at December 31, 2010, pledged deposit represents bank deposit pledged for borrowings. The carrying amounts of pledged deposits are denominated in United States Dollars.

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Restricted cash	7,530	—

Under the laws of the Republic of Kazakhstan, the Company is required to set aside funds for environmental remediation relating to its operations. As of December 31, 2011 the Company had restricted cash balances amounting to USD1,195,000 set aside for this purpose. Management is unable to estimate reliably when these amounts will be utilized, and therefore, these amounts are classified as a non-current asset.

13 CASH AND CASH EQUIVALENTS

	Group	
	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Cash in hand	296	33
Cash at bank	532,733	680,000
	533,029	680,033

	Company	
	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Cash at bank	52,381	342,950

Cash and cash equivalents are denominated in the following currencies:

	Group	
	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Renminbi	227,103	273,371
Hong Kong Dollars	97	342,936
United States Dollars	304,234	63,726
Kazakhstan Tenge	1,153	—
European Union Euros	442	—
	533,029	680,033

	Company	
	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Hong Kong Dollars	97	342,936
United States Dollars	52,284	14
	52,381	342,950

Renminbi-denominated deposits are placed with banks in the PRC. The conversion of these Renminbi-denominated deposits into foreign currencies and remittance out of the PRC are subject to certain PRC rules and regulations of foreign exchange control promulgated by the PRC government. Also, the exchange rates are determined by the PRC government.

There are also exchange restrictions and currency controls relating to converting Kazakhstan Tenge into other currencies. Kazakhstan Tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

14 SHARE CAPITAL

	As at December 31,	
	2011	2010
	'000	'000
Authorized ordinary shares:		
Ordinary shares of US$0.001 per share	100,000,000	100,000,000

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Issued and fully paid:		
Ordinary shares	17,627	17,588

As at December 31, 2011 and 2010, the total number of authorized shares is 100,000,000,000 ordinary shares with a par value of US$0.001 each. Each share has one vote.

(a) Issued and fully paid ordinary shares

The details of the issued and fully paid ordinary share capital of the Company for the relevant periods are as follow:

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Issued and fully paid:		
At January 1, 2010		
96,356,270 ordinary shares at US$0.001 each		659
At March 10, 2010		
Cancellation of 18,212,560 ordinary shares at US$0.001 each		(124)
At December 14, 2010		
Conversion of 25,101,220 Series A preferred shares to 25,101,220 ordinary shares at US$0.001 each		171
Conversion of 36,425,120 Series B preferred shares to 18,212,560 ordinary shares at US$0.001 each		124
Capitalization issuance of 2,078,542,510 ordinary shares at US$0.001 each to shareholders registered on November 23, 2010		13,822
Issuance of 441,334,000 ordinary shares at US$0.001 each during Global Offering		2,936
At December 31, 2010		
2,641,334,000 ordinary shares at US$0.001 each		17,588
At January 1, 2011		
2,641,334,000 ordinary shares at US$0.001 each	17,588	
At April 28, 2011		
Issue of 800,000 ordinary shares at US$0.001 each for exercise of employee stock option	5	
At June 9, 2011		
Issue of 900,800 ordinary shares at US$0.001 each for exercise of employee stock option	6	
At August 22, 2011		
Issue of 3,030,904 ordinary shares at US$0.001 each for exercise of employee stock option	19	
At November 4, 2011		
Issue of 1,330,104 ordinary shares at US$0.001 each for exercise of employee stock option	9	
	39	
At December 31, 2011		
2,647,395,808 ordinary shares at US$0.001 each	17,627	

The above movements have been reflected in the consolidated statements of changes in equity.

(b) Stock incentive compensation plans

Details of the equity-settled share option schemes and stock appreciation rights adopted by the Company are as follows:

(i) Stock incentive compensation plan

The Plan was adopted on November 20, 2009 with the purposes of providing additional incentive to employees, directors and consultants to attract and retain the best available personnel for positions of substantial responsibility. The Company originally reserved 6,072,870 ordinary shares for issuance under the Plan. The Plan was terminated on November 27, 2010. Any options granted prior to the termination of the Plan remain subject to the ordinary vesting and exercise provisions set out in the award agreement. A total of 4,422,000 shares originally reserved for the Plan were cancelled upon the termination of the Plan.

(A) Stock options

The options granted under the Plan are evidenced by an option award agreement between the Company and its employees that contains, among other things, the number of shares granted and provisions concerning exercisability and forfeiture upon termination of employment, as determined by the board of the Company.

Vesting schedule The options granted under the Plan vest over a two or three-year period following a specified vesting commencement date. Typically, the options granted vest at each anniversary of the grant date within the vesting period, subject to the participant continuing to be an employee on each vesting date.

Right to exercise The term of the options granted under the Plan will not exceed ten years from the grant date. Upon termination by the participant or termination of the participant without cause by the Company, any portion of the options that had not vested on or before such termination shall lapse immediately; any portion of the options that were vested before such termination to the extent not exercised within thirty days after such termination shall also lapse. Upon termination of the participant due to the participant's death, permanent disability or injury, the options remain subject to ordinary vesting schedule and exercise provision where the option agreement permits. Upon termination of the participant by the Company for cause, any portion of the options not already exercised lapse immediately.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2011		2010	
	Average exercise price per share	Options	Average exercise price per share	Options
At January 1	US$0.14	28,084,179	US$0.13	26,823,492
Granted	—	—	US$0.25	3,079,266
Forfeited	—	—	US$0.13	(1,818,579)
Exercised	US$0.13	(6,061,808)	—	—
At December 31	US$0.14	22,022,371	US$0.14	28,084,179

Out of the 22,022,371 options (2010: 28,084,179 options), 12,147,767 options (2010: 8,334,971) were exercisable.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price per share	Options 2011	Options 2010
November 20, 2019	US$0.13	18,943,105	25,004,913
November 23, 2020	US$0.25	3,079,266	3,079,266
		22,022,371	28,084,179

(B) Stock appreciation rights

Stock appreciation rights granted under the Plan and on February 26, 2010 are evidenced by a stock appreciation rights award agreement between the Company and employees that contains, among other things, the number of notional ordinary shares to which the stock appreciation rights relate and the provisions concerning exercisability and forfeiture upon termination of employment or consulting arrangement.

Vesting schedule Stock appreciation rights granted under the Plan vest over a three-year period following a specified vesting commencement date. One-third of the stock appreciation rights granted vest at each anniversary of the grant date within the three-year vesting period, subject to the participant continuing to be an employee or a service provider on each vesting date.

Right to exercise The term of stock appreciation rights granted under the Plan will not exceed ten years from the grant date. When a participant exercises the stock appreciation rights, the Company will pay such participant an amount in cash determined by multiplying (i) the excess of the fair market value of an ordinary share on the exercise date over the grant price by (ii) the number of notional ordinary shares to which the stock appreciation rights relate stated in such participant's exercise notice.

Movements in the number of stock appreciation rights outstanding and their related weighted average exercise prices are as follows:

	2011		2010	
	Average exercise price per share	**Stock appreciation rights**	**Average exercise price per share**	**Stock appreciation rights**
At January 1	US$0.13	46,600,713	US$0.13	46,373,391
Granted	—	—	US$0.26	454,644
Forfeited	US$0.13	(628,923)	US$0.13	(227,322)
Exercised	US$0.13	(227,322)	—	—
At December 31	US$0.13	45,744,468	US$0.13	46,600,713

Out of the 45,744,468 outstanding stock appreciation rights (2010: 46,600,713 stock appreciation rights), 30,135,123 stock appreciation rights (2010: 15,169,856) were exercisable.

Stock appreciation rights outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	**Exercise price per share**	**Stock appreciation rights**	
		2011	**2010**
November 20, 2019	US$0.13	45,289,824	46,146,069
February 26, 2020	US$0.26	454,644	454,644
		45,744,468	46,600,713

(C) Fair values of stock options

The fair value of options granted on November 20, 2009 determined using the Binomial Model was US$1.93 per option. The significant inputs into the model were fair value per share of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of options granted on November 23, 2010 determined using the Binomial Mode was US$0.11 per option after taking into capitalization issue. The significant inputs into the model were fair value per share of US$0.22 at the grant date, exercise price shown above, volatility of 58.56%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 2.86%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of stock appreciation rights granted on November 20, 2009 as of December 31, 2010 determined using the Binomial Model was US$0.11 per right. The significant inputs into the model were the fair value per share of US$0.22 as of December 31, 2010, the exercise price of US$0.13, volatility of 58.62%, dividend yield of 0%, stock appreciation rights remaining life of 8.89 years, and an annual risk-free interest rate of 3.15%. The fair value of stock appreciation rights granted on November 20, 2009 as of December 31, 2011 determined using the Binomial Model was US$0.13 per right. The significant inputs into the model were the fair value per share of US$0.25 as of December 31, 2011, the exercise price of US$0.13, volatility of 61.68%, dividend yield of 0%, stock appreciation rights life of 7.89 years, and an annual risk-free interest rate of 1.53%.

The fair value of stock appreciation rights granted on February 26, 2010 as of December 31, 2010 determined using the Binomial Model was US$0.08 per right. The significant inputs into the model were the fair value per share of US$0.22 as of December 31, 2010, the exercise price of US$0.26, volatility of 58.62%, dividend yield of 0%, stock appreciation rights remaining life of 9.16 years, and an annual risk-free interest rate of 3.15%. The fair value of stock appreciation rights granted on February 26, 2010 as of December 31, 2011 determined using the Binomial Model was US$0.09 per right. The significant inputs into the model were the fair value per share of US$0.25 as of December 31, 2011, the exercise price of US$0.26, volatility of 61.68%, dividend yield of 0%, stock appreciation rights life remaining of 8.16 years, and an annual risk-free interest rate of 1.75%.

(ii) Share option scheme

As approved by shareholders of the Company at a meeting held on November 27, 2010, the Company adopted a new share option scheme ("Scheme") in accordance with Chapter 17 of the Listing Rules.

The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contributions to the Group.

The Company's Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for the shares: (i) any employee (full time) of the Company or any of the subsidiaries, including any executive Director; and (ii) any non-executive Director (including independent non-executive Director) of the Company or any of the subsidiaries.

The subscription price for shares under the Scheme shall be a price determined by the Directors, but shall be the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotations on the Offer Date; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the shares. A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time.

The maximum number of shares which may be issued upon exercise of any outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have been lapsed in accordance with the terms of the Scheme and any other share option scheme of the Company) to be granted under the Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the shares in issue as at the Listing Date (i.e. 264,133,400 shares).

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during a period to be notified by the Directors to each grantee, which period may commence on the date upon which the offer for the grant of options is made ("Offer Date") but shall expire on the day immediately preceding the tenth anniversary of the Offer Date.

At December 31, 2011, the number of shares in respect of which options had been granted under the Scheme and remained outstanding was approximately 4.2% of the Company's shares in issue at that date.

The following table discloses details of the Company's options under the Scheme held by employees (including Directors) and movement in such holdings during each of the two years ended December 31:

	2011		2010	
	Average exercise price per share	**Options**	**Average exercise price per share**	**Options**
	HK$		**HK$**	
At January 1	—	—	—	—
Granted	2.254	112,048,000	—	—
Forfeited	—	—	—	—
Exercised	—	—	—	—
At December 31	2.254	112,048,000	—	—

Out of the 112,048,000 options (2010: nil), no options (2010: nil) were exercisable. The share options issued pursuant to the Scheme outstanding as at December 31, 2011 were 112,048,000 with exercise price of HK$2.254.

Share options issued pursuant to the Scheme outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price per share	Options	
		2011	2010
September 20, 2021	HK$2.254	112,048,000	—

The fair value of options issued pursuant to the Scheme and granted on September 20, 2011 was determined using the Binomial Mode at HK$1.18 per option. The significant inputs into the model were fair value per share of HK$2.13 at the grant date, exercise price of HK$2.25 per share, volatility of 66.01%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 1.44%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last ten years.

15 SHARE PREMIUM AND OTHER RESERVES

(a) Group

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Share premium	835,709	826,477
Capital reserve	(270)	(270)
Share option reserve	16,998	11,584
Safety fund reserve *(i)*	140,993	91,546
Currency translation reserve	(55,638)	(10,941)
Other reserves	102,083	91,919

(i) Safety fund reserve

Pursuant to certain relevant PRC laws and regulations, the Group is required to set aside a certain amount in proportion to its production income for the relevant year as safety fund reserve. As the Group has no legal or constructive obligation to pay out these amounts at point of recognition, the amount has been treated as an appropriation of reserves in the equity account. The fund can be used for improvements of safety at the oil exploration and development projects, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from the safety fund reserve to retained earnings.

(b) Company

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Share premium	835,709	826,477
Capital reserve	1,366,956	1,366,956
Share option reserve	16,998	11,584
Currency translation reserve	(51,236)	(10,941)
	1,332,718	1,367,599

16 ASSET RETIREMENT OBLIGATIONS

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
At beginning of the year	9,270	6,978
Acquisition of Emir-Oil, LLC *(Note 30)*	10,060	—
Liabilities incurred *(Note 6)*	1,375	2,038
Accretion expenses	1,276	254
Exchange differences	(105)	—
At end of the year	21,876	9,270

17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	38,873	5,378
Deferred tax assets to be recovered within 12 months	61	1,675
	38,934	7,053
Deferred tax liabilities:		
Deferred tax liabilities to be settled after more than 12 months	(250,286)	(12,789)
Deferred tax liabilities to be settled within 12 months	(2,095)	(2,958)
	(252,381)	(15,747)
Deferred income tax liabilities — net	(213,447)	(8,694)

The movements in the deferred tax account are as follows:

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
At beginning of the year	(8,694)	(86,400)
Exchange differences	1,189	—
Acquisition of Emir-Oil, LLC *(Note 30)*	(192,559)	—
(Charged)/Credited to the consolidated statement of comprehensive income *(Note 24)*	(13,383)	77,706
At end of the year	(213,447)	(8,694)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Asset retirement obligations	**Commercial discovery bonus**	**Tax losses**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
At January 1, 2010	1,744	—	—	6,411	8,155
Credited/(charged) to the consolidated statement of comprehensive income	573	—	—	(1,675)	(1,102)
At December 31, 2010	2,317	—	—	4,736	7,053
Acquisition of Emir-Oil, LLC	2,802	6,752	—	6,080	15,634
(Charged)/credited to the consolidated statement of comprehensive income	(139)	(6,777)	25,696	(2,336)	16,444
Exchange differences	(21)	(33)	(95)	(48)	(197)
At December 31, 2011	4,959	(58)	25,601	8,432	38,934

Others include mainly the interest expenses incurred in 2007 that are tax deductable over six (6) years as allowed by the local tax authority.

Deferred tax liabilities

	Accelerated tax depreciation	Fair value gains of mining rights	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2010	(94,555)	—	(94,555)
Credited to the consolidated statement of comprehensive income	78,808	—	78,808
At December 31, 2010	(15,747)	—	(15,747)
Acquisition of Emir-Oil, LLC	(92,732)	(115,461)	(208,193)
(Charged)/credited to the consolidated statement of comprehensive income	(31,860)	2,033	(24,690)
Exchange differences	851	535	1,386
At December 31, 2011	(139,488)	(112,893)	(252,381)

18 TRADE AND OTHER PAYABLES

(a) Summary of trade and other payables

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Financial liabilities		
Current		
Trade payables	687,392	527,319
Amount due to related parties *(Note 31)*	—	616
Notes payable(i)	233,891	—
Interest payable	33,689	1,244
Derivatives financial instrument premium payable *(Note 9)*	25,644	33,577
Other tax payable	51,448	22,728
Special oil levy	348,960	87,939
Other payables	5,242	45,306
	1,386,266	718,729
Non-current		
Derivatives financial instrument premium payable *(Note 9)*	6,843	22,385
Trade payables	103,166	115,213
	1,496,275	856,327
Non-financial liabilities		
Current		
Salary and welfare payable(ii)	108,234	56,408
Capital lease liability	1,102	—
	109,336	56,408
Non-current		
Capital lease liability	349	—
	109,685	56,408
Total	1,605,960	912,735
Total current	1,495,602	775,137
Total non-current	110,358	137,598
Total	1,605,960	912,735

(i) As at December 31, 2011, MIE has a total of 16 effective notes payables agreements with China Construction Bank ("CCB") amounting to RMB233,891,000 with a term of six months from the date of issuance ("Notes Payables"). The Notes Payables are secured by pledged deposits amounting to RMB233,891,000 which are interest bearing (Note 12). Under this arrangement, MIE would enter into a notes payables agreement with CCB. Pursuant to the agreement, MIE will issue Notes Payables backed by CCB to certain of its suppliers/service providers to settle equivalent amounts of trade payables. Upon maturity of the Notes Payables, the pledged deposits will be released by CCB to the suppliers/service providers.

(ii) Stock appreciation rights liabilities of RMB33,512,000 (2010: RMB21,260,000) has been included in salaries and welfare payable for the year ended December 31, 2011.

(b) At December 31, 2011 and 2010, the ageing analysis of the trade and other payables is as follows:

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
< 6 months	1,299,650	608,245
6 months–1 year	160,788	212,457
1–2 years	123,733	50,232
2–3 years	2,954	35,305
> 3 years	18,835	6,496
Total	1,605,960	912,735

(c) The carrying amounts of trade and other payables are denominated in the following currencies:

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Renminbi	1,329,941	850,813
United States Dollars	41,808	61,922
Kazakhstan Tenge	234,211	—
	1,605,960	912,735

The carrying amounts of trade and other payables approximate their fair values.

19 BORROWINGS

(a) Summary of borrowings

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Bank borrowings		
Non-current	—	1,191,862
Current	—	99,341
Total bank borrowings	—	1,291,203
Senior notes		
Non-current	2,463,004	—
Total borrowings	2,463,004	1,291,203

Senior Notes

On May 12, 2011, the Company issued US$400 million 9.75% senior notes (the "Notes") due 2016. The Notes bear coupon rate of 9.75% per annum, payable semi-annually in arrears on May 12 and November 12 of each year, commencing on November 12, 2011. The net proceeds of the issuance of the Notes, after deduction of underwriting fees, discounts and commissions and other expenses payable in connection with the issuance of the Notes, amounted to approximately US$390 million. A portion of the proceeds from the issuance of the Notes was used to repay in full MIE's credit facility with CITIC Bank. The remaining proceeds were used to finance the Company's acquisition of Emir-Oil, LLC from BMB Munai, Inc. and for working capital and general corporate purposes. The Notes were listed on the Singapore Exchange Securities Trading Limited on May 13, 2011.

The Notes are general obligation of the Company and senior in right of payment to any existing and future obligations of the Company and its subsidiaries expressly subordinated in right of payment to the Notes.

The Notes and the guarantees provided by the certain subsidiaries will limit the ability of the Company and certain of its subsidiaries to, among other things (and subject to certain qualifications and exceptions), incur additional indebtedness and issue preferred stock, make investment.

At any time on or after May 12, 2014, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing on May 12 of any year set forth below:

Period	Redemption Price
2014	104.8750%
2015	102.4375%

At any time prior to May 12, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus the applicable premium as of, and accrued and unpaid interest to the redemption date.

In addition, at any time prior to May 12, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 109.75% of the principal amount of the Notes, plus accrued and unpaid interest to the redemption date, provided that at least 65% of the aggregate principal amount of the Notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

(b) The Notes included in the consolidated statement of financial position were calculated as follow:

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Carrying amount as at January 1,	—	—
Issue of the Notes	2,528,955	—
Amortization of the Notes	897	—
Exchange difference	(66,848)	—
Carrying amount of the Notes as at December 31,	2,463,004	—

(c) The effective interest rates at the dates of the consolidated statements of financial position are as follows:

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Effective interest rates on the bank borrowings	—	5.85%
Effective interest rates on the Notes	10.91%	—

(d) The exposure of the Group's borrowings to contractual interest rate changes based on LIBOR + 4.5% at December 31, 2010 are as follows:

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
< 1 year	—	99,341
1–2 years	—	529,816
2–5 years	—	662,046
Total borrowings	—	1,291,203

The Notes which bear a fixed interest rate of 9.75% is not subject to interest rate changes.

The fair value of the current and non-current portions of borrowings approximates their carrying amounts.

(e) The borrowings are denominated in US dollars.

(f) The Group has obtained a RMB50 million facility from China Construction Bank on January 4, 2012 (Note 33).

20 EMPLOYEE COMPENSATION COSTS

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Wages, salaries and allowances	165,209	70,829
Housing subsidies	1,811	1,327
Share options granted	5,414	10,360
Stock appreciation rights granted	12,628	19,069
Pension costs	6,850	4,613
Welfare and other expenses	5,140	4,148
	197,052	110,346

(a) Directors' emoluments

Directors' emoluments for the year ended December 31, 2011 and 2010 are set out below:

Name of Director	Fees	Salaries and allowances	Discretionary bonuses	Employer's contribution to pension scheme	Share options granted	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2011						
Zhang Ruilin	—	4,143	6,526	—	—	10,669
Zhao Jiangwei	—	1,970	8,056	—	—	10,026
Forrest Dietrich	—	2,151	6,143	—	1,187	9,481
Allen Mak	—	2,192	6,616	—	1,583	10,391
Wang Sing	—	—	—	—	—	—
Jeffrey W. Miller	315	—	—	—	899	1,214
Mei Jianping	252	—	—	—	629	881
Cai Rucheng	252	—	—	—	—	252
						42,914
For the year ended December 31, 2010						
Zhang Ruilin	—	3,860	—	300	—	4,160
Zhao Jiangwei	—	3,240	1,692	200	—	5,132
Forrest Dietrich	—	2,288	508	—	2,836	5,632
Allen Mak	—	3,681	1,692	—	3,781	9,154
Wang Sing	—	—	—	—	—	—
Jeffrey W. Miller	—	—	—	—	—	—
Mei Jianping	—	—	—	—	—	—
Cai Rucheng	—	—	—	—	—	—
						24,078

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2011 and 2010 are as follows:

	Year ended December 31,	
	2011	2010
Directors	4	4
Non-director individual	1	1

The details of emoluments paid to the five highest individuals who were Directors of the Company during the years ended December 31, 2011 and 2010 have been included in above. Details of emoluments paid to the remaining non-director individual are as follows:

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Salaries and allowances	1,731	2,330
Discretionary bonuses	5,594	1,692
Stock appreciation rights granted	680	2,836
	8,005	6,858

(c) During the financial year ended December 31, 2011, none of the Directors of the Company and the five highest paid individuals:

(i) received any emolument from the Group as an inducement upon joining the Group;

(ii) receive any compensation for loss of office as a director or managerial of any member of the Group;

(iii) waived or has agreed to waive any emoluments.

21 TAXES OTHER THAN INCOME TAXES

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
China		
Special oil levy	595,368	288,133
Urban construction tax and education surcharge	13,825	1,163
	609,193	289,296
Kazakhstan		
Mineral extraction tax	6,699	—
Rent export tax	25,458	—
Rent export duty expenditures	5,527	—
Property tax	7,549	—
Others	2,340	—
	47,573	—
	656,766	289,296

22 OTHER LOSSES

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Loss on oil hedge options	(32,137)	(44,692)
Others	7,239	7,048
Total	(24,898)	(37,644)

The net loss of the oil hedge options in the year ended December 31, 2011 and 2010 is due to the change in fair value of the unrealized portion of the oil hedge options.

23 FINANCE COSTS — NET

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Finance income		
Interest income from savings accounts	4,066	144
Exchange gain	70,662	35,200
Total finance income	74,728	35,344
Finance costs		
Interest expenses	224,279	86,777
Bank charges	10,200	11
Exchange loss	3	—
Total finance costs	234,482	86,788
Finance costs — net	159,754	51,444

24 INCOME TAX EXPENSE

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Current income tax — overseas	280,526	239,411
Deferred income tax *(Note 17)*	13,383	(77,706)
	293,909	161,705

Hong Kong profits tax has not been provided for as the Group did not have estimated assessable profit subject to profits tax in Hong Kong during the years ended December 31, 2011 and 2010. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	1,399,751	582,569
Tax calculated at domestic tax rates applicable to profits in the respective countries	301,022	145,642
Tax effect of income not subject to tax	(17,898)	—
Expenses not deductible for tax purposes	10,788	17,115
Prior year tax filling adjustments	659	(736)
Additional-deduction for research and development expenses	(662)	(316)
Tax charge	293,909	161,705

The weighted average applicable tax rate was 22% (2010: 25%).

25 INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM SUBSIDIARIES — COMPANY

(a) Investments in subsidiaries

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Investments in subsidiaries — unlisted shares	1,418,594	1,400,552

The following is a list of the subsidiaries at December 31, 2011:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Date of incorporation/ acquisition	Particulars of issued share capital	Interest held by the Group
MI Energy Corporation	Cayman, limited liabilities company	Production and sale of oil in China	May 22, 2001	50,000 ordinary shares of 1 US dollar each	100%
MIE New Ventures Corporation	Cayman, limited liabilities company	Investment holding	August 6, 2010	10,000 ordinary shares of 1 US dollar each	100%
Palaeontol Coöperatief U.A.	Netherlands, a cooperative with no liability	Investment holding	February 8, 2011	—	100%
Palaeontol B.V.	Netherlands, limited liabilities company	Investment holding	February 11, 2011	18,000 shares of 1 Euro each	100%
Gobi Energy Limited	Cayman, limited liabilities company	Investment holding	June 3, 2011	100 ordinary shares of 1 US dollar each	100%
Riyadh Energy Limited	Cayman, limited liabilities company	Investment holding	June 3, 2011	100 ordinary shares of 1 US dollar each	100%
MIE Jurassic Energy Corporation	Cayman, limited liabilities company	Investment holding	September 9, 2011	100 ordinary shares of 1 US dollar each	100%
Emir-Oil, LLC	Kazakhstan, limited liabilities partnership	Production and sale of oil and gas in Kazakhstan	September 30, 2011	Charter capital of the partnership being 82,300 Kazakhstan Tenge	100%
Condor Energy Technology LLC	Nevada, limited liabilities company	Exploration of oil and gas in the United States	October 12, 2011	—	80%
Asia Power Energy Corporation	Cayman, limited liabilities company	Investment holding	November 24, 2011	100 ordinary shares of 1 US dollar each	100%

(b) Amount due from subsidiaries

The non-current amount due from subsidiaries reflects part of the Company's net investment in subsidiaries. These amounts are non-trade related, unsecured, interest-free and have no fixed terms of repayment.

The current amount due from subsidiaries are non-trade related, unsecured and interest free and expects to be repaid within twelve months from the balance sheet date.

26 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB304,618,000 (2010: RMB217,597,000).

27 EQUITY DISTRIBUTIONS

The dividend in respect of the year ended December 31, 2010 of HK$0.035 per share, amounting to a total dividend of HK$92,447,000 (RMB77,933,000) was approved at the annual general meeting on May 6, 2011 and was paid on May 27, 2011.

A dividend in respect of the year ended 31 December 2011 of HK$0.044 per share, amounting to a total dividend of HK$116,583,000 (RMB94,514,000), is to be proposed at the annual general meeting in May 2012. These financial statements do not reflect this dividend payable.

	2011	2010
	HK$'000	HK$'000
Proposed final dividend of HK$0.044 (2010: HK$0.035) per ordinary share	116,583	92,447

28 CASH GENERATED FROM OPERATING ACTIVITIES

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	1,399,751	582,569
Adjustment for:		
Depreciation, depletion and amortization	542,002	528,582
Interest expenses — net	220,213	86,633
Unrealized foreign exchange gain	(70,659)	(35,200)
Loss on disposal of property, plant and equipment	1,089	—
Fair value loss on oil hedge options	32,137	44,692
Gain arising from acquisition of Emir-Oil, LLC *(Note 30)*	(460,345)	—
Changes in working capital:		
Inventories	(17,578)	41,023
Trade and other receivables	(209,796)	86,426
Trade and other payables	220,955	9,509
Cash generated from operations	1,657,769	1,344,234

29 COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Group does not have any capital expenditure contracted for at the date of the consolidated statement of financial position.

The Group has operating lease commitments related to its non-cancellable operating leases for offices. The future aggregate minimum lease payments under these operating leases are as follows:

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Less than 1 year	4,687	1,296
Within 1–2 years	3,507	1,500
Within 2–5 years	4,304	—
	12,498	2,796

Lease expenses for the year ended December 31, 2011 relates to office and car rental of RMB12,565,000 (2010: RMB6,591,000).

According to the production contracts for 3 blocks in Kazakhstan, the Group is obligated to perform minimum work program during the life of the production contracts.

	As at December 31, 2011
	RMB'000
Less than 1 year	440,808
Within 1–2 years	834,376
Within 2–5 years	881,123
	2,156,307

(b) Contingencies

On August 28, 2000, MIE entered into a PSC with Sinopec for exploration and development of Luojiayi 64 block at Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at Luojiayi 64 block at Shengli and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at Shengli. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment of at least US$2 million under the PSC. MIE believes its investment in the project at Luojiayi 64 block at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings.

30 BUSINESS COMBINATION

On September 19, 2011, the Group acquired 100% of the share capital of Emir-Oil, LLC and intercompany loans payable by Emir-Oil, LLC for US$159,601,000 and obtained control of Emir-Oil, LLC, an oil and natural gas exploration and production company in the Republic of Kazakhstan. The Group assumed controlled of Emir-Oil, LLC on September 30, 2011.

As a result of the acquisition, the Group expanded and diversified its operation beyond PRC into the Republic of Kazakhstan. The negative goodwill of RMB580,680,000 arising from the acquisition of Emir-Oil is mainly due to the following:

1. BMB Munai, Inc. ("BMB"), the then parent of Emir-Oil, had defaulted on certain covenants of its convertible senior notes and had attempted to re-negotiate with the convertible senior notes holders since 2010. As a result, Emir-Oil was having difficulty obtaining new funding from BMB, or other lenders to meet its oil exploration license conditions within the required timetable.

2. At the date the Company entered into the participation interest purchase agreement with BMB to acquire Emir-Oil, Brent oil price was US$103.43 per barrel. At the completion date of the Company's acquisition of Emir-Oil, Brent oil price had increased by 8.6% to US$112.30 per barrel.

Therefore, the fair value of Emir-oil's net assets at the acquisition completion date, being predominately its oil reserves valued by an independent appraisal firm, was in excess of the purchase price paid by the Company thus resulting in the negative goodwill of RMB580,680,000.

The following table summarizes the consideration paid for Emir-Oil, LLC, using the fair value of assets acquired and liabilities assumed at the date the Group assumed control.

Consideration at September 30, 2011	**RMB'000**
Cash	1,014,248
Total consideration	1,014,248
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	28,323
Property, plant and equipment *(Note 6)*	1,392,488
Intangible assets *(Note 7)*	577,348
Inventories	2,050
Trade and other receivables	83,351
Restricted cash	6,418
Trade and other payables	(292,431)
Assets retirement obligations *(Note 16)*	(10,060)
Deferred tax liabilities *(Note 17)*	(192,559)
Total identifiable net assets	1,594,928
Negative goodwill	(580,680)
Acquisition related cost	
— Option to ACAP *(Note 9)*	85,157
— Others*	35,178
Total acquisition related cost	120,335
Gain arising from acquisition of Emir-Oil, LLC	(460,345)
Cash consideration paid	1,014,248
Cash and cash equivalents of Emir-Oil, LLC at date of acquisition	(28,323)
Acquisition of Emir-Oil, LLC, net of cash acquired	985,925

* Include certain fees paid to ACAP for a monthly retainer of US$20,000 and a success fee equating to 2.5% of the consideration payable at closing date.

The revenue included in the consolidated statement of comprehensive income since October 1, 2011 contributed by Emir-Oil, LLC was RMB103,470,000. Emir incurred loss of RMB14,690,000 over the same period.

Had Emir-Oil, LLC been consolidated from January 1, 2011, the consolidated statement of income would show revenue of RMB3,257,080,000 and net profit of RMB1,056,233,000. The consolidated revenue and profit, assuming Emir-Oil, LLC has been consolidated from January 1, 2011, have included additional amortization of mineral rights recognized on acquisition and interest expense on the increase in net debt as result of the acquisition.

31 RELATED PARTY TRANSACTIONS

The Group is controlled by FEEL, which owns 53.43% of the Company's shares and is also the ultimate parent of the Group. The ultimate controlling parties of the Group are Mr. Zhang Ruilin and Mr. Zhao Jiangwei.

(a) The following transactions and balances were carried out with related parties:

	Year ended December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Transactions with PSC partners		
Global Oil Corporation		
Amounts received on behalf of GOC arising from the PSCs	303,802	202,256
Loan granted to GOC	92,330	91,586
Repayment of loan by GOC	(63,779)	—
Cost incurred on behalf of GOC from PSCs	255,949	146,211
PetroChina		
Sales to PetroChina	2,723,671	1,804,976
Cost incurred on behalf of PetroChina from PSCs	97,971	140,062
Transactions with a company/person related to the controlling shareholder of FEEL		
Jilin Guotai Petroleum Development Company*		
Purchases of materials and spare parts	376	525
Purchases of oil well services	163,327	108,631
Rental of vehicles	2,535	2,298
Purchases of vehicles	3,232	—
Zhao Jiangbo		
Rental of office premise	1,296	1,126
Rental of vehicles	3,504	3,276

* The amounts disclosed above represents gross amount transacted between the MIE, acting as operator for Daan, Moliqing and Miao 3 oilfields, with Jilin Guotai Petroleum Development Company, which is controlled by Zhao Jiangbo, spouse of Mr. Zhang Ruilin.

(b) Amounts due from related parties included in trade and other receivables:

	As at December 31,	
	2011	**2010**
	RMB'000	**RMB'000**
Amounts due from related companies and PSC partners		
Current		
Global Oil Corporation (non-trade) *(Note 10)*	142,500	137,590
PetroChina (trade) *(Note 10)*	300,914	170,984
PetroChina (non-trade) *(Note 10)*	37,993	33,225
	481,407	341,799
Non-current		
Global Oil Corporation (non-trade) *(Note 10)*	—	24,212
	481,407	366,011
Advance to Suppliers		
Jilin Guotai Petroleum Development Company (trade) *(Note 10)*	31,718	45,283

The above balances represent trade and unbilled receivables from PetroChina from sale of crude oil to PetroChina pursuant to the PSCs, advances to Global Oil Corporation which arise mainly from amounts received on behalf of Global Oil Corporation, expenditures incurred by the Group on behalf of other PSC partners pursuant to the PSCs, and advances for oilfield related services from Jilin Guotai Petroleum Development Company.

(c) Amounts due to related companies included in trade and other payables:

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Amounts due to other related parties		
Zhao Jiangbo (non-trade) *(Note 18)*	—	616

The above balance with Zhao Jiangbo, spouse of controlling shareholder of FEEL, arose from rental of vehicles and office premises.

(d) Key management compensation is presented below:

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Expenses		
Short-term benefits:		
— Directors' fees	819	—
— Salaries and allowances	21,071	21,032
— Discretionary bonuses	48,083	7,909
— Employer's contribution to pension scheme	229	787
— Share options and share appreciation rights granted	11,458	15,937
Total	81,660	45,665
Accrued liability		
Short-term benefits:		
— Bonuses	34,915	6,675
	34,915	6,675

Bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

32 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Net profit attributable to owners of the Company	1,106,072	420,864
Adjustment for:		
Dividends entitled by Series A preferred shares	—	(82,823)
Dividends entitled by Series B preferred shares	—	(48,082)
	1,106,072	289,959
Weighted average number of ordinary shares (thousands)	2,643,681	1,538,264
Earnings per share, Basic (RMB per share)	0.42	0.19

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Prior to Company's Global Offering on December 14, 2010, the Company had two categories of dilutive potential ordinary shares: convertible preferred shares and share options. The convertible preferred shares are assumed to be converted into ordinary shares at the later of, beginning of the relevant year or date of issuance. For share options, a calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. Subsequent to the Company's Global Offering, the Company only has share options outstanding which are potentially dilutive.

The number of ordinary shares calculated as above for earnings per share, basic is increased by the number of ordinary shares that would have been issued assuming the exercise of the share options and conversion of preferred shares at the later of, beginning of the relevant year or date of issuance.

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Net profit attributable to owners of the Company	1,106,072	420,864
Net profit used to determine diluted earnings per share	1,106,072	420,864
Weighted average number of ordinary shares (thousands)	2,643,681	1,538,264
Adjustments for:		
— Assumed conversion of convertible preferred shares (thousands)	—	684,284
— Share options (thousands)	15,483	9,919
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	2,659,164	2,232,467
Earnings per share, Diluted (RMB per share)	0.42	0.19

33 SUBSEQUENT EVENTS

MIE entered into a RMB working capital loan agreement with China Construction Bank ("CCB") on January 4, 2012 for a RMB50 million 6 month loan commencing from January 13, 2012 at the interest rate of 7.015% per annum. The interest rate is the base rate as published by the People's Bank of China at 6.1% per annum plus 15% and the resulting effective interest rate is 7.015% per annum. The loan is secured by a pledge on MIE's entitlement on the sales income from Moliqing and Miao 3.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

To the shareholders of MIE Holdings Corporation
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of MIE Holdings Corporation (''the Company'') and its subsidiaries (together, the ''Group'') set out on pages 56 to 140, which comprise the consolidated and company statements of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 25, 2011

Consolidated Statement of Financial Position

	Notes	As at December 31, 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	3,024,482	2,665,143
Intangible asset	*7*	1,677	2,599
Derivative financial instruments	*8*	20,285	—
Trade and other receivables	*9*	24,212	70,360
		3,070,656	2,738,102
Current assets			
Inventories	*11*	36,664	76,078
Derivative financial instruments	*8*	11,168	20,307
Trade and other receivables	*9*	398,294	489,571
Amount due from shareholder	*12*	—	81,074
Pledged deposits	*10*	29,916	30,729
Cash and cash equivalents	*13*	680,033	290,271
		1,156,075	988,030
TOTAL ASSETS		4,226,731	3,726,132
EQUITY			
Capital and reserves attributable to equity holders of the Group			
Ordinary shares	*14*	17,588	659
Preferred shares	*14*	—	171
Share premium	*15*	826,477	339,449
Other reserves	*15*	91,919	64,460
Retained earnings			
— Proposed final dividend	*26*	77,933	—
— Others		946,014	848,707
Total equity		1,959,931	1,253,446
LIABILITIES			
Non-current liabilities			
Asset retirement obligations	*16*	9,270	6,978
Deferred income tax liabilities — net	*17*	8,694	86,400
Trade and other payables	*18*	137,598	170,235
Borrowings	*19*	1,191,862	1,242,963
		1,347,424	1,506,576
Current liabilities			
Trade and other payables	*18*	775,137	808,635
Current income tax liabilities		44,898	55,052
Borrowings	*19*	99,341	102,423
		919,376	966,110
Total liabilities		2,266,800	2,472,686
TOTAL EQUITY AND LIABILITIES		4,226,731	3,726,132
Net current assets		236,699	21,920
Total assets less current liabilities		3,307,355	2,760,022

The notes on pages 63 to 140 are an integral part of these financial statements.

The financial statements on page 56 to 140 were approved by the Board of Directors on March 25, 2011 and were signed on its behalf.

Zhang Ruilin
Director

Allen Mak
Director

Statement of Financial Position

	Notes	As at December 31, 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiary		1,400,552	1,371,125
Amount due from subsidiary		602,021	323,713
		2,002,573	1,694,838
Current assets			
Cash and cash equivalents	*13*	342,950	33
Prepaid expenses		—	12,786
		342,950	12,819
TOTAL ASSETS		2,345,523	1,707,657
EQUITY			
Capital and reserves			
Ordinary shares	*14*	17,588	659
Preferred shares	*14*	—	171
Share premium	*15*	826,477	339,449
Other reserves	*15*	1,367,599	1,368,136
Retained earnings/(Accumulated deficit)			
— Proposed final dividend	*26*	77,933	—
— Others		11,316	(3,482)
Total equity		2,300,913	1,704,933
LIABILITIES			
Current liabilities			
Salary payable		5,960	—
Stock appreciation rights liabilities	*18*	21,260	2,260
Other liabilities		17,390	464
Total liabilities		44,610	2,724
TOTAL EQUITY AND LIABILITIES		2,345,523	1,707,657
Net current assets		298,340	10,095
Total assets less current liabilities		2,300,913	1,704,933

The notes on pages 63 to 140 are an integral part of these financial statements.

The financial statements on page 56 to 140 were approved by the Board of Directors on March 25, 2011 and were signed on its behalf.

Zhang Ruilin
Director

Allen Mak
Director

Consolidated Statement of Comprehensive Income

	Notes	Year ended December 31, 2010 RMB'000	2009 RMB'000
Revenue	5	1,804,976	1,166,827
Operating expenses			
Purchases, services and other		(126,517)	(123,587)
Employee compensation costs	20	(110,346)	(67,651)
Depreciation, depletion and amortization		(528,582)	(445,824)
Distribution expenses		(28,424)	(21,861)
Administrative expenses		(50,154)	(62,253)
Taxes other than income taxes	21	(289,296)	(73,308)
Other losses	22	(37,644)	(131,124)
Total operating expenses		(1,170,963)	(925,608)
Profit from operations		634,013	241,219
Finance income	23	35,344	1,552
Finance costs	23	(86,788)	(58,832)
Finance costs – net	23	(51,444)	(57,280)
Profit before income tax		582,569	183,939
Income tax expense	24	(161,705)	(73,462)
Net profit for the year		420,864	110,477
Other comprehensive income:			
Currency translation difference		(10,941)	—
Other comprehensive income for the year, net of tax		(10,941)	—
Total comprehensive income for the year		409,923	110,477
Net profit attributable to the equity holders of the Company		420,864	110,477
Earnings per share, Basic (expressed in RMB per share)	30	0.19	0.06
Earnings per share, Diluted (expressed in RMB per share)	30	0.19	0.06
Dividends distributed during the year	26	217,584	341,615
Dividends proposed after the balance sheet date	26, 31(c)	77,933	—

The notes on pages 63 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Ordinary shares	Preferred shares	Share premium	Other reserves	Retained earnings	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2009		684	—	—	49,023	1,094,058	1,143,765
Comprehensive income for the year							
Net profit for the year		—	—	—	—	110,477	110,477
Transfer to safety fund reserve	*15*	—	—	—	14,213	(14,213)	—
		—	—	—	14,213	96,264	110,477
Transactions with owners							
Employees stock options	*14c,20*	—	—	—	1,224	—	1,224
Issuance of redeemable ordinary shares	*14a*	—	—	(35,043)	—	—	(35,043)
Cancellation of redeemable ordinary shares	*14a*	—	—	35,043	—	—	35,043
Issuance of Series A preferred shares for cash	*14b*	—	146	339,449	—	—	339,595
Issuance of Series A preferred shares in exchange for ordinary shares	*14b*	—	25	61,429	—	—	61,454
Cancellation of ordinary shares	*14b,15*	(25)	—	(61,429)	—	—	(61,454)
Deemed dividend distribution	*26*	—	—	—	—	(341,615)	(341,615)
Total transactions with owners		(25)	171	339,449	1,224	(341,615)	(796)
As at December 31, 2009		659	171	339,449	64,460	848,707	1,253,446
As at January 1, 2010		659	171	339,449	64,460	848,707	1,253,446
Comprehensive income for the year							
Net profit for the year		—	—	—	—	420,864	420,864
Transfer to safety fund reserve	*15*	—	—	—	28,040	(28,040)	—
Currency translation difference		—	—	—	(10,941)	—	(10,941)
		—	—	—	17,099	392,824	409,923
Transactions with owners							
Employees stock options		—	—	—	10,360	—	10,360
Cancellation of ordinary shares	*14a*	(124)	—	(614,047)	—	—	(614,171)
Issuance of Series B preferred shares in exchange of ordinary shares	*14b*	—	249	613,923	—	—	614,172
Cash dividend distribution	*26*	—	—	—	—	(136,532)	(136,532)
Deemed dividend distribution	*26*	—	—	—	—	(81,052)	(81,052)
Conversion of Series A shares to ordinary shares	*14*	171	(171)	—	—	—	—
Conversion of Series B shares to ordinary shares		124	(249)	125	—	—	—
Capitalization issuance of ordinary shares to shareholders registered on November 23, 2010	*14a*	13,822	—	(13,822)	—	—	—
Issuances of ordinary shares for Global Offering	*14a*	2,936	—	500,849	—	—	503,785
Total transactions with owners		16,929	(171)	487,028	10,360	(217,584)	296,562
As at December 31, 2010		17,588	—	826,477	91,919	1,023,947	1,959,931

The notes on pages 63 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	Year ended December 31, 2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	*27*	1,344,234	38,631
Interest paid		(72,420)	(58,629)
Income tax paid		(256,915)	(50,264)
Net cash generated from/(used in) operating activities		1,014,899	(70,262)
Cash flows from investing activities			
Purchases of property, plant and equipment		(910,244)	(881,374)
(Increase)/decrease in pledged deposits		(114)	19,460
Loan granted to PSC partner		(91,586)	(21,733)
Interest received		143	1,834
Net cash used in investing activities		(1,001,801)	(881,813)
Cash flows from financing activities			
Proceeds from borrowings		—	1,447,977
Repayments of borrowings		—	(927,345)
Payment of loan arrangement fees		(27,114)	—
Proceeds from issuance of preferred shares		—	339,595
Proceeds from Global Offering		605,219	—
Payment of fees relating to Global Offering		(64,909)	—
Cash dividends paid	*26*	(136,532)	—
Net cash generated from financing activities		376,664	860,227
Net increase/(decrease) in cash and cash equivalents		389,762	(91,848)
Exchange losses on cash and cash equivalents		—	—
Cash and cash equivalents at beginning of the year		290,271	382,119
Cash and cash equivalents at end of the year	*13*	680,033	290,271

The notes on pages 63 to 140 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION AND GROUP REORGANIZATION

The Company was incorporated by Far East Energy Limited (''FEEL''), a company incorporated in Hong Kong with limited liability, on March 20, 2008. The Company is listed on the Stock Exchange of Hong Kong Limited.

MI Energy Corporation (''MIE'') is a limited liability company incorporated in Cayman Islands and domiciled in the People's Republic of China (''PRC'' or ''China''). MIE was a wholly owned subsidiary of FEEL until January 12, 2009, when MIE became a wholly owned subsidiary of the Company and the Company became a subsidiary of FEEL. Mr. Zhang Ruilin and Mr. Zhao Jiangwei ultimately control MIE through their controlling interest in FEEL.

The Company and its subsidiaries' (''the Group'') principal business is to engage in the development, production and sale of crude oil through MIE's four production sharing projects it obtained in 2001 and located at four oil blocks. On May 26, 2001, MIE was assigned all of Microbes, Inc.'s, its then parent company, 90% foreign participating interest in the production sharing contracts (''PSCs'') of four oil blocks, namely, Daan, Moliqing and Miao 3 in Jilin Province with PetroChina and Luojiayi 64 block in Shengli of Shandong Province with China Petroleum and Chemical Corporation (''Sinopec''). The Daan and Miao 3 projects were established in 1997, and the Moliqing project was established in 1998. The duration of those three projects are 30 years with the commercial production period being up to 20 years. Daan, Moliqing and Miao 3 will expire in year 2024, year 2028 and year 2028 respectively. The Group acts as the operator of these four PSC's. The Group and Global Oil Corporation (''GOC''), hold a 90% interest and a 10% interest in the foreign participating interest in the PSCs for Daan, Moliqing and Miao 3, respectively (Note 2(c)).

As of January 1, 2005, the Daan project was in the commercial production phase. As of October 1, 2008, the Miao 3 project attained commercial production. As of December 1, 2008, the Moliqing project reached commercial production. In 2006, the Luojiayi 64 block stopped work and in 2005 MIE's related investment was fully written off *(Note 28(b))*.

On August 6, 2010, MI Energy (Kazakhstan) Corporation was incorporated in the Cayman Islands as an investment holding company with limited liability, and became a wholly owned subsidiary of the Company. On August 11, 2010, MIE Kazakhstan further allotted and issued 9,999 ordinary shares of US$1 each to the Company. On October 14, 2010, the name of MIE Kazakhstan was changed as MIE New Ventures Corporation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Company prepared the accompanying consolidated financial statements in accordance with IFRS as issued by the IASB.

All significant intra-group transactions and balances have been eliminated on consolidation.

The principal accounting policies used in preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all years presented unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of financial derivative instruments at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

New accounting pronouncements

(i) New standards, amendments to and interpretations on existing standards adopted by the Group are as follows:

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

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

The adoption of these new standards and amendments do not have a material impact on the Group's or Company's financial statements.

(ii) New standards, amendments and interpretations to existing standards not yet effective and not early adopted by the Group

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

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

- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after February 1, 2010. Earlier application is permitted.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after July 1, 2010. Earlier application is permitted.

- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective January 1, 2011.

The Group is in the process of reviewing the impact of the above standards and do not expect these standards to have a material impact on the Group's or Company's financial statements at the current stage.

(b) Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Production sharing contracts

The Group's development and production activities are conducted jointly with others through PSCs. These PSCs establish joint control over the development and production activities. The assets are not owned by a separate legal entity but are controlled by individual participants in the PSCs. Each participant is entitled to a predetermined share of the related output and bears an agreed share of the costs.

The consolidated financial statements reflect:

(i) MIE's assets used in jointly controlled operations;

(ii) any liabilities that MIE has incurred;

(iii) MIE's share of any liabilities incurred jointly with the other PSC partners in relation to the joint production;

(iv) any income from the sale or use of MIE's share of the output of the production, together with its share of any expenses incurred in the production; and

(v) any expenses that MIE has incurred in respect of its interest in the production.

Pursuant to the three PSCs with PetroChina, the annual gross production of the crude oil shall, after payment for value added tax and royalty, be firstly deemed as the cost recovery oil and shall be used for cost recovery in the following sequence:

- Payment in kind for the operating costs actually incurred by MIE and GOC (collectively "the foreign partners") and PetroChina.

- The remainder of the cost recovery oil shall, after payment for the operating costs, be deemed as investment recovery oil. Such investment recovery oil shall be used for the simultaneous recovery of the pilot test costs and the development costs incurred by foreign partners and the predevelopment costs spent by PetroChina in proportion of 20% by PetroChina and 80% by foreign partners. The unrecovered costs of the parties shall be carried forward to and recovered from the investment recovery oil in succeeding calendar years until being fully recovered.

- After all pilot test costs and development costs incurred up to that time have been recovered, the remainder of the gross production of crude oil for that period is referred to as profit oil and shall be allocated in proportion of PetroChina 52% and foreign partners 48%.

- The operating costs so incurred after the date of commencement of commercial production shall be paid respectively by PetroChina and foreign partners in accordance with the proportion of oil allocated to each party.

GOC is entitled to a 10% share of the foreign participating interest in property, plant and equipment, income and expenses. The Group received income and paid expenses on behalf of GOC. These are recorded in the relevant accounts with GOC (Note 29).

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollar ("US$"). The presentation currency of the consolidated financial statements is the RMB.

(ii) Transactions and balances of each entity

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

(e) Property, plant and equipment

Property, plant and equipment, including oil and gas properties, is stated at historical cost less accumulated depreciation, depletion, amortization and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the reporting year in which they are incurred.

Except for oil and gas properties, depreciation is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Office equipment	3 years
Motor vehicles and production equipment	10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress is not depreciated until it is ready for its intended use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized within other income or other expense in the consolidated statements of comprehensive income.

(f) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as construction in progress pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any costs of unproved properties capitalized in oil and gas properties.

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

(g) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Intangible assets

Intangible assets represent computer software. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 years.

(i) Loans and receivables

The Group's loans and receivables comprise 'trade and other receivables' in the consolidated statements of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for expected realization greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(j) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For derivative instruments that do not qualify for hedge accounting, changes in the fair value of these derivative instruments are recognized immediately in the consolidated statements of comprehensive income.

(k) Leases

Leases where the Group is a lessee in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the term of the lease.

(l) Inventories

Inventories are crude oil and materials and supplies which are stated at the lower of cost and net realizable value. Materials and supplies costs are determined by the first-in first-out method. Crude oil costs are determined by the weighted average cost method. The cost of crude oil comprise direct labour, depreciation, other direct costs and related production overhead, but excludes borrowing costs.

(m) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income.

(n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less from the time of purchase.

(o) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the territories where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent years, borrowings are stated at amortized cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the year of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the end of the reporting period.

Borrowing costs are recognized as an expense in the year in which they are incurred except for the portion eligible for capitalization as part of qualifying property, plant and equipment.

(q) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(r) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts can be made.

Provision for future decommissioning and restoration is recognized in full on the installation of oil and gas properties. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than due to passage of time, which is regarded as interest expense, is reflected as an adjustment to the provision and oil and gas properties.

(s) Employee benefits

(i) Defined contribution plan

The Group has various defined contribution plans for state pensions, housing fund and other social obligations in accordance with the local conditions and practices in the municipalities and province in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expenses when they are due.

(ii) Equity-settled share-based compensation — Stock options

The Group operates a stock incentive compensation plan for share-based payment transactions, such as stock options under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options on the grant date. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and other reserves when the options are exercised.

(iii) Cash-settled share-based compensation — Stock appreciation rights

Compensation under the stock appreciation rights is measured based on the fair value of the liability incurred and its expenses over the vesting period. The liability is remeasured at each reporting period to its fair value until settlement with all the changes in liability recorded in employee compensation costs in the consolidated statement of comprehensive income, the related liability is included in the salaries and welfare payable.

(t) Revenue recognition

Revenues are recognized upon delivery of crude oil that are allocated to MIE under PSC *(See Note 2(c))*. Revenues are recognized only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and where the amount of revenue and the costs incurred or to be incurred in respect of the transactions can be measured reliably and probable economic benefit will flow to the Company.

According to general oil and gas practice, the physical nature of the taking (lifting) oil is such that a partner may take more oil than it is entitled to as defined by the contract (PSC). For the year ended December 31, 2009 and 2010, PetroChina had taken more oil than its entitlement (over lifted) and hence MIE is deemed to have sold the over lift to PetroChina.

(u) Repairs and maintenance

Repairs and maintenance are recognized as expenses in the year in which they are incurred.

(v) Share capital

Ordinary shares are classified as equity.

Preferred shares issued by the Company are classified as equity when they are not redeemable by the Company and there is no obligation outside the control of the Company to pay dividends.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) Dividend distributions

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(x) Earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting the profit or loss attributable to equity holders of the Company accordingly for related amounts. The effect of potentially dilutive ordinary shares are included only if they are dilutive.

(y) Segment reporting

The Group operates as a single operating segment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

All of the Group's sales are in US dollars, while production and other expenses are incurred in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates. The Group may enter into forward foreign exchange contracts to manage the risk of unfavourable fluctuations in the foreign exchange rate.

At December 31, 2009 and 2010, if the US dollar had weakened/strengthened by 1% against the RMB with all other variables held constant, profit before income tax for the year would have been RMB9,152,000 and RMB9,660,000 higher/lower respectively, mainly as a result of foreign exchange gains/losses on translation of US-denominated trade and other receivables, bank deposits and borrowings.

(ii) Cash flow interest rate risk

The Group has no significant interest bearing cash assets. The Group's income and operating cash flows are substantially independent of the changes in market rates. The Group's interest rates risk arises from borrowings. A detailed analysis of the Group's borrowings, together with their respective effective interest rates and maturity dates, are included in Note 19.

Based on a sensitivity analysis, the impact on profit before income tax for the year ended December 31, 2009 and 2010 of a 50 basis-point shift would be an increase of RMB6,727,000 and RMB6,622,700, respectively or decrease of RMB6,727,000 and RMB6,622,700, respectively.

(iii) Price risk

The Group is engaged in crude oil development, production and selling activities. Prices of crude oil are affected by both domestic and global factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Prior to 2008, the Group did not use any derivative instruments to hedge against potential price fluctuations of crude oil and therefore the Group was exposed to general price fluctuations of crude oil. During the year ended December 31, 2009 and 2010, the Group entered into put option contracts (Note 8) to manage its price risk. If the crude oil price were to increase or decrease by US$1, the impact on the Group's profit before income tax for the year ended December 31, 2010 as a result of revaluing the put option would be a decrease of RMB1,566,000 and increase of RMB1,652,000 (2009: decrease of RMB2,462,000 or decrease of RMB1,803,000), respectively.

(b) Credit risk

As the majority of the cash at bank balance is placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. Therefore, credit risk arises primarily from trade and other receivables. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, pledged deposits, amounts due from a related party and trade and other receivables included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk.

The Group has no significant concentration of credit risk for its cash and cash equivalents. The Group has one customer which accounts for 100% of its revenue and as such, has concentration of credit risk for its trade and other receivables. However, the Group regards it as low risk as this customer is PetroChina, a state-owned enterprise with a high credit rating.

(c) Liquidity risk

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities and net-settled derivative financial assets and liabilities into relevant maturity groupings based on the remaining year at the end of the reporting period to their contractual maturity dates.

The amounts disclosed in the table are the contractual undiscounted cash flows of principal amount and interests.

Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2009				
Borrowings	168,164	61,200	1,350,080	—
Derivative financial instruments — oil put option *(Note 8)*	(20,307)	—	—	—
Trade and other payables *(Note 18)*	788,352	170,235	—	—
At December 31, 2010				
Borrowings	158,575	583,844	727,196	—
Derivative financial instruments — oil put option *(Note 8)*	(11,168)	(20,285)	—	—
Trade and other payables *(Note 18)*	718,729	137,598	—	—

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of Debt over EBITDA. Debt is calculated as total borrowings including 'current and non-current borrowings' as shown in the consolidated statement of financial position. EBITDA is calculated as profit before finance income, finance cost, income tax and depreciation, depletion and amortization.

The Debt over EBITDA ratios at December 31, 2009 and 2010 were as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Total borrowings *(Note 19)*	1,291,203	1,345,386
Profit before income tax	582,569	183,939
Finance income	(35,344)	(1,552)
Finance cost	86,788	58,832
Depreciation, depletion and amortization	528,582	445,824
EBITDA	1,162,595	687,043
Debt over EBITDA ratio	1.1	2.0

3.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group are disclosed in the respective accounting policies. The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, pledged deposits, current portion of trade and other receivables, current portion of trade and other payables and current portion of borrowings.

The Group adopted the amendment to IFRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (ie. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at December 31, 2009 and 2010:

	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000
Assets			
As at December 31, 2009			
Derivative financial instruments			
— Oil put option	—	20,307	—
As at December 31, 2010			
Derivative financial instruments			
— Oil put option	—	31,453	—

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group's consolidated financial statements.

(a) Estimation of proved oil reserves

Proved reserves are those quantities of petroleum that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed producing reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery.

The Group's reserve estimates were prepared for each oilfield and include only crude oil that the Group believes can be reasonably produced within current economic and operating conditions.

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

Proved reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. The Group classified its proved reserves into two categories: proved developed producing reserves and proved undeveloped reserves. Proved developed producing reserves are used for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production) and reduce net profit and vice-versa. Proved reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

In general, changes in the technical maturity of oil reserves resulting from new information becoming available from development and production activities and change in oil price have tended to be the most significant cause of annual revisions.

(b) Estimated impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

(c) Estimation of asset retirement obligations

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

5 REVENUE

The Group's revenue relates to the sale of crude oil in one geographical location, China. All revenue is realized through the sale of the Group's share of crude oil to PetroChina pursuant to the PSC.

6 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Construction in progress	Office equipment	Motor vehicles and production equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2009					
Cost	3,512,809	94,246	7,902	18,269	3,633,226
Accumulated depreciation and impairment	(1,140,454)	—	(3,394)	(2,435)	(1,146,283)
Net book value	2,372,355	94,246	4,508	15,834	2,486,943
Year ended December 31, 2009					
Opening net book value	2,372,355	94,246	4,508	15,834	2,486,943
Addition	1,991	592,981	85	5,567	600,624
Transfer in/(out)	539,902	(539,902)	—	—	—
Charge for the year	(418,497)	—	(923)	(3,004)	(422,424)
Closing net book value	2,495,751	147,325	3,670	18,397	2,665,143
At December 31, 2009					
Cost	4,054,702	147,325	7,987	23,836	4,233,850
Accumulated depreciation and impairment	(1,558,951)	—	(4,317)	(5,439)	(1,568,707)
Net book value	2,495,751	147,325	3,670	18,397	2,665,143
Year ended December 31, 2010					
Opening net book value	2,495,751	147,325	3,670	18,397	2,665,143
Addition	2,038	878,266	1,108	7,196	888,608
Transfer in/(out)	835,415	(835,415)	—	—	—
Charge for the year	(525,890)	—	(755)	(2,624)	(529,269)
Closing net book value	2,807,314	190,176	4,023	22,969	3,024,482
At December 31, 2010					
Cost	4,892,155	190,176	9,095	31,032	5,122,458
Accumulated depreciation and impairment	(2,084,841)	—	(5,072)	(8,063)	(2,097,976)
Net book value	2,807,314	190,176	4,023	22,969	3,024,482

Included in property, plant and equipment are assets amounting to RMB3,024,326,000 (Cost of RMB5,121,063,000 less accumulated depreciation and impairment of RMB2,096,737,000) as at December 31, 2010 directly used in and operated under the Group's three PSCs with PetroChina.

The additions of oil and gas properties of the Group for the years ended December 31, 2009 and 2010 included RMB1,991,000 and RMB2,038,000 respectively relating to the asset retirement obligations recognized during the year (Note 16).

Depreciation charges of RMB9,540,000 and RMB11,837,000 relating to the years ended December 31, 2009 and 2010 respectively, have been capitalized in inventories (Note 11).

7 INTANGIBLE ASSET

Intangible asset represents computer software as at December 31, 2009 and 2010 with a net book value of RMB2,599,000 and RMB1,677,000, respectively.

8 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Assets		
Oil put option	31,453	20,307
Less: non-current portion:	(20,285)	—
Current portion	11,168	20,307

Oil put option

The Group used oil put options purchased from Standard Bank ("Standard Bank Oil Hedge") to manage its exposure to movements in the price of crude oil for period from January 1, 2008 to December 31, 2010. MIE bought an option, but not the obligation, to notionally sell to the financial institution 5,236,710 barrel at a strike price of US$62.50, in monthly instalments ranging from 130,061 barrel to 154,378 barrel from January 1, 2008 to December 31, 2010 (the "Bought Option"). In addition, MIE sold an option to the financial institution, so that the financial institution can notionally sell to MIE 5,236,710 barrel at a strike price of US$42.50 in monthly instalments ranging from 130,061 barrel to 154,378 barrel from January 1, 2008 for December 31, 2010 (the "Sold Option") under the same terms and conditions as the Bought Option. The effect of the above is that Group received money from the financial institution each month, in respect of the notional volume of that month, if the average monthly West Texas Intermediate ("WTI") crude oil spot price of oil falls below US$62.50, but the maximum payout by the financial institution was limited to US$20.00 per barrel.

In October 2010, the Group further purchased an option to notionally sell to Merrill Lynch Commodities, Inc. ("MLCI") 3,000,000 barrels of crude oil at a strike price of US$70.00 per barrel, in instalments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 ("MLCI Oil Hedge"). The price under the option is based on WTI crude oil prices. In addition, in October 2010, the Group sold an option to MLCI to notionally sell to us 3,000,000 barrels at a strike price of US$55.00 per barrel in instalments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 under the same terms and conditions as the purchased option. The effect of the above arrangement is that we will receive from MLCI each month the difference between the strike price of US$70.00 per barrel and the WTI crude oil price, in respect of the notional volume of that month, if the average monthly WTI spot price of oil falls below US$70.00 per barrel, but the maximum payout by MLCI is limited to US$15.00 per barrel. The premium of US$8.74 million (RMB57.86 million) for this option is payable over 8 instalments on a quarterly basis from April 2011 (Note 18).

9 TRADE AND OTHER RECEIVABLES

(a) Summary of trade and other receivables

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Financial assets		
Current		
Trade receivables from PetroChina *(Note 29)*	25,973	50,723
Other receivables due from related parties		
— PetroChina *(Note 29)*	33,225	17,968
— Global Oil Corporation *(Note 29)*	137,590	55,901
— United Petroleum USA, LLC *(Note 29)*	—	1,569
Advances to employees	7,134	4,145
Unbilled receivables from PetroChina *(Note 29)*	145,011	161,429
Other receivables — others	576	655
	349,509	292,390
Non-current		
Amounts due from related party		
— Global Oil Corporation *(Note 29)*	24,212	70,360
	373,721	362,750
Non-financial assets		
Current		
Advances to suppliers	1,210	143,796
Advances to suppliers — related party *(Note 29)*	45,283	38,673
Prepayments to third parties	2,292	1,926
Other deferred assets	—	12,786
	48,785	197,181
Total	422,506	559,931
Total current	398,294	489,571
Total non-current	24,212	70,360
Total	422,506	559,931

(b) The fair values of trade and other receivables financial assets are as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Trade receivables from PetroChina	25,973	50,723
Unbilled receivables from PetroChina	145,011	161,429
Other receivables due from related parties	195,027	145,798
	366,011	357,950
Other receivables — third parties	7,710	4,800
	373,721	362,750

(c) The aging analysis of trade receivables were as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
0–30 days	25,973	50,723
	25,973	50,723

As of December 31, 2009 and 2010, there were no trade receivables past due which are impaired.

(d) The carrying amounts of trade and other receivables are denominated in the following currencies:

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Renminbi	218,297	314,506
United States Dollars	204,209	245,425
	422,506	559,931

(e) Movements in the provision for impairment of other receivables are as follows:

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
At January 1	—	(9,872)
Receivables written off during the year as uncollectible	—	9,872
At December 31	—	—

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above. The Group does not hold any collateral as security.

10 PLEDGED DEPOSITS

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Pledged deposits	29,916	30,729

As at December 31, 2009 and 2010, pledged deposit represents bank deposit pledged for borrowings. The carrying amounts of pledged deposits are denominated in United States Dollars.

11 INVENTORIES

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
At cost		
Oil in tank	15,648	13,033
Materials and supplies	21,016	63,045
	36,664	76,078

Depreciation charges of RMB9,540,000 and RMB11,837,000 have been included in the balance above for the years ended December 31, 2009 and 2010, respectively (Note 6).

12 AMOUNT DUE FROM SHAREHOLDER

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Current		
Amount due from FEEL *(Note 29)*	—	81,074
	—	81,074

The amount due from FEEL was settled by a non-cash deemed dividend on March 31, 2010 (Note 26).

13 CASH AND CASH EQUIVALENTS

	Group	
	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Cash in hand	33	46
Cash at bank	680,000	290,225
	680,033	290,271

	Company	
	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Cash at bank	342,950	33

Cash and cash equivalents are denominated in the following currencies:

	Group	
	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Renminbi	273,371	185,026
Hong Kong Dollars	342,936	—
United States Dollars	63,726	105,245
	680,033	290,271

	Company	
	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Hong Kong Dollars	342,936	—
United States Dollars	14	33
	342,950	33

Renminbi-denominated deposits are placed with banks in the PRC. The conversion of these Renminbi-denominated deposits into foreign currencies and remittance out of the PRC are subject to certain PRC rules and regulations of foreign exchange control promulgated by the PRC government. Also, the exchange rates are determined by the PRC government.

14 SHARE CAPITAL

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Issued and fully paid:		
Ordinary shares	17,588	659
Preferred shares	—	171
	17,588	830

Authorized ordinary and preferred shares

	As at December 31,	
	2010	2009
	'000	'000
Authorized:		
Ordinary shares of US$0.001 per share	100,000,000	150,000
Preferred shares		
Series A preferred shares of US$0.001 each	—	30,000
Series B preferred shares of US$0.001 each	—	—

As at December 31, 2009, the total number of authorized shares is 180,000,000 shares comprising 150,000,000 ordinary shares with a par value of US$0.001 each and 30,000,000 Series A preferred shares with a par value of US$0.001 each. Each share has one vote.

On February 5, 2010, FEEL, shareholders of FEEL, MIE and the Company entered into a shares purchase agreement with Harmony Energy Limited. To enable the transaction, the Company's authorized share capital was increased to 230,000,000 shares comprising 150,000,000 ordinary shares with a par value of US$0.001 each, 30,000,000 Series A preferred shares with a par value of US$0.001 each and 50,000,000 Series B preferred shares with a par value of US$0.001 each.

Pursuant to a resolution of the shareholders of the Company on November 27, 2010 and immediately prior to the Global Offering on December 14, 2010, the authorized share capital of the Company was increased from US$230,000 comprising 230,000,000 shares (comprising 150,000,000 ordinary shares with a par value of US$0.001 each, 30,000,000 Series A preferred shares with a par value of US$0.001 each and 50,000,000 Series B preferred shares with a par value of US$0.001 each) to US$100,000,000 comprising 100,000,000,000 shares of US$0.001 each.

(a) Issued and fully paid ordinary shares

The details of the issued and fully paid ordinary share capital of the Company for the relevant periods are as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Issued and fully paid:		
At January 1, 2009		
100,000,000 ordinary shares of US$0.001 each		684
At October 31, 2009		
Cancellation of ordinary shares 3,643,730 ordinary shares at US$0.001 each *(Note 14(b))*		(25)
At December 31, 2009		
96,356,270 ordinary shares at US$0.001 each		659
At January 1, 2010		
96,356,270 ordinary shares at US$0.001 each	659	
At March 10, 2010		
Cancellation of 18,212,560 ordinary shares at US$0.001 each	(124)	
At December 14, 2010		
Conversion of 25,101,220 Series A preferred shares to 25,101,220 ordinary shares at US$0.001 each *(Note 14(b))*	171	
Conversion of 36,425,120 Series B preferred shares to 18,212,560 ordinary shares at US$0.001 each *(Note 14(b))*	124	
Capitalization issuance of 2,078,542,510 ordinary shares at US$0.001 each to shareholders registered on November 23, 2010	13,822	
Issuance of 441,334,000 ordinary shares at US$0.001 each during Global Offering	2,936	
At December 31, 2010		
2,641,334,000 ordinary shares at US$0.001 each	17,588	

On April 16, 2010, the shareholders adopted an ordinary resolution effecting certain amendments to the authorized and issued share capital to effect a 10-for-one split of the Company's share capital pursuant to which each ordinary share, Series A preferred share and Series B preferred share of the Company was subdivided into 10 shares at a par value of US$0.001 each, such that the authorized share capital of the Company of US$230,000 comprising 230,000,000 shares is divided into 150,000,000 ordinary shares of a par value of US$0.001 each, 30,000,000 Series A preferred shares with a par value of US$0.001 each and 50,000,000 Series B preferred shares with a par value of US$0.001 each.

In connection with the 10-for-one split, the 607,287 ordinary shares of a par value of US$0.01 each reserved under the MIE 2009 Stock Incentive Compensation (the "Plan") for delivery in connection with the grant, vesting or other issuance of stock incentive awards was adjusted to 6,072,870 ordinary shares of a par value of US$0.001 each, to reflect the subdivision of the Company's ordinary shares approved by the shareholders of the Company on April 16, 2010.

All share and per share amounts presented in the consolidated financial statements have been restated on a retroactive basis to reflect the effect of 10-for-one share split and issuances.

Pursuant to written resolutions passed by the Company's shareholders on November 27, 2010 and immediately prior to the completion of the Company's global offering for listing on the Stock Exchange of Hong Kong Limited ("Global Offering") on December 14, 2010, the Company:

(i) converted all issued and outstanding 25,101,220 Series A preferred shares and 36,425,120 Series B preferred shares into 25,101,220 ordinary shares and 18,212,560 ordinary shares respectively in accordance with the Company's then existing articles of association;

(ii) immediately upon conversion of the Series A preferred shares and Series B preferred shares into ordinary shares, designated all the unissued 30,000,000 Series A preferred shares and 50,000,000 Series B preferred shares with a par value of US$0.001 each as ordinary shares with a par value of US$0.001 each;

(iii) increased the authorized share capital of the Company from US$230,000 comprising 230,000,000 ordinary shares of US$0.001 each to US$100,000,000 comprising 100,000,000,000 shares of US$0.001 each;

(iv) allotted and issued a total of 2,078,542,510 ordinary shares credited as fully paid at par to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on November 23, 2010 in proportion to their then existing respective shareholdings by way of capitalization of the sum of US$2,078,542.51 (RMB13,822,000) standing to the credit of the share premium account of the Company ("Capitalization Issue"). The shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

On December 14, 2010, the Company issued 441,334,000 ordinary shares at HK$1.70 per share for the Global Offering.

Reserve arising from redeemable ordinary shares

In January 2009, Standard Bank acquired 1,970,490 of the Company's ordinary shares (representing 1.97% of the outstanding share capital) for US$5,123,000 (RMB35,043,000) from FEEL. Concurrently, FEEL also sold Standard Bank a conversion option that allowed the Company's ordinary shares to be converted into the preferred shares, on the same terms and conditions as any new preferred shares issued by the Company exceeding US$20 million (RMB136 million) during the term of the option. If Standard Bank did not convert the ordinary shares, Standard Bank had the right to sell the ordinary shares back to MIE at their original issuance price (US$5,123,000). FEEL and the Company were jointly and severally liable with MIE for this arrangement.

At the date of the sale of ordinary shares from FEEL to Standard Bank, the fair value of MIE's liability to Standard Bank amounted to US$5,123,000 (RMB35,043,000).

In October 2009, those ordinary shares were bought back by FEEL from Standard Bank and the option was terminated and the corresponding liability US$5,123,000 (RMB35,043,000) was transferred back to equity.

The above movements have been reflected in the consolidated statements of changes in equity.

(b) Issued and fully paid preferred shares

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Issued and fully paid:		
Series A preferred shares		
At July 9, 2009		
Issuance of 21,457,490 Series A preferred shares of US$0.001 each		146
At October 30, 2009		
Issuance of 3,643,730 Series A preferred shares at US$0.001 each *(Note 14(a))*		25
At December 31, 2009		
25,101,220 Series A preferred shares of US$0.001 each		171
At December 14, 2010		
Conversion of 25,101,220 Series A preferred shares of US$0.001 each to 25,101,220 ordinary shares *(Note 14(a))*	(171)	
At December 31, 2010		
Nil Series A preferred shares of US$0.001 each	—	
Series B preferred shares		
At March 10, 2010		
Issuance of 36,425,120 Series B preferred shares of US$0.001 each	249	
At December 14, 2010		
Conversion of 36,425,120 Series B preferred shares of US$0.001 each to 18,212,560 ordinary shares *(Note 14(a))*	(249)	
At December 31, 2010		
Nil Series B preferred shares of US$0.001 each	—	
At December 31, 2010		
Total preferred shares	—	

Series A preferred shares

On June 19, 2009, FEEL, the Company, MIE and TPG Star Energy Ltd. ("TPG") entered into a Series A preferred share subscription agreement and put option agreement ("TPG SPA"). The Company issued 21,457,490 Series A preferred shares to TPG representing 17.667% of the capital of the Company for consideration of US$53,000,000 (RMB362,000,000) less transaction fee US$3,000,000 (RMB20,490,000). The above transaction was completed and became enforceable on July 9, 2009 when the Series A preferred shares were issued to TPG.

On October 26, 2009, FEEL, the Company and MIE entered into a shares purchase agreement with Sino Link Limited, an indirect subsidiary of CITIC Group, pursuant to which FEEL sold 3,643,730 Series A preferred shares to Sino Link Limited for a consideration of US$9 million (RMB61,454,000). As FEEL was not at that time the holder of any Series A preferred shares, the Company redeemed 3,643,730 ordinary shares held by FEEL and issued in exchange 3,643,730 Series A preferred shares to FEEL, which were then transferred to Sino Link Limited on October 30, 2009.

Each of the Series A preferred share:

— has the same voting and dividend rights, other than deemed dividends, as those of ordinary shares into which Series A preferred share is convertible.

— is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion ratio.

— will automatically convert into fully paid ordinary shares at the applicable conversion ratio immediately prior to a Global Offering.

— is convertible to ordinary shares at the initial conversion ratio of 1:1.

FEEL granted a put option to holders of Series A preferred shares which requires FEEL to purchase all or some of the Series A preferred shares. The option guarantees that holders of Series A preferred shares will recover its initial cost at a compounded rate of return of 15%. FEEL, MIE and the Company are jointly and severally liable for this obligation.

In the event of a liquidation, dissolution or winding up of the Company, the available assets and funds of the Company are distributed to the Series A and Series B preferred shareholders, on a pro rata basis ahead of ordinary shareholders. The holders of the Series A preferred shares are entitled to recover the original purchase price and, if a put given to Series A preferred shareholders is exercised, an amount that would result in the shareholders obtaining a compounded rate of return of 15% from the issue of the Series A preferred shares, less any distributions made to the shareholders during the investment period.

Series B preferred shares

On February 5, 2010, FEEL, MIE and the Company entered into a shares purchase agreement with Harmony Energy Limited, a company incorporated in British Virgin Islands and a wholly owned subsidiary of Ever Union Capital Limited, pursuant to which FEEL sold 36,425,120 Series B preferred shares for a consideration of US$89,970,000 (RMB614,171,000). As FEEL was not at that time the holder of any Series B preferred shares, on March 10, 2010, the Company repurchased 18,212,560 ordinary shares held by FEEL and issued in exchange 36,425,120 Series B preferred shares to FEEL, which FEEL transferred to Harmony Energy Limited.

Each Series B preferred share:

— has the same voting and dividend rights, other than deemed dividends, as those of the ordinary share into which such Series B preferred share is convertible;

— is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion rate;

— will automatically convert into fully paid ordinary shares at the applicable conversion ratio immediately prior to a Global Offering; and

— is convertible to ordinary shares at the initial conversion ratio of 2:1.

In the event of a liquidation, dissolution or winding up of the Company, the available assets and funds of the Company are distributed to the Series A and Series B preferred shareholders, on a pro rata basis ahead of ordinary shareholders. The holders of the Series B preferred shares are entitled to recover the original purchase price.

All outstanding Series A preferred shares and Series B preferred shares have been converted to ordinary shares on December 14, 2010 pursuant to written resolutions passed by the Company's shareholders on November 27, 2010 (Note 14(a)).

(c) Stock incentive compensation plans

The board of directors of the Company adopted the Plan on November 20, 2009 which is intended to attract and retain the best available personnel for positions of substantial responsibility, and provide additional incentive to employees, directors and consultants. The Company has reserved 6,072,870 ordinary shares for issuance under the Plan. The Company terminated the Plan pursuant to a resolution on November 27, 2010. Any options granted prior to the termination of the plan remain subject to the ordinary vesting and exercise provisions set out in the award agreement. A total of 4,422,000 shares originally reserved for the Plan were cancelled upon the termination of the Plan.

(A) Stock options

The options granted under the Plan are evidenced by an option award agreement between the Company and its employees that contains, among other things, the number of shares granted and provisions concerning exercisability and forfeiture upon termination of employment, as determined by the board of the Company.

Vesting schedule The options granted under the Plan vest over a two or three-year period following a specified vesting commencement date. Typically, the options granted vest at each anniversary of the grant date within the vesting period, subject to the participant continuing to be an employee on each vesting date.

Right to exercise The term of the options granted under the Plan will not exceed ten years from the grant date. Upon termination by the participant or termination of the participant without cause by the Company, any portion of the options that had not vested on or before such termination shall lapse immediately; any portion of the options that were vested before such termination to the extent not exercised within thirty days after such termination shall also lapse. Upon termination of the participant due to the participant's death, permanent disability or injury, the options remain subject to ordinary vesting schedule and exercise provision where the option agreement permits. Upon termination of the participant by the Company for cause, any portion of the options not already exercised lapse immediately.

On November 20, 2009, the Company granted options for 1,480,870 ordinary shares to certain officers and employees. The exercise price of each option granted is US$2.39. During year 2010, 100,400 share options have lapsed due to termination of employment.

On November 23, 2010, the Company granted options for 170,000 ordinary shares to the Company's independent non-executive Directors. The exercise price of each option granted is US$4.53.

After taking the Capitalization Issue into account, out of the 28,084,179 outstanding options, 8,334,971 were exercisable as of December 31, 2010. The share options outstanding as at December 31, 2010 were 25,004,913 with exercise price of US$0.13 and 3,079,266 with exercise price of US$0.25.

(B) Stock appreciation rights

Stock appreciation rights granted under the Plan are evidenced by a stock appreciation rights award agreement between the Company and employees that contains, among other things, the number of notional ordinary shares to which the stock appreciation rights relate and the provisions concerning exercisability and forfeiture upon termination of employment or consulting arrangement.

Vesting schedule Stock appreciation rights granted under the Plan vest over a three-year period following a specified vesting commencement date. One-third of the stock appreciation rights granted vest at each anniversary of the grant date within the three-year vesting period, subject to the participant continuing to be an employee or a service provider on each vesting date. There is no entitlement to the stock appreciation right unless and until there is a Global Offering.

Right to exercise The term of stock appreciation rights granted under the Plan will not exceed ten years from the grant date. When a participant exercises the stock appreciation rights, the Company will pay such participant an amount in cash determined by multiplying (i) the excess of the fair market value of an ordinary share on the exercise date over the grant price by (ii) the number of notional ordinary shares to which the stock appreciation rights relate stated in such participant's exercise notice.

On November 20, 2009, the board of directors of the Company granted certain officers and employees stock appreciation rights pertaining to 2,560,180 notional ordinary shares to which the stock appreciation rights relate. The exercise price of each stock appreciation right is US$2.39. Upon termination by the participant or termination of the participant without cause by the Company, any portion of the stock appreciation rights that had not vested on or before such termination shall lapse immediately; any portion of the stock appreciation rights that were vested before such termination to the extent not exercised within thirty days after such termination shall also lapse. Upon termination of the participant due to the participant's death, permanent disability or injury, the stock appreciation rights remain subject to ordinary vesting schedule and exercise provision where the stock appreciation rights agreement permits. Upon termination of the participant by the Company for cause, any portion of the stock appreciation rights not already exercised lapse immediately. During year 2010, 12,550 stock appreciation rights have lapsed due to termination of employment.

On February 26, 2010, the board of directors of the Company granted certain employees stock appreciation rights pertaining to 25,100 notional ordinary shares with exercise price of $4.78 per notional ordinary shares.

On February 26, 2010, the board of directors of the Company approved amended stock appreciation rights award agreement to be implemented for certain selected participants. For these selected participants, a portion or all of the one third of the granted stock appreciation rights shall vest and become exercisable on each anniversary of the grant date according to the performance evaluation target mark attained by these participants. All other terms of the stock appreciation rights award agreement remain unchanged.

On December 14, 2010, the total number of outstanding stock appreciation rights was adjusted to 46,600,713 by reason of Capitalization Issue. During 2010, a total of 212,167 stock appreciation rights with exercise price of US$0.13 have lapsed pursuant to the terms and conditions of the Plan. Out of the 46,388,546 outstanding stock appreciation rights, 15,169,856 stock appreciation rights were exercisable as of December 31, 2010. The stock appreciation rights outstanding as at December 31, 2010 were 45,933,902 with exercise price of US$0.13 and 454,644 with exercise price of $0.26.

(C) Fair values of stock options

The fair value of options granted on November 20, 2009 determined using the Binomial Model was US$1.93 per option. The significant inputs into the model were fair value per share of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of options granted on November 23, 2010 determined using the Binomial Mode was US$0.11 per option after taking into capitalization issue. The significant inputs into the model were fair value per share of US$0.22 at the grant date, exercise price shown above, volatility of 58.56%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 2.86%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

(D) Fair values of stock appreciation rights

The fair value of stock appreciation rights granted on November 20, 2009 determined using the Binomial Model was US$1.85 per right. The significant inputs into the model were fair value per share price of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0% stock appreciation rights life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of stock appreciation rights as at December 31, 2009 determined using the Binomial Model was US$2.06 per right. The significant inputs into the model were fair value per share price of US$3.63 at the grant date, exercise price shown above, volatility of 66.26%, dividend yield of 0% stock appreciation rights life of 9.89 years, and an annual risk-free interest rate of 3.923%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

After taking the Capitalization Issue into account, the fair value of stock appreciation rights granted on November 20, 2009 as of December 31, 2010 determined using the Binomial Model was US$0.11 per right. The significant inputs into the model were the fair value per share of US$0.22 as of December 31, 2010, the exercise price of US$0.13, volatility of 58.62%, dividend yield of 0%, stock appreciation rights life of 8.89 years and an annual risk-free interest rate of 3.15%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

On February 26, 2010, the Company granted 25,100 additional stock appreciation rights to certain employees of the Group. After taking the Capitalization Issue into account, the fair value of stock appreciation rights granted on February 26, 2010 as of December 31, 2010 determined using the Binomial Model was US$0.08 per right. The significant inputs into the model were the fair value per share of US$0.22 as of December 31, 2010, the exercise price of US$0.26, volatility of 58.62%, dividend yield of 0%, stock appreciation rights life of 9.16 years, and an annual risk-free interest rate of 3.15%.

15 SHARE PREMIUM AND OTHER RESERVES

(a) Group

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Share premium		
Ordinary shares	826,477	(61,429)
Series A preferred shares	—	400,878
	826,477	339,449
Capital reserve	(270)	(270)
Share option reserve	11,584	1,224
Safety fund reserve *(i)*	91,546	63,506
Currency translation reserve	(10,941)	—
Other reserves	91,919	64,460

(i) Safety fund reserve

Pursuant to certain relevant PRC laws and regulations, the Group is required to set aside a certain amount in proportion to its production income for the relevant year as safety fund reserve. As the Group has no legal or constructive obligation to pay out these amounts at point of recognition, the amount has been treated as an appropriation of reserves in the equity account. The fund can be used for improvements of safety at the oil exploration projects, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from the safety fund reserve to retained earnings.

(b) Company

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Share premium		
Ordinary shares	826,477	(61,429)
Series A preferred shares	—	400,878
	826,477	339,449
Capital reserve	1,366,956	1,366,912
Share option reserve	11,584	1,224
Currency translation reserve	(10,941)	—
	1,367,599	1,368,136

16 ASSET RETIREMENT OBLIGATIONS

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
At beginning of the year	6,978	4,624
Liabilities incurred *(Note 6)*	2,038	1,991
Accretion expenses	254	363
At end of the year	9,270	6,978

17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	5,378	6,480
Deferred tax assets to be recovered within 12 months	1,675	1,675
	7,053	8,155
Deferred tax liabilities:		
Deferred tax liabilities to be settled after more than 12 months	(12,789)	(92,170)
Deferred tax liabilities to be settled within 12 months	(2,958)	(2,385)
	(15,747)	(94,555)
Total — Deferred income tax liabilities — net	(8,694)	(86,400)

The gross movements in the deferred tax account are as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
At beginning of the year	(86,400)	(102,770)
Credited to the consolidated statement of comprehensive income	77,706	16,370
At end of the year	(8,694)	(86,400)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Asset retirement obligations	Provisions	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2009	1,156	2,468	13,146	16,770
Credited/(charged) to the consolidated statement of comprehensive income	588	(2,468)	(6,735)	(8,615)
At December 31, 2009	1,744	—	6,411	8,155
Credited/(charged) to the consolidated statement of comprehensive income	573	—	(1,675)	(1,102)
At December 31, 2010	2,317	—	4,736	7,053

Others include mainly the interest expenses incurred in 2007 that are tax deductible over six (6) years as allowed by the local tax authority.

Deferred tax liabilities

	Accelerated tax depreciation
	RMB'000
At January 1, 2009	(119,540)
Credited to the consolidated statement of comprehensive income	24,985
At December 31, 2009	(94,555)
Credited to the consolidated statement of comprehensive income	78,808
At December 31, 2010	(15,747)

18 TRADE AND OTHER PAYABLES

(a) Summary of trade and other payables

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Financial liabilities		
Current		
Trade payables	527,319	647,308
Amount due to related parties *(Note 29)*	616	—
Interest payable	1,244	459
Derivatives financial instrument premium payable *(Note 8)*	33,577	—
Other tax payable	22,728	40,820
Special oil levy *(Note 21)*	87,939	61,118
Other payables	45,306	38,647
Non-current		
Derivatives financial instrument premium payable *(Note 8)*	22,385	—
Trade payables	115,213	170,235
	856,327	958,587
Non-financial liabilities		
Current		
Salary and welfare payable *(i)*	56,408	20,283
Total	912,735	978,870
Total current	775,137	808,635
Total non-current	137,598	170,235
Total	912,735	978,870

(i) Stock appreciation rights liabilities of RMB21,260,000 (2009: RMB2,260,000) has been included in salaries and welfare payable for the year ended December 31, 2010 (Note 20).

(b) At December 31, 2009 and 2010, the ageing analysis of the trade and other payable based on invoice date is as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
< 6 months	608,245	707,559
6 months–1 year	212,457	50,246
1–2 years	50,232	202,667
2–3 years	35,305	12,219
> 3 years	6,496	6,179
Total	912,735	978,870

(c) The carrying amounts of trade and other payables are denominated in the following currencies:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Renminbi	850,813	978,369
United States Dollars	61,922	501
	912,735	978,870

The carrying amounts of trade and other payables approximate their fair values.

19 BORROWINGS

(a) Summary of borrowings

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Bank borrowings		
Non-current	1,191,862	1,242,963
Current	99,341	102,423
Total borrowings	1,291,203	1,345,386

In October 2007, MIE entered into a financing arrangement with Standard Bank for a bank facility of US$150 million (approximately RMB1,125 million) which reduced to zero in 2013. MIE utilized US$100 million (approximately RMB750 million) in 2007 and further drew down US$20 million (approximately RMB136 million) in August 2008. This revolving bank facility was amended on January 12, 2009 and the interest rate increased from LIBOR + 2.75% to LIBOR + 5.75%.

The Standard Bank loan was collateralized primarily by MIE's ordinary shares held by FEEL, assignment of MIE's bank account for collection of oil revenue, a charge over the debt service reserve account, the Group's share of entitlement under the PSCs, a fixed charge over the Group's property, plant and equipment and a floating charge over all present and future assets. The Group is required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility.

On July 28, 2009, MIE entered into a five-year US$200 million transferrable term loan and revolving credit facility with Citic Ka Wah Bank Limited and China CITIC Bank Corporation Limited Guangzhou Branch ("CITIC Facility"), primarily to repay the Standard Bank loan, fund the development oilfields and for general working capital purposes.

The CITIC Facility includes two long-term term loans and one short-term revolving facility, which can be converted into a term loan towards the end of the third year. The term loans do not require principal repayments for the first three years and the principal repayments are made starting from the 37th month. The term loans under the facility bear an interest rate of LIBOR plus 4.50% per annum. The facility contains the following financial covenants:

(a) the consolidated tangible net worth, subject to certain adjustments, will be not less than (i) RMB1.0 billion from 2009 to 2011 and (ii) RMB1.5 billion for 2012;

(b) the ratio of consolidated total borrowing to consolidated tangible net worth, subject to certain adjustments, will not exceed (i) 140% from 2009 to 2010 and (ii) 100% for 2011;

(c) the ratio of consolidated total borrowings to consolidated EBITDA (as defined in the credit facility agreement) will not exceed (i) 270%, from 2009 to 2010, (ii) 220% from 2011 to 2012 and (iii) 180% for 2013; and

(d) the total capital expenditure in any financial year will not exceed RMB1.0 billion.

Any failure to maintain these covenants could result in an acceleration of obligations under the CITIC Facility. As at December 31, 2010, the Company did not breach these loan covenants.

The CITIC Facility was secured primarily by 100% of the ordinary shares in MIE held by the Company, 51% of the ordinary shares in the Company held by FEEL and 51% of ordinary shares in FEEL, an assignment of the bank accounts for the collection of oil revenue, the Group's share of entitlement under the PSCs, a charge over the Group's debt service reserve account, and an assignment of the Group's interest in the Group's insurance policies. The Group is required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility.

MIE drew down US$122 million (RMB830 million) from the CITIC Facility on July 31, 2009 to repay the loan from Standard Bank. MIE further drew down US$78 million (RMB546 million) subsequently during the 2009 financial year. There is no unused facility as at December 31, 2009 and 2010.

On November 27, 2010, in connection with the Global Offering, the Group entered into a supplemental deed and other transaction documents relating to the CITIC Facility to restructure the financing arrangement with CITIC Bank International Limited (formerly the CITIC Ka Wah Limited) and CITIC Bank Guangzhou ("the lenders"). Pursuant to the restructuring documents,

i. the lenders agreed to release the share mortgages of 51% of the ordinary shares in the Company held by FEEL and 51% of the ordinary shares in FEEL held by shareholders of FEEL as security of the credit facility immediately before the Global Offering;

ii. the Company agreed to provide a corporate guarantee for MIE's obligations under the CITIC Facility contemporaneous with the release of the above mortgages;

iii. the Group agreed to procure FEEL to continue to be the largest shareholder of the Company, holding not less than 35% of the issued share capital in the Company, and maintain management control of the Company;

iv. the lenders agreed that, immediately upon the occurrence of the Global Offering, FEEL may dispose up to 7% of the Company's issued share capital held by FEEL either in or after the Global Offering;

v. the lenders also agreed to increase the capital expenditures allowable for 2011 from RMB1.0 billion to RMB1.288 billion.

The Group paid a waiver fee of US$6 million pursuant to the restructuring documents. The Group is required to pay a further waiver fee equal to 2.75% of the net amount received by FEEL from its sale of existing shares either in or after the Global Offering.

On December 14, 2010, the share mortgages of 51% of the ordinary shares in the Company held by FEEL and 51% of the ordinary shares in FEEL held by shareholders of FEEL as security of the credit facility were released and a corporate guarantee was provided by the Company concurrently with the release of the mortgages.

(b) The effective interest rates at the dates of the consolidated statements of financial position are as follows:

	As at December 31,	
	2010	**2009**
Effective interest rates on the borrowings	5.85%	6.56%

(c) The exposure of the Group's borrowings to contractual interest rate changes based on LIBOR + 4.5% at December 31, 2009 and LIBOR + 4.5% at December 31, 2010 are as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
< 1 year	99,341	102,423
1–2 years	529,816	—
2–5 years	662,046	1,242,963
Total borrowings	1,291,203	1,345,386

The fair value of the current and non-current portions of borrowings approximates their carrying amounts.

(d) The borrowings are denominated in US dollars.

20 EMPLOYEE COMPENSATION COSTS

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Wages, salaries and allowances	70,829	50,563
Housing subsidies	1,327	1,181
Share options granted	10,360	1,224
Stock appreciation rights granted *(Note 18)*	19,069	2,260
Welfare and other expenses	8,761	12,423
	110,346	67,651

(a) Directors' emoluments

Directors' emoluments for the year ended December 31, 2009 and 2010 are set out below:

Name of director	Wages, salaries and allowances	Housing subsidies	Share options granted	Welfare and other expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2009					
Zhang Ruilin	4,993	60	—	2	5,055
Zhao Jiangwei	4,521	40	—	2	4,563
Forrest Dietrich	2,820	1,771	312	—	4,903
Allen Mak	3,232	30	417	—	3,679
Sing Wang	—	—	—	—	—
					18,200
For the year ended December 31, 2010					
Zhang Ruilin	3,500	360	—	300	4,160
Zhao Jiangwei	4,692	240	—	200	5,132
Forrest Dietrich	2,537	259	2,836	—	5,632
Allen Mak	5,193	180	3,781	—	9,154
Sing Wang	—	—	—	—	—
					24,078

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2009 and 2010 are as follows:

	Year ended December 31,	
	2010	2009
Directors	4	4
Non-director individual	1	1

The details of emoluments paid to the five highest individuals who were directors of the Company during the years ended December 31, 2009 and 2010 have been included in Note (a) above. Details of emoluments paid to the remaining non-director individual are as follows:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Wages, salaries and allowances	4,022	1,710
Housing subsidies	—	15
Stock appreciation rights granted	2,836	110
	6,858	1,835

(c) During the financial year ended December 31, 2010, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

21 TAXES OTHER THAN INCOME TAXES

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Taxes other than income taxes	289,296	73,308

Taxes other than income taxes mainly represent a special oil levy which is paid or payable by petroleum exploration and development enterprises for the sales of domestic crude oil at a rate variable based on the oil prices. This levy was imposed by the PRC government and became effective from March 26, 2006.

22 OTHER LOSSES

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Net gain on forward foreign exchange contract	—	5,478
Loss on oil put option *(Note 8)*	(44,692)	(136,252)
Others	7,048	(350)
Total	(37,644)	(131,124)

The net gain on the forward foreign exchange contract results from the exchange rate between the US dollar and the RMB being less than the rate set in the contract resulting in a gain of RMB5,478,000 for 2009.

The net loss of the oil put option in the year ended December 31, 2009 and 2010 is due to the change in fair value of the unrealized portion of the oil put option.

23 FINANCE COSTS — NET

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Finance income		
Interest income from savings accounts	144	1,552
Exchange gain	35,200	—
Total finance income	35,344	1,552
Finance costs		
Interest expenses	86,777	56,498
Bank charges	11	88
Exchange loss	—	2,246
Total finance costs	86,788	58,832
Finance costs — net	51,444	57,280

24 INCOME TAX EXPENSE

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Current income tax	239,411	89,832
Deferred income tax	(77,706)	(16,370)
	161,705	73,462

The Company is an exempted company incorporated in the Cayman Islands. Under the laws of Cayman Islands, the Company is not subject to tax on income or capital gain.

Corporate income tax for its operation in China is provided on the basis of statutory profit for financial reporting purposes as defined by the PRC tax authorities, adjusted for income and expense items which are not assessable or deductible for income tax purposes. In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is 25% for years ended December 31, 2009 and 2010.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the corporate income tax rate in the PRC applicable to the Group:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Profit before income tax	582,569	183,939
Statutory tax rates	25%	25%
Tax calculated at the statutory tax rates	145,642	45,985
Tax effect of income not subject to tax	—	(738)
Expenses not deductible for tax purposes	17,115	35,394
Prior year tax filling adjustments	(736)	(7,179)
Additional-deduction for research and development expenses	(316)	—
Tax charge	161,705	73,462

PRC tax regulations require tax to be assessed on activities that are undertaken, executed or managed in the PRC. During the relevant period oil put option gains and losses were not subjected to or deductible for income tax in PRC.

25 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB217,597,000 (2009: RMB338,501,000)

26 EQUITY DISTRIBUTIONS

On July 7, 2009, MIE declared non-cash deemed dividend distribution to the Company amounting to US$50 million (equal to RMB341,630,000) and the Company declared a non-cash deemed dividend distribution to FEEL amounting to US$50 million (equal to RMB341,615,000). The non-cash deemed dividend distribution to FEEL was off-set against the outstanding balance of the amount due from FEEL.

On March 7, 2010, the Company declared a cash dividend of US$20 million (RMB136,532,000) in favour of all the shareholders of the Company and the dividend was paid on March 9, 2010.

On April 9, 2010, the Board ratified the March 31, 2010 non-cash deemed dividend of US$11.9 million to FEEL, as allowed by the Fourth Amended and Restated Memorandum and Articles of Association of the Company and the Shareholders Agreement, as the non-cash deemed dividend was used to settle the outstanding receivables from FEEL and did not exceed US$12 million allowed under the Shareholders Agreement.

A dividend in respect of the year ended December 31, 2010 of HK$0.035 per share, amounting to a total dividend of HK$92,447,000 (RMB77,933,000), is to be proposed at the annual general meeting on May 6, 2011. These financial statements do not reflect this dividend payable.

27 CASH GENERATED FROM OPERATING ACTIVITIES

	Year ended December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Profit before income tax	582,569	183,939
Adjustments for:		
Depreciation, depletion and amortization	528,582	445,824
Interest expenses — net *(Note 23)*	86,633	54,946
Unrealized foreign exchange (gain)/loss	(35,200)	2,246
Fair value loss on oil put option	44,692	207,243
Fair value gain on foreign exchange contract	—	(25,240)
Changes in working capital:		
Inventories	41,023	(22,170)
Trade and other receivables	86,426	(226,528)
Trade and other payables	9,509	(581,629)
Cash generated from operations	1,344,234	38,631

28 COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Group does not have any capital expenditure contracted for at the date of the consolidated statement of financial position.

The Group has operating lease commitments related to its non-cancellable operating leases for offices. The future aggregate minimum lease payments under these operating leases are as follows:

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
< 1 years	1,296	—
1–2 year	1,500	—
	2,796	—

Lease expenses for the year ended December 31, 2010 relates to office and car rental of RMB6,591,000 (2009: RMB7,777,000).

(b) Contingencies

On August 28, 2000, MIE entered into a PSC with Sinopec for exploration and development of Luojiayi 64 block at Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at Luojiayi 64 block at Shengli and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at Shengli. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment of at least US$2 million under the PSC. MIE believes its investment in the project at Luojiayi 64 block at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings.

29 RELATED PARTY TRANSACTIONS

The Group is controlled by FEEL, which owns 53.56% of the Company's shares and is also the ultimate parent of the Group. The ultimate controlling parties of the Group are Mr. Zhang Ruilin and Mr. Zhao Jiangwei.

The remaining 46.44% of the shares are held by TPG (8.02%), Harmony Energy (8.99%), TPG LLC (0.72%) and other public shareholders.

(a) The following transactions and balances were carried out with related parties:

	Year ended December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Transactions with PSC partners		
Global Oil Corporation		
Amounts received on behalf of GOC arising from the PSCs	202,256	112,288
Loan granted to GOC	91,586	21,733
Cost incurred on behalf of GOC from PSCs	146,211	95,631
PetroChina		
Sales to PetroChina	1,804,976	1,166,827
Cost incurred on behalf of PetroChina from PSCs	140,062	107,952
Transactions with a company/person related to the controlling shareholder of FEEL		
*Jilin Guotai Petroleum Development Company**		
Purchases of materials and spare parts	525	324
Purchases of oil well services	108,631	77,318
Rental of vehicles	2,298	3,613
Zhao Jiangbo		
Rental of office premise	1,126	1,308
Rental of vehicles	3,276	4,344

* The amounts disclosed above represents gross amount transacted between the MIE, acting as operator for the 3 oilfields in Jilin, with the related companies. Jilin Guotai Petroleum Development Company is controlled by Zhao Jiangbo, spouse Mr. Zhang Ruilin.

(b) Amounts due from related parties included in trade and other receivables:

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Amounts due from related companies and PSC partners		
Current		
United Petroleum USA, LLC* (non-trade) *(Note 9)*	—	1,569
Global Oil Corporation (non-trade) *(Note 9)*	137,590	55,901
PetroChina (trade) *(Note 9)*	170,984	212,152
PetroChina (non-trade) *(Note 9)*	33,225	17,968
	341,799	287,590
Non-current		
Global Oil Corporation (non-trade) *(Note 9)*	24,212	70,360
	366,011	357,950
Advance to Supplier		
Jilin Guotai Petroleum Development Company (trade) *(Note 9)*	45,283	38,673

* United Petroleum USA, LLC is a fellow subsidiary of the Company and the Group paid miscellaneous fees on its behalf in the United States. The amount has been repaid during the year.

The above balances represent trade and unbilled receivables from PetroChina from sale of crude oil to PetroChina pursuant to the PSCs, advances to related companies which arise mainly from amounts received on behalf of the other PSC partners, expenditures incurred by the Group on behalf of other PSC partners pursuant to the PSCs, and purchase transactions with related parties.

(c) Amounts due to related companies included in trade and other payables:

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Amounts due to other related parties		
Zhao Jiangbo (non-trade) *(Note 18)*	616	—

The above balance with Zhao Jiangbo, spouse of controlling shareholder of FEEL, arose from rental of vehicles and office premises.

(d) Amounts due from FEEL:

	As at December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Amount due from FEEL (non-trade) *(Note 12)*	—	81,074

The amount as at December 31, 2009 is unsecured and interest free. The amount due from FEEL as at December 31, 2009 was settled on March 31, 2010 by non-cash deemed dividend of US$11.9 million *(Note 12 and Note 26)*.

(e) Guarantee given in favour of a related party

In 2009, MIE pledged RMB29.4 million to a bank to provide a guarantee of a bank loan to the same related party. The pledged deposit has subsequently been released in September 2009.

(f) Key management compensation is presented below:

	Year ended December 31,	
	2010	**2009**
	RMB'000	**RMB'000**
Expenses		
Short-term benefits:		
— Salaries	21,032	10,457
— Bonuses	6,675	7,842
— Share options and share appreciation rights granted	15,937	180
— Benefits in-kind	2,021	439
Total	45,665	18,918
Accrued liability		
Short-term benefits:		
— Bonuses	6,675	7,843
	6,675	7,843

Bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

30 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Net profit attributable to equity holders of the Company	420,864	110,477
Adjustment for:		
Dividends entitled by Series A preferred shares	(82,823)	(10,311)
Dividends entitled by Series B preferred shares	(48,082)	—
	289,959	100,166
Weighted average number of ordinary shares (thousands)	1,538,264	1,800,339
Earnings per share, Basic (RMB per share)	0.19	0.06

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Prior to Company's Global Offering on December 14, 2010, the Company had two categories of dilutive potential ordinary shares: convertible preferred shares and share options. The convertible preferred shares are assumed to be converted into ordinary shares at the later of, beginning of the relevant year or date of issuance. For share options, a calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. Subsequent to the Company's Global Offering, the Company only has share options outstanding which are potentially dilutive.

The number of ordinary shares calculated as above for earnings per share, basic is increased by the number of ordinary shares that would have been issued assuming the exercise of the share options and conversion of preferred shares at the later of, beginning of the relevant year or date of issuance.

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Net profit attributable to equity holders of the Company	420,864	110,477
Net profit used to determine diluted earnings per share	420,864	110,477
Weighted average number of ordinary shares (thousands)	1,538,264	1,800,339
Adjustments for:		
— Assumed conversion of convertible preferred shares (thousands)	684,284	198,812
— Share options (thousands)	9,919	471
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	2,232,467	1,999,622
Earnings per share, Diluted (RMB per share)	0.19	0.06

31 SUBSEQUENT EVENTS

(a) Incorporation of subsidiaries

On February 8, 2011, Palaeontol Coöperatief U.A. was incorporated in the Netherlands as a cooperative with no liability with 99% held by MIE New Ventures Corporation and 1% held by MIE.

On February 11, 2011, Palaeontol B.V. was incorporated in the Netherlands as an investment holding company with limited liability and wholly owned by Palaeontol Coöperatief U.A.. The authorized share capital of the Palaeontol B.V. is 90,000 euros and is divided into 90,000 ordinary shares of one euro each.

(b) Acquisition of participating interest in oilfield in Kazakhstan

On February 14, 2011, Palaeontol B.V. ("the Purchaser"), a wholly-owned subsidiary of the Company, entered into a purchase agreement with BMB Munai, Inc. ("the Seller"), which is a Nevada corporation listed on the American Stock Exchange and an independent third party, pursuant to which the Purchaser conditionally agreed to acquire all right, title and interest relating to certain oilfields in Kazakhstan held by Emir-Oil LLC ("Target Company") and all right, title and interest in and to the loans made by the Seller to the Target Company for an aggregate consideration of US$170 million (subject to adjustment). The closing of the transaction is subject to the fulfilment of a number of conditions precedents.

The Company has granted Acap Limited, which is providing general consulting services to the Company in relation to above acquisition, a right to co-invest with the Company or its associates for up to 9.9% of the assets acquired in the acquisition, on the same term and condition under the Purchase Agreement within 36 months from the closing of the transaction. The Company also agreed to pay certain fees to Acap Limited, including a monthly retainer and a success fee equating to 2.5% of the consideration payable on closing date and, in the event that the Seller or its affiliates fail to consummate the acquisition with the Company or its affiliates, a break-up fee equating to 10% of any fees or compensation received or to be received by the Company.

(c) Proposed dividend

A dividend in respect of the year ended December 31, 2010 of HK$0.035 per share, amounting to a total dividend of HK$92,447,000 (RMB77,933,000) is to be proposed at the annual general meeting on May 6, 2011. These financial statements do not reflect this dividend payable (Note 26).

REGISTERED OFFICE AND HEAD OFFICE OF THE ISSUER

Registered Office

P.O. Box 309
Ugland House
Grand Cayman,
KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong

Level 28
Three Pacific Place
1 Queen's Road East
Hong Kong

TRUSTEE

Citicorp International Limited
50th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

THE PAYING AGENT

Citibank, N.A., London Branch
21st Floor, Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB

LEGAL ADVISORS TO THE ISSUER

As to Hong Kong and United States law:
Latham & Watkins
18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

As to PRC law:
Zhong Lun Law Firm
36th–37th Floor, SK Tower
6A Jianguomenwai Avenue
Beijing 100022
China

As to Cayman Islands law and BVI law:
Maples and Calder
53rd Floor, The Center
99 Queen's Road
Central
Hong Kong

As to Kazakhstan law:
GRATA Law Firm
104, M. Ospanov Street
Almaty, Kazakhstan

As to Dutch law:
De Brauw Blackstone Westbroek N.V.
Claude Debussylaan 80
1082 MD Amsterdam
The Netherlands

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to United States law:
White & Case
9th Floor, Central Tower
28 Queen's Road Central
Hong Kong

As to Kazakhstan law:
White & Case Kazakhstan LLP
Park View Office Tower
77 Kunaeva Street
Almaty 050000
Kazakhstan

As to PRC law:
Jingtian & Gongcheng
34th Floor, Tower 3,
China Central Place
77 Jianguo Road
Beijing
China

LEGAL ADVISORS TO THE TRUSTEE

As to New York law:
Jones Day
3 Church Street
14-02 Samsung Hub
Singapore 049483

AUDITORS AND REPORTING ACCOUNTANTS

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

US$200,000,000

MIE HOLDINGS CORPORATION

(incorporated in Cayman Islands with limited liability)

6.875% Senior Notes due 2018

Offering Price: 100%

OFFERING MEMORANDUM

January 30, 2013