**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 8-K

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): February 27, 2008**

# CVR ENERGY, INC.

(Exact name of registrant as specified in its charter)

| **Delaware** | **001-33492** | **61-1512186** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification Number) |

**2277 Plaza Drive, Suite 500**
**Sugar Land, Texas 77479**
(Address of principal executive offices)

**Registrant's telephone number, including area code: (281) 207-3200**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02. Results of Operations and Financial Condition.**

On February 27, 2008, CVR Partners, LP (the “Partnership”), a consolidated affiliate of CVR Energy, Inc. (the “Company”), issued a press release announcing that the Partnership had filed a registration statement on Form S-1 with the Securities and Exchange Commission on February 27, 2008 (the “Registration Statement”) for an initial public offering of common units representing limited partner interests in the Partnership. The Registration Statement contains information regarding the results of operations and financial condition of the Company’s nitrogen fertilizer business, which is owned and operated by the Partnership, for the 174 days ended June 23, 2005, the 191 days ended December 31, 2005, the year ended December 31, 2006, and the year ended December 31, 2007.

A copy of the press release issued by the Partnership is attached hereto as Exhibit 99.1. Additionally, two sections from the Registration Statement that include information regarding the results of operations and financial condition of the Company’s nitrogen fertilizer business are attached hereto as exhibits. The “Consolidated Financial Statements” included in the Registration Statement are attached as Exhibit 99.2, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Registration Statement is attached as Exhibit 99.3.

The information in Item 2.02 of this Current Report on Form 8-K and Exhibits 99.1, 99.2 and 99.3 attached hereto are being furnished pursuant to Item 2.02 of Form 8-K and shall not, except to the extent required by applicable law or regulation, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

**Item 9.01. Financial Statements and Exhibits.**

99.1 Press release, dated February 27, 2008 issued by CVR Partners, LP pertaining to the filing of the registration statement on Form S-1 of CVR Partners, LP dated February 27, 2008.

99.2 Consolidated Financial Statements included in the registration statement on Form S-1 of CVR Partners, LP dated February 27, 2008.

99.3 Management's Discussion and Analysis of Financial Condition and Results of Operations included in the registration statement on Form S-1 of CVR Partners, LP dated February 27, 2008.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 28, 2008

CVR ENERGY, INC.

By: /s/ Edmund S. Gross
Edmund S. Gross
Senior Vice President, General Counsel and Secretary

EXHIBIT INDEX

| Exhibit No. | Title |
| --- | --- |
| 99.1 | Press release, dated February 27, 2008 issued by CVR Partners, LP pertaining to the filing of the registration statement on Form S-1 of CVR Partners, LP, dated February 27, 2008. |
| 99.2 | Consolidated Financial Statements included in the registration statement on Form S-1 of CVR Partners, LP dated February 27, 2008. |
| 99.3 | Management's Discussion and Analysis of Financial Condition and Results of Operations included in the registration statement on Form S-1 of CVR Partners, LP dated February 27, 2008. |

**Exhibit 99.1**

**CVR PARTNERS, LP FILES REGISTRATION STATEMENT**
**WITH SEC FOR PROPOSED INITIAL PUBLIC OFFERING**

**SUGAR LAND, Texas (Feb. 27, 2008)** — CVR Partners, LP today announced that it has filed a registration statement with the Securities and Exchange Commission relating to the proposed initial public offering of its common units. All common units to be sold will be offered by CVR Partners, LP.

Copies of the preliminary prospectus relating to this offering may be obtained, when available, by contacting CVR Partners, LP, Attn: Investor Relations, 2277 Plaza Drive, Suite 500, Sugar Land, Texas 77479.

A registration statement relating to the securities has been filed with the Securities and Exchange Commission but has not yet become effective. The securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This news release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any state or jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

**About CVR Partners, LP**
Headquartered in Sugar Land, Texas, CVR Partners, LP owns Coffeyville Nitrogen Fertilizers, LLC which operates an ammonia and urea ammonium nitrate fertilizer business located in Coffeyville, Kan.

####

For further information, please contact:


| **Investor Relations:** | **Media Relations:** |
|---|---|
| Stirling Pack, Jr. | Steve Eames |
| CVR Energy, Inc. | CVR Energy, Inc. |
| 281-207-3464 | 281-207-3550 |
| InvestorRelations@CVREnergy.com | MediaRelations@CVREnergy.com |


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**CVR Partners, LP**

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## UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma consolidated statement of operations of CVR Partners, LP for the year ended December 31, 2007 has been derived from the audited consolidated statement of operations of CVR Partners, LP for the year ended December 31, 2007. The unaudited pro forma consolidated balance sheet at December 31, 2007 has been derived from the audited consolidated balance sheet of CVR Partners, LP at December 31, 2007.

Each of the pro forma consolidated statement of operations for the year ended December 31, 2007 and the pro forma consolidated balance sheet as of December 31, 2007 has been adjusted to give effect to the transactions described in note 1 to the unaudited consolidated pro forma financial statements.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the results that we would have achieved had the transactions described herein actually taken place at the dates indicated, and do not purport to be indicative of future financial position or operating results. The unaudited pro forma consolidated financial statements should be read in conjunction with the audited consolidated financial statements of CVR Partners, LP, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The pro forma adjustments are based on available information and certain assumptions that we believe are reasonable. The pro forma adjustments and certain assumptions are described in the accompanying notes.

## CVR Partners, LP

## Unaudited Pro Forma Consolidated Balance Sheet
## As of December 31, 2007

| | Year Ended December 31, 2007 | Pro Forma Adjustments | Pro Forma Year Ended December 31, 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 14,471,901 | $ (16,613,652)(a) | $ 72,426,728 |
| | | 2,142,301 (a) | |
| | | 105,000,000 (b) | |
| | | (11,600,000)(c) | |
| | | (2,525,000)(d) | |
| | | (18,448,822)(e) | |
| | | 2,816,631 (f) | |
| | | (2,816,631)(f) | |
| Accounts receivable, net of allowance for doubtful accounts of $14,619 | 2,816,631 | (2,816,631)(f) | — |
| Inventories | 16,153,467 | | 16,153,467 |
| Due from affiliate | 2,142,301 | (2,142,301)(a) | — |
| Prepaid expenses and other current assets | 1,068,225 | 841,667 (d) | 1,909,892 |
| Insurance receivable | 139,346 | | 139,346 |
| Total current assets | 36,791,871 | 53,837,562 | 90,629,433 |
| Property, plant, and equipment, net of accumulated depreciation | 352,013,053 | | 352,013,053 |
| Intangible assets, net | 81,492 | | 81,492 |
| Goodwill | 40,968,463 | | 40,968,463 |
| Other long-term assets | — | 1,683,333 (d) | 1,683,333 |
| Total assets | $ 429,854,879 | $ 55,520,895 | $ 485,375,774 |
| **LIABILITIES AND PARTNERS' CAPITAL** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 7,778,741 | $ | $ 7,778,741 |
| Personnel accruals | 1,370,816 | | 1,370,816 |
| Deferred revenue | 13,161,103 | | 13,161,103 |
| Accrued expenses and other current liabilities | 6,971,504 | | 6,971,504 |
| Total current liabilities | 29,282,164 | — | 29,282,164 |
| Long-term liabilities: | | | |
| Deferred income taxes | 32,500 | | 32,500 |
| Other accrued long-term liabilities | 46,986 | | 46,986 |
| Total long-term liabilities | 79,486 | — | 79,486 |
| Commitments and contingencies | — | — | — |
| Partners' capital: | | | |
| Special GP units, 30,303,000 units issued and outstanding at December 31, 2007 | 396,242,212 | (16,597,038)(a) | — |
| | | (18,430,373)(e) | |
| | | (361,214,801)(g) | |
| Special LP units, 30,333 units issued and outstanding at December 31, 2007 | 396,638 | (16,614)(a) | — |
| | | (18,449)(e) | |
| | | (361,575)(g) | |
| Managing general partner interest | 3,854,379 | (3,854,379)(h) | — |
| Total partners' capital | $ 400,493,229 | $ (400,493,229) | $ — |
| **PRO FORMA PARTNERS' CAPITAL** | | | |
| Unitholders' equity: | | | |
| Equity held by public: | | | |
| Common units: 5,250,000 common units issued and outstanding | — | 105,000,000 (b) | 93,400,000 |
| | | (11,600,000)(c) | |
| Equity held by general partners: | | | |
| GP units: 18,750,000 GP units issued and outstanding | — | (1,521,628)(f) | 193,812,736 |
| | | 195,334,364 (g) | |
| Subordinated GP units: 16,000,000 subordinated GP units issued and outstanding | — | (1,295,003)(f) | 164,947,009 |
| | | 166,242,012 (g) | |
| Managing general partner interest | — | 3,854,379 (h) | 3,854,379 |
| Total pro forma partners' capital | — | 456,014,124 | 456,014,124 |
| Total liabilities and partners' capital | $ 429,854,879 | $ 55,520,895 | $ 485,375,774 |

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

## CVR Partners, LP

## Unaudited Pro Forma Consolidated Statement of Operations
## For the Year Ended December 31, 2007

| | Actual Year Ended December 31, 2007 | Pro Forma Adjustments | Pro Forma Year Ended December 31, 2007 |
|---|---|---|---|
| Net sales | $ 187,449,468 | $ | $ 187,449,468 |
| Operating costs and expenses: | | | |
| Cost of product sold (exclusive of depreciation and amortization) | 33,095,121 | 2,472,506 (i) | 35,567,627 |
| Direct operating expenses (exclusive of depreciation and amortization) | 66,662,894 | | 66,662,894 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 20,382,918 | (160,446) (j) | 20,222,472 |
| Net costs associated with flood | 2,431,957 | — | 2,431,957 |
| Depreciation and amortization | 16,819,147 | — | 16,819,147 |
| Total operating costs and expenses | 139,392,037 | 2,312,060 | 141,704,097 |
| Operating income | 48,057,431 | (2,312,060) | 45,745,371 |
| Other income (expense): | | | |
| Interest expense and other financing costs | (23,598,544) | 23,584,600 (j)<br>(841,667)(k) | (855,611) |
| Interest income | 270,162 | (252,697)(j) | 17,465 |
| Gain (loss) on derivatives | (456,583) | 456,583 (j) | — |
| Loss on extinguishment of debt | (177,653) | 177,653 (j) | — |
| Other income | 61,604 | — | 61,604 |
| Total other income (expense) | (23,901,014) | 23,124,472 | (776,542) |
| Income before income taxes | $ 24,156,417 | $ 20,812,412 | $ 44,968,829 |
| Income tax expense | 29,500 | — | 29,500 |
| Net income | $ 24,126,917 | $ 20,812,412 | $ 44,939,329 |
| Pro forma net income information: | | | |
| Net income allocated to common units | $ 5,277,763 | | $ 7,875,000 |
| Net income allocated to GP units | 18,849,154 | | 28,125,000 |
| Net income allocated to subordinated GP units | — | | 8,939,329 |
| Net income allocated to managing general partner | — | | — |
| Basic and diluted net income per common unit | $ 1.01 | | $ 1.50 |
| Basic and diluted net income per GP unit | $ 1.01 | | $ 1.50 |
| Basic and diluted net income per subordinated GP unit | — | | $ 0.56 |

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

**CVR Partners, LP**

**NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

### (1) Basis of Presentation

The unaudited pro forma consolidated financial statements have been prepared based upon the audited consolidated financial statements of CVR Partners, LP (the Partnership). The audited consolidated financial statements of CVR Partners, LP include the historical financial statements of Coffeyville Resources Nitrogen Fertilizers, LLC (CRNF).

The unaudited pro forma consolidated financial statements are not necessarily indicative of the results that the Partnership would have achieved had the transactions described herein actually taken place at the dates indicated, and do not purport to be indicative of future financial position or operating results. The unaudited pro forma consolidated financial statements should be read in conjunction with the historical consolidated financial statements of CVR Partners, LP, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The pro forma adjustments have been prepared as if the transactions described below had taken place on December 31, 2007, in the case of the pro forma balance sheet, or as of January 1, 2007, in the case of the pro forma statement of operations.

The unaudited pro forma consolidated financial statements reflect the following transactions:

- the effectiveness of the Partnership's second amended and restated agreement of limited partnership;
- the Partnership's entering into the coke supply agreement;
- the distribution by the Partnership of all of its cash on hand immediately prior to the completion of the initial public offering to the Partnership's special general partner (for purposes of the pro forma balance sheet at December 31, 2007, this amount is limited to the cash on hand at December 31, 2007 of $14.5 million, exclusive of petty cash), including the settlement of net intercompany balances at the time of such distribution;
- the Partnership's entering into a new – year revolving secured credit facility, with no principal amount expected to be drawn upon the closing of the initial public offering, and the Partnership's payment of financing fees of approximately $2.5 million related thereto;
- the distribution of approximately $18.4 million to reimburse CRLLC for certain capital expenditures it made on the Partnership's behalf prior to October 24, 2007;
- the collection of existing net accounts receivable and subsequent distribution of the related cash to the Partnership's special general partner;
- the contribution of 30,333 special LP units held by Coffeyville Resources, LLC (CRLLC) to CVR Special GP, LLC, the Partnership's special general partner;
- the conversion of 30,303,000 special GP units and 30,333 special LP units held by the Partnership's special general partner into 18,750,000 GP units and 16,000,000 subordinated GP units;
- the Partnership's issuance and sale of 5,250,000 common units to the public in the initial public offering, at an assumed initial public offering price of $20.00 per common unit, and the use of proceeds thereof;
- the payment by the Partnership of estimated underwriting commissions and other offering expenses in the aggregate amount of $11.6 million; and

- the Partnership's release from its guarantees under CRLLC's credit facility and swap agreements with J. Aron.

In addition to the coke supply agreement described above, for which the Partnership has made a pro forma adjustment to its cost of product sold, the Partnership has also entered into a services agreement, feedstock and shared services agreement, environmental agreement and raw water and facilities sharing agreement with CVR Energy, Inc. (CVR Energy). However, the Partnership has determined that the pro forma effect that these four agreements would have had if they had been in place as of January 1, 2007 is not material to its unaudited pro forma consolidated financial statements, and therefore no pro forma adjustment has been made for these agreements.

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2007 also assumes that CVR Partners, LP was in existence as a stand-alone entity during such period.

Upon completion of this offering, the Partnership anticipates incurring incremental general and administrative expenses as a result of being a publicly traded limited partnership, such as costs associated with SEC reporting requirements, including annual and quarterly reports to unitholders, tax return and Schedule K-1 preparation and distribution, independent auditor fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and director compensation. The Partnership estimates that these incremental general and administrative expenses will approximate $2.5 million per year. The Partnership's unaudited pro forma consolidated financial statements do not reflect this $2.5 million in incremental expense.

### (2) Partnership Interests

In connection with the Partnership's initial public offering, CRLLC will contribute all of its special LP units to the Partnership's special general partner and all of the Partnership's special general partner interests and special limited partner interests will be converted into a combination of GP units and subordinated GP units. Following the initial public offering, the Partnership will have five types of partnership interests outstanding:

- common units representing limited partner interests, all of which the Partnership will sell in the initial public offering (approximately 13% of all of the Partnership's outstanding units);
- GP units representing special general partner interests, all of which will be held by the Partnership's special general partner (approximately 47% of all of the Partnership's outstanding units);
- subordinated GP units representing special general partner interests, all of which will be held by the Partnership's special general partner (40% of all of the Partnership's outstanding units);
- incentive distribution rights representing limited partner interests, all of which will be held by the Partnership's managing general partner; and
- a managing general partner interest, which is not entitled to any distributions, which is held by the Partnership's managing general partner.

Holders of the subordinated GP units will be entitled to receive quarterly cash distributions only after the common units and GP units have received the minimum quarterly distribution plus any cash distribution arrearages from prior quarters. Additionally, the Partnership's subordinated GP units will

CVR Partners, LP

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL STATEMENTS — (Continued)

not accrue arrearages. The subordination period will end if the Partnership meets the financial tests described in the partnership agreement.

### (3) Pro Forma Adjustments and Assumptions

(a) Reflects the distribution by the Partnership of all cash on hand immediately prior to the completion of the initial public offering to the Partnership's special general partner. For purposes of the pro forma balance sheet at December 31, 2007, this amount is limited to the cash on hand at December 31, 2007 of $14.5 million, exclusive of petty cash. The Partnership estimates that the actual amount to be distributed upon the closing of the initial public offering will be $40.0 million. Also reflects the settlement of the Partnership's $2.1 million due from affiliate in cash and distribution of this cash to the Partnership's special general partner.

(b) Reflects the assumed gross proceeds to us of $105.0 million from the issuance and sale of 5,250,000 common units at an assumed initial offering price of $20.00 per unit.

(c) Reflects the payment of underwriting commissions of $7.4 million and other estimated offering expenses of $4.2 million for a total of $11.6 million which will be allocated to the common units.

(d) Reflects estimated deferred debt issuance costs of $2.5 million associated with the new -year $ million revolving secured credit facility.

(e) Reflects the distribution of approximately $18.4 million to reimburse CRLLC for certain capital expenditures it made on the Partnership's behalf prior to October 24, 2007.

(f) Reflects the collection of existing net accounts receivable and subsequent distribution of the related cash to the Partnership's special general partner.

(g) Represents the conversion of special GP units and special LP units into GP units and subordinated GP units. The conversion is as follows:

- 18,715,250 GP units for 16,336,573 special GP units;
- 16,000,000 subordinated GP units for 13,966,427 special GP units; and
- 34,750 GP units for 30,333 special LP units.

(h) Reflects the transfer of the partner's capital associated with the managing general partner interest from partners' capital to pro forma partners' capital.

(i) Reflects an adjustment associated with the coke supply agreement between us and CVR Energy as if it were effective as of January 1, 2007.

(j) Represents the reversal of CVR Energy's allocation to the Partnership of interest expense and other financing costs ($23,584,600), selling, general and administrative expenses (exclusive of depreciation and amortization) related to bank fees ($160,446), interest income ($252,697), loss on extinguishment of debt ($177,653) and loss on derivatives ($456,583) for the year ended December 31, 2007. We assume that on a pro forma basis the Partnership would have incurred no debt nor entered into any derivative transactions during the year ended December 31, 2007. This assumption is based on the fact that the Partnership had no debt as of December 31, 2007 and does not intend to draw upon its new revolving secured credit facility in connection with the closing of this offering. During the period October 24, 2007 to December 31, 2007 the Partnership accrued a small amount of interest ($13,944) on intercompany balances to CVR Energy that has not been reversed.

(k) Represents the portion of the financing fees for the Partnership's new revolving secured credit facility that would have been amortized during the year ended December 31, 2007.

### (4) Pro Forma Net Income Per Unit

Pro forma net income per unit is determined by dividing the pro forma net income that would have been allocated, in accordance with the provisions of the Partnership's partnership agreement, to the common, GP and subordinated GP unitholders, by the number of common, GP and subordinated GP units expected to be outstanding at the closing of this offering. For purposes of this calculation, the Partnership assumed that pro forma distributions were equal to pro forma net income and that the number of units outstanding was 5,250,000 common, 18,750,000 GP and 16,000,000 subordinated GP units. All units were assumed to have been outstanding since January 1, 2007. No effect has been given to 787,500 common units that might be issued in this offering by the Partnership pursuant to the exercise by the underwriters of their option. The Partnership's partnership agreement provides that, during the subordination period (as described below), the common units and GP units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.375 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units and GP units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated GP units. These units are deemed "subordinated" because for a period of time, referred to as the subordination period, the subordinated GP units will not be entitled to receive any distributions until the common units and GP units have received the minimum quarterly distribution plus any arrearages from prior quarters. Furthermore, no arrearages will be paid on the subordinated GP units during the subordination period.

It is assumed that for the year ended December 31, 2007, common unit and GP units would have received an annual distribution of $1.01 per common unit and GP unit. Subordinated GP unitholders would have received no distribution of distributable earnings. Basic and diluted pro forma net income per unit are equivalent as there are no dilutive units at the date of closing of this offering.

Pursuant to the partnership agreement, to the extent that the quarterly distributions exceed certain targets, the holders of the IDRs are entitled to receive certain incentive distributions that will result in more net income proportionately being allocated to the holders of the IDRs than to the holders of common, GP and subordinated GP units. The pro forma net income per unit calculations assume that no incentive distributions were made to the holders of the IDRs because no such distribution would have been paid based upon the contractual limitation set forth in the partnership agreement which provides that no distributions will be made in respect of the IDRs until the Partnership has made cash distributions in an aggregate amount equal to the adjusted operating surplus during the period from the closing of the Partnership's initial public offering through December 31, 2009.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors
CVR GP, LLC
The Managing General Partner of CVR Partners, LP:

We have audited the accompanying consolidated balance sheets of CVR Partners, LP and subsidiary (the Successor), as of December 31, 2006 and 2007 and the related statements of operations, partners' capital/divisional equity, and cash flows for Coffeyville Resources Nitrogen Fertilizer, LLC (the Immediate Predecessor) for the 174-day period ended June 23, 2005 and for the Successor, for the 233-day period ended December 31, 2005 and for the years ended December 31, 2006 and 2007, as discussed in note 1 to the consolidated financial statements. These consolidated financial statements are the responsibility of the Successor's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CVR Partners, LP and subsidiary as of December 31, 2006 and 2007, and the results of the Immediate Predecessor's operations and its cash flows for the 174-day period ended June 23, 2005 and the results of the Successor's operations and its cash flows for the 233-day period ended December 31, 2005 and for the years ended December 31, 2006 and 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, effective June 24, 2005, the Successor acquired the net assets of the Immediate Predecessor in a business combination accounted for as a purchase. As a result of this acquisition, the consolidated financial statements for the periods after the acquisition are presented on a different cost basis than that for the period before the acquisition and, therefore, are not comparable.

/s/ KPMG LLP

Kansas City, Missouri
February 26, 2008

**CVR Partners, LP**

**CONSOLIDATED BALANCE SHEETS**

| | Successor | |
|---|---|---|
| | **December 31, 2006** | **December 31, 2007** |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 550 | $ 14,471,901 |
| Accounts receivable, net of allowance for doubtful accounts of $42,816 and $14,619, respectively | 3,321,253 | 2,816,631 |
| Inventories | 14,103,758 | 16,153,467 |
| Due from affiliate | — | 2,142,301 |
| Prepaid expenses and other current assets | 589,732 | 1,068,225 |
| Insurance receivable | — | 139,346 |
| Total current assets | 18,015,293 | 36,791,871 |
| Property, plant, and equipment, net of accumulated depreciation | 357,044,252 | 352,013,053 |
| Intangible assets, net | 100,655 | 81,492 |
| Goodwill | 40,968,463 | 40,968,463 |
| Total assets | $ 416,128,663 | $ 429,854,879 |
| **LIABILITIES AND PARTNERS' CAPITAL/DIVISIONAL EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 6,162,938 | $ 7,778,741 |
| Personnel accruals | 2,686,495 | 1,370,816 |
| Deferred revenue | 8,812,350 | 13,161,103 |
| Accrued expenses and other current liabilities | 805,715 | 6,971,504 |
| Total current liabilities | 18,467,498 | 29,282,164 |
| Long-term liabilities: | | |
| Deferred income taxes | 27,500 | 32,500 |
| Other accrued long-term liabilities | — | 46,986 |
| Total long-term liabilities | 27,500 | 79,486 |
| Commitments and contingencies | | |
| Partners' capital/divisional equity: | | |
| Divisional equity | 397,633,665 | — |
| Special GP unitholders, 30,303,000 units issued and outstanding | — | 396,242,212 |
| Special LP unitholders, 30,333 units issued and outstanding | — | 396,638 |
| Managing general partner's interest | — | 3,854,379 |
| Total partners' capital/divisional equity | 397,633,665 | 400,493,229 |
| Total liabilities and partners' capital/divisional equity | $ 416,128,663 | $ 429,854,879 |

The accompanying notes are an integral part of these consolidated financial statements.

**CVR Partners, LP**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Immediate Predecessor | Successor | | |
|---|---|---|---|---|
| | 174 Days Ended June 23, 2005 | 191 Days Ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
| Net sales | $ 76,719,172 | $ 96,792,958 | $ 170,029,957 | $ 187,449,468 |
| Operating costs and expenses: | | | | |
| Cost of product sold (exclusive of depreciation and amortization) | 9,849,842 | 19,248,596 | 33,401,674 | 33,095,121 |
| Direct operating expenses (exclusive of depreciation and amortization) | 26,019,736 | 29,135,779 | 63,610,773 | 66,662,894 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 5,051,954 | 4,594,588 | 12,903,004 | 20,382,918 |
| Net costs associated with flood | — | — | — | 2,431,957 |
| Depreciation and amortization | 316,446 | 8,360,911 | 17,125,898 | 16,819,147 |
| Total operating costs and expenses | 41,237,978 | 61,339,874 | 127,041,349 | 139,392,037 |
| Operating income | 35,481,194 | 35,453,084 | 42,988,608 | 48,057,431 |
| Other income (expense): | | | | |
| Interest expense and other financing costs | (756,846) | (14,791,272) | (23,502,265) | (23,598,544) |
| Interest income | 47,631 | 501,991 | 1,379,129 | 270,162 |
| Gain (loss) on derivatives | — | 4,852,817 | 2,145,387 | (456,583) |
| Loss on extinguishment of debt | (1,240,454) | — | (8,480,747) | (177,653) |
| Other income (expense) | (782,255) | 4,024 | 180,680 | 61,604 |
| Total other income (expense) | (2,731,924) | (9,432,440) | (28,277,816) | (23,901,014) |
| Income before income taxes | 32,749,270 | 26,020,644 | 14,710,792 | 24,156,417 |
| Income tax expense | — | — | 27,500 | 29,500 |
| Net income | $ 32,749,270 | $ 26,020,644 | $ 14,683,292 | $ 24,126,917 |
| Unaudited pro forma net income information (Note 4): | | | | |
| Net income allocated to common units | | | | $ 5,277,763 |
| Net income allocated to GP units | | | | 18,849,154 |
| Net income allocated to subordinated GP units | | | | — |
| Net income allocated to managing general partner | | | | — |
| Basic and diluted net income per common unit | | | | $ 1.01 |
| Basic and diluted net income per GP unit | | | | $ 1.01 |
| Basic and diluted net income per subordinated GP unit | | | | — |

The accompanying notes are an integral part of these consolidated financial statements.

## CVR Partners, LP

## CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL/DIVISIONAL EQUITY

| Immediate Predecessor | Divisional Equity | Special General Partner's Interest | Special Limited Partner's Interest | Managing General Partner's Interest | Total Partners' Capital | Total Partners' Capital/ Divisional Equity |
|---|---|---|---|---|---|---|
| Balance at January 1, 2005 | $ 15,741,980 | $ — | $ — | $ — | $ — | $ 15,741,980 |
| Net income | 32,749,270 | — | — | — | — | 32,749,270 |
| Net distributions to parent | (22,902,690) | — | — | — | — | (22,902,690) |
| Balance at June 23, 2005 | $ 25,588,560 | $ — | $ — | $ — | $ — | $ 25,588,560 |
| **Successor** | | | | | | |
| Acquisition of Immediate Predecessor at June 23, 2005, including step-up in basis of $391,881,153 due to Successor acquisition and change in control | $ 417,469,713 | — | — | — | — | $ 417,469,713 |
| Net income | 26,020,644 | — | — | — | — | 26,020,644 |
| Share based compensation expense | 270,072 | — | — | — | — | 270,072 |
| Net distributions to parent | (43,267,038) | — | — | — | — | (43,267,038) |
| Balance at December 31, 2005 | 400,493,391 | — | — | — | — | 400,493,391 |
| Net income | 14,683,292 | — | — | — | — | 14,683,292 |
| Share-based compensation expense | 3,259,881 | — | — | — | — | 3,259,881 |
| Net distributions to parent | (20,802,899) | — | — | — | — | (20,802,899) |
| Balance at December 31, 2006 | 397,633,665 | — | — | — | — | 397,633,665 |
| Net income | 17,033,827 | 7,085,997 | 7,093 | — | 7,093,090 | 24,126,917 |
| Share-based compensation expense | 2,154,080 | 8,053,217 | 8,061 | — | 8,061,278 | 10,215,358 |
| Net distributions to parent, including distributions of certain working capital | (31,483,711) | — | — | — | — | (31,483,711) |
| Contribution of CRNF from CRLLC to CVR Partners, LP for partners' interest | (385,337,861) | 381,102,998 | 381,484 | 3,853,379 | 385,337,861 | — |
| Cash contribution for partners' interest | — | — | — | 1,000 | 1,000 | 1,000 |
| Balance at December 31, 2007 | $ — | $ 396,242,212 | $ 396,638 | $ 3,854,379 | $ 400,493,229 | $ 400,493,229 |

The accompanying notes are an integral part of these consolidated financial statements.

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## CVR Partners, LP

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Immediate Predecessor | Successor | | |
|---|---|---|---|---|
| | 174 Days Ended June 23, 2005 | 191 Days Ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
| Cash flows from operating activities: | | | | |
| Net income | $ 32,749,270 | $ 26,020,644 | $ 14,683,292 | $ 24,126,917 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 316,446 | 8,360,911 | 17,125,897 | 17,645,458 |
| Provision for doubtful accounts | — | 82,498 | (39,682) | 14,619 |
| Loss on disposition of fixed assets | — | — | 1,056,792 | 47,252 |
| Share-based compensation | — | 270,072 | 4,032,341 | 10,926,143 |
| Changes in assets and liabilities, net of effect of step-up in basis for Successor: | | | | |
| Accounts receivable | (1,285,626) | (2,748,588) | 719,811 | (3,981,846) |
| Inventories | 614,293 | 2,675,582 | 2,058,690 | (2,049,709) |
| Due from affiliate | — | — | — | (2,142,301) |
| Prepaid expenses and other current assets | (406,748) | (433,375) | (31,659) | (221,776) |
| Insurance receivable | — | — | — | (3,347,207) |
| Accounts payable | 2,792,145 | (1,642,309) | 87,449 | 1,309,576 |
| Deferred revenue | (9,073,050) | 11,449,382 | (3,217,637) | 4,348,753 |
| Accrued expenses and other current liabilities | (884,398) | 1,545,381 | (2,442,213) | (226,095) |
| Other accrued long-term liabilities | (484,720) | (295,776) | — | 46,986 |
| Deferred income taxes | — | — | 27,500 | 5,000 |
| Net cash provided by operating activities | 24,337,612 | 45,284,422 | 34,060,581 | 46,501,770 |
| Cash flows from investing activities: | | | | |
| Capital expenditures | (1,434,922) | (2,017,384) | (13,257,682) | (6,487,456) |
| Net cash used in investing activities | (1,434,922) | (2,017,384) | (13,257,682) | (6,487,456) |
| Cash flows from financing activities: | | | | |
| Deferred costs of IPO | — | — | — | (256,717) |
| Net divisional equity distribution | (22,902,690) | (43,267,038) | (20,802,899) | (25,287,246) |
| Partners' cash contribution | — | — | — | 1,000 |
| Net cash used in financing activities | (22,902,690) | (43,267,038) | (20,802,899) | (25,542,963) |
| Net increase in cash and cash equivalents | — | — | — | 14,471,351 |
| Cash and cash equivalents, beginning of period | 550 | 550 | 550 | 550 |
| Cash and cash equivalents, end of period | $ 550 | $ 550 | $ 550 | $ 14,471,901 |
| Supplemental disclosures | | | | |
| Non-cash investing and financing activities: | | | | |
| Accrual of construction in progress additions | $ (42,103) | $ — | $ 30,877 | $ 6,154,892 |
| Step-up in basis with change in control | $ — | $ 391,881,153 | $ — | $ — |
| Distribution of working capital to parent | $ — | $ — | $ — | $ 6,196,465 |

The accompanying notes are an integral part of these consolidated financial statements.

**CVR Partners, LP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### (1) Formation of the Partnership, Organization and Nature of Business

CVR Partners, LP (referred to as CVR Partners, the Partnership or the Company) is a Delaware limited partnership, formed in June 2007 by CVR Energy, Inc. (together with its subsidiaries, CVR Energy) to own assets of Coffeyville Resources Nitrogen Fertilizers, LLC (CRNF), previously a wholly owned subsidiary of CVR Energy. CRNF is a producer and marketer of nitrogen fertilizer products in North America. CRNF operates a coke gasifier plant that produces high-purity hydrogen, most of which is subsequently converted to ammonia and upgraded to urea ammonium nitrate (UAN).

The Partnership plans to pursue an initial public offering of its common units representing limited partner interests (the Offering). In October 2007, CVR Energy, through its wholly owned subsidiary, Coffeyville Resources, LLC (CRLLC), transferred CRNF, CRLLC's nitrogen fertilizer business, to the Partnership. This transfer was not considered a business combination as it was a transfer of assets among entities under common control and accordingly balances were transferred at their historical cost. The Partnership became the sole member of CRNF. In consideration for CRLLC transferring its nitrogen fertilizer business to the Partnership, (1) CRLLC directly acquired 30,333 special LP units, representing a 0.1% limited partner interest in the Partnership, (2) the Partnership's special general partner, a wholly owned subsidiary of CRLLC, acquired 30,303,000 special GP units, representing a 99.9% general partner interest in the Partnership, and (3) the managing general partner, then owned by CRLLC, acquired a managing general partner interest and incentive distribution rights (IDRs) of the Partnership. Immediately prior to CVR Energy's initial public offering, CVR Energy sold the managing general partner (together with the IDRs) to Coffeyville Acquisition III (CALLC III), an entity owned by funds owned by Goldman, Sachs & Co. (the Goldman Sachs Funds) and Kelso & Company, L.P. (the Kelso Funds) and members of CVR Energy's management team, for its fair market value on the date of sale.

In conjunction with CVR Energy's indirect ownership of the special GP interest, it initially owned all of the interests in the Partnership (other than the managing general partner interest and the IDRs) and initially was entitled to all cash distributed by the Partnership. The managing general partner is not entitled to participate in Partnership distributions except with respect to its IDRs, which entitle the managing general partner to receive increasing percentages (up to 48%) of the cash the Partnership distributes in excess of $0.4313 per unit in a quarter. However, the Partnership is not permitted to make any distributions with respect to the IDRs until the aggregate Adjusted Operating Surplus, as defined in the amended and restated partnership agreement, generated by the Partnership during the period from the completion of the offering through December 31, 2009 has been distributed in respect of the GP units and subordinated GP units, which CVR Energy will indirectly hold following completion of the Offering, and the Partnership's common units (which will be issued in connection with the Offering) and any other partnership interests that are issued in the future.

In October 2007, the managing general partner, the special general partner, and CRLLC, as the limited partner, entered into an amended and restated limited partnership agreement setting forth the various rights and responsibilities of the partners of CVR Partners. The Partnership also entered into a number of agreements with CVR Energy and the managing general partner to regulate certain business relations between the Partnership and the other parties thereto. See Note 14 "Related Party Transactions".

The Partnership is operated by CVR Energy's senior management team pursuant to a services agreement among CVR Energy, the managing general partner, and the Partnership. The Partnership is managed by the managing general partner and CVR Special GP LLC, as special general partner, to the extent described herein. As special general partner of the Partnership, CVR Special GP LLC has joint management rights regarding the appointment, termination, and compensation of the chief executive officer and chief financial officer of the managing general partner, has the right to designate

two members of the board of directors of the managing general partner, and has joint management rights regarding specified major business decisions relating to the Partnership.

***Historical Organization of CRNF***

Prior to March 3, 2004, the nitrogen fertilizer plant was operated as a small component of Farmland Industries, Inc., or Farmland, an agricultural cooperative. Farmland filed for bankruptcy protection on May 31, 2002. CRLLC, a subsidiary of Coffeyville Group Holdings, LLC (which was principally owned by funds affiliated with Pegasus), won the bankruptcy court auction for Farmland's nitrogen fertilizer plant (and the petroleum business now operated by CVR Energy) and completed the purchase of these assets on March 3, 2004. Activity occurring from March 3, 2004 to June 23, 2005 is referred to as occurring with the "Immediate Predecessor".

On June 24, 2005, pursuant to a stock purchase agreement dated May 15, 2005, all of the subsidiaries of Coffeyville Group Holdings, LLC, including the nitrogen fertilizer plant (and the petroleum business now operated by CVR Energy), were acquired by Coffeyville Acquisition LLC, a newly formed entity principally owned by the Goldman Sachs Funds and the Kelso Funds. This acquisition is referred to as the "Subsequent Acquisition". The resulting entity after the change of control is referred to as the "Successor".

The allocation of the purchase price by Coffeyville Acquisition LLC for the net assets held by CRNF at June 24, 2005, the date of the Subsequent Acquisition, is as follows:

| | |
|---|---|
| Assets acquired | |
| Cash | $ 550 |
| Accounts receivable | 1,335,292 |
| Inventories | 18,838,030 |
| Prepaid expenses and other current assets | 124,698 |
| Intangibles, contractual agreements | 145,400 |
| Goodwill | 40,968,463 |
| Property, plant, and equipment | 368,237,164 |
| Total assets acquired | $ 429,649,597 |
| Liabilities assumed | |
| Accounts payable | $ 7,686,921 |
| Accrued expenses and other current liabilities | 4,197,187 |
| Other accrued long-term liabilities | 295,776 |
| Total liabilities assumed | $ 12,179,884 |

Since the assets and liabilities of the Successor are presented on a new basis of accounting, the financial statement information for Successor and Immediate Predecessor are not comparable.

***Business Overview***

CRNF produces and distributes nitrogen fertilizer products, which are used primarily by farmers to improve the yield and quality of their crops. CRNF's principal products are ammonia and UAN. These products are manufactured at CRNF's facility in Coffeyville, Kansas. CRNF's product sales are heavily weighted toward UAN, and all of its products are sold on a wholesale basis.

**(2) Basis of Presentation**

CVR Partners is comprised of operations of the CRNF fertilizer business. The accompanying financial statements of CVR Partners, LP include the operations of CRNF when it was held by

Pegasus through its subsidiary, Coffeyville Group Holdings, LLC, for the 174 days ended June 23, 2005 (Immediate Predecessor). The accompanying financial statements also include the operations of CRNF from June 24, 2005 through October 24, 2007 when it was directly held by CRLLC. CVR Partners has been the sole member of CRNF since October 24, 2007.

The accompanying financial statements have been prepared in accordance with Regulation S-X, Article 3 "General instructions as to financial statements" and Staff Accounting Bulleting, or SAB Topic 1-B "Allocations of Expenses and Related disclosures in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity." Certain expenses incurred by CRLLC are only indirectly attributable to its ownership of the fertilizer assets of CRNF as CRLLC owns interests in refinery assets and gathering properties. As a result, certain assumptions and estimates are made in order to allocate a reasonable share of such expenses to CVR Partners, so that the accompanying financial statements reflect substantially all costs of doing business. The allocations and related estimates and assumptions are described more fully in Note 3 "Summary of Significant Accounting Policies" and Note 14 "Related Party Transactions".

CVR Energy used a centralized approach to cash management and the financing of its operations. As a result, amounts owed to or from CVR Energy are reflected as a component of divisional equity on the accompanying Statements of Partners' Capital/Divisional Equity through the contribution date of October 24, 2007.

Accounts and balances related to the CRNF fertilizer operations were based on a combination of specific identification and allocations. CRLLC has allocated various corporate overhead expenses based on a percentage of total fertilizer payroll to the total segment payrolls (i.e., the petroleum and fertilizer segments of CVR Energy). These allocations are not necessarily indicative of the cost that the Partnership would have incurred had it operated as an independent stand-alone entity for all years presented.

## (3) Summary of Significant Accounting Policies

### *Principles of Consolidation*

The Partnership's consolidated balance sheet at December 31, 2007 includes the accounts of CRNF, its wholly owned subsidiary. All intercompany balances and transactions are eliminated.

### *Cash and Cash Equivalents*

CRLLC has historically provided cash as needed to support the operation of the fertilizer assets and has collected the cash from the sales of products by the fertilizer business. Consequently, the accompanying Consolidated Balance Sheet of CVR Partners as of December 31, 2006 only includes a minimal cash balance. Cash received or paid by CRLLC on behalf of CVR Partners is reflected as net distributions to parent on the accompanying Consolidated Statement of Partners' Capital/Divisional Equity.

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less.

### *Accounts Receivable*

CVR Partners grants credit to its customers. Credit is extended based on an evaluation of a customer's financial condition; generally, collateral is not required. Accounts receivable are due on negotiated terms and are stated at amounts due from customers, net of an allowance for doubtful accounts. Accounts outstanding longer than their contractual payment terms are considered past due.

CVR Partners determines its allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts are past due, the customer's ability to pay its obligations to CVR Partners, and the condition of the general economy and the industry as a whole. CVR Partners writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At December 31, 2006, two customers individually represented greater than 10% and collectively represented approximately 30% of the total accounts receivable balance (excluding accounts receivable with affiliate). At December 31, 2007, three customers individually represented greater than 12% and collectively represented approximately 42% of the total accounts receivable balance (excluding accounts receivable with affiliate). The largest concentration of credit for any one customer at December 31, 2006 and 2007 was approximately 20% and 17%, respectively, of the accounts receivable balance (excluding accounts receivable with affiliate).

***Inventories***

Inventories consist of fertilizer products which are valued using the actual first-in, first-out method. Inventories also include raw materials, catalysts, parts and supplies, which are valued at the lower of moving-average cost, which approximates the first-in, first-out (FIFO) method, or market. The cost of inventories includes inbound freight costs.

***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets consist of prepayments, non-trade accounts receivables and other general current assets.

***Property, Plant, and Equipment***

Additions to property, plant and equipment, including capitalized interest and certain costs allocable to construction and property purchases, are recorded at cost. Capitalized interest is added to any capital project over $1,000,000 in cost which is expected to take more than six months to complete. Depreciation is computed using principally the straight-line method over the estimated useful lives of the assets. The useful lives are as follows:

| Asset | Range of Useful Lives, in Years |
|---|---|
| Improvements to land | 15 to 20 |
| Buildings | 20 to 30 |
| Machinery and equipment | 5 to 30 |
| Automotive equipment | 5 |
| Furniture and fixtures | 3 to 7 |

The Company's leasehold improvements are depreciated on the straight-line method over the shorter of the contractual lease term or the estimated useful life.

***Goodwill and Intangible Assets***

Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired less liabilities assumed. Intangible assets are assets that lack physical substance (excluding financial assets). Goodwill acquired in a business combination and intangible assets with indefinite useful lives are not amortized, and intangible assets with finite useful lives are amortized. Goodwill and intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired. CVR Partners uses

November 1 of each year as its annual valuation date for the impairment test. The annual review of impairment is performed by comparing the carrying value of its assets to its estimated fair value, using a combination of the discounted cash flow analysis and market approach. All goodwill impairment testing is done at CRNF as it is the only operating segment and consequently, it is the only reporting unit.

***Planned Major Maintenance Costs***

The direct-expense method of accounting is used for planned major maintenance activities. Maintenance costs are recognized as expense when maintenance services are performed. During the year ended December 31, 2006, the nitrogen fertilizer facility completed a major scheduled turnaround. Costs of approximately $2,570,000 associated with the 2006 turnaround are included in direct operating expenses (exclusive of depreciation and amortization) for the year ended December 31, 2006.

Planned major maintenance activities generally occur every two years.

***Cost Classifications***

Cost of product sold (exclusive of depreciation and amortization) includes cost of pet coke expense and freight and distribution expenses.

Direct operating expenses (exclusive of depreciation and amortization) includes direct costs of labor, maintenance and services, energy and utility costs, and other direct operating expenses. Direct operating expenses exclude depreciation and amortization of approximately $313,034, $8,334,931, $17,105,938, and $16,798,724 for the 174-day period ended June 23, 2005, the 191-day period ended December 31, 2005, the year ended December 31, 2006, and the year ended December 31, 2007. Direct operating expenses also exclude depreciation of $826,311 for the year ended December 31, 2007 that is included in “Net Costs Associated with Flood” on the Consolidated Statement of Operations as a result of the assets being idled due to the flood. See Note 9 “Flood”.

Selling, general and administrative expenses (exclusive of depreciation and amortization) consist primarily of direct and allocated legal expenses, treasury, accounting, marketing, human resources and maintaining the corporate offices in Texas and Kansas. Selling, general and administrative expenses excludes depreciation and amortization of approximately $3,412, $25,980, $19,960, and $20,423 for the 174-day period ended June 23, 2005, the 191-day period ended December 31, 2005, the year ended December 31, 2006, and the year ended December 31, 2007.

***Income Taxes***

The operations of CVR Partners and its predecessors have historically been included in the federal income tax return of CRLLC, which is a limited liability corporation that is not subject to federal income taxes. Upon the sale of the managing general partner, CVR Partners became a partnership that files its own separate federal income tax return with each partner being separately taxed on its share of taxable income. The Partnership is not subject to income taxes. The income tax liability of the individual partners is not reflected in the financial statements of the Partnership.

The State of Texas enacted a franchise tax on May 18, 2006 that the Partnership will be required to pay beginning in 2008. The method of calculation for this franchise tax is similar to an income tax, requiring the Partnership to recognize in the year of enactment the impact of this new tax on the future tax effects of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. A deferred tax liability and related income tax expense was recognized in 2006 for the expected future tax effect of the Texas franchise tax.

***Segment Reporting***

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for entities to report information about the operating segments and geographic areas in which they operate. CVR Partners only operates in one segment and all of its operations are located in the United States.

***Impairment of Long-Lived Assets***

The Partnership accounts for long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In accordance with SFAS 144, the Partnership reviews long-lived assets (excluding goodwill, intangible assets with indefinite lives, and deferred tax assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future net cash flows, an impairment charge is recognized for the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of their carrying value or fair value less cost to sell. No impairment charges were recognized for any of the periods presented.

***Partners' Capital/Divisional Equity***

Partners' capital may also be referred to as divisional equity during the periods covered by the consolidated financial statements prior to the contribution of CRNF to the Partnership. Prior to the contribution, CRNF did not have its own debt and there was no formal intercompany financing arrangement in place. Accordingly the accompanying consolidated balance sheets do not present any long-term debt. Rather, intercompany borrowings and cash distributed to or contributed from the parent company prior to October 24, 2007 have been reflected in Divisional Equity. CRLLC managed the cash of CRNF. All cash received or paid by CRLLC prior to the contribution has been reflected as net contributions/distributions to parent on the accompanying Consolidated Statement of Partners' Capital/Divisional Equity.

***Revenue Recognition***

Revenues for products sold are recorded upon delivery of the products to customers, which is the point at which title is transferred, the customer has the assumed risk of loss, and when payment has been received or collection is reasonably assumed. Sales are recognized when the product is delivered and all significant obligations of CRNF have been satisfied. Deferred revenue represents customer prepayments under contracts to guarantee a price and supply of nitrogen fertilizer in quantities expected to be delivered in the next twelve months in the normal course of business. Taxes collected from customers and remitted to governmental authorities are not included in reported revenues.

***Shipping Costs***

Pass-through finished goods delivery costs reimbursed by customers are reported in net sales, while an offsetting expense is included in cost of product sold (exclusive of depreciation and amortization).

***Share-Based Compensation***

CVR Partners has been allocated non-cash share-based compensation expense from CVR Energy and from CALLC III. CVR Energy and CALLC III account for share-based compensation in accordance with SFAS No. 123(R), *Share-Based Payments* and EITF 00-12 Issue No. 00-12, "Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee" (EITF 00-12). In accordance with SFAS 123(R), CVR Energy and CALLC III apply a fair-value-based measurement method in accounting for share-based compensation. In accordance with EITF 00-12, the Company recognizes the costs of the share-based compensation incurred by CVR Energy and CALLC III on its behalf, primarily in selling, general, and administrative expenses (exclusive of depreciation and amortization), and a corresponding capital contribution, as the costs are incurred on its behalf, following the guidance in EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services," which requires variable accounting in the circumstances. Costs are allocated by CVR Energy and CALLC III based upon the percentage of time a CVR Energy employee provides services to CVR Partners. In accordance with the services agreement, CVR Partners will not be responsible for the payment of cash related to any share-based compensation allocated to it by CVR Energy for financial reporting purposes.

***Environmental Matters***

Liabilities related to future remediation costs of past environmental contamination of properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of these costs are based upon currently available facts, internal and third-party assessments of contamination, available remediation technology, site-specific costs, and currently enacted laws and regulations. In reporting environmental liabilities, no offset is made for potential recoveries. All liabilities are monitored and adjusted as new facts or changes in law or technology occur. Environmental expenditures are capitalized at the time of the expenditure when such costs provide future economic benefits.

***Use of Estimates***

Preparing financial statements in conformity with U.S. generally accepted accounting principals requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities in the consolidated financial statements and the reported amounts of revenues and expenses. Also, certain amounts in the accompanying consolidated financial statements have been allocated in a way that management believes is reasonable and consistent in order to depict the historical financial position, results of operations, and cash flows of CVR Partners on a stand-alone basis. Actual results could differ materially from those estimates.

Estimates made in preparing these financial statements include, among other things, estimates of depreciation and amortization expense, the estimated future cash flows and fair value of properties used in determining the need for any impairment write-down, recoveries of flood costs from insurance carriers, estimated allocations of selling, general and administrative costs, including share-based awards, the economic useful life of assets, the fair value of assets, liabilities, provisions for uncollectible accounts receivable, the results of litigation, and various other recorded or disclosed amounts. Future changes in the assumptions used could have a significant impact on reported results in future periods.

***Related-Party Transactions***

CVR Energy and its subsidiaries provide a variety of services to the Partnership, including cash management and financing services, employee benefits provided through CVR Energy's benefit plans, administrative services provided by CVR Energy's employees and management, insurance and office space leased in CVR Energy's headquarters building and other locations. Where costs are specifically incurred on behalf of the Partnership, the costs are billed directly to the Partnership. In other situations, the costs have been allocated to the Partnership through a variety of methods, depending upon the nature of the expense and the activities of the Partnership. An expense benefiting the consolidated company but having no direct basis for allocation is allocated by a method using a ratio of the payroll of the fertilizer operating employees to the total payroll of the fertilizer operating employees and petroleum operating employees of CRLLC. All costs directly charged or allocated to the Partnership by affiliates are included in the consolidated statements of operations and all such operating costs have been allocated by CVR Energy.

As of October 25, 2007, the Partnership entered into several agreements with CVR Energy and its subsidiaries that govern the business relations of the Partnership, the managing general partner and CVR Energy. These agreements provide for billing procedures and related cost allocations and billings as applicable between CVR Energy and its subsidiaries and the Partnership. See Note 14 "Related Party Transactions" for a detailed discussion of the billing procedures and the basis for calculating the charges for specific products and services.

***Allocation of Costs***

The accompanying financial statements have been prepared in accordance with SAB Topic 1-B. These rules require allocations of costs for salaries and benefits, depreciation, rent, accounting and legal services, and other general and administrative expenses. CVR Energy has allocated general and administrative expenses to the Partnership and its predecessors based on allocation methodologies that management considers reasonable and result in an allocation of the cost of doing business borne by CVR Energy and CRLLC on behalf of the Partnership and its predecessors; however, these allocations may not be indicative of the cost of future operations or the amount of future allocations.

The Partnership's historical income statements reflect all of the expenses that CRLLC incurred on the Partnership's behalf. The Partnership's financial statements therefore include certain expenses incurred by its parent which may include, but are not necessarily limited to, the following:

- Officer and employee salaries and share-based compensation
- Rent or depreciation
- Advertising
- Accounting, tax, legal and information technology services
- Other selling, general and administrative expenses
- Costs for defined contribution plans, medical and other employee benefits
- Financing costs, including interest, mark-to-market changes in interest rate swap, and losses on extinguishment of debt

Selling, general and administrative expense allocations were based primarily on a percentage of total fertilizer payroll to the total fertilizer and petroleum segment payrolls. Property insurance costs, included in direct operating expenses (exclusive of depreciation and amortization), were allocated based upon specific segment valuations. Interest expense, interest income, bank charges, gain (loss) on derivatives and loss on extinguishment of debt were allocated based upon fertilizer divisional equity as a percentage of total CVR Energy debt and equity. As of October 25, 2007, the allocations were determined in accordance with the services agreement entered into with CVR Energy (other than the allocations related to share-based compensation, which are determined in accordance with Staff Accounting Bulletin, or SAB, Topic 1-B "Allocation of Expenses and Related Disclosures in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity" and in accordance with EITF 00-12, as more fully explained in Note 12). See Note 14 "Related Party Transactions" for a detailed discussion of the basis for calculating the charges. The table below reflects cost allocations, either allocated or billed, by period reflected in the Consolidated Statement of Operations.

| | Immediate Predecessor | Successor | | |
|---|---|---|---|---|
| | 174 Days Ended June 23, 2005 | 191 Days Ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
| Direct operating expenses (exclusive of depreciation and amortization) | $ 616,363 | $ 1,001,491 | $ 2,120,923 | $ 2,449,218 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 3,864,369 | 3,154,242 | 9,180,998 | 10,080,235 |
| Interest expense and other financing costs | 741,090 | 14,793,520 | 23,502,266 | 23,584,600 |
| Interest income | (47,631) | (501,990) | (1,379,129) | (252,697) |
| (Gain) loss on derivatives | — | (4,852,817) | (2,145,388) | 456,583 |
| Loss on extinguishment of debt | 1,240,455 | — | 8,480,747 | 177,653 |
| | $6,414,646 | $ 13,594,446 | $ 39,760,417 | $ 36,495,592 |

***Net Income Per Limited Partnership Unit***

The Partnership has omitted earnings per share for the Immediate Predecessor and for the Successor through the date CRNF was contributed to the Partnership because the Company operated under a Divisional Equity structure. The Partnership has omitted net income per unitholder for the Successor during the period it operated as a Partnership through the date of this offering because the Partnership operated under a different capital structure than what the Partnership will operate under at the time of this offering, and, therefore, the information is not meaningful.

***New Accounting Pronouncements***

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. FAS 157 states that fair value is "the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price)". The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal

years. The Partnership is currently evaluating the effect that this statement will have on the Partnership's financial statements.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). Under this standard, an entity is required to provide additional information that will assist investors and other users of financial information to more easily understand the effect of the company's choice to use fair value on its earnings. Further, the entity is required to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. This standard does not eliminate the disclosure requirements about fair value measurements included in FAS 157 and FAS No. 107, *Disclosures about Fair Value of Financial Instruments*. FAS 159 is effective for fiscal years beginning after November 15, 2007, and early adoption is permitted as of January 1, 2007, provided that the entity makes that choice in the first quarter of 2007 and also elects to apply the provisions of FAS 157. The Partnership expects that the adoption of FAS 159 will have no impact on the Partnership's financial condition, results of operations and cash flows.

### (4) Pro Forma Information (unaudited)

Pro forma net income per unit is determined by dividing the pro forma net income that would have been allocated, in accordance with the provisions of the Partnership's partnership agreement, to the common, GP and subordinated GP unitholders, by the number of common, GP and subordinated GP units expected to be outstanding at the closing of this offering. For purposes of this calculation, the Partnership assumed that pro forma distributions were equal to pro forma net income and that the number of units outstanding was 5,250,000 common, 18,750,000 GP and 16,000,000 subordinated GP units. All units were assumed to have been outstanding since January 1, 2007. No effect has been given to 787,500 common units that might be issued in this offering by the Partnership pursuant to the exercise by the underwriters of their option. The Partnership's partnership agreement provides that, during the subordination period (as described below), the common units and GP units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.375 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units and GP units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated GP units. These units are deemed "subordinated" because for a period of time, referred to as the subordination period, the subordinated GP units will not be entitled to receive any distributions until the common units and GP units have received the minimum quarterly distribution plus any arrearages from prior quarters. Furthermore, no arrearages will be paid on the subordinated GP units during the subordination period.

It is assumed that for the year ended December 31, 2007, common unit and GP units would have received an annual distribution of $1.01 per common unit and GP unit. Subordinated GP unitholders would have received no distribution of distributable earnings. Basic and diluted pro forma net income per unit are equivalent as there are no dilutive units at the date of closing of this offering.

Pursuant to the partnership agreement, to the extent that the quarterly distributions exceed certain targets, the holders of the IDRs are entitled to receive certain incentive distributions that will result in more net income proportionately being allocated to the holders of the IDRs than to the holders of common, GP and subordinated GP units. The pro forma net income per unit calculations assume that no incentive distributions were made to the holders of the IDRs because no such distribution would have been paid based upon the contractual limitation set forth in the partnership agreement which provides that no distributions will be made in respect of the IDRs until the Partnership has made cash distributions in an aggregate amount equal to the adjusted operating

surplus during the period from the closing of the Partnership's initial public offering through December 31, 2009.

### (5) Partners' Capital

At December 31, 2007, the Partnership had 30,333 special LP units outstanding, representing 0.1% of the total Partnership units outstanding, and 30,303,000 special GP interests outstanding, representing 99.9% of the total Partnership units outstanding. In addition, the managing general partner owned the managing general partner interest and the IDRs. The managing general partner contributed 1% of CRNF's interest to the Partnership in exchange for its managing general partner interest and the IDRs. See Note 1 "Formation of the Partnership, Organization and Nature of Business" for additional discussion related to the unitholders.

In connection with the Partnership's initial public offering, CRLLC will contribute all of its special LP units to the Partnership's special general partner and all of the Partnership's special general partner interests and special limited partner interests will be converted into a combination of GP and subordinated GP units. Following the initial public offering, the Partnership will have five types of partnership interest outstanding:

- 5,250,000 common units representing limited partner interests, all of which the Partnership will sell in the initial public offering;
- 18,750,000 GP units representing special general partner interests, all of which will be held by the Partnership's special general partner;
- 18,000,000 subordinated GP units representing special general partner interests, all of which will be held by the Partnership's special general partner;
- incentive distribution rights representing limited partner interests, all of which will be held by the Partnership's managing general partner; and
- a managing general partner interest, which is not entitled to any distributions, which is held by the Partnership's managing general partner.

Effective with the initial public offering, the partnership agreement will require that the Partnership distribute all of its cash on hand at the end of each quarter, less reserves established by its managing general partner, subject to the sustainability requirement in the event the Partnership elects to increase the quarterly distribution amount. The amount of available cash may be greater or less than the aggregate amount necessary to make the minimum quarterly distribution on all common units, GP units and subordinated units.

Subsequent to the initial public offering, the Partnership will make minimum quarterly distributions of $0.375 per common unit ($1.50 per common unit on an annualized basis) to the extent the Partnership has sufficient available cash. In general, cash distributions will be made each quarter as follows:

- *First*, to the holders of common units and GP units until each common unit and GP unit has received a minimum quarterly distribution of $0.375 plus any arrearages from prior quarters;
- *Second*, to the holders of subordinated units, until each subordinated unit has received a minimum quarterly distribution of $0.375; and
- *Third*, to all unitholders, pro rata, until each unit has received a quarterly distribution of $0.4313.

If cash distributions exceed $0.4313 per unit in a quarter, the Partnership's managing general partner, as holder of the IDRs, will receive increasing percentages, up to 48%, of the cash the Partnership distributes in excess of $0.4313 per unit. However, the managing general partner will not be entitled to receive any distributions in respect of the IDRs until the Partnership has made cash distributions in an aggregate amount equal to the Partnership's adjusted operating surplus generated during the period from the closing of the initial public offering until December 31, 2009.

During the subordination period, the subordinated units will not be entitled to receive any distributions until the common units and GP units have received the minimum quarterly distribution of $0.375 per unit plus any arrearages from prior quarters. The subordination period will end once the Partnership meets the financial tests in the partnership agreement.

If the Partnership meets the financial tests in the partnership agreement for any three consecutive four-quarter periods ending on or after the first quarter whose first day begins at least three years following the closing of initial public offering, 25% of the subordinated GP units will convert into GP units on a one-for-one basis. If the Partnership meets these financial tests for any three consecutive four-quarter periods ending on or after the first quarter whose first day begins at least four years following the closing of the initial public offering, an additional 25% of the subordinated GP units will convert into GP units on a one-for-one basis. The early conversion of the second 25% of the subordinated GP units may not occur until at least one year following the end of the last four-quarter period in respect of which the first 25% of the subordinated GP units were converted. If the subordinated GP units have converted into subordinated LP units at the time the financial tests are met they will convert into common units, rather than GP units. In addition, the subordination period will end if the managing general partner is removed as the managing general partner where "cause" (as defined in the partnership agreement) does not exist and no units held by the managing general partner and its affiliates are voted in favor of that removal.

When the subordination period ends, all subordinated units will convert into GP units or common units on a one-for-one basis, and the common units and GP units will no longer be entitled to arrearages.

The partnership agreement authorizes the Partnership to issue an unlimited number of additional units and rights to buy units for the consideration and on the terms and conditions determined by the managing general partner without the approval of the unitholders.

The Partnership will distribute all cash received by it or its subsidiaries in respect of accounts receivable existing as of the closing of the initial public offering exclusively to its special general partner.

The managing general partner, together with the special general partner, manages and operates the Partnership. Common unitholders will only have limited voting rights on matters affecting the Partnership. In addition, common unitholders will have no right to elect either of the general partners or the managing general partner's directors on an annual or other continuing basis.

If at any time the managing general partner and its affiliates own more than 80% of the common units, the managing general partner will have the right, but not the obligation, to purchase all of the remaining common units at a purchase price equal to the greater of (x) the average of the daily closing price of the common units over the 20 trading days preceding the date three days before notice of exercise of the call right is first mailed and (y) the highest per-unit price paid by the managing general partner or any of its affiliates for common units during the 90-day period preceding the date such notice is first mailed.

**(6) Inventories**

Inventories consisted of the following (in thousands):

| | December 31, 2006 | December 31, 2007 |
|---|---|---|
| Finished goods | $ 2,804 | $ 2,859 |
| Raw materials and catalysts | 4,066 | 4,704 |
| Parts and supplies | 7,234 | 8,590 |
| | $ 14,104 | $ 16,153 |

**(7) Property, Plant, and Equipment**

A summary of costs for property, plant, and equipment is as follows (in thousands):

| | December 31, 2006 | December 31, 2007 |
|---|---|---|
| Land and improvements | $ 706 | $ 1,147 |
| Buildings | 650 | 650 |
| Machinery and equipment | 379,339 | 381,685 |
| Automotive equipment | 267 | 297 |
| Furniture and fixtures | 186 | 209 |
| Construction in progress | 1,262 | 11,012 |
| | $ 382,410 | $ 395,000 |
| Accumulated depreciation | 25,366 | 42,987 |
| | $ 357,044 | $ 352,013 |

**(8) Goodwill and Intangible Assets**

In connection with the Subsequent Acquisition described in Note 1, CRNF recorded goodwill of $40,968,463. SFAS No. 142, *Goodwill and Other Intangible Assets*, provides that goodwill and other intangible assets with indefinite lives shall not be amortized but shall be tested for impairment on an annual basis. In accordance with SFAS 142, CVR Partners completed its annual test for impairment of goodwill as of November 1, 2006 and 2007. Based on the results of the test, no impairment of goodwill was recorded as of December 31, 2006 or 2007. The annual review of impairment is performed by comparing the carrying value of the Partnership to its estimated fair value using a combination of the discounted cash flow analysis and market approach.

Contractual agreements with a fair market value of $145,400 were acquired in the Subsequent Acquisition described in Note 1. The intangible value of these agreements is amortized over the life of the agreements through September 2019. Amortization expense of $25,582, $19,163 and $19,163 was recorded in depreciation and amortization for the 191-days ended December 31, 2005 and the years ended December 31, 2006 and December 31, 2007, respectively.

Estimated amortization of the contractual agreements is as follows (in thousands):

| Year Ending December 31, | Contractual Agreements |
|---|---|
| 2008 | $ 15 |
| 2009 | 10 |
| 2010 | 10 |
| 2011 | 10 |
| 2012 | 6 |
| Thereafter | 30 |
| | $ 81 |

### (9) Flood

During the weekend of June 30, 2007, torrential rains in southeastern Kansas caused the Verdigris River to overflow its banks and flood the city of Coffeyville, Kansas. As a result, CRNF's nitrogen fertilizer plant was severely flooded and was forced to conduct emergency shut downs and evacuate. The nitrogen fertilizer facility sustained damage and required repairs resulting in damage to the assets.

During and after the time of the flood, CRLLC, the Partnership's parent at that time, was insured under insurance policies that were issued by a variety of insurers and which covered various risks, such as damage to the Partnership's property, interruption of the Partnership's business, environmental cleanup costs, and potential liability to third parties for bodily injury or property damage. These coverages included CRLLC's primary property damage and business interruption insurance program which provided $300 million of coverage for flood-related damage, subject to a deductible of $2.5 million per "occurrence" and a 45-day waiting period for business interruption loss. While the Partnership believes that property insurance should cover substantially all of the estimated total physical damage to the Partnership's property, the insurance carriers have cited potential coverage limitations and defenses that might preclude such a result. CRLLC determined that the Partnership's allocation of the $2.5 million insurance deductible was $0.1 million.

Net costs related to the flood during the year ended December 31, 2007 were $2.4 million. Total gross costs recorded due to the flood that were included in the statement of operations for the year ended December 31, 2007 were approximately $5.8 million. Of these gross costs for the year ended December 31, 2007, approximately $3.5 million were paid to third parties for repair and related cleanup as a result of the flood damage to the Company's facilities. Additionally, included in this cost was $0.8 million of depreciation for temporarily idled facilities, $0.7 million of salaries, $0.4 million associated with inventory loss and approximately $0.4 million of other related costs. An insurance receivable of approximately $3.3 million was also recorded for the year ended December 31, 2007 for the probable recovery of such costs under CRLLC's insurance policy. $3.2 million of this receivable was distributed to CRLLC as described below.

Following the contribution of CRNF to the Partnership, all previously recorded insurance receivables related to flood damaged property of CRNF remained with Coffeyville Resources. This distribution from CRNF to CRLLC has been reflected as a distribution to parent in the accompanying consolidated financial statements for the year ended December 31, 2007. The Company anticipates that approximately $0.7 million in additional third party costs related to the repair of flood damaged property will be recorded in future periods. Accordingly, the total third-party cost to repair the nitrogen fertilizer facility is currently estimated at approximately $4.2 million.

At December 31, 2007, the Company had $139,346 recorded as an insurance receivable that was not distributed to CRLLC and for which the Company believes collection is probable. CRLLC will reimburse CRNF in accordance with an indemnification agreement for any future additional flood-related costs or losses incurred after December 31, 2007.

### (10) Income Taxes

In May 2006, the State of Texas enacted a franchise tax that will become effective in 2008. This franchise tax requires the Partnership to pay a tax of 1.0% on the Partnership's "margin", as defined in the law, beginning in 2008 based on the Partnership's 2007 results. The margin to which the tax rate will be applied generally will be calculated as the Partnership's revenues for federal income tax purposes less the cost of the products sold for federal income tax purposes, in the State of Texas. Under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", the Partnership is required to record the effects on deferred taxes for a change in tax rates or tax law in the period that includes the enactment date.

Under FAS 109, taxes based on income like the Texas franchise tax are accounted for using the liability method under which deferred income taxes are recognized for the future tax effects of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities using the enacted statutory tax rates in effect at the end of the period. A valuation allowance for deferred tax assets is recorded when it is more likely than not that the benefit from the deferred tax asset will not be realized.

Temporary differences related to the Partnership's property will affect the Texas franchise tax. As a result, the Partnership recorded a deferred tax liability in the amount of $27,500 as of December 31, 2006. At December 31, 2007, a total income tax expense of $29,500 was recorded. This amount included current income taxes of $24,500 and deferred income tax expense of $5,000, which resulted in a deferred income tax liability of $32,500 at December 31, 2007.

### (11) Benefit Plans

CVR Energy sponsors a defined-contribution 401(k) plan (the Plan) for the employees of CRNF. Participants in the Plan may elect to contribute up to 50% of their annual salaries, and up to 100% of their annual bonus received pursuant to CVR Energy's income sharing plan. CRNF matches up to 75% of the first 6% of the participant's contribution. The Plan is administered by CVR Energy. Participants in the Plan are immediately vested in their individual contributions. The Plan has a three year vesting schedule for CRNF's matching funds and contains a provision to count service with any predecessor organization. CRNF's contributions under the Plan were $162,962, $107,011, $311,964 and $303,113 for the 174 days ended June 23, 2005, the 191 days ended December 31, 2005, the year ended December 31, 2006, and the year ended December 31, 2007, respectively.

### (12) Share-based Compensation

Certain employees of CVR Partners and employees of CVR Energy who perform services for the Partnership under the services agreement with CVR Energy participate in equity compensation plans of CVR Partners' affiliates. Accordingly, CVR Partners has recorded compensation expense for these plans in accordance with Staff Accounting Bulletin, or SAB Topic 1-B "Allocations of Expenses and Related disclosures in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity" and in accordance with EITF 00-12. All compensation expense related to these plans for full-time employees of CVR Partners has been allocated 100% to CVR Partners. For employees covered by the services agreement with CVR Energy, the Partnership records share-based compensation relative to the percentage of time spent by each management

member providing services to the Partnership as compared to the total calculated share-based compensation by CVR Energy. The Partnership is not responsible for payment of share-based compensation and all expense amounts are reflected as a contribution to Partner's Capital.

During the periods prior to the formation of the Partnership, share-based compensation costs were allocated to CVR Partners in accordance with other general corporate costs as described in Note 3, "Summary of Significant Accounting Policies — Allocations of Costs."

The following describes the share-based compensation plans of CALLC, CALLC II, CALLC III and CRLLC, CVR Energy's wholly owned subsidiary.

***919,630 override operating units at an adjusted benchmark value of $11.31 per unit***

In June 2005, CALLC issued nonvoting override operating units to certain management members holding common units of CALLC. There were no required capital contributions for the override operating units. In accordance with SFAS 123(R), Share Based Compensation, using the Monte Carlo method of valuation, the estimated fair value of the override operating units on June 24, 2005 was $3,604,950. Pursuant to the forfeiture schedule described below, CVR Energy recognized compensation expense over the service period for each separate portion of the award for which the forfeiture restriction lapsed as if the award was, in-substance, multiple awards. In accordance with the allocation method noted above, CVR Partners recognized compensation expense of $149,693, $265,678 and $2,841,452 for the 191-day period ending December 31, 2005, and for the years ending December 31, 2006 and 2007, respectively. In connection with the split of CALLC into two entities on October 16, 2007, management's equity interest in CALLC was split so that half of management's equity interest is in CALLC and half is in CALLC II. The restructuring resulted in a modification of the existing awards under SFAS No. 123(R). However, because the fair value of the modified award equaled the fair value of the original award before the modification, there was no accounting consequence as a result of the modification. However, due to the restructuring, the employees of CVR Energy and CVR Partners no longer hold share-based awards in a parent company. Due to the change in status of the employees related to the awards, CVR Energy recognized compensation expense for the newly measured cost attributable to the remaining vesting (service) period prospectively from the date of the change in status, which expense is included in the amounts noted above. Also, CVR Energy now accounts for these awards pursuant to EITF 00-12 following the guidance in EITF 96-18, which requires variable accounting in this circumstance. Using a binomial model and a probability-weighted expected return method which utilized CVR Energy's cash flow projections resulted in an estimated fair value of the override operating units as noted below.

Significant assumptions used in the valuation were as follows:

| | |
|---|---|
| Estimated forfeiture rate | None |
| Explicit service period | Based on forfeiture schedule below |
| October 16, 2007 (date of modification) estimated fair value | $39.53 |
| December 31, 2007 estimated fair value | $51.84 per share |
| Marketability and minority interest discounts | $9.14 per share (15% discount) |
| Volatility | 35.8% |

***72,492 override operating units at a benchmark value of $34.72 per unit***

On December 28, 2006, CALLC issued additional nonvoting override operating units to a certain management member who holds common units of CALLC. There were no required capital contributions for the override operating units. In accordance with SFAS 123(R), a combination of a

binomial model and a probability-weighted expected return method which utilized CVR Energy's cash flow projections resulted in an estimated fair value of the override operating units on December 28, 2006 of $472,648. Management believed that this method was preferable for the valuation of the override units as it allowed a better integration of the cash flows with other inputs, including the timing of potential exit events that impact the estimated fair value of the override units. In accordance with the allocation method noted above and pursuant to the forfeiture schedule described below, CVR Partners recognized compensation expense of $798 and $168,881 for the periods ending December 31, 2006 and 2007, respectively. The amount included in the year ending December 31, 2007 includes compensation expense as a result of the restructuring and modification of the split of CALLC into two entities, as described above. These override operating units are being accounted for the same as the override operating units with the adjusted benchmark value of $11.31 per unit. Using a binomial model and a probability-weighted expected return method which utilized CVR Energy's cash flow projections resulted in an estimated fair value of the override operating units as described below.

Significant assumptions used in the valuation were as follows:

| | |
|---|---|
| Estimated forfeiture rate | None |
| Explicit service period | Based on forfeiture schedule below |
| October 16, 2007 (date of modification) estimated fair value | $20.34 |
| December 31, 2007 estimated fair value | $32.65 per share |
| Marketability and minority interest discounts | $5.76 per share (15% discount) |
| Volatility | 35.8% |

Override operating units are forfeited upon termination of employment for cause. In the event of all other terminations of employment, the override operating units are initially subject to forfeiture with the number of units subject to forfeiture reducing as follows:

| Minimum Period Held | Forfeiture Percentage |
|---|---|
| 2 years | 75% |
| 3 years | 50% |
| 4 years | 25% |
| 5 years | 0% |

On the tenth anniversary of the issuance of override operating units, such units shall convert into an equivalent number of override value units.

***1,839,265 override value units at an adjusted benchmark value of $11.31 per unit***

In June 2005, CALLC issued 1,839,265 nonvoting override value units to certain management members holding common units of CALLC. There were no required capital contributions for the override value units.

In accordance with SFAS 123(R), using the Monte Carlo method of valuation, the estimated fair value of the override value units on June 24, 2005 was $4,064,776. For the override value units, CVR Energy is recognizing compensation expense ratably over the implied service period of 6 years. In accordance with the allocation method noted above, CVR Partners recognized compensation expense of $98,205, 155,536 and $3,374,508 for the 191-day period ending December 31, 2005, and for the years ending December 31, 2006 and 2007, respectively. The amount included in the year ending December 31, 2007 includes compensation expense as a result of the restructuring and modification

of the split of CALLC into two entities, as described above. These override value units are being accounted for the same as the override operating units with an adjusted benchmark value of $11.31 per unit. Using a binomial model and a probability-weighted expected return method which utilized CVR Energy's cash flow projections resulted in an estimated fair value of the override value units as described below. Significant assumptions used in the valuation were as follows:

| | |
|---|---|
| • Estimated forfeiture rate | None |
| • Derived service period | 6 years |
| • October 16, 2007 (date of modification) estimated fair value | $39.53 |
| • December 31, 2007 estimated fair value | $51.84 per share |
| • Marketability and minority interest discounts | $9.14 per share (15% discount) |
| • Volatility | 35.8% |

***144,966 override value units at a benchmark value of $34.72 per unit***

On December 28, 2006, CALLC issued 144,966 additional nonvoting override value units to a certain management member who holds common units of CALLC. There were no required capital contributions for the override value units.

In accordance with SFAS 123(R), a combination of a binomial model and a probability-weighted expected return method which utilized CVR Energy's cash flow projections resulted in an estimated fair value of the override value units on December 28, 2006 of $945,178. Management believed that this method was preferable for the valuation of the override units as it allowed a better integration of the cash flows with other inputs, including the timing of potential exit events that impact the estimated fair value of the override units. For the override value units, CVR Energy is recognizing compensation expense ratably over the implied service period of 6 years. In accordance with the allocation method noted above, CVR Partners recognized compensation expense of $4,124, and $151,980 for the years ending December 31, 2006 and 2007, respectively. The amount included in the year ending December 31, 2007 includes compensation expense as a result of the restructuring and modification of the split of CALLC into two entities, as described above. These override value units are being accounted for the same as the override operating units with the adjusted benchmark value of $11.31 per unit. Using a binomial model and a probability-weighted expected return method which utilized CVR Energy's cash flow projections resulted in an estimated fair value of the override value units as noted below.

Significant assumptions used in the valuation were as follows:

| | |
|---|---|
| Estimated forfeiture rate | None |
| Derived service period | 6 years |
| October 16, 2007 (date of modification) estimated fair value | $20.34 |
| December 31, 2007 estimated fair value | $32.65 per share |
| Marketability and minority interest discounts | $5.76 per share (15% discount) |
| Volatility | 35.8% |

Unless the compensation committee of the board of directors of CVR Energy takes an action to prevent forfeiture, override value units are forfeited upon termination of employment for any reason except that in the event of termination of employment by reason of death or disability, all override

value units are initially subject to forfeiture with the number of units subject to forfeiture reducing as follows:

| Minimum Period Held | Forfeiture Percentage |
|---|---|
| 2 years | 75% |
| 3 years | 50% |
| 4 years | 25% |
| 5 years | 0% |

Assuming the allocation of costs from CVR Energy remains consistent with the allocation at December 31, 2007 and assuming no change in the estimated fair value at December 31, 2007, at December 31, 2007 there was approximately $18,574,142 of unrecognized compensation expense related to nonvoting override units. This expense is expected to be recognized by CVR Partners over a period of five years as follows:

| | Override Operating Units | Override Value Units |
|---|---|---|
| Year ending December 31, 2008 | 2,058,123 | 4,422,143 |
| Year ending December 31, 2009 | 1,067,545 | 4,422,143 |
| Year ending December 31, 2010 | 317,971 | 4,422,143 |
| Year ending December 31, 2011 | — | 1,864,074 |
| | $ 3,443,639 | $ 15,130,503 |

***Phantom Unit Appreciation Plan***

CVR Energy, through a wholly-owned subsidiary, has a Phantom Unit Appreciation Plan whereby directors, employees, and service providers may be awarded phantom points at the discretion of the board of directors or the compensation committee. Holders of service phantom points have rights to receive distributions when holders of override operating units receive distributions. Holders of performance phantom points have rights to receive distributions when holders of override value units receive distributions. There are no other rights or guarantees, and the plan expires on July 25, 2015, or at the discretion of the compensation committee of the board of directors of CVR Energy. As of December 31, 2007, the issued Profits Interest (combined phantom plan and override units) represented 15% of combined common unit interest and Profits Interest of CVR Energy. The Profits Interest was comprised of 11.1% and 3.9% of override interest and phantom interest, respectively. In accordance with SFAS 123(R), using the December 31, 2007 CVR Energy stock closing price to determine the CVR Energy equity value, through an independent valuation process, the service phantom interest and the performance phantom interest were both valued at $51.84 per point. CVR Partners has recorded compensation expense related to the Phantom Unit Plan of $22,174, $2,567,920 and $4,388,599 for the 191-day period ending December 31, 2005, and for the years ending December 31, 2006 and December 31, 2007, respectively.

Assuming the allocation of costs from CVR Energy remains consistent with the allocation at December 31, 2007, and assuming no change in the estimated fair value at December 31, 2007, at December 31, 2007 there was approximately $4,154,249 million of unrecognized compensation expense related to the Phantom Unit Plan. This is expected to be recognized over a period of five years.

***13,461 override units with a benchmark amount of $10***

In October 2007, CALLC III issued non-voting override units to certain management members holding common units of CALLC III. There were no required capital contributions for the override units. In accordance with SFAS 123(R), Share Based Compensation, using a binomial and a probability-weighted expected return method which utilized the CALLC III's cash flows projections, the estimated fair value of the operating units at December 31, 2007 was $3,750. CVR Energy recognizes compensation costs for this plan based on the fair value of the awards at the end of each reporting period in accordance with EITF 00-12 using the guidance in EITF 96-18. Pursuant to the forfeiture schedule reflected above, CVR Energy recognized compensation expense over this service period for each portion of the award for which the forfeiture restriction has lapsed. In accordance with the allocation method described above, CVR Partners recognized compensation expense of $723 for the year ended December 31, 2007.

Significant Assumptions used in the valuation were as follows:

| | |
|---|---|
| Estimated forfeiture rate | None |
| Explicit Service Period | Based on forfeiture schedule above |
| December 31, 2007 estimated fair value | $0.02 per share |
| Marketability and minority interest discount | $0.00 per share (15% discount) |
| Volatility | 34.7% |

**(13) Commitments and Contingent Liabilities**

The minimum required payments for CRNF's specific lease agreements and unconditional purchase obligations are as follows:

| Year Ending December 31, | Operating Leases | Unconditional Purchase Obligations |
|---|---|---|
| 2008 | $ 3,507,184 | $ 15,492,354 |
| 2009 | 2,762,547 | 16,316,790 |
| 2010 | 1,224,648 | 15,580,568 |
| 2011 | 726,793 | 16,971,022 |
| 2012 | 270,873 | 17,075,060 |
| Thereafter | 7,450 | 211,204,704 |
| | $ 8,499,495 | $ 292,640,498 |

CRNF leases railcars under long-term operating leases. For the 174 day period ended June 23, 2005, the 191 day period ended December 31, 2005, the year ended December 31, 2006, and the year ended December 31, 2007, lease expense totaled approximately $1,684,921, $1,565,783, $3,204,673, and $3,036,281, respectively. The lease agreements have various remaining terms. Some agreements are renewable, at CRNF's option, for additional periods. It is expected, in the ordinary course of business, that leases will be renewed or replaced as they expire.

CRNF licenses a gasification process from a third party associated with gasifier equipment. The royalty fees for this license are incurred as the equipment is used and are subject to a cap and the full capped amount was paid in 2007. At December 31, 2006, approximately $1,615,000 was included in accounts payable for this agreement. Royalty fee expense reflected in direct operating expenses (exclusive of depreciation and amortization) for the 174 day period ended June 23, 2005, the 191 day period ended December 31, 2005, the year ended December 31, 2006, and the year ended December 31, 2007 was $1,042,286, $914,878, $2,134,506, and $1,035,296, respectively.

CRNF has an agreement with the City of Coffeyville pursuant to which it must make a series of future payments for electrical generation transmission and city margin. As of December 31, 2007, the remaining obligations of CRNF totaled $19.6 million through December 31, 2019. Total minimum committed contractual payments under the agreement will be $1.7 million per year for each subsequent year.

During 2005, CRNF entered into an on-site product supply agreement with The Linde Group. Pursuant to the agreement, which expires in 2020, CRNF is required to take as available and pay approximately $300,000 per month for the supply of oxygen and nitrogen to the fertilizer operation. Expenses associated with this agreement, included in direct operating expenses (exclusive of depreciation and amortization) for the year ended December 31, 2006 and 2007 totaled approximately $3,520,759 and $3,135,969, respectively.

CRNF entered into a sales agreement with Cominco Fertilizer Partnership on November 20, 2007 to purchase equipment and materials which comprise a nitric acid plant. CRNF's obligation related to the execution of the agreement in 2007 for the purchase of the assets was $3,500,000. As of December 31, 2007, $250,000 had been paid with $3,250,000 remaining as an accrued current obligation. Additionally, $3,000,000 was accrued related to the obligation to dismantle the unit. These amounts incurred are included in construction-in-progress at December 31, 2007. The total unpaid obligation at December 31, 2007 of $6,250,000 is included in accrued expenses and other current liabilities on the Consolidated Balance Sheets.

CRNF entered into a 5-year lease agreement effective October 25, 2007 with CVR Energy under which certain office and laboratory space is leased. The agreement requires CRNF to pay $8,000 on the first day of each calendar month during the term of the agreement. See Note 14 "Related Party Transactions" for further discussion.

From time to time, CRNF is involved in various lawsuits arising in the normal course of business, including matters such as those described below under, "Environmental, Health, and Safety (EHS) Matters", and those described above. Liabilities related to such litigation are recognized when the related costs are probable and can be reasonably estimated. Management believes the Company has accrued for losses for which it may ultimately be responsible. It is possible management's estimates of the outcomes will change within the next year due to uncertainties inherent in litigation and settlement negotiations. In the opinion of management, the ultimate resolution of any other litigation matters is not expected to have a material adverse effect on the accompanying consolidated financial statements.

CRNF entered into a coke supply agreement with CVR Energy in October 2007 pursuant to which CVR Energy supplies CRNF with pet coke. CRNF is obligated under this agreement to purchase the lesser of (i) 100 percent of the pet coke produced at its petroleum refinery or (ii) 500,000 tons of pet coke. The agreement has an initial term of 20 years. The price which the Partnership will pay for the pet coke will be based on the lesser of a coke price derived from the price received by the Partnership for UAN (subject to a UAN based price ceiling and floor) or a coke index price but in no event will the pet coke price be less than zero. See Note 14 "Related Party Transactions."

CRNF is a guarantor under CRLLC's principal credit facility. CRLLC entered into a new credit facility on December 28, 2006. This credit facility provides financing up to $1.075 billion, consisting of $775 million of tranche D term loans, a $150 million revolving credit facility, and a funded letter of credit facility of $150 million. All obligations under the credit facility are guaranteed by all of CRLLC's subsidiaries including CRNF, CVR Partners and CVR Special GP (the special general partner of CVR Partners). Indebtedness under the credit facility is secured by a first priority security interest in substantially all of CRLLC's assets and the assets of all of the guarantors, including CRNF, as well as

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a pledge of all of the capital stock of CRLLC's domestic subsidiaries, including all of the units held by CRLLC and CVR Special GP in CVR Partners. The amount of term debt outstanding under this credit facility at December 31, 2007 was approximately $489 million.

CRNF is also a guarantor under three swap agreements which CRLLC entered into in July 2005 with J. Aron & Co., an affiliate of a related party of the managing general partner. All of CRLLC's subsidiaries, including CRNF, became guarantors under the swap agreements in July 2005. The total liability under the swap agreements at December 31, 2007 was approximately $350.6 million.

***Environmental, Health, and Safety (EHS) Matters***

CRNF is subject to various stringent federal, state, and local EHS rules and regulations. Liabilities related to EHS matters are recognized when the related costs are probable and can be reasonably estimated. Estimates of these costs are based upon currently available facts, existing technology, site-specific costs, and currently enacted laws and regulations. All liabilities are monitored and adjusted regularly as new facts emerge or changes in law or technology occur.

In 2005, CRNF agreed to participate in the State of Kansas Voluntary Cleanup and Property Redevelopment Program (VCPRP) to address a reported release of urea ammonium nitrate (UAN) at the Coffeyville UAN loading rack. As of December 31, 2006 and 2007, environmental accruals of $65,649 and $216,986, respectively, were reflected in the consolidated balance sheets for probable and estimated costs for remediation of environmental contamination under the VCPRP, including amounts totaling $65,649 and $170,000, respectively, included in accrued expenses and other current liabilities. The Successor accruals were determined based on an estimate of payment costs through 2010, which scope of remediation was arranged with the EPA and are discounted at the appropriate risk free rates at December 31, 2006 and 2007, respectively. The estimated future payments for these required obligations are as follows:

| Year Ending December 31, | Amount (in thousands) |
|---|---|
| 2008 | $ 170 |
| 2009 | 10 |
| 2010 | 40 |
| Undiscounted total | $ 220 |
| Less amounts representing interest at 3.52% | 3 |
| Accrued environmental liabilities at December 31, 2007 | $ 217 |

Management periodically reviews and, as appropriate, revises its environmental accruals. Based on current information and regulatory requirements, management believes that the accruals established for environmental expenditures are adequate.

Environmental expenditures are capitalized when such expenditures are expected to result in future economic benefits. For the 174-day period ended June 23, 2005, the 191-day period ended December 31, 2005, the year ended December 31, 2006, and the year ended December 31, 2007, capital expenditures were approximately $16,965, $373,215, $149,816, and $515,580, respectively, and were incurred to improve the environmental compliance and efficiency of the operations.

CRNF believes it is in substantial compliance with existing EHS rules and regulations. There can be no assurance that the EHS matters described above or other EHS matters which may develop in the future will not have a material adverse effect on the business, financial condition, or results of operations.

## (14) Related Party Transactions

CRLLC contributed its wholly-owned subsidiary CRNF to the Partnership on October 24, 2007. Pursuant to the contribution agreement, Coffeyville Resources transferred CVR Energy's fertilizer business to the Partnership in exchange for (1) the issuance to CVR Special GP of 30,303,000 special GP units, representing a 99.9% general partner interest in the Partnership at that time, (2) the issuance to Coffeyville Resources of 30,333 special LP units, representing a 0.1% limited partner interest in Partnership at that time, (3) the issuance to CVR GP of the managing general partner interest and the IDRs and (4) CVR Partners' agreement, contingent on CVR Partners completing an initial public or private offering, to reimburse CVR Energy for capital expenditures it incurred during the two year period prior to the sale of the managing general partner to Coffeyville Acquisition III, as described below, in connection with the operations of the nitrogen fertilizer plant, estimated to be approximately $18.4 million. CVR Partners assumed all liabilities arising out of or related to the ownership of the nitrogen fertilizer business to the extent arising or accruing on and after the date of transfer. Prior to the contribution, CRNF distributed certain working capital to CRLLC which were not included in the overall assets that were contributed to the Partnership. Assets not contributed included accounts receivable of $4,471,849, an insurance receivable of $3,207,861 and personnel and obligations of the phantom plan of $1,483,245.

### *Related Party Agreements, Effective October 25, 2007*

In connection with the formation of CVR Partners and the initial public offering of CVR Energy in October 2007, CVR Partners entered into several agreements with CVR Energy and its subsidiaries that govern the business relations among CVR Partners, CVR Energy and its managing general partner.

### *Feedstock and Shared Services Agreement*

CVR Partners has entered into a feedstock and shared services agreement with CVR Energy under which the two parties provide feedstock and other services to one another. These feedstocks and services are utilized in the respective production processes of CVR Energy's refinery and CVR Partners' nitrogen fertilizer plant.

The agreement provides hydrogen supply and pricing terms for circumstances where the refinery requires more hydrogen than it can generate. Revenues associated with the sale of hydrogen to CVR Energy were approximately $328,937, $2,391,788, $6,819,995 and $17,811,958 for the 174-day period ended June 23, 2005, the 191-day period ended December 31, 2005 and the years ended December 31, 2006 and 2007, respectively. These amounts are included in Net Sales in the Consolidated Statement of Operations. At December 31, 2007, there was $2,382,399 of receivables included in due from affiliate on the Consolidated Balance Sheet associated with unpaid balances related to hydrogen sales.

The agreement provides that both parties must deliver high-pressure steam to one another under certain circumstances. Reimbursed direct operating expenses recorded during the 174-day period ended June 23, 2005, the 191-day period ended December 31, 2005 and the years ended December 31, 2006 and 2007 were $(109,066), $296,134, $165,945 and $348,517, respectively.

CVR Partners is also obligated to make available to CVR Energy any nitrogen produced by the Linde air separation plant that is not required for the operation of the nitrogen fertilizer plant, as determined by CVR Partners in a commercially reasonable manner. Reimbursed direct operating expenses associated with nitrogen during the 174-day period ended June 23, 2005, the 191-day

period ended December 31, 2005, and the years ended December 31, 2006 and 2007 were $202,738, $296,366, $617,917 and $920,678, respectively.

The agreement also provides that both CVR Partners and CVR Energy must deliver instrument air to one another in some circumstances. CVR Partners must make instrument air available for purchase by CVR Energy at a minimum flow rate, to the extent produced by the Linde air separation plant and available to CVR Partners. Reimbursed direct operating expenses recorded during the 174-day period ended June 23, 2005, the 191-day period ended December 31, 2005 and the years ended December 31, 2006 and 2007 were $103,935, $112,065, $237,600 and $263,117, respectively.

At December 31, 2007, payables of $97,910 were included in due from affiliate on the Consolidated Balance Sheet associated with unpaid balances related to all components of the feedstock and shared services agreement except hydrogen sales.

The agreement has an initial term of 20 years, which will be automatically extended for successive five year renewal periods. Either party may terminate the agreement, effective upon the last day of a term, by giving notice no later than three years prior to a renewal date. The agreement will also be terminable by mutual consent of the parties or if one party breaches the agreement and does not cure within applicable cure periods and the breach materially and adversely affects the ability of the terminating party to operate its facility. Additionally, the agreement may be terminated in some circumstances if substantially all of the operations at the nitrogen fertilizer plant or the refinery are permanently terminated, or if either party is subject to a bankruptcy proceeding, or otherwise becomes insolvent.

***Coke Supply Agreement***

CVR Partners has entered into a coke supply agreement with CVR Energy pursuant to which CVR Energy supplies CVR Partners with pet coke. This agreement provides that CVR Energy must deliver to the Partnership during each calendar year an annual required amount of pet coke equal to the lesser of (i) 100 percent of the pet coke produced at its petroleum refinery or (ii) 500,000 tons of pet coke. CVR Partners is also obligated to purchase this annual required amount. If during a calendar month CVR Energy produces more than 41,667 tons of pet coke, then CVR Partners will have the option to purchase the excess at the purchase price provided for in the agreement. If CVR Partners declines to exercise this option, CVR Energy may sell the excess to a third party.

The price which CVR Partners will pay for the pet coke is based on the lesser of a coke price derived from the price it receives for UAN (subject to a UAN based price ceiling and floor) or a coke index price but in no event will the pet coke price be less than zero. CVR Partners will also pay any taxes associated with the sale, purchase, transportation, delivery, storage or consumption of the pet coke. Prior to October 24, 2007, the price of pet coke purchased by CRNF from CVR Energy's refinery was $15 per ton. CVR Partners will be entitled to offset any amount payable for the pet coke against any amount due from CVR Energy under the feedstock and shared services agreement between the parties.

The agreement has an initial term of 20 years, which will be automatically extended for successive five year renewal periods. Either party may terminate the agreement by giving notice no later than three years prior to a renewal date. The agreement is also terminable by mutual consent of the parties or if a party breaches the agreement and does not cure within applicable cure periods. Additionally, the agreement may be terminated in some circumstances if substantially all of the operations at the nitrogen fertilizer plant or the refinery are permanently terminated, or if either party is subject to a bankruptcy proceeding or otherwise becomes insolvent.

Cost of pet coke associated with the transfer of pet coke from CVR Energy to the Partnership were approximately $2,777,835, $2,575,155, $5,241,927 and $4,452,763 for the 174-day period

ended June 23, 2005, the 191-day period ended December 31, 2005 and the years ended December 31, 2006 and 2007, respectively. If the price of pet coke had been determined under the new coke supply agreement for the period prior to October 24, 2007, the cost of product sold (exclusive of depreciation and amortization) would have decreased $1.6 million, decreased $0.7 million, decreased $3.5 million and increased $2.5 million for the 174 days ended June 23, 2005, for the 191 days ended December 31, 2005, and for the years ended December 31, 2006 and 2007, respectively. Payables of $600,820 related to the coke supply agreement were included in due from affiliate on the Consolidated Balance Sheet at December 31, 2007.

***Lease Agreement***

CVR Partners has entered into a 5-year lease agreement with CVR Energy under which it leases certain office and laboratory space. This agreement expires in October 2012. The total amount incurred in 2007 was approximately $17,800. Payables of $8,000 were included in due from affiliate on the Consolidated Balance Sheet at December 31, 2007.

***Environmental Agreement***

CVR Partners has entered into an environmental agreement with CVR Energy which provides for certain indemnification and access rights in connection with environmental matters affecting the refinery and the nitrogen fertilizer plant. Generally, both CVR Partners and CVR Energy have agreed to indemnify and defend each other and each other's affiliates against liabilities associated with certain hazardous materials and violations of environmental laws that are a result of or caused by the indemnifying party's actions or business operations. This obligation extends to indemnification for liabilities arising out of off-site disposal of certain hazardous materials. Indemnification obligations of the parties will be reduced by applicable amounts recovered by an indemnified party from third parties or from insurance coverage.

The agreement provides for indemnification in the case of contamination or releases of hazardous materials that are present but unknown at the time the agreement is entered into to the extent such contamination or releases are identified in reasonable detail during the period ending five years after the date of the agreement. The agreement further provides for indemnification in the case of contamination or releases which occur subsequent to the date the agreement is entered into.

The term of the agreement is for at least 20 years, or for so long as the feedstock and shared services agreement is in force, whichever is longer.

***Services Agreement***

CVR Partners has entered into a services agreement with its managing general partner and CVR Energy pursuant to which it and its managing general partner obtain certain management and other services from CVR Energy. Under this agreement, the Partnership's managing general partner has engaged CVR Energy to conduct its day-to-day business operations. CVR Energy provides CVR Partners with the following services under the agreement, among others:

- services from CVR Energy's employees in capacities equivalent to the capacities of corporate executive officers, except that those who serve in such capacities under the agreement shall serve the Partnership on a shared, part-time basis only, unless the Partnership and CVR Energy agree otherwise;
- administrative and professional services, including legal, accounting services, human resources, insurance, tax, credit, finance, government affairs and regulatory affairs;

- management of the Partnership's property and the property of its operating subsidiary in the ordinary course of business;
- recommendations on capital raising activities to the board of directors of the Partnership's managing general partner, including the issuance of debt or equity interests, the entry into credit facilities and other capital market transactions;
- managing or overseeing litigation and administrative or regulatory proceedings, and establishing appropriate insurance policies for the Partnership, and providing safety and environmental advice;
- recommending the payment of distributions; and
- managing or providing advice for other projects as may be agreed by CVR Energy and its managing general partner from time to time.

As payment for services provided under the agreement, the Partnership, its managing general partner or CRNF must pay CVR Energy (i) all costs incurred by CVR Energy in connection with the employment of its employees, other than administrative personnel, who provide the Partnership services under the agreement on a full-time basis, but excluding share-based compensation; (ii) a prorated share of costs incurred by CVR Energy in connection with the employment of its employees, other than administrative personnel, who provide the Partnership services under the agreement on a part-time basis, but excluding share-based compensation, and such prorated share shall be determined by CVR Energy on a commercially reasonable basis, based on the percent of total working time that such shared personnel are engaged in performing services for the Partnership; (iii) a prorated share of certain administrative costs, including payroll, office costs, services by outside vendors, other sales, general and administrative costs and depreciation and amortization; and (iv) various other administrative costs in accordance with the terms of the agreement, including travel, insurance, legal and audit services, government and public relations and bank charges.

Either CVR Energy or the Partnership's managing general partner may terminate the agreement upon at least 90 days' notice, but not more than one years' notice. Furthermore, the Partnership's managing general partner may terminate the agreement immediately if CVR Energy becomes bankrupt, or dissolves and commences liquidation or winding-up.

In order to facilitate the carrying out of services under the agreement, CVR Partners, on the one hand, and CVR Energy and its affiliates, on the other, have granted one another certain royalty-free, non-exclusive and non-transferable rights to use one another's intellectual property under certain circumstances.

Net amounts incurred under the services agreement for 2007 were approximately $1,768,633. $1,298,910 of these charges are included in selling, general and administrative expenses (exclusive of depreciation and amortization), $451,218 are included in direct operating expenses (exclusive of depreciation and amortization) and $18,505 are included in interest expense and other financing costs. At December 31, 2007, payables of $1,249,050 were included in due from affiliate on the Consolidated Balance Sheet.

Additionally, at December 31, 2007, other receivables of $1,715,682 are included in due from affiliate on the Consolidated Balance Sheet.

## (15) Major Customers and Suppliers

Sales of nitrogen fertilizer to major customers were as follows:

| | 174-Day Period Ended June 23, 2005 | 191-Day Period Ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
|---|---|---|---|---|
| **Nitrogen Fertilizer** | | | | |
| Customer A | 17% | 9% | 6% | 3% |
| Customer B | 9% | 9% | 7% | 18% |
| | 26% | 18% | 13% | 21% |

In addition to contracts with CVR Energy and its affiliates (see Note 14 "Related Party Transactions"), the Partnership maintains long-term contracts with one supplier. Purchases from this supplier as a percentage of direct operating expenses (exclusive of depreciation and amortization) were as follows:

| | 174-Day Period Ended June 23, 2005 | 191-Day Period Ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
|---|---|---|---|---|
| Supplier | 4% | 5% | 7% | 5% |

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

*You should read the following discussion and analysis of our financial condition, results of operations and cash flows in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under "Risk Factors", "Cautionary Note Regarding Forward-Looking Statements" and elsewhere in this prospectus.*

### Overview

We are a growth-oriented Delaware limited partnership formed by CVR Energy to own and operate a nitrogen fertilizer facility and develop a diversified portfolio of assets that are complementary to our business and CVR Energy's refining business. Our objective is to generate stable cash flows and, over time, to increase our quarterly cash distributions per unit. We intend to utilize the significant experience of CVR Energy's management team to execute our growth strategy, including the acquisition from CVR Energy and third parties of additional infrastructure assets relating to fertilizer transportation and storage, petroleum storage, petroleum transportation and crude oil gathering. Upon the closing of this offering, CVR Energy will indirectly own approximately 87% of our outstanding units.

Our initial asset consists of a nitrogen fertilizer manufacturing facility, including (1) a 1,225 ton-per-day ammonia unit, (2) a 2,025 ton-per-day UAN unit and (3) an 84 million standard cubic foot per day gasifier complex, which consumes approximately 1,500 tons per day of pet coke to produce hydrogen. In 2007, we produced approximately 326,662 tons of ammonia, of which approximately 72% was upgraded into approximately 576,888 tons of UAN. At current natural gas and pet coke prices, we are the lowest cost producer and marketer of ammonia and UAN fertilizers in North America. We generated net sales of $173.5 million, $170.0 million and $187.4 million, and operating income of $71.0 million, $43.0 million and $48.0 million, for the years ended December 31, 2005, 2006 and 2007, respectively.

Our nitrogen fertilizer plant in Coffeyville, Kansas includes a pet coke gasifier that produces high purity hydrogen which in turn is converted to ammonia at a related ammonia synthesis plant. Ammonia is further upgraded into UAN solution in a related UAN unit. Pet coke is a low value by-product of the refinery coking process. On average during the last four years, more than 75% of the pet coke consumed by the nitrogen fertilizer plant was produced by CVR Energy's refinery. We obtain most of our pet coke via a long-term coke supply agreement with CVR Energy.

The nitrogen fertilizer plant is the only commercial facility in North America utilizing a pet coke gasification process to produce nitrogen fertilizers. Its redundant train gasifier provides good on-stream reliability and the use of low cost by-product pet coke feed (rather than natural gas) to produce hydrogen provides the facility with a significant competitive advantage due to currently high and volatile natural gas prices. Our competition utilizes natural gas to produce ammonia. Historically, pet coke has been a less expensive feedstock than natural gas on a per-ton of fertilizer produced basis.

The spare gasifier at the nitrogen fertilizer plant was expanded in 2006, increasing ammonia production by 6,500 tons per year. In addition, we are moving forward with an approximately $85 million fertilizer plant expansion, of which approximately $8 million was incurred as of December 31, 2007. We estimate this expansion will increase the nitrogen fertilizer plant's capacity to upgrade ammonia into premium-priced UAN by approximately 50%. We currently expect to complete this expansion in late 2009 or early 2010. This project is also expected to improve our cost structure by eliminating the need for rail shipments of ammonia, thereby reducing the risks associated with such rail shipments and avoiding anticipated cost increases in such transport.

### Factors Affecting Comparability

Our results over the past three years have been and our future results will be influenced by the following factors, which are fundamental to understanding comparisons of our period-to-period financial performance.

#### *Acquisitions*

On March 3, 2004, Coffeyville Resources completed the acquisition of one facility within Farmland's eight-plant nitrogen fertilizer manufacturing and marketing division (together with the former Farmland petroleum division). As a result, financial information as of and for the periods prior to March 3, 2004 discussed below and included elsewhere in this prospectus was derived from the financial statements and reporting systems of Farmland.

A new basis of accounting was established on the date of the Initial Acquisition and, therefore, the financial position and operating results after March 3, 2004 are not consistent with the operating results before the Initial Acquisition date. However, management believes the most meaningful way to comment on the statement of operations data due to the short period from January 1, 2004 to March 2, 2004 is to compare the sum of the operating results for both periods in 2004 with the sum of the operating results for both periods in 2005. Management believes it is not practical to comment on the cash flows from operating activities in the same manner because the Initial Acquisition resulted in some comparisons not being meaningful. For instance, we did not acquire the accounts receivable or assume the accounts payable of Farmland. Farmland collected and made payments on these accounts after March 3, 2004, and these transactions are not included in our consolidated statements of cash flows.

On June 24, 2005, pursuant to a stock purchase agreement dated May 15, 2005, Coffeyville Acquisition LLC acquired all of the subsidiaries of Coffeyville Group Holdings, LLC, including what is now our business. As a result of certain adjustments made in connection with this acquisition, a new basis of accounting was established on the date of the acquisition and the results of operations for the 191 days ended December 31, 2005 are not comparable to prior periods.

#### *Original Predecessor Corporate Allocations*

Our financial statements prior to March 3, 2004 reflect an allocation of certain general corporate expenses of Farmland, including general and corporate insurance, property insurance, corporate retirement and benefits, human resource and payroll department salaries, facility costs, information services, and information systems support. For the year ended December 31, 2003 and for the 62-day period ended March 2, 2004, these costs allocated to our business were approximately $10.1 million and $3.2 million, respectively. Our financial statements prior to March 3, 2004 also reflect an allocation of interest expense from Farmland. These allocations were made by Farmland on a basis deemed meaningful for their internal management needs and may not be representative of the actual expense levels required to operate the businesses at that time or as they have been operated after March 3, 2004. Our insurance costs are greater now as compared to the period prior to March 3, 2004, as we have elected to obtain additional insurance coverage (such as business interruption insurance) that had not been carried by Farmland.

#### *Successor Corporate Allocations*

Our financial statements subsequent to June 23, 2005 reflect an allocation of certain general corporate expenses of Coffeyville Resources, LLC. CVR Energy allocated general and administrative expenses to us based on allocation methodologies that it considered reasonable and which result in an allocation of the cost of doing business borne by CVR Energy on behalf of us. However, these allocations may not be indicative of the cost of future operations or the amount of future allocations.

Our financial statements reflect all of the expenses that Coffeyville Resources incurred on our behalf. Our financial statements therefore include certain expenses incurred by our parent which may include, but are not necessarily limited to, officer and employee salaries and share-based compensation, rent or depreciation, advertising, accounting, tax, legal and information technology services, other selling, general and administrative expenses, costs for defined contribution plans, medical and other employee benefits, and financing costs, including interest, mark-to-market changes in interest rate swap and losses on extinguishment of debt.

Selling, general and administrative expense allocations were based primarily on a percentage of total fertilizer payroll to the total fertilizer and petroleum segment payrolls. Property insurance costs were allocated based upon specific segment valuations. Interest expense, interest income, bank charges, gain(loss) on derivatives and loss on extinguishment of debt were allocated based upon fertilizer divisional equity as a percentage of total CVR Energy debt and equity. See Note 3 "Summary of Significant Accounting Policies — Allocation of Costs" in our historical financial statements included elsewhere in this prospectus.

***Asset Impairments***

In December 2002, Farmland implemented SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, resulting in a reorganization expense from the impairment of long-lived assets. Under SFAS No. 144, recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to the estimated undiscounted future net cash flows expected to be generated by the asset. It was determined that the carrying amount of the fertilizer assets exceeded its estimated future undiscounted net cash flow. An impairment charge of $230.8 million was recognized for the fertilizer assets, based on Farmland's best assumptions regarding the use and eventual disposition of those assets, primarily from indications of value received from potential bidders through the bankruptcy sale process. In 2003, as a result of receiving a bid from Coffeyville Resources in the bankruptcy court's sales process, Farmland revised its estimate for the amount to be generated from the disposition of these assets, and an additional impairment charge was taken. The charge to earnings in 2003 was $5.7 million for the fertilizer assets.

***Original Predecessor Agreement with CHS, Inc.***

For the period ending December 31, 2003 and the first 62 days of 2004, Farmland's sales of nitrogen fertilizer products were subject to a marketing agreement with CHS, Inc. Under the agreement, CHS, Inc. was responsible for marketing substantially all of the nitrogen fertilizer products made by Farmland. Following the Initial Acquisition, we began marketing nitrogen fertilizer products directly to distributors and dealers. As a result, we have been able to generate higher average plant gate prices on sales of fertilizer products as a percentage of market average prices. For example, in 2004 we generated average plant gate prices as a percentage of market averages of 90.0% and 80.1% for ammonia and UAN, respectively, compared to average plant gate prices as a percentage of market averages of 86.6% and 75.9% for ammonia and UAN, respectively, in 2003. The term plant gate price refers to the unit price of fertilizer in dollars per ton, offered on a delivered basis, excluding shipment costs.

***Publicly Traded Partnership Expenses***

We expect that our general and administrative expenses will increase due to the costs of operating as a publicly traded partnership, including costs associated with SEC reporting requirements, including annual and quarterly reports to unitholders, tax return and Schedule K-1 preparation and distribution, independent auditor fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and director compensation. We estimate that the increase in these costs will total approximately $2.5 million on an annual basis, excluding the costs associated with this offering and the costs of the initial implementation of our Sarbanes-Oxley Section 404 internal controls review and testing. Our financial

statements following this offering will reflect the impact of these expenses, which will affect the comparability of our post-offering results with our financial statements from periods prior to the completion of this offering. Our unaudited pro forma financial statements, however, do not reflect this expense.

### *Changes in Legal Structure*

Prior to March 3, 2004 our business was operated by Original Predecessor. Original Predecessor was not a separate legal entity, and its operating results were included within the operating results of Farmland and its subsidiaries in filing consolidated federal and state income tax returns. As a cooperative, Farmland was subject to income taxes on all income not distributed to patrons as qualified patronage refunds, and Farmland did not allocate income taxes to its divisions. As a result, results of operations during periods when we were operated by Original Predecessor do not reflect any provision for income taxes.

From March 3, 2004 to June 23, 2005, our business was operated by Immediate Predecessor and from June 23, 2005 through October 24, 2007 our business was operated by Successor. Both Immediate Predecessor and Successor were corporations, and our business operated as part of a larger company together with a petroleum refining business. Since October 24, 2007 our business has operated as a partnership, though still together with a petroleum refining business. Upon the completion of this offering, our business will continue to operate as a partnership, but for the first time will operate on a stand-alone basis as a nitrogen fertilizer business.

### *2007 Flood*

During the weekend of June 30, 2007, torrential rains in southeastern Kansas caused the Verdigris River to overflow its banks and flood the city of Coffeyville. Our nitrogen fertilizer plant, which is located in close proximity to the Verdigris River, was flooded, sustained major damage and required repairs. As a result of the flooding, our nitrogen fertilizer facility stopped operating on June 30, 2007. Production at our nitrogen fertilizer facility was restarted on July 13, 2007. Total gross costs recorded as a result of the damage to our facility for the year ended December 31, 2007 were approximately $5.8 million. We recorded net costs associated with the flood of $2.4 million, which is net of $3.3 million of accounts receivable from insurers, and we believe collection of this amount is probable. We spent approximately $3.5 million to repair the nitrogen fertilizer facility in the year ended December 31, 2007. All further flood-related repairs will be paid for by CVR Energy pursuant to an indemnity agreement we will enter into prior to the completion of this offering. See “Business — Flood” and “Certain Relationships and Related Party Transactions — Agreements with CVR Energy — Indemnity and Transition Services Agreement”. We cannot predict how much of these amounts CVR Energy will be able to recover through insurance. See “Risk Factors — Risks Related to Our Business — Our facilities face operating hazards and interruptions. We could face potentially significant costs to the extent these hazards or interruptions are not fully covered by our existing insurance coverage. Insurance companies that currently insure companies in our industry may cease to do so or may substantially increase premiums in the future”.

### **Industry Factors**

Our earnings depend largely on the prices of nitrogen fertilizer products, the floor price of which is directly influenced by natural gas prices. Natural gas prices have been and continue to be volatile.

Currently, the nitrogen fertilizer market is driven by an almost unprecedented increase in demand. According to the United States Department of Agriculture, U.S. farmers planted 92.9 million acres of corn in 2007, exceeding the 2006 planted area by 19 percent. This increase in acres planted in the U.S. was driven in large part by ethanol demand. In addition to the increase in U.S. nitrogen fertilizer demand, global demand has increased due to overall market growth in countries such as India, Latin America and Russia.

Total worldwide ammonia capacity has been growing. A large portion of the net growth has been in China and is attributable to China maintaining its self-sufficiency with regards to ammonia. Excluding China and the former Soviet Union, the trend in net ammonia capacity has been essentially flat since the late 1990s, as new plant construction has been offset by plant closures in countries with high-cost feedstocks. The high cost of capital is also limiting capacity increase. Today's strong market growth appears to be readily absorbing the latest capacity additions.

**Factors Affecting Results**

Our earnings and cash flow from operations are primarily affected by the relationship between nitrogen fertilizer product prices and direct operating expenses. Unlike our competitors, we use minimal natural gas as feedstock and, as a result, are not directly impacted in terms of cost, by high or volatile swings in natural gas prices. Instead, CVR Energy's adjacent oil refinery supplies us with most of the pet coke feedstock we need pursuant to a long-term coke supply agreement we entered into in October 2007. The price at which nitrogen fertilizer products are ultimately sold depends on numerous factors, including the supply of, and the demand for, nitrogen fertilizer products which, in turn, depends on, among other factors, the price of natural gas, the cost and availability of fertilizer transportation infrastructure, changes in the world population, weather conditions, grain production levels, the availability of imports, and the extent of government intervention in agriculture markets. While our net sales could fluctuate significantly with movements in natural gas prices during periods when fertilizer markets are weak and nitrogen fertilizer products sell at the floor price, high natural gas prices do not force us to shut down our operations because we utilize pet coke as a feedstock to produce ammonia and UAN rather than natural gas.

Nitrogen fertilizer prices are also affected by other factors, such as local market conditions and the operating levels of competing facilities. Natural gas costs and the price of nitrogen fertilizer products have historically been subject to wide fluctuations. An expansion or upgrade of competitors' facilities, price volatility, international political and economic developments and other factors are likely to continue to play an important role in nitrogen fertilizer industry economics. These factors can impact, among other things, the level of inventories in the market resulting in price volatility and a reduction in product margins. Moreover, the industry typically experiences seasonal fluctuations in demand for nitrogen fertilizer products.

The demand for fertilizers is affected by the aggregate crop planting decisions and fertilizer application rate decisions of individual farmers. Individual farmers make planting decisions based largely on the prospective profitability of a harvest, while the specific varieties and amounts of fertilizer they apply depend on factors like crop prices, their current liquidity, soil conditions, weather patterns and the types of crops planted. For further details on the economics of fertilizer, see "Industry Overview".

Natural gas is the most significant raw material required in the production of most nitrogen fertilizers. North American natural gas prices have increased substantially and, since 1999, have become significantly more volatile. In 2005, North American natural gas prices reached unprecedented levels due to the impact hurricanes Katrina and Rita had on an already tight natural gas market. Recently, natural gas prices have moderated, returning to pre-hurricane levels or lower.

In order to assess the operating performance of our business, we calculate plant gate price to determine our operating margin. Plant gate price refers to the unit price of fertilizer, in dollars per ton, offered on a delivered basis, excluding shipment costs. Given the use of low cost pet coke, our business is not presently subjected to the high raw materials costs of competitors that use natural gas, the cost of which has been high in recent periods. Instead of experiencing high variability in the cost of raw materials, our business utilizes less than 1% of the natural gas relative to other natural gas-based fertilizer producers and we estimate that our business would continue to have a production cost advantage in comparison to U.S. Gulf Coast ammonia producers at natural gas prices as low as $2.50 per MMBtu. The spot price for natural gas at Henry Hub on December 31, 2007 was $7.48 per MMBtu.

Because the nitrogen fertilizer plant has certain logistical advantages relative to end users of ammonia and UAN and demand relative to production has remained high, we have primarily targeted end users in the U.S. farm belt where we incur lower freight costs than our competitors. The farm belt refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin. We do not incur any intermediate storage, barge or pipeline freight charges when we sell in these markets, giving us a distribution cost advantage over U.S. Gulf Coast importers, assuming freight rates and pipeline tariffs for U.S. Gulf Coast importers as recently in effect. Selling products to customers within economic rail transportation limits of the nitrogen fertilizer plant and keeping transportation costs low are keys to maintaining profitability.

The value of nitrogen fertilizer products is also an important consideration in understanding our results. During 2007 we upgraded approximately 72% of our ammonia production into UAN, a product that presently generates a greater value than ammonia. UAN production is a major contributor to our profitability.

The direct operating expense structure of our business is also important to our profitability. Using a pet coke gasification process, we have significantly higher fixed costs than natural gas-based fertilizer plants. Major fixed operating expenses include electrical energy, employee labor, maintenance, including contract labor, and outside services. These costs comprise the fixed costs associated with the nitrogen fertilizer plant. Variable costs associated with the nitrogen fertilizer plant have averaged approximately 1.2% of direct operating expenses over the last 24 months ended December 31, 2007. The average annual operating costs over the last 24 months ended December 31, 2007 have approximated $65 million, of which substantially all are fixed in nature.

Our largest raw material expense is pet coke, which we purchase from CVR Energy and third parties. In 2007, we spent $13.6 million for pet coke. If pet coke prices rise substantially in the future, we may be unable to increase our prices to recover increased raw material costs, because market prices for nitrogen fertilizer products are generally correlated with natural gas prices, the primary raw material used by our competitors, and not pet coke prices.

Consistent, safe, and reliable operations at our nitrogen fertilizer plant are critical to our financial performance and results of operations. Unplanned downtime of the nitrogen fertilizer plant may result in lost margin opportunity, increased maintenance expense and a temporary increase in working capital investment and related inventory position. The financial impact of planned downtime, such as major turnaround maintenance, is mitigated through a diligent planning process that takes into account margin environment, the availability of resources to perform the needed maintenance, feedstock logistics and other factors.

We generally undergo a facility turnaround every two years. The turnaround typically lasts 15-20 days each turnaround year and costs approximately $2-3 million per turnaround. The next facility turnaround is currently scheduled for July 2008.

**Agreements with CVR Energy**

In connection with the initial public offering of CVR Energy and the transfer of the nitrogen fertilizer business to us in October 2007, we entered into a number of agreements with CVR Energy and its affiliates that govern the business relations between CVR Energy and us. These include the coke supply agreement mentioned above, under which we buy the pet coke we use in our nitrogen fertilizer plant; a services agreement, under which CVR Energy and its affiliates provide us with management services including the services of its senior management team; a feedstock and shared services agreement, which governs the provision of feedstocks, including hydrogen, high-pressure steam, nitrogen, instrument air, oxygen and natural gas; a raw water and facilities sharing agreement, which allocates raw water resources between the two businesses; an easement agreement; an environmental agreement; and a lease agreement pursuant to which we lease office space and laboratory space from CVR Energy.

The price we pay pursuant to the coke supply agreement is based on the lesser of a coke price derived from the price received by us for UAN (subject to a UAN based price ceiling and floor) and a coke price index for pet coke. Historically, the cost of product sold (exclusive of depreciation and amortization) in the nitrogen fertilizer business on our financial statements was based on a coke price of $15 per ton beginning in March 2004. If the terms of the coke supply agreement had been in place over the past three years, our cost of product sold (exclusive of depreciation and amortization) would have decreased $1.6 million, decreased $0.7 million, decreased $3.5 million and increased $2.5 million for the 174 day period ended June 24, 2005, the 191 day period ended December 31, 2005, and the years ended December 31, 2006 and 2007, respectively.

In addition, based on management's current estimates, the services agreement will result in an annual charge of approximately $11.5 million (excluding share-based compensation) in selling, general and administrative expenses (exclusive of depreciation and amortization) in our statement of operations. Had the services agreement been in effect over the past three years, our operating income would have decreased by $0.4 million, $1.6 million, $1.8 million and $0.8 million for the 174-day period ended June 23, 2005, the 191-day period ended December 31, 2005, and the years ended December 31, 2006 and 2007, respectively.

The total change to our operating income as a result of both the 20-year coke supply agreement (which affects our cost of product sold (exclusive of depreciation and amortization)) and the services agreement (which affects our selling, general and administrative expense (exclusive of depreciation and amortization)), if both agreements had been in effect over the last three years, would be an increase of $1.2 million, a decrease of $0.9 million, an increase of $1.7 million and a decrease of $3.3 million for the 174-day period ended June 23, 2005, the 191-day period ended December 31, 2005, and the years ended December 31, 2006 and 2007, respectively.

The feedstock and shared services agreement, the raw water and facilities sharing agreement, the cross-easement agreement and the environmental agreement are not expected to have a significant impact on the financial results of our business. However, the feedstock and shared services agreement includes provisions which require us to provide hydrogen to CVR Energy on a going-forward basis, as we have done in recent years. This will have the effect of reducing our fertilizer production, because we will not be able to convert this hydrogen into ammonia. We believe that the addition of CVR Energy's new catalytic reformer will reduce, to some extent, but not eliminate, the amount of hydrogen we will need to deliver to CVR Energy, and we expect to continue to deliver hydrogen to CVR Energy. The feedstock and shared services agreement requires CVR Energy to compensate us for the value of production lost due to the hydrogen supply requirement. See "Certain Relationships and Related Party Transactions — Agreements with CVR Energy".

Net receivables due from CVR Energy were $2,142,301 as of December 31, 2007.

**Results of Operations**

The period-to-period comparisons of our results of operations have been prepared using the historical periods included in our financial statements. Effective June 24, 2005, Successor acquired the net assets of Immediate Predecessor in a business combination accounted for as a purchase. As a result of this acquisition, the audited consolidated financial statements for the periods after the acquisition are presented on a different cost basis than that for the periods before the acquisition and, therefore, are not comparable. Accordingly, in this "— Results of Operations" section, after comparing the year ended December 31, 2007 with the year ended December 31, 2006, we compare the year ended December 31, 2006 with the 174-day period ended June 23, 2005 and the 191-day period ended December 31, 2005.

In order to effectively review and assess our historical financial information below, we have also included supplemental operating measures and industry measures that we believe are material to understanding our business. For the years ended December 31, 2004 and 2005 we have provided this supplemental information on a combined basis in order to provide a comparative basis for similar

periods of time. As discussed above, due to the various acquisitions that occurred, there were multiple financial statement periods of less than twelve months. We believe that the most meaningful way to present this supplemental data for the various periods is to compare the sum of the combined operating results for the 2004 and 2005 calendar years with prior fiscal years, and to compare the sum of the combined operating results for the year ended December 31, 2005 with the years ended December 31, 2006 and 2007.

Accordingly, for purposes of displaying supplemental operating data for the year ended December 31, 2005, we have combined the 174-day period ended June 23, 2005 and the 191-day period ended December 31, 2005 in order to provide a comparative year ended December 31, 2005 to the year ended December 31, 2006. Additionally, the 62-day period ended March 2, 2004 and the 304-day period ended December 31, 2004 have been combined in order to provide a comparative twelve-month period ended December 31, 2004 to a combined twelve-month period ended December 31, 2005 comprised of the 174-day period ended June 23, 2005 and the 191-day period ended December 31, 2005.

The tables below provide an overview of our results of operations, relevant market indicators and our key operating statistics during the past five fiscal years:

| Business Financial Results | Original Predecessor | | Immediate Predecessor | | Successor | | |
|---|---|---|---|---|---|---|---|
| | Year Ended December 31, 2003 | 62 Days Ended March 2, 2004 | 304 Days Ended December 31, 2004 | 174 Days Ended June 23, 2005 | 191 Days Ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
| | (unaudited) | (unaudited) | (unaudited) | | | | |
| | | | | (in millions) | | | |
| Net sales | $ 100.9 | $ 19.4 | $ 91.4 | $ 76.7 | $ 96.8 | $ 170.0 | $ 187.4 |
| Cost of product sold (exclusive of depreciation and amortization) | 21.9 | 4.1 | 18.8 | 9.8 | 19.2 | 33.4 | 33.1 |
| Direct operating expenses (exclusive of depreciation and amortization)(1) | 53.0 | 8.4 | 44.3 | 26.0 | 29.1 | 63.6 | 66.7 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization)(1) | 10.1 | 3.2 | 5.0 | 5.1 | 4.6 | 12.9 | 20.4 |
| Net costs associated with flood(2) | — | — | — | — | — | — | 2.4 |
| Depreciation and amortization(3) | 1.2 | 0.2 | 0.9 | 0.3 | 8.4 | 17.1 | 16.8 |
| Impairment and other charges(4) | 6.9 | — | — | — | — | — | — |
| Operating income | $ 7.8 | $ 3.5 | $ 22.4 | $ 35.5 | $ 35.5 | $ 43.0 | $ 48.0 |
| Net income(5) | 7.3 | 3.5 | 20.8 | 32.7 | 26.0 | 14.7 | 24.1 |

(1) Our direct operating expenses (exclusive of depreciation and amortization) and selling, general and administrative expenses (exclusive of depreciation and amortization) for the 191 days ended December 31, 2005, the year ended December 31, 2006 and the year ended December 31, 2007 include a charge related to CVR Energy's share-based compensation expense allocated to us by CVR Energy for financial reporting purposes in accordance with SFAS 123(R). We are not responsible for the payment of cash related to any share-based compensation allocated

to us by CVR Energy. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Share-Based Compensation.” The charges were:

| | 191 Days ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
|---|---|---|---|
| | | (in millions) | |
| Direct operating expenses (exclusive of depreciation and amortization) | $ 0.1 | $ 0.8 | $ 1.2 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 0.2 | 3.2 | 9.7 |
| Total | $ 0.3 | $ 4.0 | $ 10.9 |

(2) Total gross costs recorded as a result of the damage to the nitrogen fertilizer plant for the year ended December 31, 2007 were approximately $5.8 million, including approximately $0.8 million recorded for depreciation for temporarily idle facilities, $0.7 million for internal salaries and $4.3 million for other repairs and related costs. An insurance receivable of approximately $3.3 million was also recorded for the year December 31, 2007 for the probable recovery of such costs under CVR Energy’s insurance policies.

(3) Depreciation and amortization is comprised of the following components as excluded from direct operating expense and selling, general and administrative expense and as included in net costs associated with flood:

| | Original Predecessor | | Immediate Predecessor | | Successor | | |
|---|---|---|---|---|---|---|---|
| | Year Ended December 31, 2003 (unaudited) | 62 Days Ended March 2, 2004 (unaudited) | 304 Days Ended December 31, 2004 (unaudited) | 174 Days Ended June 23, 2005 | 191 Days Ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
| | | | | (in millions) | | | |
| Depreciation and amortization excluded from direct operating expenses | $ 1.2 | $ 0.1 | $ 0.9 | $ 0.3 | $ 8.3 | $ 17.1 | $ 16.8 |
| Depreciation and amortization excluded from selling, general and administrative expenses | — | 0.1 | — | — | 0.1 | — | — |
| Depreciation included in net costs associated with flood | — | — | — | — | — | — | 0.8 |
| Total depreciation and amortization | $ 1.2 | $ 0.2 | $ 0.9 | $ 0.3 | $ 8.4 | $ 17.1 | $ 17.6 |

(4) During the year ended December 31, 2003, we recorded a charge of $5.7 million related to the asset impairment of the nitrogen fertilizer plant based on the expected sales price of the assets in the Initial Acquisition. In addition, we recorded a charge of $1.2 million for the rejection of existing contracts while operating under Chapter 11 of the U.S. Bankruptcy Code.

(5) The following are certain charges and costs incurred in each of the relevant periods that are meaningful to understanding our net income and in evaluating our performance due to their unusual or infrequent nature:

| | Original Predecessor | | Immediate Predecessor | | Successor | | |
|---|---|---|---|---|---|---|---|
| | Year Ended December 31, 2003 (unaudited) | 62 Days Ended March 2, 2004 (unaudited) | 304 Days Ended December 31, 2004 (unaudited) | 174 Days Ended June 23, 2005 | 191 Days Ended December 31, 2005 | Year Ended December 31, 2006 | Year Ended December 31, 2007 |
| | | | | (in millions) | | | |
| Impairment of property, plant and equipment(a) | $ 5.7 | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.0 | $ 0.0 |
| Loss on extinguishment of debt(b) | — | — | 0.7 | 1.2 | — | 8.5 | 0.2 |
| Inventory fair market value adjustment | — | — | — | — | 0.7 | — | — |
| Interest rate swap | — | — | — | — | 0.1 | (1.8) | (1.4) |
| Share-based compensation expense(c) | — | — | — | — | 0.3 | 4.0 | 10.9 |

(a) During the year ended December 31, 2003, we recorded a charge of $5.7 million related to the asset impairment of our nitrogen fertilizer plant based on the expected sales price of the assets in the Initial Acquisition.

(b) Represents our portion of (1) the write-off of deferred financing costs in connection with the refinancing of the senior secured credit facility of Coffeyville Resources, LLC on June 23, 2005, (2) the write-off in connection with the refinancing of the senior secured credit facility of Coffeyville Resources, LLC on December 28, 2006, and (3) the write-off in connection with the repayment and termination of three of the credit facilities of Coffeyville Resources, LLC and Coffeyville Refining & Marketing Holding, Inc., an indirect parent company of Coffeyville Resources, LLC and a subsidiary of CVR Energy, Inc., on October 26, 2007.

(c) Our direct operating expenses (exclusive of depreciation and amortization) and selling, general and administrative expenses (exclusive of depreciation and amortization) include a charge related to CVR Energy's share-based compensation expense allocated to us by CVR Energy for financial reporting purposes in accordance with SFAS 123(R). See Note 1 above. We are not responsible for the payment of cash related to any share-based compensation expense allocated to us by CVR Energy.

The following tables show selected information about key market indicators and certain operating statistics for our business, respectively:

| Market Indicators | Annual Average for Year Ended December 31, 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Natural gas (dollars per MMBtu) | $5.49 | $6.18 | $9.01 | $6.98 | $7.12 |
| Ammonia — Southern Plains (dollars per ton) | 274 | 297 | 356 | 353 | 409 |
| UAN — Corn Belt (dollars per ton) | 143 | 171 | 212 | 197 | 288 |

| Company Operating Statistics | Original Predecessor | Original Predecessor and Immediate Predecessor Combined | Immediate Predecessor and Successor Combined | Successor | |
|---|---|---|---|---|---|
| | Year Ended December 31, | | | | |
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Production (thousand tons): | | | | | |
| Ammonia | 335.7 | 309.2 | 413.2 | 369.3 | 326.7 |
| UAN | 510.6 | 532.6 | 663.3 | 633.1 | 576.9 |
| Total | 846.3 | 841.8 | 1,076.5 | 1,002.4 | 903.6 |
| Sales (thousand tons): | | | | | |
| Ammonia | 134.8 | 103.2 | 141.4 | 117.7 | 92.8 |
| UAN | 528.9 | 528.8 | 639.1 | 644.6 | 576.4 |
| Total | 663.7 | 632.0 | 780.5 | 762.3 | 669.2 |
| Product price (plant gate) (dollars per ton)(1): | | | | | |
| Ammonia | $ 235 | $ 265 | $ 323 | $ 339 | $ 376 |
| UAN | 107 | 136 | 173 | $ 164 | $ 209 |
| On-stream factor(2): | | | | | |
| Gasifier | 90.1% | 92.4% | 98.1% | 92.5% | 90.0% |
| Ammonia | 89.6% | 79.9% | 96.7% | 89.3% | 87.7% |
| UAN | 81.6% | 83.3% | 94.3% | 88.9% | 78.7% |
| Reconciliation to net sales (dollars in thousands): | | | | | |
| Freight in revenue | $ 12,535 | $ 11,161 | $ 14,780 | $ 17,876 | $ 14,338 |
| Hydrogen Revenue | — | 318 | 2,721 | 6,820 | 17,812 |
| Sales net plant gate | 88,373 | 99,388 | 156,011 | 145,334 | 155,299 |
| Total net sales | $ 100,908 | $ 110,867 | $ 173,512 | $ 170,030 | $ 187,449 |

(1) Plant gate price per ton represents net sales less freight revenue divided by product sales volume in tons in the reporting period. Plant gate price per ton is shown in order to provide a pricing measure that is comparable across the fertilizer industry.

(2) On-stream factor is the total number of hours operated divided by the total number of hours in the reporting period. Excluding the impact of turnarounds at the nitrogen fertilizer facility in the third quarter of 2004 and 2006, (i) the on-stream factors in 2004 would have been 95.6% for gasifier, 83.1% for ammonia and 86.7% for UAN, and (ii) the on-stream factors in 2006 would have been 97.1% for gasifier, 94.3% for ammonia and 93.6% for UAN.

***Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006.***

***Net Sales.*** Net sales were $187.4 million for the year ended December 31, 2007 compared to $170.0 million for the year ended December 31, 2006. The increase of $17.4 million was the result of higher plant gate prices ($33.0 million), partially offset by reductions in overall sales volumes ($15.6 million).

Net sales for the year ended December 31, 2007 included $133.0 million from the sale of UAN, $36.6 million from the sale of ammonia and $17.8 million from the sale of hydrogen to CVR Energy. Net sales for the year ended December 31, 2006 included $121.1 million from the sale of UAN, $42.1 million from the sale of ammonia and $6.8 million from the sale of hydrogen to CVR Energy. The increase in hydrogen sales of $11.0 million was the result of the flood during the weekend of June 30, 2007 and the turnaround at CVR Energy's refinery, both of which idled CVR Energy's refinery and therefore reduced its ability to manufacture its own hydrogen.

In regard to product sales volumes for the year ended December 31, 2007, our nitrogen operations experienced a decrease of 21% in ammonia sales unit volumes (24,972 tons) and a decrease of 11% in UAN sales unit volumes (68,222 tons). The decrease in ammonia sales volume was the result of decreased production volumes during the year ended December 31, 2007 relative to the comparable period of 2006 due to unscheduled downtime at our nitrogen fertilizer plant and the transfer of hydrogen to CVR Energy's petroleum operations to facilitate sulfur recovery in its ultra low sulfur diesel production unit. We believe that the transfer of hydrogen to CVR Energy's petroleum

operations will decrease, to some extent, during most of 2008 because CVR Energy's new continuous catalytic reformer will produce hydrogen for CVR Energy.

On-stream factors (total number of hours operated divided by total hours in the reporting period) for all units of our nitrogen operations (gasifier, ammonia unit and UAN unit) during 2007 were less than the comparable period of 2006 primarily due to approximately 18 days of downtime for all three primary nitrogen units associated with the flood, nine days of downtime related to compressor repairs in the ammonia unit and 24 days of downtime related to the UAN expansion in the UAN unit. In addition, all three primary units also experienced brief and unscheduled downtime for repairs and maintenance during the year ended December 31, 2007. It is typical to experience brief outages in complex manufacturing operations such as our nitrogen fertilizer plant which result in less than one hundred percent on-stream availability for one or more specific units.

Plant gate prices are prices FOB the delivery point less any freight cost we absorb to deliver the product. We believe plant gate price is meaningful because we sell products both FOB our plant gate (sold plant) and FOB the customer's designated delivery site (sold delivered) and the percentage of sold plant versus sold delivered can change month to month or year to year. The plant gate price provides a measure that is consistently comparable period to period. Average plant gate prices during the year ended December 31, 2007 for ammonia and UAN were greater than average plant gate prices during the comparable period of 2006 by 11% and 27%, respectively. Our ammonia and UAN sales prices for product shipped during the year ended December 31, 2006 generally followed volatile natural gas prices; however, it is typical for the reported pricing in our business to lag the spot market prices for nitrogen fertilizer due to forward price contracts. As a result, forward price contracts entered into during the late summer and fall of 2005 (during a period of relatively high natural gas prices due to the impact of hurricanes Rita and Katrina) comprised a significant portion of the product shipped in the spring of 2006. However, as natural gas prices moderated in the spring and summer of 2006, nitrogen fertilizer prices declined and the spot and fill contracts entered into and shipped during this lower natural gas prices environment realized a lower average plant gate price. Ammonia and UAN sales prices for the year ended December 31, 2007 were negatively impacted by relatively low natural gas prices compared to 2005 and 2006, but this decrease was more than offset by a sharp increase in nitrogen fertilizer prices driven by increased demand for nitrogen fertilizer due to the increased use of corn for the production of ethanol and an overall increase in prices for corn, wheat and soybeans, the primary row crops in our region. This increase in demand for nitrogen fertilizer has created an environment in which nitrogen fertilizer prices have disconnected from their traditional correlation to natural gas. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Industry Factors".

***Cost of Product Sold (Exclusive of Depreciation and Amortization).*** Cost of product sold is primarily comprised of expenses related to pet coke purchases, freight and distribution expenses and railcar expense. Freight and distribution expenses consist of our outbound freight cost, which we pass through to our customers. Railcar expense is our actual expense to acquire, maintain and lease railcars. Cost of product sold for the year ended December 31, 2007 was $33.1 million compared to $33.4 million for the year ended December 31, 2006. The decrease of $0.3 million for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was primarily the result of reduced freight expense and lower overall sales volumes in 2007 partially offset by increased pet coke costs. In 2007, pet coke costs increased as we purchased more pet coke from third parties than is typical as a result of the flood which curtailed CVR Energy's pet coke production.

***Direct Operating Expenses (Exclusive of Depreciation and Amortization).*** Direct operating expenses include costs associated with the actual operations of our nitrogen plant, such as repairs and maintenance, energy and utility costs, catalyst and chemical costs, outside services, labor and environmental compliance costs. Direct operating expenses exclusive of depreciation and amortization for the year ended December 31, 2007 were $66.7 million as compared to $63.6 million for the year ended December 31, 2006. The increase of $3.1 million for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was primarily the result of increases in expenses

associated with repairs and maintenance ($6.5 million), equipment rental ($0.6 million), environmental ($0.4 million), utilities ($0.3 million) and insurance ($0.3 million). These increases in direct operating expenses were partially offset by reductions in expenses associated with turnaround ($2.6 million), royalties and other ($1.7 million), catalyst ($0.4 million) and chemicals ($0.3 million).

***Selling, General and Administrative Expenses (Exclusive of Depreciation and Amortization).*** Selling, general and administrative expenses include the direct selling, general and administrative expenses of our business as well as certain corporate allocations from CVR Energy. These selling, general and administrative allocations from CVR Energy are based on different methodologies depending on the particular expense. With the contribution of our business to the Partnership in October 2007, certain expenses of the Partnership are subject to the management services agreement with CVR Energy and its affiliates. Selling, general and administrative expenses exclusive of depreciation and amortization were $20.4 million for the year ended December 31, 2007 as compared to $12.9 million for the year ended December 31, 2006. This variance was primarily the result of increases in expenses associated with non-cash share-based compensation allocated to us by CVR Energy in accordance with SFAS 123(R) for financial reporting purposes ($7.5 million), the management services agreement and corporate allocations from CVR Energy ($0.9 million) and outside services ($0.5 million). These increases in selling, general and administrative expenses were partially offset by the retirement of fixed assets as a result of the spare gasifier project ($1.0 million) in 2006.

***Net Costs Associated with Flood.*** Net costs associated with flood for the year ended December 31, 2007 were approximately $2.4 million. There was no comparable expense for the year ended December 31, 2006. Total gross costs recorded as a result of the damage to the nitrogen fertilizer plant for the year ended December 31, 2007 were approximately $5.8 million. Included in this cost was approximately $0.8 million recorded for depreciation for temporarily idle facilities, $0.7 million for internal salaries and $4.3 million for other repair and related costs. Total accounts receivable from insurers relating to the nitrogen fertilizer plant approximated $3.3 million at December 31, 2007, and we believe collection of this amount is probable.

***Depreciation and Amortization.*** Depreciation and amortization decreased to $16.8 million for the year ended December 31, 2007 as compared to $17.1 million for the year ended December 31, 2006. During the restoration period for the nitrogen fertilizer operations due to the flood, $0.8 million of depreciation and amortization was reclassified into net costs associated with flood. Adjusting for this $0.8 million reclassification, depreciation and amortization would have increased by approximately $0.5 million.

***Operating Income.*** Operating income was $48.0 million for the year ended December 31, 2007 as compared to $43.0 million for the year ended December 31, 2006. This increase of $5.0 million was primarily the result of higher plant gate prices ($33.0 million), partially offset by reductions in overall sales volumes ($15.6 million). Partially offsetting the higher plant gate prices for UAN and ammonia was an increase of $3.1 million in direct operating expenses, which was primarily the result of increases in expenses associated with repairs and maintenance ($6.5 million), equipment rental ($0.6 million), environmental ($0.4 million), utilities ($0.3 million) and insurance ($0.3 million). These increases in direct operating expenses were partially offset by reductions in expenses associated with turnaround ($2.6 million), royalties and other expenses ($1.7 million), catalyst ($0.4 million) and chemicals ($0.3 million). Further offsetting the higher plant gate prices was a $7.7 million increase in selling, general and administrative expenses over the comparable periods primarily the result of increases in expenses associated with deferred compensation ($7.5 million), the management services agreement and corporate allocations from CVR Energy ($0.9 million) and outside services ($0.5 million). These increases in selling, general and administrative expenses were partially offset by the retirement of fixed assets as a result of the spare gasifier project ($1.0 million) in 2006.

***Interest Expense and Other Financing Costs.*** Interest expense and other financing costs for the year ended December 31, 2006 and the year-to-date period ending October 24, 2007 is the result of an allocation based upon our business's percentage of divisional equity relative to the debt and equity of CVR Energy. After October 24, 2007, interest expense and other financing costs was based upon the outstanding inter-company balance between us and CVR Energy. Interest expense for the year ended December 31, 2007 was $23.6 million as compared to interest expense of $23.5 million for the year ended December 31, 2006. The comparability of interest expense and other financing costs during these periods has been impacted by the differing capital structures of Successor during these periods, the interest expense allocation method utilized prior to October 24, 2007 and the interest expense calculation after October 24, 2007. See "— Factors Affecting Comparability".

***Interest Income.*** Interest income for the year ended December 31, 2006 and the year-to-date period ending October 24, 2007 is the result of an allocation based upon our business's percentage of divisional equity relative to the debt and equity of CVR Energy. After October 24, 2007, interest income was based upon the outstanding balance of an inter-company note between our business and CVR Energy and actual interest income on cash balances in our business's bank account. Interest income was $0.3 million for the year ended December 31, 2007 as compared to $1.4 million for the year ended December 31, 2006. The comparability of interest income during these periods has been impacted by the differing capital structures of CVR Energy, the interest income allocation method utilized prior to October 24, 2007 and the interest income calculation after October 24, 2007. See "— Factors Affecting Comparability".

***Gain (Loss) on Derivatives.*** Gain (loss) on derivatives is the result of an allocation based on our business's percentage of divisional equity relative to the debt and equity of CVR Energy. Furthermore, the gain (loss) on derivatives is exclusively related to the interest rate swap entered into by CVR Energy in July 2005. Gain (loss) on derivatives was a loss of $0.5 million for the year ended December 31, 2007 as compared to a gain of $2.1 million for the year ended December 31, 2006. The comparability of gain (loss) on derivatives during these periods has been impacted by the differing capital structures of CVR Energy during these periods and the aforementioned gain (loss) on derivative allocation method. See "— Factors Affecting Comparability".

***Loss on Extinguishment of Debt.*** Loss on extinguishment of debt is the result of an allocation of such expense to us based upon our business's percentage of divisional equity relative to the debt and equity of CVR Energy. In August 2007, as a result of the flood, Coffeyville Resources entered into a new $25.0 million senior secured term loan and a new $25.0 million senior unsecured term loan. Concurrently, Coffeyville Refining & Marketing Holdings, Inc. entered into a new $75.0 million senior unsecured term loan. With the completion of CVR Energy's initial public offering in October 2007, these three facilities were repaid and terminated. As a result of this termination and the related extinguishment of debt allocation, we recognized $0.2 million as a loss on extinguishment of debt in 2007.

On December 28, 2006, Coffeyville Acquisition LLC refinanced its existing first lien credit facility and second lien credit facility and raised $1.075 billion in long-term debt commitments under a new credit facility. See "— Liquidity and Capital Resources — Debt". As a result of the retirement of the first and second lien credit facilities with the proceeds of the new credit facility and the related extinguishment of debt allocation, we recognized $8.5 million as a loss on extinguishment of debt in 2006. On June 24, 2005 and in connection with the acquisition of Immediate Predecessor by Coffeyville Acquisition LLC, Coffeyville Resources raised $800.0 million in long-term debt commitments under both the first lien credit facility and second lien credit facility. See "— Factors Affecting Comparability" and "— Liquidity and Capital Resources — Debt".

***Other Income (Expense).*** For the year ended December 31, 2007, other income was $0.1 million as compared to other expense of $0.2 million for the year ended December 31, 2006.

***Income Tax Expense.*** Income tax expense for the years ended December 31, 2007 and December 31, 2006 was immaterial and was primarily comprised of a Texas state franchise tax.

***Net Income.*** Net income for the year ended December 31, 2007 was $24.1 million as compared to net income of $14.7 million for the year ended December 31, 2006. Net income increased $9.4 million for the year ended December 31, 2007 as compared to the year ended December 31, 2006 primarily due to strong plant gate prices for UAN and ammonia, more than offsetting reductions in overall sales volumes and increases in direct operating expenses (exclusive of depreciation and amortization), selling, general and administrative expenses (exclusive of depreciation and amortization) and net costs associated with flood.

***Year Ended December 31, 2006 Compared to the 174 Days Ended June 23, 2005 and the 191 Days Ended December 31, 2005.***

***Net Sales.*** Net sales were $170.0 million for the year ended December 31, 2006 compared to $76.7 million for the 174 days ended June 23, 2005 and $96.8 million for the 191 days ended December 31, 2005. The decrease of $3.5 million from the year ended December 31, 2006 as compared to the combined periods for the year ended December 31, 2005 was the result of both decreases in selling prices ($1.3 million) and reductions in overall sales volumes ($2.2 million) as compared to the year ended December 31, 2005.

Net sales for the year ended December 31, 2006 included $121.1 million from the sale of UAN, $42.1 million from the sale of ammonia and $6.8 million from the sale of hydrogen to CVR Energy. Net sales for the year ended December 31, 2005 included $122.2 million from the sale of UAN, $48.6 million from the sale of ammonia and $2.7 million from the sale of hydrogen to CVR Energy.

In regard to product sales volumes for the year ended December 31, 2006, we experienced a decrease of 17% in ammonia sales unit volumes (23,647 tons) and an increase of 0.9% in UAN sales unit volumes (5,510 tons). The decrease in ammonia sales volume was the result of decreased production volumes during the year ended December 31, 2006 relative to the comparable period of 2005 due to the scheduled turnaround at the nitrogen fertilizer plant during July 2006 and the transfer of hydrogen to CVR Energy's petroleum operations to facilitate sulfur recovery in the ultra low sulfur diesel production unit. We believe that the transfer of hydrogen to CVR Energy's petroleum operations will decrease, to some extent, during 2008 because CVR Energy's new continuous catalytic reformer will produce hydrogen for CVR Energy.

On-stream factors (total number of hours operated divided by total hours in the reporting period) for all units of our operations (gasifier, ammonia unit and UAN unit) were less in 2006 than in 2005 primarily due to the scheduled turnaround in July 2006 and downtime in the ammonia unit due to a crack in the converter. It is typical to experience brief outages in complex manufacturing operations such as our nitrogen fertilizer plant which result in less than 100% on-stream availability for one or more specific units.

Plant gate prices are prices FOB the delivery point less any freight cost absorbed to deliver the product. We believe plant gate price is meaningful because the nitrogen fertilizer business sells products both FOB the nitrogen fertilizer plant gate (sold plant) and FOB the customer's designated delivery site (sold delivered). In addition, the percentage of sold plant versus sold delivered can change month to month or year to year. The plant gate price provides a measure that is consistently comparable period to period. Average plant gate prices during the year ended December 31, 2006 for ammonia were greater than average plant gate prices during the comparable period of 2005 by 5%. In contrast to ammonia, UAN prices decreased for the year ended December 31, 2006 as compared to the year ended December 31, 2005 by 5%. The positive price comparisons for ammonia sales, given the dramatic decline in natural gas prices during the comparable periods, were the result of prepay contracts executed during the period of relatively high natural gas prices that resulted from the impact of hurricanes Katrina and Rita on an already tight natural gas market.

***Cost of Product Sold (Exclusive of Depreciation and Amortization).*** Cost of product sold is primarily comprised of pet coke expense and freight and distribution expenses. Cost of product sold for the year ended December 31, 2006 was $33.4 million compared to $9.8 million for the 174 days

ended June 23, 2005 and $19.2 million for the 191 days ended December 31, 2005. The increase of $4.4 million for the year ended December 31, 2006 as compared to the combined periods for the year ended December 31, 2005 was primarily the result of increases in freight expense.

***Direct Operating Expenses (Exclusive of Depreciation and Amortization).*** Direct operating expenses include costs associated with the actual operations of our nitrogen fertilizer plant, such as repairs and maintenance, energy and utility costs, catalyst and chemical costs, outside services, labor and environmental compliance costs. Direct operating expenses exclusive of depreciation and amortization for the year ended December 31, 2006 were $63.6 million as compared to $26.0 million for the 174 days ended June 23, 2005 and $29.1 million for the 191 days ended December 31, 2005. The increase of $8.5 million for the year ended December 31, 2006 as compared to the combined periods for the year ended December 31, 2005 was primarily the result of increases in turnaround expenses ($2.6 million), utilities ($2.6 million), repairs and maintenance ($1.3 million), labor ($0.9 million), outside services ($0.8 million), insurance ($0.6 million), and chemicals ($0.3 million), partially offset by reductions in expenses related to environmental ($0.5 million) and catalyst and refractory brick ($0.3 million).

***Selling, General and Administrative Expenses (Exclusive of Depreciation and Amortization).*** Selling, general and administrative expenses include the direct selling, general and administrative expenses of our business as well as certain corporate allocations from CVR Energy or Immediate Predecessor. These selling, general and administrative allocations from CVR Energy or Immediate Predecessor are based on different methodologies depending on the particular expense. Selling, general and administrative expenses were $12.9 million for the year ended December 31, 2006 as compared to $5.1 million for the 174 days ended June 23, 2005 and $4.6 million for the 191 days ended December 31, 2005. For the year ended December 31, 2006 as compared to the combined periods ended December 31, 2005, selling, general and administrative expense increased approximately $3.2 million. This variance was primarily the result of increases in expenses associated with corporate allocations ($2.1 million) and the retirement of fixed assets as a result of the spare gasifier expansion project ($1.0 million).

***Depreciation and Amortization.*** Depreciation and amortization increased to $17.1 million for the year ended December 31, 2006 as compared to $0.3 million for the 174 days ended June 23, 2005 and $8.4 million for the 191 days ended December 31, 2005. This increase of $8.4 million for the year ended December 31, 2006 as compared to the combined periods for the year ended December 31, 2005 was primarily the result of the step-up in property, plant and equipment for the Subsequent Acquisition. See "— Factors Affecting Comparability".

***Operating Income.*** Our operating income was $43.0 million for the year ended December 31, 2006 as compared to $35.5 million for the 174 days ended June 23, 2005 and $35.5 million for the 191 days ended December 31, 2005. This decrease of $28.0 million for the year ended December 31, 2006 as compared to the combined periods for the year ended December 31, 2005 was the result of reduced sales volumes, lower plant gate prices for UAN and increased direct operating expenses as described above.

***Interest Expense and Other Financing Costs.*** Interest expense and other financing costs is the result of an allocation based upon our business's percentage of divisional equity relative to the debt and equity of CVR Energy or the Immediate Predecessor. We reported interest expense and other financing costs for the year ended December 31, 2006 of $23.5 million as compared to interest expense and other financing costs of $0.8 million for the 174 days ended June 23, 2005 and $14.8 million for the 191 days ended December 31, 2005. The comparability of interest expense and other financing costs during the comparable periods has been impacted by the differing capital structures of CVR Energy and Immediate Predecessor periods and the interest expense allocation method mentioned above. See "— Factors Affecting Comparability".

***Interest Income.*** Interest income is the result of an allocation based upon our business's percentage of divisional equity relative to the debt and equity of CVR Energy or the Immediate

Predecessor. Interest income was $1.4 million for the year ended December 31, 2006 as compared to $0.0 million for the 174 days ended June 23, 2005 and $0.5 million for the 191 days ended December 31, 2005. The comparability of interest income during the comparable periods has been impacted by the differing capital structures of CVR Energy and Immediate Predecessor periods and the interest income allocation method mentioned above. See "— Factors Affecting Comparability".

***Gain (Loss) on Derivatives.*** Gain (loss) on derivatives is the result of an allocation based on our business's percentage of divisional equity relative to the debt and equity of CVR Energy or the Immediate Predecessor. Furthermore, the gain (loss) on derivatives is exclusively related to the interest rate swap entered into by the Immediate Successor in July 2005. Gain (loss) on derivatives was $2.1 million for the year ended December 31, 2006 as compared to $4.9 million for the 191 days ended December 31, 2005. The comparability of gain (loss) on derivatives during the comparable periods has been impacted by the differing capital structures of CVR Energy and Immediate Predecessor during these periods and the (loss) on derivative allocation method mentioned above. See "— Factors Affecting Comparability".

***Loss on Extinguishment of Debt.*** Extinguishment of debt is the result of an allocation based upon our business's percentage of divisional equity relative to the debt and equity of CVR Energy or the Immediate Predecessor. On December 28, 2006, Coffeyville Resources refinanced its existing first lien credit facility and second lien credit facility and raised $1.075 billion in long-term debt commitments under a new revolving secured credit facility. See "— Liquidity and Capital Resources — Debt". As a result of the retirement of the first and second lien credit facilities with the proceeds of the new revolving secured credit facility and the extinguishment of debt allocation method mentioned above, we recognized $8.5 million as a loss on extinguishment of debt in 2006.

On June 24, 2005 and in connection with the acquisition of Immediate Predecessor by Coffeyville Acquisition LLC, Coffeyville Resources raised $800.0 million in long-term debt commitments under both the first lien credit facility and second lien credit facility. See "— Factors Affecting Comparability" and "— Liquidity and Capital Resources — Debt". As a result of the retirement of Immediate Predecessor's outstanding indebtedness consisting of $150.0 million term loan and revolving credit facilities and the extinguishment of debt allocation method mentioned above, we recognized $1.2 million as a loss on extinguishment of debt in 2005. See "— Factors Affecting Comparability".

***Other Income (Expense)***. For the year ended December 31, 2006, other income was $0.2 million as compared to other expense of $0.8 million for the 174 days ended June 23, 2005 and no other income (expense) for the 191 days ended December 31, 2005.

***Income Tax Expense.*** Income tax expense for the year ended December 31, 2006, the 174 days ended June 23, 2005 and the 191 days ended December 31, 2005 was immaterial and was primarily comprised of Texas state franchise taxes.

***Net Income.*** For the year ended December 31, 2006, net income decreased to $14.7 million as compared to net income of $32.7 million for the 174 days ended June 23, 2005 and net income of $26.0 million for the 191 days ended December 31, 2005. Net income decreased $44.0 million for the year ended December 31, 2006 as compared to the combined periods ended December 31, 2005 primarily due to decreased sales prices, reductions in sales volumes and increases in expenses associated with cost of product sold (exclusive of depreciation and amortization), direct operating expenses (exclusive of depreciation and ammortization), selling, general and administrative expenses (exclusive of depreciation and ammortization), depreciation and ammortization, interest expense and other financing costs, gain (loss) on derivatives and loss on extinguishment of debt.

**Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with GAAP. In order to apply these principles, management must make judgments, assumptions and estimates based on the best

available information at the time. Actual results may differ based on the accuracy of the information utilized and subsequent events. Our accounting policies are described in the notes to our audited financial statements included elsewhere in this prospectus. Our critical accounting policies, which are described below, could materially affect the amounts recorded in our financial statements.

***Impairment of Long-Lived Assets***

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeded the fair value of the asset. Assets to be disposed of would be separately reported at the lower of the carrying value or fair value less cost to sell the asset.

As of December 31, 2007, net property, plant and equipment totaled approximately $352.0 million. To the extent events or circumstances change indicating the carrying amounts of our assets may not be recoverable, we could experience asset impairments in the future.

***Impairment of Goodwill***

We account for goodwill in accordance with the provisions of SFAS 142, *Goodwill and Other Intangible Assets*, which requires goodwill and intangible assets with indefinite useful lives not be amortized, but be tested for impairment annually or whenever indicators or impairments arise. Intangible assets that have finite lives continue to be amortized over their estimated useful lives. To the extent events or circumstances change indicating the carrying amount of our goodwill may not be recoverable, we could recognize a material impairment charge in the future. As of December 31, 2007, goodwill totaled approximately $41.0 million.

***Allocation of Costs***

Our consolidated financial statements have been prepared in accordance with Staff Accounting Bulletin, or SAB, Topic 1-B. These rules require allocations of costs for salaries and benefits, depreciation, rent, accounting, and legal services, and other general and administrative, or G&A, expenses. CVR Energy has allocated G&A expenses to us, and based on management's estimation, we believe the allocation methodologies used are reasonable and result in a fair allocation of the cost of doing business borne by CVR Energy and Coffeyville Resources LLC on behalf of our business; however, these allocations may not be indicative of the cost of future operations or the amount of future allocations.

Our historical income statements reflect all of the direct expenses that the parent incurred on our behalf. Our financial statements therefore include certain expenses incurred by our parent which include, but are not necessarily limited to, the following:

- Officer and employee salaries and equity compensation;
- Rent or depreciation;
- Advertising;
- Accounting, tax and legal and information technology services;
- Other selling, general and administrative expenses;
- Costs for defined contributions plans, medical, and other employee benefits; and
- Financing costs, including interest, mark-to-market changes in interest rate swap, and losses on extinguishment of debt.

If shared costs rise or the method by which we allocate shared costs changes, additional G&A expenses could be allocated to us, which could be material.

#### ***Share-Based Compensation***

We have been allocated non-cash share-based compensation expense from CVR Energy. CVR Energy accounts for share-based compensation in accordance with SFAS No. 123(R), *Share-Based Payments*, and in accordance with EITF Issue No. 00-12, "Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee". In accordance with SFAS 123(R), CVR Energy applies a fair-value based measurement in accounting for share-based compensation. Costs are allocated based upon the percentage of time a CVR Energy employee provides services to us. In accordance with the services agreement, we will not be responsible for the payment of cash related to any share-based compensation allocated to us by CVR Energy. Expense allocated subsequent to October 24, 2007 is treated as a contribution to capital.

There is considerable judgment in the determination of the significant assumptions used in determining the fair value of the share-based compensation allocated to us from CVR Energy and Coffeyville Acquisition III. Changes in the assumptions used to determine the fair value of compensation expense associated with the override units of Coffeyville Acquisition III could result in material changes in the amounts allocated to us from Coffeyville Acquisition III. Amounts allocated to us from CVR Energy in the future will depend and be based upon the market value of CVR Energy's common stock.

#### ***Purchase Price Accounting and Allocation***

The Initial Acquisition and the Subsequent Acquisition described in Note 1 to our audited consolidated financial statements included elsewhere in this prospectus have been accounted for using the purchase method of accounting as of March 3, 2004 and June 24, 2005, respectively. The allocations of the purchase prices to the net assets acquired have been performed in accordance with SFAS No. 141, *Business Combinations.* In connection with the allocations of the purchase prices, management used estimates and assumptions to determine the fair value of the assets acquired and liabilities assumed. Changes in these assumptions and estimates such as discount rates and future cash flows used in the appraisal process could have a material impact on how the purchase prices were allocated at the dates of acquisition.

### **Liquidity and Capital Resources**

Our principal sources of liquidity have historically been from cash from operations and borrowings under the credit facilities of our parent companies. In connection with the completion of this offering, we expect to enter into our own new revolving secured credit facility and to be removed as a guarantor or obligor under the credit facility of our parent company. Our principal uses of cash are expected to be capital expenditures, distributions and funding our debt service obligations. We believe that our cash from operations, together with the proceeds we retain from this offering and borrowings under our new revolving secured credit facility, will be adequate to make payments on and to refinance our indebtedness, to make distributions, to fund planned capital expenditures and to satisfy our other capital and commercial commitments.

#### ***Debt***

We have historically benefited from borrowings under our parent company's credit facilities.

On June 24, 2005, our then-parent company Coffeyville Resources entered into a first lien credit facility and a second lien credit facility in connection with the Subsequent Acquisition. The first lien credit facility consisted of $225.0 million of tranche B term loans; $50 million of delayed draw term loans; a $100.0 million revolving loan facility; and a $150.0 million funded letter of credit facility. The second lien credit facility consisted of a $275.0 million term loan. We were a guarantor under these

facilities. The net proceeds of these facilities, together with an equity contribution from Coffeyville Acquisition, were used to fund the Subsequent Acquisition. The first lien credit facility was amended and restated on June 29, 2006 on substantially the same terms as the June 24, 2005 agreement, principally in order to reduce the applicable margin spreads for borrowings on the first lien term loans and the funded letter of credit facility.

On December 28, 2006, Coffeyville Resources entered into a new secured credit facility which provided financing of up to $1.075 billion and replaced the first lien and second lien credit facilities. The new secured credit facility consisted of $775 million of tranche D term loans, a $150 million revolving credit facility, and a funded letter of credit facility of $150 million. The term loans mature on December 28, 2013, the revolving facility matures on December 28, 2012 and the funded letter of credit facility expires on December 28, 2010. Interest on the term loans and revolving facility accrues at either (a) the greater of the prime rate and the federal funds effective rate plus 0.5%, plus in either case 2.25%, or, at the borrower's option, (b) LIBOR plus 3.25% (with step-downs to the prime rate/federal funds rate plus 1.75% or 1.50% or LIBOR plus 2.75% or 2.50%, respectively, upon achievement of certain rating conditions). The borrower also pays 0.50% per annum in commitment fees on the unused portion of the revolving loan facility. The credit facility required the borrower to prepay outstanding loans, subject to certain exceptions, with 100% of net asset sale proceeds and net insurance proceeds, 100% of the cash proceeds from the incurrence of specified debt obligations, 75% of consolidated excess cash flow, and 100% of the cash proceeds from any initial public offering or secondary registered equity offering. Prior to this offering, we were a guarantor under this credit facility. However, we expect to be removed as a guarantor upon the completion of this offering.

In August 2007, as a result of the flood, our parent companies entered into three new credit facilities:

- ***$25 Million Secured Facility.*** Coffeyville Resources entered into a new $25 million senior secured term loan. Interest was payable in cash, at the borrower's option, at the base rate plus 1.00% or at the reserve adjusted eurodollar rate plus 2.00%. We were a guarantor under this facility.
- ***$25 Million Unsecured Facility.*** Coffeyville Resources entered into a new $25 million senior unsecured term loan. Interest was payable in cash, at the borrower's option, at the base rate plus 1.00% or at the reserve adjusted eurodollar rate plus 2.00%. We were a guarantor under this facility.
- ***$75 Million Unsecured Facility*** Coffeyville Refining & Marketing Holdings, Inc. entered into a new $75 million senior unsecured term loan. Drawings could be made from time to time in amounts of at least $5 million. Interest accrued, at the borrower's option, at the base rate plus 1.50% or at the reserve adjusted eurodollar rate plus 2.50%. Interest was paid by adding such interest to the principal amount of loans outstanding. In addition, a commitment fee equal to 1.00% accrued and was paid by adding such fees to the principal amount of loans outstanding. No amounts were ever drawn on this facility.

In October 2007, in connection with CVR Energy's initial public offering, all amounts outstanding under the $25 million secured facility and the $25 million unsecured facility were repaid and the three facilities entered into in August 2007 were terminated.

***New Revolving Secured Credit Facility***

In connection with the completion of this offering, we expect to enter into a new revolving secured credit facility and to be removed as a guarantor or obligor from Coffeyville Resources' credit facility and swap agreements with J. Aron. We currently are negotiating the terms of a proposed -year revolving secured credit facility which we expect would provide for commitments of $ million. We expect to enter into the proposed credit facility with a group of lenders at or prior to the closing of this offering. We expect that the revolving secured credit facility will be used to fund our ongoing working capital needs, letters of credit, distributions and for general partnership purposes,

including potential future acquisitions and expansions. We expect that interest will accrue at a base rate or, at our option, LIBOR plus an applicable margin and that we will also pay a commitment fee for undrawn amounts. The facility will be prepayable at our option at any time and will contain mandatory prepayment provisions with the proceeds of certain asset sales and debt issuances. The credit facility will contain customary covenants which, among other things, will limit our ability to incur indebtedness, incur liens, make distributions, sell assets, make investments, enter into transactions with affiliates, or consummate mergers. The credit facility will also contain customary events of default. We have not received a commitment letter from any prospective lender with respect to the new revolving secured credit facility, and we cannot assure you that we will be able to obtain a revolving secured credit facility or do so on acceptable terms.

***Capital Spending***

We divide our capital spending needs into two categories: maintenance, which is either capitalized or expensed, and expansion, which is capitalized. Maintenance capital spending, such as for planned turnarounds and other maintenance, is required to maintain safe and reliable operations or to comply with environmental, health and safety laws and regulations. Our maintenance capital spending needs, including major scheduled turnaround expenses, were approximately $4.4 million in 2007 and we estimate that the maintenance capital spending needs of our business will be approximately $13.7 million in 2008 and approximately $36.0 million in the aggregate over the four-year period beginning 2009. These estimates include, among other items, the capital costs necessary to comply with environmental laws and regulations. Our maintenance capital spending is expected to be higher in 2008 than prior years principally due to (1) approximately $2.75 million of incremental turnaround costs expected during 2008 and (2) approximately $3.6 million of non-recurring expenditures related to purchasing a spare piece of equipment in 2008 to increase redundancy in response to equipment failures in 2007. Our new revolving secured credit facility may limit the amount we can spend on capital expenditures.

The following table sets forth our estimate of maintenance capital spending for our business for the years presented as of December 31, 2007 (other than 2006 and 2007 which reflect actual spending). Our future capital spending will be determined by our managing general partner. The data contained in the table below represents our current plans, but these plans may change as a result of unforeseen circumstances and we may revise these estimates from time to time or not spend the amounts in the manner allocated below.

| | Actual | | Estimated | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Cumulative |
| | (in millions) | | | | | | | |
| Environmental and safety capital needs | $ 0.1 | $ 0.5 | $ 2.0 | $ 4.7 | $ 2.6 | 2.7 | 3.8 | $ 16.4 |
| Sustaining capital needs | 6.6 | 3.9 | 8.9 | 3.2 | 4.5 | 4.8 | 4.3 | 36.2 |
| | 6.7 | 4.4 | 10.9 | 7.9 | 7.1 | 7.5 | 8.1 | 52.6 |
| Major scheduled turnaround expenses | 2.6 | — | 2.8 | — | 2.6 | — | 2.8 | 10.8 |
| Total estimated maintenance capital spending | $ 9.3 | $ 4.4 | $ 13.7 | $ 7.9 | $ 9.7 | $ 7.5 | $10.9 | $ 63.4 |

In addition to maintenance capital spending, we also undertake expansion capital spending based on the expected return on incremental capital employed. Expansion capital projects generally involve an expansion of existing capacity, improvement in product yields, and/or a reduction in direct operating expenses. As of December 31, 2007, we had committed approximately $8 million towards expansion capital spending in 2008. In addition to the $8 million committed in 2008 and our approximately $85 million nitrogen fertilizer plant expansion project referred to below, we anticipate

additional expansion projects will be identified and may result in additional capital expenditures. See “Business — Our Business Strategy — Executing Several Efficiency-Based and Other Projects.”

We are currently moving forward with an approximately $85 million fertilizer plant expansion, of which approximately $8 million was incurred as of December 31, 2007. We estimate this expansion will increase our nitrogen fertilizer plant’s capacity to upgrade ammonia into premium priced UAN by approximately 50%. We currently expect to complete this expansion in late 2009 or early 2010. This project is also expected to improve the cost structure of the nitrogen fertilizer business by eliminating the need for rail shipments of ammonia, thereby avoiding anticipated cost increases in such transport.

**Cash Flows**

***Operating Activities***

Comparability of cash flows from operating activities for the years ended December 31, 2007 and December 31, 2006 and the twelve-month period ended December 31, 2005 has been impacted by the Subsequent Acquisition. See “— Factors Affecting Comparability”. Completion of the Subsequent Acquisition by CVR Energy required a mark up of purchased inventory to fair market value at the closing of the transaction on June 24, 2005. This had the effect of reducing overall cash flow for Successor as it capitalized that portion of the purchase price of the assets into cost of product sold (exclusive of depreciation and amortization). Therefore, the discussion of cash flows from operations has been broken down into four separate periods: the year ended December 31, 2007, the year ended December 31, 2006, the 174 days ended June 23, 2005 and the 191 days ended December 31, 2005.

Net cash flows from operating activities for the year ended December 31, 2007 was $46.5 million. The positive cash flow from operating activities generated over this period was primarily driven by a strong fertilizer price environment. For purposes of this cash flow discussion, we define trade working capital as accounts receivable, inventory and accounts payable. Other working capital is defined as all other current assets and liabilities except trade working capital. Trade working capital for the year ended December 31, 2007 reduced our operating cash flow by $4.7 million. For the year ended December 31, 2007, accounts receivable increased $4.0 million while inventory increased by $2.0 million resulting in a net use of cash of $6.0 million. These uses of cash due to changes in trade working capital were offset by an increase in accounts payable, or a source of cash, of $1.3 million. With respect to other working capital, the primary source of cash during the year ended December 31, 2007 was a $4.3 million increase in deferred revenue. Deferred revenue represents customer prepaid deposits for the future delivery of our nitrogen fertilizer products. Offsetting the source of cash from deferred revenue were uses of cash related to insurance receivable ($3.3 million), due from affiliate ($2.1 million), prepaid expenses and other current assets ($0.2 million) and accrued expenses and other current liabilities ($0.2 million).

Net cash flows from operating activities for the year ended December 31, 2006 was $34.1 million. The positive cash flow from operating activities generated over this period was primarily driven by a moderate operating environment and favorable changes in trade working capital, partially offset by unfavorable changes in other working capital over the period. Increasing our operating cash flow for the year ended December 31, 2006 was a $2.9 million source of cash related to a decrease in trade working capital. For the year ended December 31, 2006, accounts receivable and inventory decreased approximately $0.7 million and $2.1 million, respectively, as accounts payable remained essentially unchanged. The primary uses of cash during the period include a $3.2 million decrease in deferred revenue and a $2.4 million decrease in accrued expenses and other current liabilities.

Net cash flows from operating activities for the 174 days ended June 23, 2005 was $24.3 million. The positive cash flow generated over this period was primarily driven by income of $32.7 million, partially offset by a $10.4 million increase in other working capital. With respect to trade working capital during this period, a $2.8 million increase in accounts payable and a $0.6 million decrease in inventory were partially offset by an increase in accounts receivable of $1.3 million. The $10.4 million use of cash related to other working capital was primarily related to a $9.1 million reduction in

deferred revenue. Most deferred revenue is collected ahead of the spring fertilizer season and the balance is reduced as fertilizer is delivered. As such, June 23, 2005 would represent a seasonal low point in fertilizer prepaid contacts.

Net cash flows provided by operating activities for the 191 days ended December 31, 2005 was $45.3 million. The positive cash flow from operating activities generated over this period was primarily the result of strong operating earnings during the period. Trade working capital resulted in a use of $1.7 million in cash during the 191 days ended December 31, 2005 as an increase in accounts receivable of $2.7 million and a decrease in accounts payable of $1.6 million was partially offset by a decrease in inventory of $2.7 million. In addition to strong operating earnings, a $12.6 million source of cash related to changes in other working capital was primarily the result of a $11.5 million increase in deferred revenue. Most deferred revenue is collected ahead of the spring fertilizer season and the balance is reduced as fertilizer is delivered. As such, December 31, 2005, would represent a seasonal high point in fertilizer prepaid contacts for spring delivery.

***Investing Activities***

Net cash used in investing activities for the year ended December 31, 2007, the year ended December 31, 2006, the 191 days ended December 31, 2005 and the 174 days ended June 23, 2005 was $6.5 million, $13.3 million, $2.0 million and 1.4 million, respectively. Net cash used in investing activities principally relates to capital expenditures.

***Financing Activities***

Comparability of cash flows from financing activities for the years ended December 31, 2007, December 31, 2006 and the twelve-month period ended December 31, 2005 has been impacted by the Subsequent Acquisition. Net cash used in financing activities for the year ended December 31, 2007 was $25.5 million as compared to net cash used in financing activities of $20.8 million for the year ended December 31, 2006. Net cash used by financing activities for the 174 days ended June 23, 2005 was $22.9 million and net cash used in financing activities for the 191 days ended December 31, 2005 was $43.3 million.

CVR Energy’s centralized approach to cash management and the financing of its operations resulted in our business utilizing CVR Energy’s credit facilities for funding its activities via divisional equity, our only source of cash other than operations. We did not have our own credit facility during these periods or engage in any other borrowing other than borrowings through our parent. The amounts of net cash used in financing activities reflect the fertilizer business’s contribution of divisional equity to its parent companies in each of the periods presented. The fertilizer business remitted net cash flow to its parent company in each period so that the parent company could pay down consolidated debt.

**Capital and Commercial Commitments**

We are required to make payments relating to various types of obligations. The following table summarizes our minimum payments as of December 31, 2007 relating to operating leases, unconditional purchase obligations and environmental liabilities for each of the four years following December 31, 2007 and thereafter.

Our ability to make payments on and to refinance our indebtedness, to make distributions, to fund planned capital expenditures and to satisfy our other capital and commercial commitments will depend on our ability to generate cash flow in the future. This, to a certain extent, is subject to fertilizer margins, natural gas prices and general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2008 | 2009 | 2010 | 2011 | 2012 | Thereafter |
| | (in millions) | | | | | | |
| **Contractual Obligations** | | | | | | | |
| Operating leases(1) | $ 8.5 | $ 3.5 | $ 2.8 | $ 1.2 | $ 0.7 | $ 0.3 | $ — |
| Unconditional purchase obligations(2) | 71.6 | 5.5 | 5.5 | 5.6 | 5.7 | 5.8 | 43.5 |
| Unconditional purchase obligations with affiliates(3) | 221.1 | 10.0 | 10.8 | 10.0 | 11.3 | 11.3 | 167.7 |
| Environmental liabilities(4) | 0.2 | 0.2 | — | — | — | — | — |
| Total | $301.4 | $19.2 | $19.1 | $16.8 | $17.7 | $17.4 | $ 211.2 |

(1) We lease various facilities and equipment, primarily railcars, under non-cancelable operating leases for various periods.

(2) The amount includes commitments under an electric supply agreement with the city of Coffeyville and a product supply agreement with the Linde Group.

(3) The amount includes commitments under our 20-year coke supply agreement with CVR Energy.

(4) Represents our estimated remaining costs of remediation to address environmental contamination resulting from a reported release of UAN in 2005 pursuant to the State of Kansas Voluntary Cleanup and Property Redevelopment Program.

Under our 20-year coke supply agreement with CVR Energy, we may become obligated to provide security for our payment obligations under the agreement if in CVR Energy's sole judgment there is a material adverse change in our financial condition or liquidity position or in our ability to make payments. This security may not exceed an amount equal to 21 times the average daily dollar value of pet coke we purchase for the 90-day period preceding the date on which CVR Energy gives us notice that it has deemed that a material adverse change has occurred. Unless otherwise agreed by CVR Energy and us, we can provide such security by means of a standby or documentary letter of credit, prepayment, a surety instrument, or a combination of the foregoing. If we do not provide such security, CVR Energy may require us to pay for future deliveries of pet coke on a cash-on-delivery basis, failing which it may suspend delivery of pet coke until such security is provided and terminate the agreement upon 30 days' prior written notice. Additionally, we may terminate the agreement within 60 days of providing security, so long as we provide five days' prior written notice.

Our business may not generate sufficient cash flow from operations, and future borrowings may not be available to us under our new revolving secured credit facility, in an amount sufficient to enable us to make the minimum quarterly distribution, finance necessary capital expenditures, service our indebtedness or fund our other liquidity needs. We may seek to sell assets or additional equity securities to fund our liquidity needs but may not be able to do so. We may also need to refinance all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all.

**Recently Issued Accounting Standards**

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 151, *Inventory Costs*, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and spoilage. Under SFAS 151, such items will be recognized as current-period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Successor adopted SFAS 151 effective January 1, 2006. There was no impact on our financial position or results of operation as a result of adopting this standard.

The Emerging Issues Task Force, or EITF, reached a consensus on Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty*, and the FASB ratified it on September 28, 2005. This Issue addresses accounting matters that arise when one company both sells inventory to and buys inventory from another company in the same line of business, specifically, when it is appropriate to measure purchases and sales of inventory at fair value and record them in cost of sales and revenues, and when they should be recorded as an exchange measured at the book value of the item sold. This Issue is to be applied to new arrangements entered into in reporting periods beginning after March 15, 2006. The adoption of this EITF did not have a material impact on our financial position or results of operations.

In June 2006, the FASB ratified its consensus on EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement.* EITF 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include sales, use, value added, and some excise taxes. These taxes should be presented on either a gross or net basis, and if reported on a gross basis, a company should disclose amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. The guidance in EITF 06-3 is effective for all periods beginning after December 15, 2006 and did not have a material impact on our financial position or results of operations.

In June 2006, the FASB issued Interpretation (FIN) No. 48, *Accounting for Uncertain Tax Positions — an interpretation of FASB Statement No. 109.* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would be required to recognize in its financial statements the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The application of FIN No. 48 is effective for fiscal years beginning after December 15, 2006 and it did not have a material impact on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements.* SFAS 154 retained accounting guidance related to changes in estimates, changes in a reporting entity and error corrections. However, changes in accounting principles must be accounted for retrospectively by modifying the financial statements of prior periods unless it is impracticable to do so. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 did not have a material impact on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS No. 157 states that fair value is "the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price)". The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the effect that this statement will have on our financial statements.

In September 2006, the FASB issued FASB Staff Position, or FSP, No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*, that disallowed the accrue-in-advance method for planned major maintenance activities. Our scheduled turnaround activities are considered planned major maintenance activities. Since we do not use the accrue-in-advance method of accounting for our turnaround activities, this FSP has no impact on our financial statements.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. SAB 108 was issued to address diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build-up of improper amounts on the balance sheet. The effects of applying the guidance issued in SAB 108 are to be reflected in annual financial statements covering the first fiscal year ending after November 15, 2006. The initial adoption of SAB 108 in 2006 did not have an impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Under this standard, an entity is required to provide additional information that will assist investors and other users of financial information to more easily understand the effect of the company's choice to use fair value on its earnings. Further, the entity is required to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. This standard does not eliminate the disclosure requirements about fair value measurements included in SFAS 157 and SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. SFAS 159 is effective for fiscal years beginning after November 15, 2007, and early adoption is permitted as of January 1, 2007, provided that the entity makes that choice in the first quarter of 2007 and also elects to apply the provisions of SFAS 157. We are currently evaluating the potential impact that SFAS 159 will have on our financial condition, results of operations and cash flows.

**Off-Balance Sheet Arrangements**

We do not have any "off-balance sheet arrangements" as such term is defined within the rules and regulations of the SEC.

**Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We do not currently use derivative financial instruments to manage risks related to changes in prices of commodities (e.g., ammonia, UAN or pet coke) or interest rates. Given that our business is currently based entirely in the U.S., we are not directly exposed to foreign currency exchange rate risk.

We do not engage in activities that expose us to speculative or non-operating risks, including derivative trading activities. In the opinion of our management, there is no derivative financial instrument that correlates effectively with, and has a trading volume sufficient to hedge, our firm commitments and forecasted commodity purchase or sales transactions. Our management will continue to monitor whether financial derivatives become available which could effectively hedge identified risks and management may in the future elect to use derivative financial instruments consistent with our overall business objectives to avoid unnecessary risk and to limit, to the extent practical, risks associated with our operating activities.