

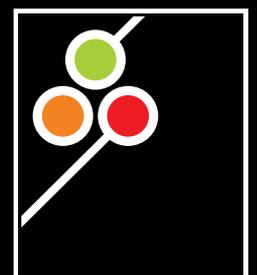
PETRO MATAD LIMITED



Admission to AIM

NOMINATED ADVISER
AND BROKER

HANSON WESTHOUSE LIMITED



PETRO
MATAD



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This document comprises an admission document for the purposes of the AIM Rules. This document does not constitute a prospectus for the purposes of the Prospectus Rules and has therefore not been prepared in accordance with the Prospectus Rules, and has not been approved by the FSA and a copy has not been delivered to the FSA under regulation 3.2 of the Prospectus Rules.

There is no requirement for this document to be approved by the Isle of Man Financial Supervision Commission or any other governmental or regulatory authority in the Isle of Man and this document will not be filed with any such authority.

Application has been made for the entire issued share capital of Petro Matad Limited (Petro Matad or the Company) to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 1 May 2008. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document. The rules of AIM are less demanding than those of the Official List and it is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. The Ordinary Shares are not dealt in any other recognised investment exchange and no other such applications have been made.

THE WHOLE TEXT OF THIS DOCUMENT SHOULD BE READ IN FULL. THE ATTENTION OF PROSPECTIVE INVESTORS IS DRAWN, IN PARTICULAR, TO PART II OF THIS DOCUMENT ENTITLED "RISK FACTORS". ALL STATEMENTS REGARDING THE COMPANY'S BUSINESS SHOULD BE VIEWED IN LIGHT OF THESE FACTORS.

Petro Matad Limited

(Incorporated in the Isle of Man under the Isle of Man Companies Act 2006 with company number 1483V)

Admission to trading on AIM

Hanson Westhouse Limited

Nominated Adviser and Broker

Share capital immediately following Admission

Ordinary Shares of US\$0.01 each

Issued and fully paid

<i>Amount</i>	<i>Number</i>
US\$966,800.04	96,680,004

This document does not constitute an offer, or the solicitation of an offer to subscribe or buy, any Ordinary Shares in any jurisdiction in which it is unlawful to make such offer or solicitation in such jurisdiction. In particular, this document should not be distributed, published, reproduced or otherwise made available in whole or in part, or disclosed by recipients to any other person and, in particular, should not be distributed to persons with addresses in Australia, Canada, France, Japan, the Republic of South Africa, the Republic of Ireland, Norway, the United States or in any country outside the United Kingdom where such distribution may lead to a breach of any law or regulatory requirements save pursuant to an exemption from the registration or prospectus or other regulatory requirements of any such jurisdictions. In addition, the Ordinary Shares have not been, and will not be, registered under the securities legislation of Australia, Canada, France, Japan, the Republic of South Africa, the Republic of Ireland or Norway. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within Australia, Canada, France, Japan, the Republic of South Africa, the Republic of Ireland or Norway or to or for the account or benefit of any national, resident or citizen of Australia, Canada, France, Japan, the Republic of South Africa, the Republic of Ireland or Norway.

The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the US Securities Act) and may not be offered or sold except pursuant to an available exemption from, or in a transaction not subject to the registration requirements of the US Securities Act and applicable US state securities laws. The Company does not currently plan to register the Ordinary Shares under the US Securities Act.

Prospective investors must not treat the contents of this document as advice relating to legal, taxation, investment or any other matters. Prospective investors must inform themselves as to (a) the legal requirements within their own countries for the purchase, holding, transfer or other disposal of Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of Ordinary Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

HansonWesthouse, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as nominated adviser and broker to the Company in connection with the Admission. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire Ordinary Shares in the Company in reliance on any part of this document (without limiting the statutory rights of any person to whom this document is issued). In accordance with the AIM Rules, HansonWesthouse has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received satisfactory advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with and that the Company and its Ordinary Shares are appropriate to be admitted to AIM. HansonWesthouse is not acting for, and will not be responsible to, any persons other than the Company for providing the protections afforded to customers of HansonWesthouse or for providing advice in relation to the contents of this document, the application for Admission or other arrangements described in this document. No representation or warranty, express or implied, is made by HansonWesthouse as to the contents of this document (without limiting the statutory rights of any person to whom this document is issued) and HansonWesthouse has not authorised any part of this document for the purposes of FSMA and the Prospectus Rules. No liability is accepted by HansonWesthouse for the accuracy of any information or opinions contained in, or for the omission of any material information from, this document for which the Company and its Directors are solely responsible.

Availability of this document

HansonWesthouse is a trading name of Hanson Westhouse Limited, a member of the London Stock Exchange and regulated by the FSA. Copies of this document, which is dated 25 April 2008, will be available free of charge to the public during normal working hours on any weekday (except Saturdays, Sundays and public holidays) from the offices of HansonWesthouse, One Angel Court, London EC2R 7HJ from the date of this document for not less than one month from Admission.

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For glossaries of abbreviations, geological and technical terms please refer to the Competent Person's Report in Part III of this document, starting on page 56 of the CPR.

DIRECTORS AND ADVISERS

Directors	Gordon Leonard Toll, <i>Non-Executive Chairman</i> Dr. Janchiv Oyungerel, <i>Non-Executive Deputy Chairman</i> Douglas John McGay, <i>Chief Executive Officer</i> Clyde Robert Evans, <i>Finance Director</i> Gregory Thomas Meldrum, <i>Technical Director</i> Sarangua Davaadorj, <i>Non-Executive Director</i> Dr. John Campbell Robertson, <i>Non-Executive Director</i>	
	<i>all of:</i>	
Registered Office	Victory House Douglas Isle of Man IM1 1EQ	
Registered Agent and Registrar	HCW Fiduciaire Limited Victory House Douglas Isle of Man IM1 1EQ	
Principal place of business	Suite 407, NIC Building Amar Street – 8 Sukhbaatar District Ulaanbaatar 210646 Mongolia Tel: +976 11 331099	
Website	www.petromatad.com	
Nominated Adviser and Broker	Hanson Westhouse Limited One Angel Court London EC2R 7HJ	
Legal advisers to the Company	<i>As to UK law:</i> Norton Rose LLP 3 More London Riverside London SE1 2AQ	<i>As to Isle of Man law:</i> Dickinson Cruickshank 33 Athol Street Douglas Isle of Man IM1 1LB
	<i>As to Mongolian law:</i> Bona Lex LLC Room 503, Rokmon Building Constitution Street – 24 Ulaanbaatar – 210628	<i>As to Cayman Islands law:</i> Conyers Dill & Pearman Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal advisers to HansonWesthouse	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP	
Reporting Accountants	PKF (UK) LLP ¹ Farringdon Place 20 Farringdon Road London EC1M 3AP	

¹ Registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Auditors	PKF Corporate Advisory Services (WA) Pty Ltd ¹ Level 7, BGC Centre 28, The Esplanade Perth Western Australia 6000
Competent Person	Isis Petroleum Consultants Pty Ltd Ground Floor 47 Colin Street West Perth Western Australia 6005
Public Relations	Bankside 1 Frederick's Place London EC2R 8AE
CREST Service Provider	Computershare Investor Services (Channel Islands) Limited Ordance House 31 Pier Road St Helier Jersey JE4 8PW

¹ Registered to carry out audit work by the Institute of Chartered Accountants in Australia and the Australian Securities and Investment Commission.

ADMISSION STATISTICS AND EXPECTED TIMETABLE

Number of Ordinary Shares in issue on Admission	96,680,004
ISIN Code	IM00B292WR19
	2008
Date of publication of Admission Document	25 April
Admission effective and commencement of dealings in the Ordinary Shares on AIM	1 May
Expected date for CREST accounts to be credited	1 May

KEY INFORMATION

The following is derived from, and should be read in conjunction with, the full text of this document. Prospective investors should read the whole document and not just rely on the key information set out below. The attention of prospective investors is drawn, in particular, to Part II of this document, which is entitled “Risk Factors”.

The Company and its business

Petro Matad is the parent company of a group focussed on oil exploration, as well as future development and production in Mongolia. The Group’s principal asset is the 100 per cent. ownership of a Production Sharing Contract (“PSC”) over Block XX, a petroleum block with an area of 18,956km² in the far eastern part of Mongolia.

The Mongolian oil sector has an internationally standard statutory framework which has been in place in the country for 17 years without significant revision of the commercial terms. Significant oil discoveries have been made in recent years in Mongolia with test production increasing from 199,797 barrels in 2006 to 592,445 barrels in 2007. PetroChina Company Limited, through its subsidiary Daqing Oilfield Company Limited, is producing oil in Mongolia and is a major investor in the country.

Isis Petroleum Consultants Pty Ltd (“Isis”), the Competent Person whose full report is set out in Part III of this document, estimates the expected monetary value (“EMV”) of the current inventory of 2 prospects and 9 leads in Block XX to be US\$788 million, based on a discount rate of 10 per cent., a WTI price of US\$55 per barrel and inflation of this 2007 base oil price at 2.5 per cent. per annum.

Strategy

Petro Matad intends to focus its resources on further exploration and appraisal of Block XX. The Group also intends to seek new prospects and opportunities in the oil sector of Mongolia and to participate in the exploration and development of those areas.

It is intended that exploration will primarily be carried out by applying modern data processing and interpretation techniques to geophysical information, acquiring additional geophysical data and then, subject to future financing, undertaking drilling programmes where warranted. In particular the Company intends to acquire, process and interpret up to 100 sq km of 3D seismic data over the 8Ts prospect area, 155 km of 2D seismic data over the 6Ts strong lead and to reprocess and interpret 330km of existing seismic data. The objective of the programme is to identify drillable targets in the north eastern part of Block XX adjacent to Daqing’s productive Block XIX.

The Group intends to maintain an active interest through to production in any of its prospects which prove to be commercially viable. It also intends to investigate possibilities for in-country downstream processing.

Key strengths

The Directors believe that the Group has the following key strengths:

- **Onshore low cost exploration and development:** the basin in Block XX is onshore with near flat topography and the targets are believed to be relatively shallow at between 500 metres and 2,050 metres;
- **Proximity to Chinese energy market:** there is a ready market, at close to world prices, in China for any oil discovered in Block XX, and there is an established export route;
- **Mongolian market:** the opportunity to participate in the development of a domestic petroleum industry, given that Mongolia currently imports all processed oil products;
- **Identified leads and prospects:** interpretation of the seismic already undertaken on Block XX has identified 2 prospects and 9 leads on which the economic analysis justifies further exploration activities;

- **Adjacent to a proven hydrocarbon system:** Block XX borders Block XIX which contains producing oilfields operated by Daqing. There is strong evidence that the hydrocarbon system containing the oilfields extends into the north eastern part of Block XX;
- **Near term development potential:** subject to successful exploration, the Directors believe that development can follow in the near term;
- **Favourable PSC:** the terms of the PSC are internationally competitive;
- **Key associations within Mongolia:** the Group has strong connections in Mongolia including with its strategic Mongolian shareholder Petrovis, the largest oil distributor in Mongolia which has 415 petrol stations, 190 road tankers and 40 storage facilities; and
- **Experienced Board of Directors:** the Board of Directors has a successful track record both within Mongolia and internationally.

Reasons for Admission

Petro Matad is seeking admission to AIM in order to advance its strategy of exploring and exploiting the Group's assets. Admission is also intended to widen the Company's investor base and to allow it access to equity capital markets. In addition the Directors consider that Admission will assist with the recruitment and incentivisation of staff and raise Petro Matad's profile and status within the oil sector.

Much of the information contained within Part I of this document is derived from the CPR, the full text of which is contained within Part III of this document.

PART I

INFORMATION ON THE GROUP

1. Introduction

Petro Matad is the parent company of a group focussed on oil exploration, as well as future development and production, in Mongolia. The Group's principal asset is the Production Sharing Contract ("PSC") over Block XX, a petroleum block with an area of 18,956km² in the far eastern part of Mongolia.

The Company has two Mongolian subsidiaries, Petro Matad LLC and Capcorp Mongolia LLC, which were established in December 2004 and August 2006 respectively with the objective of applying for PSCs for Mongolian petroleum blocks. The PSC for Block XX, originally entered into by Petro Matad LLC and to which Petromatad Invest Limited is now the party, was signed in July 2006. Since then, Block XX has been the subject of an exploration programme funded by Capcorp and the ultimate ownership of Capcorp has been transferred to the Company. In October and December 2006, Capcorp Mongolia LLC submitted applications for two further PSCs over Blocks V and IV.

Isis Petroleum Consultants Pty Ltd ("Isis"), the Competent Person whose full report is set out in Part III of this document, estimates the expected monetary value ("EMV") of the current inventory of 2 prospects and 9 leads in Block XX to be US\$788 million¹, based upon a discount rate of 10 per cent., a WTI price of US\$55 per barrel and inflation of this 2007 base oil price at 2.5 per cent. per annum.

Figure 1: Mongolian petroleum blocks



Source: Petro Matad

Block XX is located in the Tamtsag Basin which is the south western portion of the basin referred to in China as the Hailar Basin. The Chinese part of the basin is an established and producing region, while the Mongolian part is relatively under-explored and under-developed. However, the Tolson Uul and Tolson Uul North oil fields operated by Daqing in the Tamtsag Basin are currently producing oil. These oil fields are contained within the adjacent Block XIX, and at their nearest point are between 10km and 23km north east of the boundary of Block XX. In the Directors' opinion, the south west extension of the proven hydrocarbon system in Block XIX into Block XX increases the prospectivity of Block XX.

¹ The detailed economic evaluation of the leads and prospects is contained in Part III, in Appendix 3.

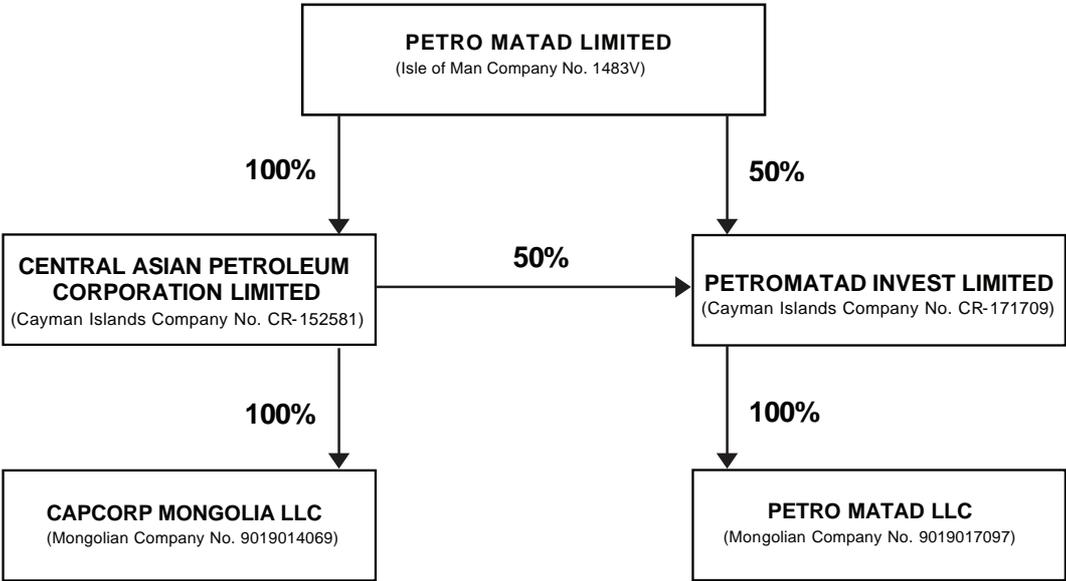
Block XIX is operated by Daqing. In 2006, Daqing drilled 52 wells. In 2007, Daqing completed 100 wells utilising 17 rigs. Of these 152 wells drilled over the last two years, there are 44 production wells of which at least 30 are currently producing as at 17 March 2008. It is reported that in 2008, Daqing plans to drill 225 wells on its 3 Blocks, including Block XIX. As well as producing oil from multiple wells in the Tolson Uul and Tolson North oil fields, Daqing is reportedly producing oil from other discoveries in Block XIX including two wells (T19-62 and T19-46) located 1.5km and 3.0km respectively from the boundary of Block XX. In addition, there are reports that Daqing has successfully recovered oil on test from three other oil discoveries located between 2km and 2.5km north of Block XX.

Petro Matad intends to use its current cash reserves to acquire 2D and 3D seismic data on a drillable prospect and a strong lead close to Daqing production on the north eastern border of Block XX and Block XIX. The Company also intends to reprocess existing seismic data from the wider surrounding area within the north eastern part of Block XX. Subject to the results of the seismic programme and financing, the Company then intends to commence a drilling programme in the first half of 2009. It is also intended to apply any available existing cash reserves of the Company on the exploration of any future areas over which the Group may be granted rights.

2. Background and history

The Company was incorporated in the Isle of Man under the Isle of Man Companies Act 2006 on 30 August 2007 with registered number 1483V under the name Petro Matad Limited. On 12 November 2007, pursuant to the Capcorp Share Exchange Agreements (further details of which are set out in paragraph 9 of Part VI), the Company acquired the entire issued share capital of Capcorp (which in turn holds a 50 per cent. interest in Petromatad Invest Limited and a 100 per cent. interest in Capcorp Mongolia LLC) in consideration for the issue of 23,340,000 Ordinary Shares. On 12 November 2007, pursuant to the Petromatad Invest Limited Share Exchange Agreements with Petrovis and Dr. Janchiv Oyungerel (further details of which are set out in paragraph 9 of Part VI), the Company acquired the direct 50 per cent. interest in Petromatad Invest Limited not owned by Capcorp in consideration for the issue of 23,340,000 Ordinary Shares. The structure of the Group is set out below:

Figure 2: Group Structure



3. Key strengths

The Directors believe that the Group has the following key strengths:

- **Onshore low cost exploration and development:** the basin in Block XX is onshore with near flat topography and the targets are believed to be relatively shallow at between 500 metres and 2,050 metres;
- **Proximity to Chinese energy market:** there is a ready market, at close to world prices, in China for any oil discovered in Block XX, and there is an established export route;
- **Mongolian market:** the opportunity to participate in the development of a domestic petroleum industry, given that Mongolia currently imports all processed oil products;
- **Identified leads and prospects:** interpretation of the seismic already undertaken on Block XX has identified 2 prospects and 9 leads on which the economic analysis justifies further exploration activities;
- **Adjacent to a proven hydrocarbon system:** Block XX borders Block XIX which contains producing oilfields operated by Daqing. There is strong evidence that the hydrocarbon system containing the oilfields extends into the north eastern part of Block XX;
- **Near term development potential:** subject to successful exploration, the Directors believe development could follow in the near term;
- **Favourable PSC:** the terms of the PSC are internationally competitive;
- **Key associations within Mongolia:** the Group has strong connections in Mongolia including with its strategic Mongolian shareholder Petrovis, the largest oil distributor in Mongolia, which has 415 petrol stations, 190 road tankers and 40 storage facilities; and
- **Experienced Board of Directors:** the Board of Directors has a successful track record both within Mongolia and internationally.

4. Strategy

Petro Matad intends to focus its resources on further exploration and appraisal of Block XX. The Group also intends to seek new prospects and opportunities in the oil sector of Mongolia and to participate in the exploration and development of those areas.

It is intended that exploration will primarily be carried out by applying modern data processing and interpretation techniques to geophysical information, acquiring additional geophysical data and then, subject to future financing, undertaking drilling programmes where warranted. In particular the Company intends to acquire, process and interpret up to 100 sq km of 3D seismic data over the 8Ts prospect area, 155 km of 2D seismic data over the 6Ts strong lead and to reprocess and interpret 330km of existing seismic data. The objective of the programme is to identify drillable targets in the north eastern part of Block XX adjacent to Daqing's productive Block XIX.

The Group intends to maintain an active interest through to production in any of its prospects which prove to be commercially viable. It also intends to investigate possibilities for in-country downstream processing.

The Group's Mongolian operations are managed from its headquarters in Ulaanbaatar, the capital of Mongolia. The Group intends to build upon its strong associations in Mongolia, which includes its strategic shareholder Petrovis. The Chairman of Petrovis, Dr. Janchiv Oyungerel, is the Deputy Chairman of the Company.

5. Summary of the Group's resources

The Directors commissioned Isis to conduct an independent evaluation of the Group's exploration assets. The resulting CPR, set out in Part III of this document, concludes that the proven hydrocarbon system of Block XIX extends into Block XX. Following its interpretation of the seismic data for Block XX, Isis estimates the resources of the Group in this exploration area to be as follows:

Table 1: Summary of Petro Matad's Gross and Net Attributable Resources (MMbbl)¹

Mean Unrisked Prospective Resources (MMbbl)	Mean Risked Prospective Resources ² (MMbbl)	EMV (US\$ million)
745	85	788

Source: Isis, pages 23 and 51 of the CPR in Part III

¹ The Gross and Net Assets are the same, as the Company owns an indirect interest in 100 per cent. of the Block XX rights.

² Society of Petroleum Engineers' Definition.

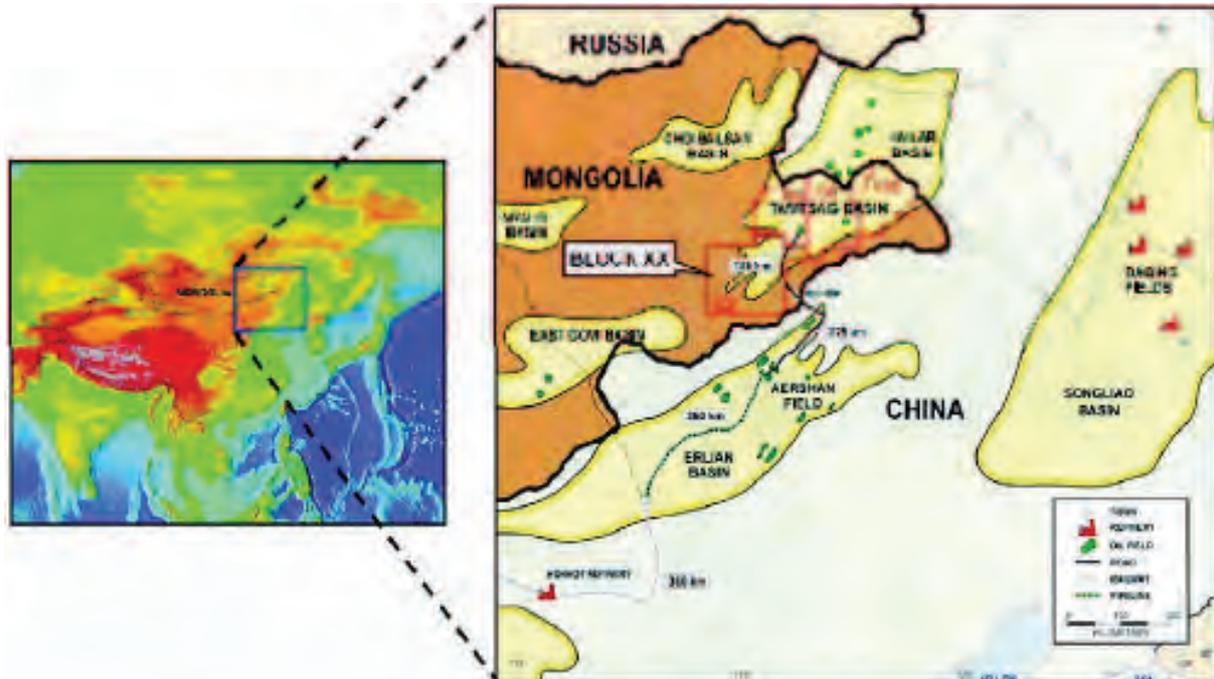
Isis estimates the EMV of the Group's current Block XX inventory of prospects and leads based on the mean unrisked prospective resources and risk-weighted NPV to be US\$788 million, based upon a discount rate of 10 per cent., a West Texas Intermediate ("WTI") price of US\$55 per barrel and inflation of the 2007 base oil price of 2.5 per cent. per annum.

6. Block XX

Geology

The Tamtsag Basin is the extension into Mongolia of the Hailar Basin in China. The basin extends into Block XX and contains an active and proven petroleum system. The Tamtsag Basin is geologically similar to adjacent productive regions such as the Erlian and Songliao Basins in China that are shown in Figure 3 below:

Figure 3: Block XX location map



Source: Isis, page 7 of the CPR in Part III

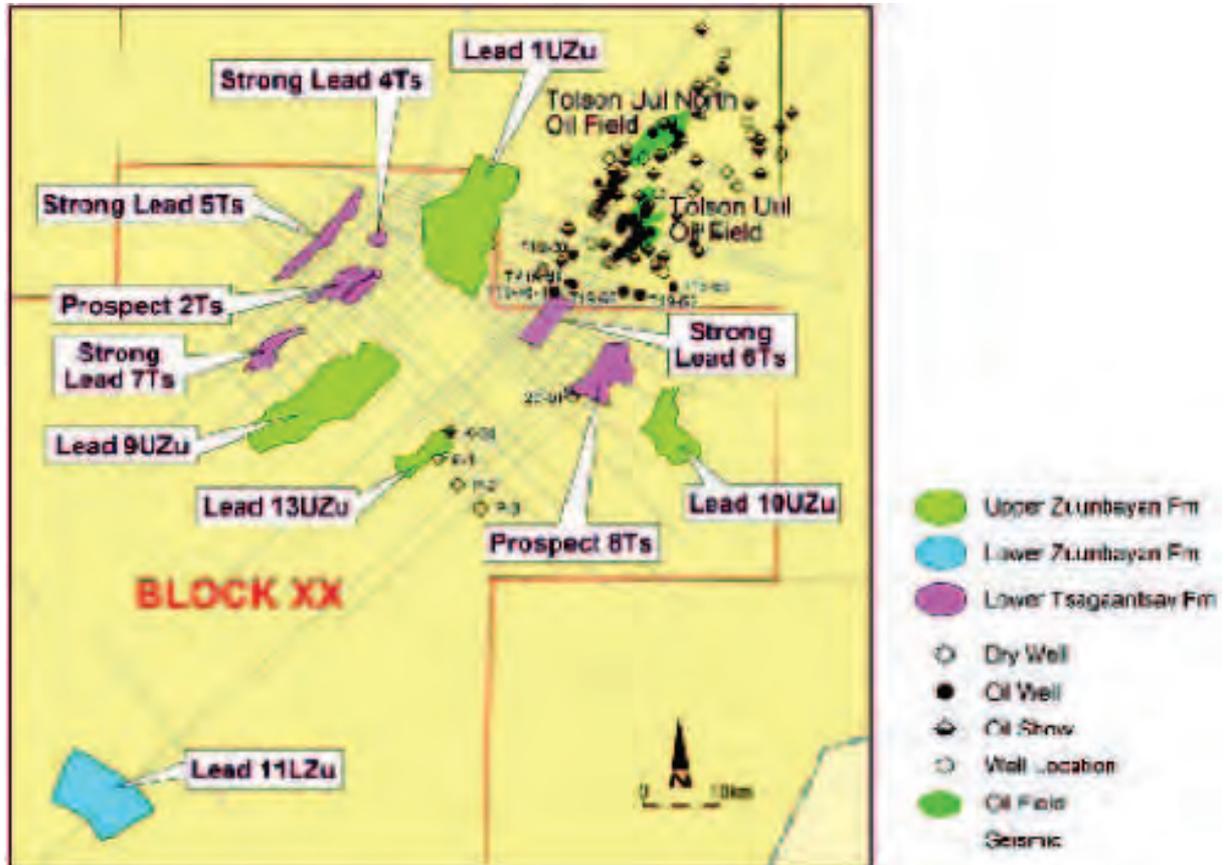
The prospective north eastern part of Block XX is of relatively low relief, is sparsely populated and has reasonable access via a network of unpaved roads. The area has an average elevation above sea level of approximately 600m. The less prospective southern and western parts of the permit are more rugged with higher elevations of up to 1,000m above sea level and have poorer access.

Further details of Block XX geology can be found in the CPR in Part III of this document.

Prospects and Leads

Block XX contains prospective resources based on the current inventory of eleven mapped and evaluated prospects and leads within the block. The probabilistic prospective oil resources for each prospect and lead have been calculated by Isis, together with the associated Probability of Success (“POS”). The locations of the prospects and leads can be seen in Figure 5 below:

Figure 5: Prospects and leads



Source: Isis, page 27 of the CPR in Part III

Probabilistic volumetrics were calculated for each prospect and lead and they were individually risked for trap, reservoir source and seal to establish the probability of geological success. The input parameters to the probabilistic volumetric calculations for each prospect and lead are described on pages 22 and 23 of the CPR.

The POS for each of the prospects and leads is set out in Table 2. The resultant Mean Risked Prospective Resources are then calculated for each lead and prospect.

Table 2: Prospects and leads inventory

Prospects and Leads	Location	Reservoir Target	Area (km²)	Mean STOIP (MMbbl)	POS %	Mean Unrisked Prospective Resources (MMbbl)	Mean Risked Prospective Resources (MMbbl)
Prospect 8Ts	Tolson Uul Extension	Lower Tsagaantsav	37	325	23	79	18
Prospect 2Ts	South Sharabog	Lower Tsagaantsav	23	342	21	83	17
Strong Lead 7Ts	South Sharabog	Lower Tsagaantsav	15	255	18	62	11
Strong Lead 6Ts	Tolson Uul Extension	Lower Tsagaantsav	23	278	17	67	11
Strong Lead 5Ts	South Sharabog	Lower Tsagaantsav	22	219	12	53	6
Lead 1UZu	Tolson Uul High	Upper Zuunbayan	137	603	6	146	9
Lead 9UZu	K-24 High	Upper Zuunbayan	122	541	4	131	5
Lead 11LZu	Erdenetsagaan	Lower Zuunbayan	93	272	5	65	3
Lead 13UZu	K-24 High	Upper Zuunbayan	20	94	9	23	2
Lead 10UZu	Tolson Uul Extension	Upper Zuunbayan	38	129	6	31	2
Strong Lead 4Ts	South Sharabog	Lower Tsagaantsav	4	19	6	5	1
Total						745	85

Source: Isis, page 22 of the CPR in Part III

The prospective resource volumes are defined by the Society of Petroleum Engineers' ("SPE") current standard, the Petroleum Resources Management System issued in March 2007.

The results of the economic evaluation and the EMV calculations using the central oil price assumption and a 10 per cent. nominal discount rate are set out in Table 3. The central oil price assumption, as set out in the Economic Assumptions in Appendix 3 of the CPR, is that, when the oil is sold, its price will be based on the WTI price of US\$55 per barrel in 2007 terms (thereafter inflated at 2.5 per cent. per annum) during the productive life of Block XX.

There are several differing options for the sale of crude from Block XX but the assumption that it would be sold at the Aershan Oil Gathering Station located in the Aershan Oil Field in Inner Mongolia is used in the following EMV table. The crude price obtained at this point for any Block XX crude would be equal to the Free on Board ("FOB") price of Daqing crude oil less a differential of US\$1 per barrel. Historically, the FOB price of Daqing crude oil has been approximately US\$3 per barrel less than that of the WTI price.

Table 3: Results of EMV analyses in US\$ million

Prospects and Leads	Assumed year of discovery	Mean Unrisked Prospective Resources (MMbbl)	Incremental NPV of discovery US\$ million	POS %	Risk-weighted NPV US\$ million
Prospect 8Ts	2009	79	761	23	175
Prospect 2Ts	2009	83	834	21	175
Strong Lead 7Ts	2009	62	562	18	101
Strong Lead 6Ts	2009	67	586	17	100
Strong Lead 5Ts	2009	53	444	12	53
Lead 1UZu	2010	146	1,297	6	78
Lead 9UZu	2010	131	1,202	4	48
Lead 11LZu	2010	65	591	5	30
Lead 13UZu	2011	23	202	9	18
Lead 10UZu	2011	31	276	6	17
Strong Lead 4Ts	2011	5	39	21	8
Total					803
NPV of exploration programme excluding fiscal effects					(21)
Expected value of fiscal relief on exploration					6
Total EMV					788

Source: Isis, page 51 of the CPR in Part III

Table 4 below shows the results of a sensitivity analysis assuming oil prices lower and higher than the central mid-price as well as a 10 per cent. and a 15 per cent. nominal discount rate.

The high and low oil price assumptions are as follows: (i) high case WTI of US\$70 per barrel in 2007 inflated at 2.5 per cent. per annum and (ii) low case WTI of US\$40 per barrel in 2007 inflated at 2.5 per cent. per annum.

Table 4: Results of EMV sensitivity analyses (EMVs in US\$ million)

Discount rate	WTI US\$40 per barrel	WTI US\$55 per barrel	WTI US\$70 per barrel
10%	469	788 (from above)	1,105
15%	295	515	734

Source: Isis, page 51 of the CPR in Part III

The EMV is not necessarily the same as the market value of the current prospects and leads in Block XX as would be agreed between a willing buyer and a willing seller in current economic conditions.

Adjacent Block XIX

The PSC for Block XIX is held by Daqing. Within the block are the producing Tolson Uul and Tolson Uul North oilfields. At the nearest point, these fields are located 10km and 23km north of Block XX respectively. Production from these oilfields is currently being trucked 400km to a pipeline wellhead at the Aershan Field in the Erlian Basin in China. The co-mingled oil is then piped and railed to the Hohot refinery in China.

In 2006, Daqing drilled 52 wells and has completed a further 100 in 2007 utilising 17 rigs. There are now 44 production wells of which 30 are now reportedly producing oil.

Five of these 2006 and 2007 wells (T19-46, T19-46-1, T19-62, T19-66 and T19-65), between 1.5km and 3km from the northern border of Block XX, reportedly recorded oil shows during drilling. They were subsequently tested, all recovered oil and two wells (T19-46 and T19-62) are now producing. The locations of these wells are shown in Figure 4 on page 13.

Daqing is continuing to conduct an exploration, appraisal and development programme. It has been recently reported in the press that Daqing intends to drill up to 125 exploration wells and 100 prospecting wells on its three blocks, including Block XIX in 2008.

In the Directors' opinion any significantly increased production from the Tolson Uul and Tolson Uul North oil fields, or from new discoveries in the area, could lead to a pipeline or railway line being built to reduce transportation costs.

7. Other opportunities

In October and December 2006, Capcorp Mongolia LLC submitted applications for two further PSCs over Blocks V and IV. Block V covers an area of 32,000km² and its eastern border lies 330km southwest of the capital Ulaanbaatar. Block IV covers an area of 41,470km² and lies 600km southwest of Ulaanbaatar. Both blocks are considered to be very sparsely explored. No modern seismic data has been acquired nor any exploration wells drilled in these blocks.

8. Mongolia

Following the withdrawal of aid and economic support from the Former Soviet Union in 1989, Mongolia moved to a free-market democracy in 1990, with the first multi-party elections taking place in 1992. Since then, there have been four more parliamentary and four presidential elections, both being held at least every four years. The MPRP won the parliamentary elections of 1990 and 1992 and returned to power in 2000, with the Democratic Union Coalition having won in 1996. The 2004 elections resulted in a coalition government being established between the MPRP and the Motherland Democratic Coalition, which continued until January 2006, when the MPRP once again became the majority party. The next parliamentary elections are due in June 2008. The President, the Hon. N Enkhbayar, is in his first four year term, and the next presidential election will be in 2009. President Enkhbayar is a former MPRP Prime Minister, having served between 2000 and 2004 but, as required by the Constitution, is no longer a party member. The current parliament has had three Prime Ministers. The current chairman of the MPRP, Sanj Bayar, was elected by parliament as the new Prime Minister and his 15 member cabinet was approved by parliament on 13 December 2007.

Mongolia is located between China and Russia and is approximately twice the combined size of the United Kingdom and France. Mongolia's terrain can be divided into desert, steppe and mountain. Climatic extremes are the norm, with temperatures ranging from minus 30 degrees centigrade in winter to plus 40 degrees centigrade in summer.

In 2006, the Mongolian population was approximately 2.7 million, with approximately 1 million living in the capital Ulaanbaatar. Its religious demographic is predominantly Tibetan Buddhist. Mongolia is a member of the UN, its troops having participated in peacekeeping activities in Sierra Leone, Kosovo, Afghanistan and Iraq. In 1997, Mongolia became a member of the World Trade Organisation.

Economic performance has improved significantly in recent years. GDP growth was 7.5 per cent. and 9.9 per cent. during 2006 and 2007 respectively, supported by high international mineral prices and increased foreign investment in the mineral and petroleum sectors. In 2007, Mongolia's GDP was estimated at US\$3.85 billion, with an average GDP per capita of US\$2,900. Inflation was 15 per cent. in 2007. In 2005, the mining sector accounted for one fifth of GDP and 70 per cent. of Mongolia's exports.

Standard and Poor's foreign currency sovereign debt rating in Mongolia is currently BB-. This primarily reflects the country's declining debt burden and the mining industry's prospects. In particular, a Standard and Poor's report dated December 2006 cites Mongolia's solid growth projections, based upon the expected large expansion of production capacity by several major resource companies. In September 2007, Fitch granted a foreign currency sovereign debt rating of B+ and Moody's gives a foreign currency sovereign debt rating of Ba2 for the country.

The Directors believe that Mongolia is well placed for continued economic growth, aided by its expanding minerals and energy sector.

9. Oil in Mongolia

The Mongolian oil sector has an internationally standard statutory framework which has been in place in the country for 17 years without significant revision of the commercial terms. Significant oil discoveries have been made in recent years in Mongolia with test production increasing from 199,797 barrels in 2006 to 592,445 barrels in 2007. PetroChina, through its subsidiary Daqing, is producing oil in Mongolia and is a major investor in the country.

Demand for oil from China is increasing and current production in Mongolia is being sold to China at or around world market prices.

A summary of Mongolian hydrocarbon laws and certain other Mongolian laws is set out in Part IV of this document.

10. Directors, senior management and employees

Directors

The Board comprises:

Gordon Leonard Toll, *Non-Executive Chairman, aged 60*

Mr. Toll is an Australian mining engineer with over 36 years' experience in the mining industry. He has an MBA from Columbia University in the USA and is a member of the Australian Institute of Mining and Metallurgy. His career in the mining and minerals industry has included six and a half years with BHP Iron Ore in Australia including four years as production manager. Following this, he worked for Texasgulf, Inc. as Manager of Mining International. In the 1980s, he worked for Atlantic Richfield Coal and was involved in building two coal mines in Indonesia and Venezuela. He then worked for seven years with Rio Tinto where he became the Group Mining Executive based in London. Until 2001, he was the Chairman of Emperor Mines Limited, a gold mining company listed in Australia with assets in Fiji and concurrently and until December 2004 was Deputy Chairman of Ivanhoe Mines Limited, listed in Canada and currently exploring a world class copper/gold deposit in Mongolia.

Dr. Janchiv Oyungerel, *Non-Executive Deputy Chair, aged 53*

Dr. Oyungerel graduated from the Institute of Petrochemical and Gas Industry, Moscow in 1979. She began her career as an economist at the Ulaanbaatar Oil Terminal and in 1982 became the Chief Economist at the Petroleum Supply Department at the Mongolian Ministry of Transportation where she was employed until 1991. In 1991, she was appointed the General Director of the Petroleum Import Concern of Mongolia and in 1994 became the General Director and Chair of the Board of Directors of the government owned company, Neft Import Company (NIC). In 1996, she founded Petrovis LLC and was the General Director until January 2008 and has been Chair ever since. She has completed an Oil Economics and Marketing Program at the Arthur D. Little Institute in Cambridge, USA. In January 2007, she completed a doctorate in economics in Moscow, Russia. Since 2001, she has been the Chair of the Board of Directors of Prime General (Insurance) Daatgal LLC, and from 2005 the Chair of the Board of Directors of Unigas LLC.

Douglas John McGay, *Chief Executive Officer, aged 61*

Mr. McGay is a land, mining and engineering surveyor by profession. Between 1974 and 1988 he was the principal of his own practice, McGay Surveys. The head office was in Kalgoorlie, with offices and operations throughout Australia. Following the sale of McGay Surveys in 1988, he remained involved in the mining and mineral industry as a management consultant to international mining and exploration companies providing computer generated aerial mapping services. In 1997, he moved to Mongolia initially pursuing his profession, but then expanding to a general resource industry service consultancy. Between 1998 and 2001, he was appointed as Business Manager for Harrods Natural Resources Inc., and then Ivanhoe Mines Mongolia. In 2002, he formed Batu Mining Limited, a privately funded exploration company with extensive holdings and prospects in Mongolia. He was then involved in forming the Mongolian NGO, the "Minerals and Mining Development Foundation", serving as founding Executive Director. In 2005, he was part of the formation of Central Asian Petroleum Corporation Limited. Mr. McGay lives and is based in Mongolia.

Clyde Robert Evans, *Finance Director, aged 60*

Mr. Evans was a career banker, having spent 37 years with National Australia Bank (“NAB”), where he was involved at senior leadership levels. He successfully led and managed NAB’s Western Australian corporate banking centres, catering for NAB’s large base of public listed industrial and natural resource companies. He has a network of influential business relationships throughout Western Australia.

Gregory Thomas Meldrum, *Technical Director, aged 57*

Mr. Meldrum is a petroleum geologist with over 35 years’ exploration, production and new ventures experience, in Australia and internationally, principally with large operating oil companies. Mr. Meldrum began his career in 1972 as a petroleum geologist with Burmah Oil Company in Perth, Western Australia. For the next 10 years he worked in exploration and production roles for Burmah/Woodside, Esso and Hudebay Oil. From 1982 to 1996, he worked for Marathon Petroleum Australia Ltd where he spent time in Australia, Egypt, Indonesia and Tunisia. In 1996, Mr. Meldrum returned to Australia where he formed Meldrum Pty Ltd, a petroleum geological consultancy. In 2001, he joined Apache Energy Ltd as Senior Staff Geologist, working on reservoir modelling and prospect generation in the Carnarvon and Perth Basins. In mid-2005, he became an associate at Isis Petroleum Consultants, conducting basin and field reviews in Offshore Malaysia (Petronas), offshore Sarawak (PCPP) and offshore Gabon, and, through Meldrum Pty Ltd, he began part time consulting for Capcorp, evaluating and advising on the petroleum potential of Mongolia. In mid 2006, he began full time consulting for Capcorp, and is responsible for managing all technical work associated with Capcorp’s exploration in Block XX. He is responsible for evaluating, recommending and preparing applications for additional prospective blocks in Mongolia.

Sarangua Davaadorj, *Non-Executive Director, aged 42*

After graduating from the Moscow State University Law Faculty with Bachelors and Masters Degrees in International Law, Ms. Davaadorj began her career in Mongolia as in-house counsel at a large national geological and geophysical exploration company, where she assisted in the establishment of the first natural resource database in the country and drafting contracts with international oil exploration companies on behalf of the Government. In 1991, she became a research fellow at the East-West Centre, Energy and Resources Institute, Hawaii. In 1992, she joined the State Bureau of Mines of Mongolia where she coordinated the restructuring of the mining industry and participated in the drafting of the first Mining Law of Mongolia. In 1993, she obtained a Masters of Law from Harvard Law School. In 1993, she became General Counsel and a Head of the Department of International Cooperation at the Ministry of Geology and Mineral Resources, Ulaanbaatar. In 1994, she co-founded Arlex Consulting Services Ltd, one of the first law firms in Mongolia with an extensive practice in the oil and mining industry. In 1998, she became an Associate Director at the International Law Institute in Washington, DC and a consultant to the World Bank Legal Department for East Asia and the Pacific. From 2001 to 2003, she was Marketing Manager for Emerging Markets at LTB Limited, a firm providing financial and corporate advisory services. Currently, she is a Managing Director for PITPROP Limited, a London based consulting firm working on structuring financing for oil, gas and mining projects in Russia, Kazakhstan, Mongolia and Central Asia.

Dr. John Campbell Robertson, *Non-Executive Director, aged 62*

Following his undergraduate studies at the University of St. Andrews, Dr. Robertson completed a doctorate in engineering at the University of Dundee. Dr. Robertson began his career in 1970 with J. Henry Schroder Wagg, the London merchant bank and, in 1972, he joined the corporate finance department of Cannon Street Investments. In 1975, he joined the Ultramar group of companies where he held a number of senior positions in London, Montreal, Toronto and New York. In 1992, he returned to London and joined Durlacher, a UK stockbroker where he advised corporate finance clients. From February 1995 until his retirement in June 2005, he was a director of Nabarro Wells & Co., the London based independent corporate finance advisory firm where he brought a number of significant oil and gas and mining companies to AIM. He is a non-executive director of a number of AIM and Australian Stock Exchange quoted companies.

Senior management

The following are the other members of the Group's senior management:

Tuul Amarzul, Executive Director of Capcorp Mongolia LLC and Petro Matad LLC, aged 30

Ms. Amarzul is a Mongolian citizen, educated in Singapore and has a BA degree in Foreign Relations. She has worked in the Mongolian Government's Foreign Investment and Foreign Trade Agency (FIFTA). She was awarded the honorary Minister's award while working at FIFTA. Ms. Amarzul then joined the resources sector in Mongolia, holding senior management positions in private sector resource companies.

Budjav Dendevchuluun, General Manager of Petro Matad LLC, aged 60

Mr. Dendevchuluun has 38 years' experience as a geophysicist, engineer and executive in various state agencies and private companies. He started work with the Geophysic-topomapping Authority and went on to be appointed as the Chairman of the State Industrial Authority of Mongolia. In his latter role, he was one of the initiators and developers of the 1991 Petroleum Law of Mongolia. Mr. Dendevchuluun has a BSc degree in geophysical engineering from the Polytechnic of Irkutsk, Russia, and subsequently attended professional regular maintenance courses in Russia and the United States.

In addition to the Directors and senior management, at the date of this document, the Group has nine employees who are based in Mongolia.

A split of the Group's employees as at 30 August 2007, including the Directors and senior management, by function is set out below:

	<i>Number</i>
Activity	
Main Board	7
Professional staff	3
Management and administration	3
Support	3
Total	<u>16</u>

11. Trading record

Set out below is a summary of the trading results for the Group's operating subsidiary Capcorp for the period ended 31 December 2006 and for the six months ended 30 June 2007. The information has been extracted from the Financial Information in Part V of this document.

	<i>6 months ended 30 June 2007</i>	<i>Period from incorporation to 31 December 2006</i>
	<i>US\$000</i>	<i>US\$000</i>
Revenue		
Finance revenue	7	–
Expenses	<u>(1,905)</u>	<u>(1,062)</u>
Loss before income tax	1,898	(1,062)
Income tax expense	<u>–</u>	<u>(1)</u>
Loss after tax from continuing operations	<u>(1,898)</u>	<u>(1,063)</u>

Since 30 June 2007, the Group has continued to process and evaluate the field exploration programme, report to the MRPAM and work towards additional fund raising and admission to AIM.

12. Corporate governance and share dealing code

Although there are no corporate governance requirements under the laws of the Isle of Man, the Directors acknowledge the importance of the Combined Code and, following Admission, intend to comply with its principles so far as is practicable and appropriate given the size of the Company and the constitution of the Board.

The Board also intends that the Company should operate substantially in compliance with the QCA Corporate Governance Guidelines for AIM Companies to the extent considered applicable to the Company.

The Board has established an Audit Committee and a Remuneration Committee, each with formally delegated rules and responsibilities. Each of these committees will meet regularly, and at least twice each year. Each of the Committees contains two independent non-executive directors, in accordance with the QCA Guidelines.

Audit Committee

On Admission, the Audit Committee comprises Dr. John Robertson, Mr. Gordon Toll and Sarangua Davaadorj and will be chaired by Dr. John Robertson.

The Audit Committee will meet at least three times a year and has an agenda linked to events in the Group's financial calendar, including a review of the Company's annual and half yearly results, the review of the internal controls of the Group and ensuring that the financial performance of the Group is properly reported and monitored. The Audit Committee is responsible, *inter alia*, for:

- (a) considering the appointment of the auditors of the Group, their fees, any questions of or relating to their resignation or removal and their objectivity and independence in the conduct of the audit, and reviewing the nature and extent of non-auditing services provided by the auditors, seeking to balance the maintenance of objectivity and value for money;
- (b) discussing with the auditors before the audit commences the nature and scope of the audit and reviewing the audit process;
- (c) monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them, including reviewing the half-yearly and annual financial statements before submission to the Board;
- (d) reviewing the Company's internal control systems; and
- (e) considering such other matters as the Board may from time to time refer to it.

The Audit Committee is required to report its findings to the Board and identifying any matters in respect of which it considers that action or improvement is needed.

Remuneration Committee

The Remuneration Committee consists of Mr. Gordon Toll, Dr. Janchiv Oyungerel and Dr. John Robertson and will be chaired by Dr. Janchiv Oyungerel. The Remuneration Committee will review the performance of the Executive Directors and the scale and structure of their remuneration. The Remuneration Committee will also make recommendations to the Board regarding employee incentives including performance related pay, profit sharing schemes or share incentive schemes.

The Company has adopted a model code for dealing in Ordinary Shares by Directors and employees which is appropriate for an AIM-quoted company.

13. Reasons for Admission

Petro Matad is seeking admission to AIM in order to advance its strategy of exploring and exploiting the Group's assets. Admission is also intended to widen the Company's investor base and to allow it access to equity capital markets. In addition, the Directors consider that Admission will assist with the recruitment and incentivisation of staff and raise Petro Matad's profile and status within the oil sector.

14. Dividend policy

The Board intends that, following Admission, its cash resources will be utilised for exploration and development activities and will not be distributed until the Company has an appropriate level of distributable profits. There is no intention to pay dividends in the near future. The declaration and payment by the Company of any dividends and the amount thereof will depend on the results of the Group's operations, its financial position, cash requirements, prospects, profits available for distribution and other factors deemed to be relevant at the time. Pursuant to the Act, dividends may only be declared if the Directors are satisfied, on reasonable grounds, that the Company will, immediately after payment of the dividend, satisfy the Solvency Test.

15. Lock-in and orderly marketing arrangements

Under the terms of the Introduction Agreement and the Lock-in Agreements, which are described more fully in paragraph 9 of Part VI of this document, each of the Directors, their connected persons and Substantial Shareholders as defined in the AIM Rules has undertaken that, subject to certain exceptions, they will not sell or otherwise dispose of, or agree to dispose of, any of their respective interests in (*inter alia*) Ordinary Shares held immediately following Admission for a period of 12 months ("Lock-in Period"). The Directors and Petrovis have agreed for a further six months from the expiry of the Lock-in Period only to dispose of Ordinary Shares in which they have an interest through HansonWesthouse and in such a manner as may be reasonably required by HansonWesthouse with a view to the maintenance of an orderly market in the Ordinary Shares provided that HansonWesthouse offers competitive terms (including as to commission and price).

16. Long-term equity incentive plan

The Company will provide long-term incentives to employees (including executive directors) non-executive directors and consultants through the Petro Matad Long Term Equity Incentive Plan ("LTIP") based on the achievement of certain performance criteria. The LTIP provides for share awards in the form of options and conditional free share awards. Awards will be made at the discretion of the Board, or in the case of executive directors, the Remuneration Committee of the Board, who shall determine the level of award and appropriate vesting, service and performance conditions taking into account market practice and the need to recruit and retain the best people.

It is intended that on Admission, options (with an exercise price per Ordinary Share equal to US\$0.75, being the market value of an Ordinary Share as determined by the Board immediately prior to Admission) and conditional free share awards subject to performance (with a subscription price per Ordinary Share of no more than the nominal value of an Ordinary Share on the date of vesting) will be granted to certain directors and key employees of the Group under the LTIP over a total of 3,985,000 Ordinary Shares. Details of the awards to be granted to directors and employees of the Group under the LTIP on Admission are set out in paragraph 8 of Part VI of this document.

17. Admission, settlement and dealings

Application has been made to the London Stock Exchange for the Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will be effected and that dealings in the Ordinary Shares will commence on 1 May 2008.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the CREST Regulations. The Articles of Association permit the holding of Ordinary Shares under the CREST system. All the Ordinary Shares will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the

date of Admission. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes. CREST is a voluntary system and holders of the Ordinary Shares who wish to receive and retain share certificates will be able to do so.

18. The Takeover Code

Notwithstanding that the Company's Ordinary Shares will be traded on AIM, the Company is not currently subject to the Takeover Code.

If circumstances arise which might affect the application of the Takeover Code to the Company, including changes to the Company's Board, the Company will consult with the Panel and, if appropriate, make an update announcement.

The Company's Articles contain provisions similar to Rule 9 of the Takeover Code (Mandatory Offers), which (in summary) entitle the Board, *inter alia*, to suspend the voting rights of a shareholder if it (and any others acting in concert with it) would be required to make an offer to acquire all the Ordinary Shares in the Company under Rule 9 of the Takeover Code, if the Takeover Code applied to the Company and the shareholder has failed to do so within 21 days of when such obligation would have arisen. The Articles contain provisions for holders of Ordinary Shares and do not extend to holders of other interests in securities as defined under the Takeover Code. Paragraph 3 of Part VI contains a summary of the Company's Articles including a summary of the relevant provisions described herein.

19. Shareholder notifications of interests

As a company incorporated under the Companies Act, the Company is not subject to the provisions of the Disclosure and Transparency Rules ("DTRs") and, consequently, Shareholders would not ordinarily be subject to any requirement to disclose to the Company the level of their interests in the Ordinary Shares. However, in accordance with the Guidance Notes to AIM Rule 17 for companies incorporated outside the United Kingdom whose shares are admitted to trading on AIM, the Company has elected to incorporate certain provisions of the DTRs and the UK Companies Act 2006 into the Articles, further details of which are set out in paragraph 3 of Part VI of this document.

20. Taxation

Information regarding UK and Isle of Man taxation with regard to certain holders of the Ordinary Shares is set out in paragraph 14 and 15 of Part VI of this document. If you are in any doubt as to your tax position, you should contact your professional adviser.

21. Further information

Your attention is drawn to the information set out in Parts II to VI of this document, in particular Part II which is entitled "Risk Factors".

PART II

RISK FACTORS

Investment in the Company is subject to a number of risks. Accordingly, prospective investors should carefully consider the following specific risk factors in addition to the other relevant information set out in this document, when evaluating whether to make an investment in the Company. The investment opportunity offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective investors are advised to consult an independent financial adviser authorised under the FSMA who specialises in advising on investments of this kind. A prospective investor should carefully consider whether an investment in the Company is suitable in the light of personal circumstances and the financial resources available.

If any of the following risks were to materialise, the Group's business, financial position, results, prospects and/or future operations could be materially and adversely affected. In such case, the market price of the Ordinary Shares may decline and an investor may lose all or part of his investment. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect upon the Group.

1. Risks relating to the Company, the Group and its operations

Limited trading history of the Group

Although the Directors have extensive experience in the acquisition, exploration, development and operation of assets similar to those owned and targeted by the Group, the Group has no significant trading history.

Ability to exploit successful discoveries

The general industry risks described below apply to the Group and there is no certainty that the Group will locate hydrocarbons which are economically exploitable. It may not always be possible for Petro Matad to participate in the exploitation of any successful discoveries which may be made in any areas in which it has an interest. Such exploitation will involve the need to obtain the necessary licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied.

In addition, the decision to proceed with further exploitation may require the participation of other companies whose interests and objectives may not be the same as the Group. Such further work may require the Group to meet or commit to financing obligations for which it may not have adequately planned.

The decision to invest in major infrastructure such as pipelines or rail links for the transport of crude oil may require the participation of other companies whose interests and objectives may not be the same as those of the Group.

The export routes have only recently been established

The routes through which oil is currently exported out of Mongolia have only been established relatively recently and are subject to disruption by various factors including adverse weather conditions and administrative actions. There are no current definitive plans to upgrade the infrastructure which would improve this.

Reliance on one block

The Group's principal asset is currently its rights under the PSC for Block XX. The Group's operations are all carried out in one geographical location. Any circumstance or event that negatively impacts the ownership, enjoyment, or development of these rights or which affects Mongolia could materially affect the Group's financial performance, more significantly than if it had a diversified group of assets.

Reliance on key personnel

As is normal with other similar companies in the oil and gas sector, the Group's business is in part dependent on recruiting and retaining the services of a small number of key personnel of the appropriate industry experience and expertise. The success of the Group is, and will continue to be, to a significant extent, dependent on the expertise and experience of the Directors and the loss of one or more could have a material adverse effect on the Group.

Retention of key business relationships

The Group relies on strategic relationships with other entities such as Petrovis.

While the Directors have no reason to believe otherwise, there can be no assurance that its existing relationships will continue to be maintained or that new ones will be successfully formed. The Group could be adversely affected by changes to such relationships or difficulties in forming new ones. Any circumstance which causes the early termination or non-renewal of one or more of the Group's key business alliances or contracts, could adversely impact the Group, its business, operating results and prospects.

Joint venture party and contractor risks

While not a part of the current business strategy the Directors may resolve in the future for the Group to participate with other companies, in the acquisition, exploration, development and production of oil assets, thereby allowing for its participation in larger programmes, permitting involvement in a greater number of programmes and reducing financial exposure in respect of any one particular programme. It may also occur that a particular partner company will assign all or a portion of its interest in a particular programme to another company due to the financial position of the company making the assignment. In determining whether or not the Group will participate in a particular programme and the interest therein to be acquired by it, the Directors will primarily consider the degree of risk to which the Group may be exposed and its financial position at that time. This risk may change dependent on the financial position and identity of its partner companies. In addition, the Group is exposed to various risks related to its joint venture parties and contractors that may adversely affect its proposed activities and licence interests, including:

- (i) financial failure, non-compliance with obligations or default by a participant in any joint venture arrangement to which it is, or may become, a party;
- (ii) insolvency or other managerial failure by any of the contractors used by any joint venture partner in its exploration and production activities; and
- (iii) insolvency or other managerial failure by any of the other service providers used by any joint venture or farm-in party for any activity.

Insurance

Although the Group believes that it or the relevant operator will carry adequate insurance with respect to its operations in accordance with industry practice, in certain circumstances the Group's or the operator's insurance may not cover or be adequate to cover the consequences of all its operations. In addition, the Group may be subject to liability for pollution, blow-outs or other hazards against which the Group or the operator may elect not to insure because of high premium costs or other reasons. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of operations of the Group.

There is a risk that insurance premiums may increase to a level where the Group considers it is unreasonable, or not in its interests, to maintain insurance cover, or not to a level of coverage which is in accordance with industry practice. In addition, the Group may, following a cost-benefit analysis, elect not to insure certain risks on the grounds that the amount of premium payable for that risk is excessive when compared to the potential benefit to the Group of the insurance cover.

Residence of each member of the Group

The Group has taken steps to minimise the risk of being treated as being resident in jurisdictions (other than each member of the Group's respective jurisdiction of incorporation) for tax purposes where such

jurisdictions have a residence test based on the place of effective management and control. However if these steps are not strictly adhered to then profits could be subject to tax in those other jurisdictions.

Potential requirement for further investment

The Group is likely to remain cash flow negative for some time and, although the Directors have confidence in the future revenue earning potential of the Group, subject to its exploration activities being successful, there can be no certainty that the Group will achieve or sustain profitability or positive cash flow from its operating activities. The Group may require additional capital in the future for the exploitation of any discoveries, the exploration and (if applicable) exploitation of additional blocks which it is successful in acquiring and/or otherwise for its growth strategy and any unforeseeable events, whether from equity or debt sources. There can be no guarantee that the necessary funds will be available on a timely basis, on favourable terms, or at all, or that such funds if raised, would be sufficient. If additional funds are raised by issuing equity securities, dilution to the then existing shareholdings may result. Debt finance providers may impose onerous covenants on the Group. The level and timing of future expenditure will depend on a number of factors, many of which are outside of the Group's control. If the Group is not able to obtain additional capital on acceptable terms, or at all, it may be forced to curtail or abandon its growth strategy and intended operations. The above statements are not intended to qualify the working capital statement in paragraph 12 of Part VI.

2. General Industry-related Risks

Exploration risks

The business of exploration for oil and gas involves a high degree of risk. Drilling may result in unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some hydrocarbons, are not sufficiently productive to justify commercial development. Furthermore, the successful completion of a well does not assure a profit on investment or recovery of drilling, completion and operating costs.

Resource and reserve estimates

Hydrocarbon resource and reserve estimates are expressions of judgement based on knowledge, experience and industry practice. They are therefore imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Estimates that were reasonable when made may change significantly when new information from additional drilling and analysis becomes available. This may result in alterations to development and production plans which may, in turn, adversely affect operations.

Estimates of the possible hydrocarbon resources that might be hosted on the licence areas where the Group has, or may in the future have, interests should not be taken to imply that any hydrocarbon resources are present in these structures.

Title and other regulatory obligations

The Group's exploration rights will be subject to applications for renewal or grant or for an extension of the activities it covers, including to enable exploitation in the event of a commercial discovery, (as the case may be). The renewal or grant of the term of each PSC, or extension of its scope, is, or may be, at the discretion of the relevant government authority. If a contract is not renewed or granted, or if its scope is not extended, the Group may suffer significant damage through loss of the opportunity to develop and discover any hydrocarbon resources on that licence area.

Under the contractual agreements to which the Group is or may in the future become party, the Group is or may become subject to material payment and other obligations.

Moreover, if the Group does not meet its work and/or expenditure obligations under the PSC or any future permits and/or licences in which it has a participating interest this may lead to dilution of its interest in, or the loss of, the PSC, or other permits or licences.

The conduct of petroleum operations and the steps involved in the Group acquiring its current interests involve or have involved the need to comply with numerous procedures and formalities. It may not in all cases be possible to comply with or obtain waivers of all such formalities.

Operating risks

Exploration and development activities may be delayed or adversely affected by factors outside the control of the Group. These include adverse climatic conditions (including drought preventing the access to sufficient water for drilling and other operations), the performance of joint venture or farm-in partners on whom the Group may be or may become reliant, compliance with governmental requirements, shortage or delays in installing and commissioning plant and equipment or import or customs delays. Problems may also arise due to the quality or failure of locally obtained equipment or interruptions to services (such as power, water, fuel or transport or processing capacity) or technical support which result in failure to achieve expected target dates for exploration or production and/or result in a requirement for greater expenditure. Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some oil or gas, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Group due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Damages occurring as a result of such risks may give rise to claims against the Group and its partners which may not be covered, in whole or part, by insurance.

Commercial risks

Even if the assets in which the Group holds interests recover quantities of oil or gas, there is a risk it will not achieve a commercial return. The operators may not be able to transport the oil or gas to commercially viable markets at a reasonable cost or may not be able to sell the oil or gas to customers at a price and quantity which would cover its operating and other costs.

Environmental risks

The operations in which the Group has interests are subject to the environmental risks inherent in the oil and gas exploration and production industry. The Group is subject to environmental laws and regulations in connection with all of its operations. Although the Group intends to be in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other circumstances, which could potentially subject the Group to extensive liability.

Further, any operator or contractor in relation to oil and gas operations may require approval from the relevant authorities before it can undertake activities which are likely to impact the environment. Failure to obtain such approvals or failure to satisfy regular inspections may prevent Petro Matad or the operator from undertaking or continuing its desired activities. The Group is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would adversely affect the Group's operations.

Economic and price risks

Changes in the general economic climate in which the Group operates may adversely affect its financial performance and the value of its assets. In particular, the current and expected future price of oil and gas can change rapidly and significantly and this can have a substantial effect on the value of the Group's assets and the potential future revenue and profits that might be earned from the successful development of those assets. The marketability of any oil and gas discovered will be affected by numerous factors beyond the control of the Group. These factors include market fluctuations, capacity of oil and gas pipelines and processing equipment and government regulations including regulations relating to taxation, royalties, allowable production, importing and exporting of oil and gas and environmental protection.

The demand for, and price of, oil and natural gas is highly dependent on a variety of factors including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. International oil prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and natural gas prices and, in particular, a material decline in the price of oil or natural gas may have a materially adverse effect on the Group's business, financial condition and results of operations. Oil and gas prices could affect the viability of exploring and/or developing the Group's interests.

Competition

The Group competes with other companies, particularly for the acquisition of oil and gas assets. Some of these companies have greater financial and other resources than the Group, including substantial global refining and downstream processing and marketing operations. As a result, such companies may be in a better position to compete for future business opportunities and there can be no assurance that the Group can compete effectively with these companies.

Development costs

The proposed expenditure referred to in Parts I and III of this document is based on certain assumptions with respect to the method and timing of development. By their nature, these estimates and assumptions are subject to significant uncertainties and, accordingly, the actual costs may materially differ from these estimates and assumptions. Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realised in practice, which may materially and adversely affect the Group.

Political factors in Mongolia may adversely affect the Company's business and trading in the Ordinary Shares

In 1992 Mongolia introduced a new constitution based on democratic principals. Since 2004, the country has had a coalition government in the absence of a working majority by any of the political parties. As such, relatively minor changes in alliances in the coalition have resulted, and may in the future, result in the make-up of the government and/or its policies undergoing material change.

Although Mongolia's transition to democracy has been peaceful and there is representation of various political parties in the government, tension continues to exist between the governing coalition partners. In addition, the possibility of political instability and uncertainty could have an adverse impact on the economy of Mongolia, and investors may adopt a more cautious approach towards Mongolia's securities markets or investments in Mongolia in general. Such factors could adversely affect the Group and trading in the Ordinary Shares.

Emerging markets such as Mongolia are subject to greater risks than more developed markets, and fluctuations in the global economy, particularly emerging market countries, could disrupt the Group's business, as well as cause the value of investments in Mongolia to decline

The Mongolian market and the Mongolian economy are influenced by economic and market conditions in other countries. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in capital markets of all emerging market countries, including Mongolia, as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Mongolia and adversely affect the Mongolian economy and the Group. A loss of investor confidence in the financial systems of other emerging markets may cause volatility in Mongolian financial markets and indirectly, in the Mongolian economy in general. Any worldwide financial instability could also have a negative impact on the Mongolian economy.

Selective or other government action may have an adverse effect on the Group's business and the value of investments in Mongolia

Governmental authorities have a degree of discretion in Mongolia and at times appear to act arbitrarily. Government entities may also use common or minor defects in official or other documentation to delay or invalidate the issue or registrations of rights or licences or to void transactions. Competitors of the Group may receive preferential treatment from the government and

governmental authorities, potentially giving them a competitive advantage. Selective or arbitrary government action, if directed at the Group's operations, could have a material adverse effect on the Group's business, results of operations and prospects and on the value of investments in Mongolia.

Any such selective action relating to activities of the Group, for example in relation to its proposed export route following any successful discovery, could adversely affect the Group. In addition, in accordance with Mongolian law, the Mongolian Government may prohibit, restrict or requisition production of petroleum in any part of the territory of Mongolia for reasons of national security, prevention of damage to natural oil reserves, and environment, or protection of relics of historical and cultural importance.

The government of Mongolia has traditionally exercised and continues to exercise a dominant influence

The Mongolia government has traditionally exercised and continues to exercise a more dominant influence over many aspects of the economy than is the case in some other countries. Its economic policies have had and could continue to have a significant effect on the Group, and on market conditions and prices of Mongolian securities, including securities issued by the Group.

Changes in law could materially prejudice the Group

There have been examples in the past, such as in 2006, the implementation of a windfall tax applicable to certain minerals and changes to the Mining Law, both of which had a material adverse effect on certain companies operating in Mongolia, of changes in laws at short notice and with no or little public consultation. There is no certainty that equivalent actions may not happen in the future in relation to laws or regulations applicable to the Group.

Corruption could materially prejudice the Group

The Mongolian government campaigns regularly against crime and corruption, however, the effectiveness of such campaigns is uncertain. While the Group is not aware of unethical or criminal or corrupt activities affecting the Group, nevertheless, surveys have indicated that there may be some corruption in Mongolia. Corruption could potentially adversely affect the Group, including, for example, if as a result a competitor to the Group was able to achieve a benefit which the Group was not. Another example could be false accusations of corruption or other alleged wrongdoing by the Company or its officers, by newspapers, competitors or others in order to gain a competitive advantage or for other reasons.

Mongolian press reports have alleged selective investigations and prosecutions to further the interests of the State. Should the Group find itself the target of these activities, the Group may have to cease or alter certain activities or embark on expensive litigation to enforce its legal rights and protect its employees which could adversely affect the Group's operations and financial condition.

Lack of clarity of law and regulations

Much of the legislation and regulations applicable to the Group's operations is relatively new and untested by judicial process or otherwise. There can be no certainty that interpretations or rulings of government bodies on which the Group has relied may not be challenged by government agencies or others in the future. If any such challenges were successful, this could materially adversely affect the Group.

3. Risks relating to the jurisdictions in which the Group operates or with which it trades

Currency and foreign exchange risk

The Group's principal operations are located in Mongolia, but the registered office of the Company is in the Isle of Man. Both the Group's revenues and the majority of its operational costs are denominated in US Dollars and so exchange rate fluctuations between the Mongolian Tugrik and the US Dollar have little impact on the Group.

While most of the Group's financial obligations are denominated in US dollars, a number of foreign currency effects may arise from exchange rate movements. The Group does not engage in active hedging to minimise exchange rate risk.

Mongolian Sovereign Risk

Mongolia held its first democratic elections in 1990 however, it is a relatively young democracy by international standards and as such there are higher risks of political instability, government intervention in the economy, economic volatility and other sovereign risks associated with investments in Mongolia than in more developed nation states. The Directors are hopeful that the Mongolian government will continue to support the development of natural resources with foreign investment. However, there can be no assurance that future political and economic conditions in Mongolia will not result in the Mongolian government adopting different policies in relation to foreign investment and ownership of natural resources.

In particular, despite a joint communiqué with the United Kingdom and other efforts by the Mongolian government to strengthen external beliefs in its free market policies, there has been past press speculation over Mongolia's tendency to consider populist changes to political policy and economic management. Investors should therefore be aware of the risk that licences may be varied or revoked.

Legal systems

Mongolia and other jurisdictions in which the Group might operate in the future may have less developed legal systems than more established economies which could result in risks such as (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or in an ownership dispute, being more difficult to obtain; (ii) a degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in modern commercial matters. In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to the Group's licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that the PSC, joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Economic, political, judicial, administrative, taxation or other regulatory factors

The Group's current interests are in Mongolia where there may be a number of associated risks over which it will have no, or limited, control. These may include contract renegotiation, contract cancellation, economic, social, or political instability or change, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum export licensing and export duties as well as government control over domestic oil and gas pricing.

Foreign jurisdiction taxation

The operations and activities of the Group in jurisdictions outside the Isle of Man could expose the Group to income and/or capital taxes in jurisdictions outside the Isle of Man which may have a substantial adverse effect on the Group's business, financial condition and prospects. This will depend, in part, on:

- the nature of the Group's income and operations in these jurisdictions (carried on by employees of the Group or service providers on behalf of the Group), including intra-group transactions;
- the attitude of the tax authorities in these jurisdictions; and
- the ability of the Group to claim treaty benefits under any applicable income tax treaties between jurisdictions other than the Isle of Man in which it carries on operations and activities.

Anticipated dependence on Chinese exports

A significant proportion of the Group's revenues in the event of a successful discovery and development are expected to be generated by exports to China. Any significant decline in the condition of the Chinese economy, any import or export controls and/or the imposition of any import or export duties could adversely affect any such exports and/or the financial return which the Group would derive there from.

4. Risks relating to the Ordinary Shares Share price volatility

The market price for the Company's Ordinary Shares is likely to fluctuate in response to a variety of factors, many of which are outside the Group's control.

The price and volume at which the Company's Ordinary Shares are traded may fluctuate and the Group is unable to predict this. An active market for the Company's securities may not develop or be sustained, and the market price of the Company's Ordinary Shares may fall below the price of the Ordinary Shares on Admission. Indeed the share price at Admission may not be indicative of the price at which investors may be able to resell their Ordinary Shares. An investment in a company traded on AIM is perceived to be less liquid and more difficult to realise, and carries a higher degree of risk than an investment in shares listed on the Official List of the London Stock Exchange.

Specific risks related to taxation

Investors should refer to paragraphs 14 and 15 of Part VI of this document for a summary of the possible tax consequences in the UK and Isle of Man of owning the Ordinary Shares.

Investment risk and AIM

The future success of AIM and the liquidity in the market for Ordinary Shares cannot be guaranteed. The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in investor sentiment regarding the Ordinary Shares or in response to various facts and events, including variations in the Group's interim or full year operating results and business developments of the Group and/or its competitors.

Potential investors should be aware that the value of securities and the income from them can go down as well as up.

The price which investors may realise for their holding of Ordinary Shares, and when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Group and others of which are extraneous.

Forward looking statements

This document contains forward looking statements, including, without limitation, statements containing the words, "believes", "anticipates", "expects" and similar expressions. Such forward looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Company or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors". Given these uncertainties prospective investors are cautioned not to place any undue reliance in such forward looking statements. The Company disclaims any obligation to update any such forward looking statements in this document to reflect future events or developments.

Investors should therefore consider carefully whether investment in the Company is suitable for them, in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.

PART III
COMPETENT PERSON'S REPORT



Competent Person's Report
Exploration Assets
Petro Matad Limited

Prepared for
Petro Matad Limited

April 2008

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25 April 2008

Dear Sirs,

Re: Petro Matad Limited – Admission Document

The Directors of Petro Matad Limited (“Petro Matad”) appointed Isis Petroleum Consultants Pty Ltd (“Isis”) to conduct an independent evaluation of Petro Matad’s sub-surface hydrocarbon assets in Mongolia. Isis has completed the technical and economic evaluation of the assets and prepared a Competent Person’s Report (“CPR”) that details the analysis, findings and conclusions of the evaluation.

The principal asset held by Petro Matad is the exploration Block XX, in the Tamtsag Basin, Mongolia. Petro Matad has signed a Production Sharing Contract (“PSC”) for Block XX with the Mineral Resources and Petroleum Authority of Mongolia (“MRPAM”) effective the 19th July 2006. Petro Matad through its wholly owned subsidiary has a 100% equity in Block XX.

The evaluation of Block XX was conducted in the context of Petro Matad’s proposed listing for admission to trading on the Alternative Investment Market of the London Stock Exchange plc (“AIM”).

The Tamtsag Basin contains a proven hydrocarbon system with oil production from the nearby Tolson Uul Oil Field and North Tolson Uul Oil Field which are located 10 km and 23 km respectively northeast of Block XX.

During the fourth quarter of 2006, Isis completed an interpretation of all of the 2D seismic data available to Petro Matad and integrated it with the existing interpretation of the gravity data. A portfolio of leads was interpreted, mapped and evaluated.

During the second quarter of 2007, key existing seismic lines were reprocessed using modern data processing techniques. Additionally a 423 km 2D seismic survey was acquired, processed and interpreted in Block XX. The objective of the survey was to mature the most prospective leads to prospect status. The resultant seismic data set is of good to very good data quality.

Petro Matad also acquired a land based gravity and magnetics survey over an area in the central and eastern part of Block XX. The final interpretation was completed in August 2007. The new interpretation allowed for a greater definition of basement structure, fault trends and recognised areas of interest.

Isis has integrated and interpreted all of the seismic data within Block XX and mapped and identified two prospects, four strong leads and five leads. The prospects and leads each have an unrisksed mean prospective recoverable resource potential ranging from 5 MMbbl to 146 MMbbl of oil. The prospects and leads have a total mean un-risked prospective recoverable resource potential of 745 MMbbl and a total mean risked prospective recoverable resource potential of 85 MMbbl. The probability of geological success ("POS") for the prospects and leads ranges from 4% to 23%.

Isis has completed an economic evaluation of the above portfolio of eleven prospects. The total EMV of these prospects based on an oil price for WTI crude of US\$55 per barrel in real 2007 terms, escalated at 2.5% per year, and using a nominal discount rate of 10% is US\$788 million.

Petro Matad has advised Isis that it plans to undertake a work programme in excess of that provided to the MRPAM. The programme is to acquire, process and interpret 100 sq km of 3D seismic data over the greater 8Ts Prospect area, 155 km of 2D seismic data over the greater 6Ts Strong Lead and to reprocess and interpret 330 km of existing seismic data. The objective of the programme is to reduce the geological risk of the 8Ts Prospect and to mature the 6Ts Strong Lead to drillable status. The programme will also provide appraisal locations in the greater 8Ts area and define leads and prospects on the fault terraces that lie between the 8Ts Prospect and the 6Ts Strong Lead. The seismic programme is planned to commence during the second quarter of 2008. Subject to securing further funding, Petro Matad plans to drill four exploration wells in 2009.

The direction and emphasis of the exploration programme in 2010 and 2011 will be subject to the results of the 2009 drilling programme. Petro Matad currently plans to undertake an additional four well exploration and appraisal drilling programme commencing in 2010 which will then be followed by a 3 well exploration and appraisal programme in 2011.

Isis has concluded that Block XX has sufficient exploration potential to justify the planned exploration programmes and that the proposed budgeted expenditures are reasonable to support the planned exploration programmes.

Neither Isis nor its subcontractors and employees have any pecuniary interest nor any other interest in Petro Matad or the assets evaluated, other than for professional fees received for carrying out this evaluation.

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Admission Document in compliance with Paragraph (a) of Schedule Two of the AIM Rules.

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1.0 EXECUTIVE SUMMARY

The Directors of Petro Matad Limited (“Petro Matad”) appointed Isis Petroleum Consultants Pty Ltd (“Isis”) to conduct an independent evaluation of Petro Matad’s sub-surface hydrocarbon assets in Mongolia. Petro Matad refers to the group or company as the context requires. The principal asset is the exploration Block XX, in the Tamtsag Basin, Mongolia. Petro Matad has signed a Production Sharing Contract (“PSC”) for Block XX with the MRPAM effective the 19th July 2006. Petro Matad through its wholly owned subsidiary Petromatad Invest Limited has a 100% equity in Block XX. Isis has prepared a Competent Person’s Report (“CPR”) that details the analysis, findings and conclusions of the evaluation.

Capcorp Mongolia LLC, lodged two applications for Production Sharing Contracts for Blocks IV and V in late 2006. The two blocks lie adjacent to each other in the Central Gobi Basin, Mongolia. Blocks IV and V are considered to be very sparsely explored. It appears that no modern seismic data has been acquired nor any exploration wells drilled in either block.

The evaluation of Block XX was conducted in the context of Petro Matad’s proposed listing for admission to trading on the Alternative Investment Market of the London Stock Exchange plc (“AIM”).

The Tamtsag Basin contains a proven hydrocarbon system with oil production from the nearby Tolson Uul Oil Field and North Tolson Uul Oil Field which are located 10 km and 23 km respectively northeast of Block XX.

During the fourth quarter of 2006, Isis completed an interpretation of all of the 2D seismic data available to Petro Matad and integrated it with the existing interpretation of the gravity data. A portfolio of leads was interpreted, mapped and evaluated.

During the second quarter of 2007, key existing seismic lines were reprocessed using modern data processing techniques. Additionally a 423 km 2D seismic survey was acquired, processed and interpreted in Block XX. The objective of the survey was to mature the most prospective leads to prospect status. The resultant seismic data set is of good to very good data quality.

Petro Matad also acquired a land based gravity and magnetics survey over an area in the central and eastern part of Block XX. The final interpretation was completed in August 2007. The new interpretation allowed for a greater definition of basement structure, fault trends and recognised areas of interest.

Isis has integrated and interpreted all of the seismic data within Block XX and mapped and identified two prospects, four strong leads and five leads. The prospects and leads each have an unrisksed mean prospective recoverable resource potential ranging from 5 MMbbl to 146 MMbbl of oil. The portfolio of prospects and leads have a total mean un-risked prospective recoverable resource potential of 745 MMbbl and a total mean risked prospective recoverable resource potential of 85 MMbbl. The probability of geological success (“POS”) for the prospects and leads ranges from 4% to 23%.

Isis has completed an economic evaluation of the above portfolio of eleven Prospects and Leads. The results of the expected monetary value (“EMV”) sensitivity analyses are outlined in Table 1. The total EMV of these Prospects and Leads based on an oil price for WTI crude of US\$55 per barrel in real 2007 terms, escalated at 2.5% per year, and using a nominal discount rate of 10% is US\$788 million.

Results of EMV Sensitivity Analyses (EMVs in US\$MM)			
Discount rate	WTI US\$40 / bbl	WTI US\$55 / bbl	WTI US\$70 / bbl
10%	469	788 (from above)	1,105
15%	295	515	734

Table 1: Results of EMV Sensitivity Analyses

2.0 INTRODUCTION

Block XX lies in the far eastern part of Mongolia, 500 km from the capital Ulaanbaatar and to the east of the Gobi Desert. The southern boundary of the block is within 5 km of the border with China and the northern boundary is within 80 km of China (Figure 1).

Block XX covers an area of 18,956 sq km and is located in the prospective Tamtsag Basin within which the Tolson Uul and North Tolson Uul oil fields have been discovered and are currently producing. The Tamtsag Basin is the southwestern extension of the Hailar Basin in China which is a well established oil producing region (Figure 1).

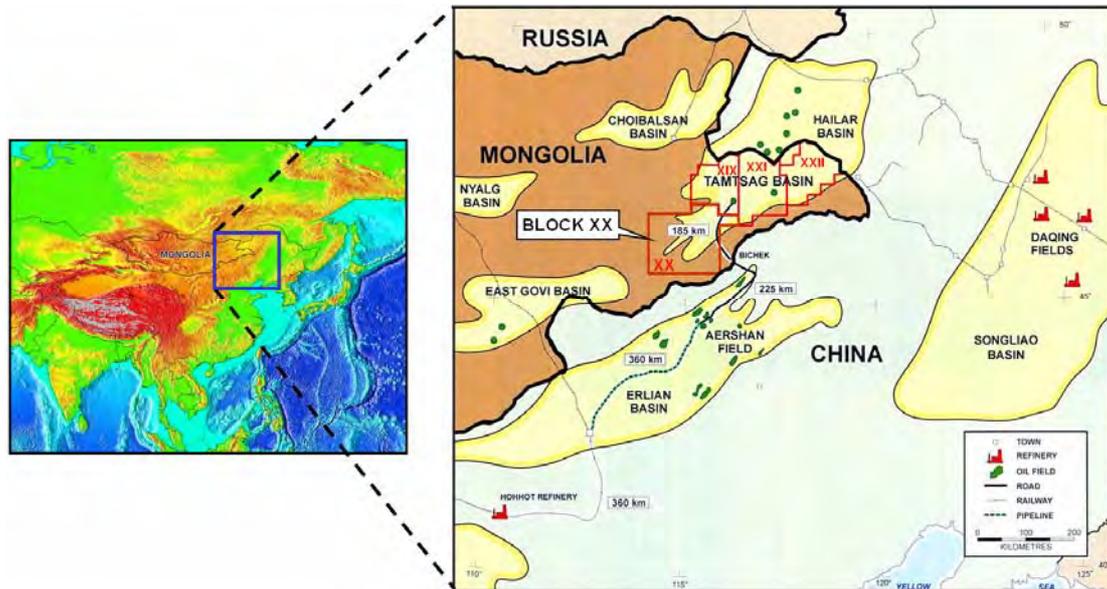


Figure 1: Location Map and Production Facilities

Block XX was originally awarded to SOCO International plc (“SOCO”) along with Blocks XI, XIX, XXI and XXII. SOCO relinquished Block XI and XX, following the drilling of the 20-01 well in 1998, as they could not fully fund their work commitments. SOCO were then able to concentrate on developing the Block XIX oil discoveries and funding further exploration. Petro Matad applied for Block XX in December 2005 and it was subsequently awarded to Petro Matad by the MRPAM, effective from the 19th July 2006, for a term of 5 years under a minimum work programme obligation.

Previous petroleum exploration in Block XX has been limited to regional and semi detail 2D seismic surveys, gravity surveys, 4 shallow wells drilled by the Russians in the 1950’s and 1 modern well, 20-01, that was drilled by SOCO in 1998 to a depth of 2,503 m. The well failed to encounter hydrocarbons and current mapping, based on the incorporation of additional modern reprocessed seismic data, shows that the well was poorly located and was drilled outside of the mapped closure.

Isis’s scope of work was to provide an independent evaluation of the prospective resources in Petro Matad’s exploration asset, Block XX in the Tamtsag Basin, Mongolia. Details of this asset are shown in Table 1. Isis has reviewed the various data and documents made available by Petro Matad covering the regional geology and the available well information within Block XX and to the north in Block XIX (Figure 2). Isis has also sourced regional geology references from the public domain and integrated this information into the regional geological model.

A site visit was not carried out by Isis as there are as yet no surface facilities to inspect within Block XX.

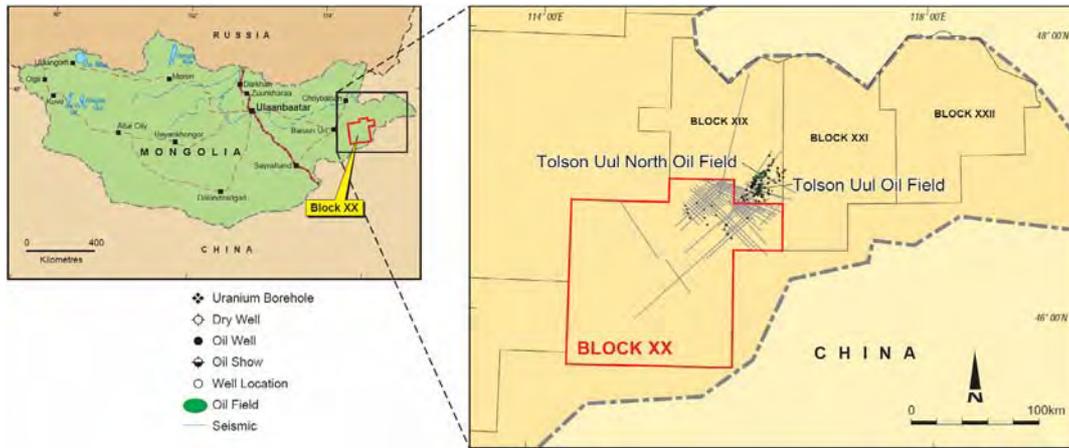


Figure 2: Block XX Location Map

Isis has also created a well and seismic database for Block XX and the southern part of the adjacent Block XIX. A total of 2,076 km of 2D seismic data and 72 oil and gas exploration wells have been incorporated into the database together with location data for 10 continuously cored deep uranium mineral bore holes (Figure 3). The seismic data set in Block XX consists of the 423 km of 2007 seismic data acquired by Petro Matad, 565 km of existing data reprocessed by Petro Matad and 917 km of original seismic data. An additional 171 km of seismic data were accessed in Block XIX and also incorporated into the data base.

Gravity data, well results and seismic data have been used to assess the hydrocarbon potential of Block XX and create a portfolio of prospects and leads. The Isis evaluation concluded that in the event of success, the most likely hydrocarbon discoveries in Block XX will be oil rather than gas. The remoteness and lack of an immediate market for gas means that gas would most likely be used for power generation in the field and surplus gas reinjected for pressure maintenance and reservoir management.

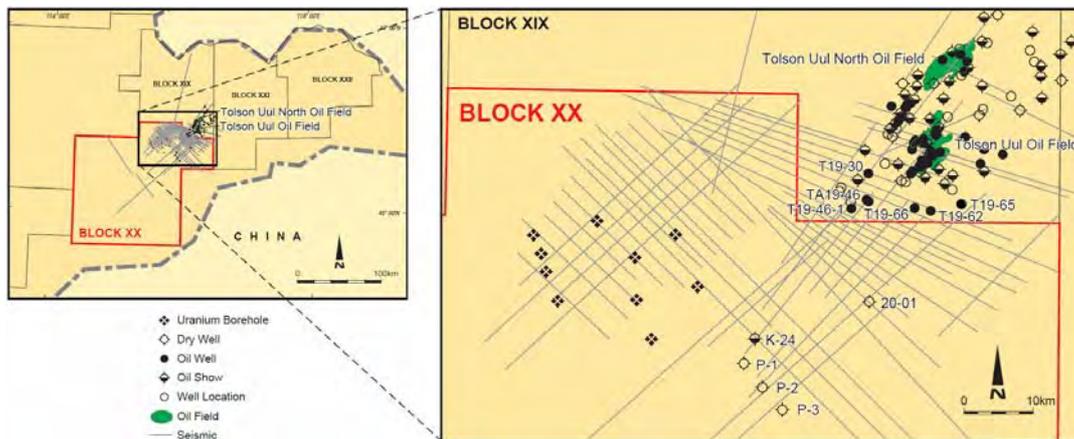


Figure 3: Well and Seismic Location Map

Block XX contains prospective resource potential based on the 11 mapped and evaluated prospects, strong leads and leads within the block. The probabilistic prospective oil resources for each prospect and lead have been calculated, together with the associated geological risk factor / chance of success.

Asset	Block XX
Operator	Petromatad Invest Limited
Interest	100% Petromatad Invest Limited
Status	Exploration
Licence Award Date	19 th July 2006
Licence Expiry Date	18 th July 2011
Licence Area	18,956 sq km
Comments	Work Programme and Expenditure Commitments for years 1 and 2, together with a portion for year 3, have been completed and satisfied

Table 2: Petro Matad's Mongolian Assets

Isis has carried out its assessment of the prospective resources for Block XX in accordance with the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists (SPE / WPC / AAPG) guidelines and standards as published in March 2007.

The Tamtsag Basin contains a proven hydrocarbon system within the Tolson Uul Graben. Block XIX lies to the northeast and immediately adjacent to Block XX. Block XIX contains the Tolson Uul and North Tolson oil fields which are currently being produced. Oil is currently produced from the Tolson Uul and North Tolson Uul oil fields which lie 10 km and 23 km northeast of Block XX respectively. Scout information indicates that five exploration wells were drilled in 2006 and 2007 by Daqing in close proximity (1.5 km to 3.0 km) to the northern border of Block XX. The T19-46, T19-46-1, T19-62 and T19-66 wells all recorded oil shows during drilling and were subsequently tested. The T19-46-1 and T19-66 wells recovered oil and the T19-46 and T19-62 wells are now under production. The most recent well, T19-65, also recorded oil shows and is reported to have recovered oil on test.

3.0 OVERVIEW OF BLOCK STATUS

Petro Matad signed a PSC for Block XX with the MRPAM effective on the 19th July 2006. The term of the PSC is for 5 years and the minimum work obligation is shown in Table 2.

PSC	Work Programme Commitment	Indicative Cost US\$
Year 1	G&G Studies, gravity, magnetics & spectrometry survey	320,000
Year 2	G&G Studies, gravity, magnetics & spectrometry survey	740,000
Year 3	G&G Studies & 2D Seismic Survey	615,000
Year 4	3D Seismic Survey & 1 Well	1,200,000
Year 5	3D Seismic Survey & 1 Well	1,275,000
TOTAL		4,150,000

Table 3: PSC Minimum Work Programme Commitment

The PSC commenced on the 19th of July 2006. Petro Matad has already fulfilled the Work Programme and Expenditure Commitments for years 1 and 2, together with a portion for year 3, through the completion of G & G studies, seismic reprocessing, the acquisition of a surface gravity and magnetics survey; and the acquisition, processing and interpretation of a 423 km 2D seismic survey.

An environmental impact assessment and management plan has been completed as required, prior to undertaking drilling and/or seismic field operations. Site restoration for any operations that have been undertaken is required prior to the relinquishment of a given area.

Isis believes that the PSC is therefore in good standing with respect to the Work Programme Commitments. Isis has reviewed the five year work programme and budget provided by Petro Matad. The programme is to acquire, process and interpret 100 sq km of 3D seismic data over the greater 8Ts Prospect area, 155 km of 2D seismic data over the greater 6Ts Strong Lead and to reprocess and interpret 330 km of existing seismic data. The objective of the programme is to reduce the geological risk of the 8Ts Prospect and to mature the 6Ts Strong Lead to drillable status. The programme will also provide appraisal locations in the greater 8Ts area and define leads and prospects on the fault terraces that lie between the 8Ts Prospect and the 6Ts Strong Lead. The seismic programme commenced during April 2008. Subject to securing further funding or farm-ins, Petro Matad plans to drill four exploration wells in 2009.

Petro Matad plans to undertake an additional four well exploration and appraisal drilling programme commencing in 2010 which will then be followed by a 3 well exploration and appraisal programme in 2011. Petro Matad has forward plans and has budgeted for at least one additional 3D seismic survey. The survey is planned to be acquired over exploration wells that have encouragement and / or are discoveries arising out of the eight well exploration drilling programme planned for 2009 and 2010.

Isis has concluded that Block XX has sufficient exploration potential to justify the planned exploration programme. The associated budgeted expenditures are in line with Petro Matad's recent experience in acquiring, processing and interpreting 2D seismic data and their scout information regarding current drilling costs in the adjacent blocks.

A 25% to 50% relinquishment of the PSC area is required by the 18th July 2008 (end of year 2). A further 20% to 30% relinquishment of the remaining PSC area is required by the 18th July 2010 (end of year 4).

A 100% relinquishment of the remaining PSC area is required 18th July 2011 (end of year 5). Declared development areas can be retained for a development period of up to 20 years and two 5 year extensions to the exploitation stage are possible.

If commercial oil production commences, the PSC provides for cost recovery of all approved expenditure including prior exploration costs. Various bonuses and fees included in the PSC are not cost recoverable. After an over-riding Government royalty of 5% and the Operator's cost recovery which is a maximum of 40% of the remaining Contract Crude Oil after deducting the Royalty, Petro Matad will receive a profit share from the remaining Production Sharing Oil which varies from a maximum of 60% if the average daily quantity of contracted crude oil for any month is less than 25,000 barrels, to a minimum share of 45% if the average daily quantity of contracted crude oil for any month is greater than 75,001 barrels. An explanation of the full commercial terms and assumptions used in the economic evaluation can be found in Appendix 3.

Following necessary appraisal, testing and approvals, each commercial discovery can be produced for up to 20 years. The term can be extended for up to 10 years if infrastructure such as a pipeline or oil refinery is constructed.

In Block XIX, the producing Tolson Uul and Tolson North oil fields are located 10 km and 23 km to the north of Block XX. The oil is currently being trucked 400 km to a pipeline wellhead at the Aershan Field in the Erlian Basin in China. The co-mingled oil is then piped and railed to the Hohhot refinery in China (Figure 1).

The new Operator of Block XIX, Daqing (PetroChina), drilled 152 development, appraisal and exploration wells in their blocks in 2006/07. Two thirds of the wells are reported to be appraisal / development and the remaining one third are reported to be exploration wells.

In 2006, Daqing drilled 52 wells, and has completed a further 100 in 2007 utilising 17 rigs. There are now 44 production wells of which 30 are now reportedly producing oil. Significantly for Block XX, good results were reported from five exploration wells that have been drilled in 2006 and 2007 by Daqing in close proximity (1.5 to 3.0 km) to the northern border of Block XX. The T19-46, T19-46-1, T19-66 and T19-65 wells all recorded oil shows during drilling and all recovered oil on test. The T19-62 well lies 1.5 km north of Block XX and scout information indicates that the well tested up to 283 BOPD and is continuing to produce (Figure 3).

Significantly increased production from the Tolson Uul and Tolson North oil fields or from any new discoveries in the area could lead to a pipeline being built to reduce transportation costs. A 3rd March 2008 press report of a meeting between the President of PetroChina Daqing Tamsag LLC and the Mongolian Ministry of Trade indicates that Daqing plan to drill 125 exploration wells and 100 prospecting wells on its three blocks in 2008. It is reported that their annual oil production target for 2008 will be one million barrels.

Block XX is located east of the Gobi Desert in eastern Mongolia. The prospective north-eastern part of Block XX is of relatively low relief, sparsely populated and has reasonable access via a network of unpaved roads. The area has an average elevation of 600 metres above mean sea level. The less prospective southern and western parts of the permit are more rugged, have generally higher elevations of up to 1,000 metres and consequently have poorer access. These less prospective areas are basement highs that outcrop or have very limited sedimentary section which are likely to form part of the relinquishment at the end of year 2

and year 4 (Figure 4). It should be noted that they include the 40% of Block XX which currently has no seismic coverage (Figure 2).

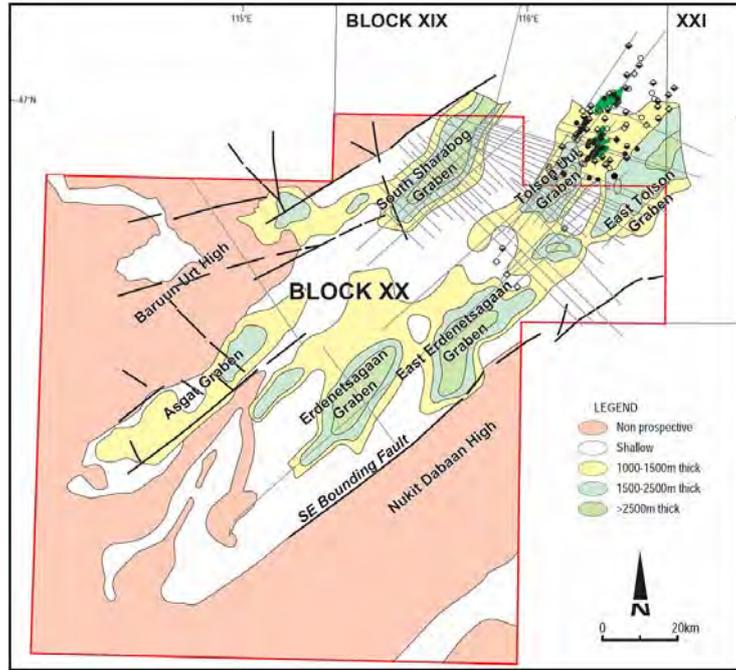


Figure 4: Tectonic Elements

Capcorp Mongolia LLC, lodged two applications for Production Sharing Contracts for Blocks IV and V in late 2006.

Block V covers an area of 32,000 sq km and it lies 330 km southwest of the capital Ulaanbaatar (Figure 5). Block IV covers an area of 41,470 sq km and it lies 600 km southwest of the capital Ulaanbaatar (Figure 5). Blocks IV and V are considered to be very sparsely explored. It appears that no modern seismic data has been acquired nor any exploration wells drilled in either block. The definition of the geology and the internal structure of the basin relies on the interpretation of gravity and magnetic surveys together with geological field mapping and shallow boreholes.

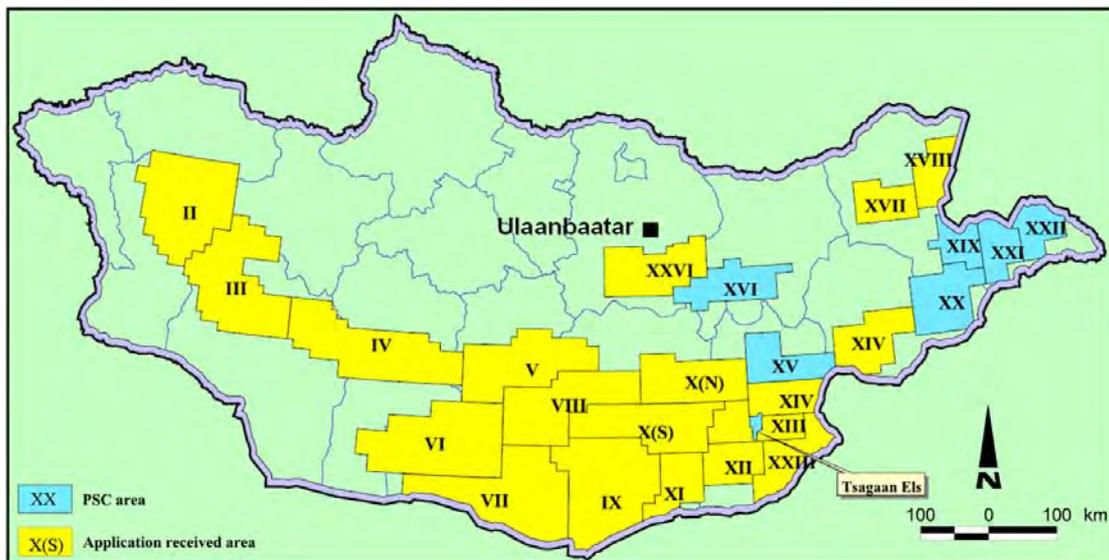


Figure 5: Petroleum Block Map of Mongolia

4.0 TECHNICAL EVALUATION

4.1 Introduction

During the second half of 2006, a database was compiled of available data consisting of 28 wells and 1,166 km of 2D seismic data in Block XX and the southern part of Block XIX. Inclusion of the data from Block XIX allowed the geological and geophysical interpretation to be tied into the Tolson Uul and Tolson North oil fields.

Data from wells in the two Tolson Uul oil fields in Block XIX provided geological ties into the adjacent Block XX (Figure 3). The regional geology and tectonic evolution of the basin was studied using these data and published literature, leading to the definition of the hydrocarbon system and play types in the area. The available 2D seismic data (1,166 km) was tied to the well data and mapped, using pre-existing gravity maps to help interpolate between seismic lines. The work defined the major prospective trends and produced initial maps of the potential plays and or leads in Block XX.

In February 2007, 565 km of additional pre-existing 2D seismic data were reprocessed to complement the existing seismic grid. A comprehensive seismic interpretation of all available data was conducted in March and April 2007 with the creation of new time structure maps, time thickness maps and source rock maturity maps. The design of a 2D seismic survey was based on this interpretation and the survey was subsequently recorded in 2Q 2007. A total of 423 km of 2D seismic data was recorded and processed. Five seismic horizons were picked and mapped in detail using the entire 2,076 km 2D seismic data set. The work produced updated maps of the leads in Block XX, and these maps were then used to compute the resource potential of the block.

During the period from November 2006 to May 2007, Petro Matad completed the acquisition of 6,141 stations of gravity and 24,249 stations of magnetic data that covers an area of approximately 3,000 sq km. The objective of the survey was to improve the quality and resolution of the existing data in the area southwest of the main seismic grid in Block XX and assist with the location of future seismic surveys. The deep, steep-sided grabens in the block are well imaged on gravity data, which therefore provides a useful and cost effective tool in the exploration stage. Interpretation of the gravity and magnetic data was completed by Archimedes Consulting Pty Ltd of Adelaide, Australia in August 2007. Archimedes is an internationally recognised gravity and magnetics processing and interpretation company that provides services to the oil & gas and minerals industries.

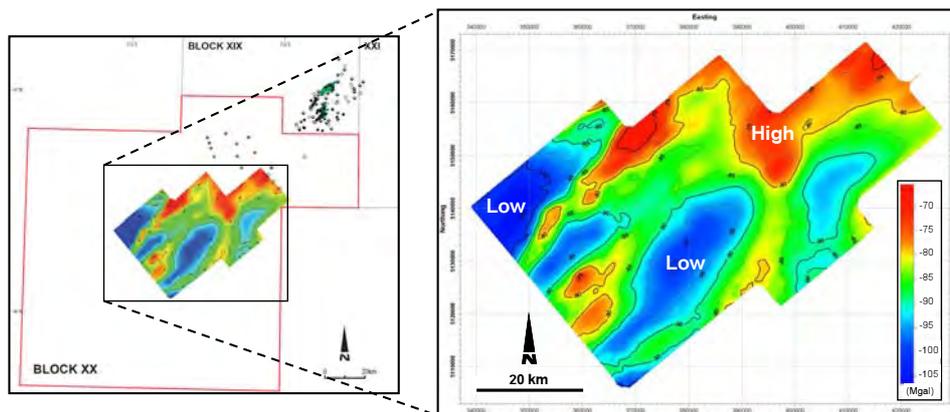


Figure 6: 2007 Bouguer Gravity Map

Basement depth structure maps were produced and they generally match the seismic maps in this area and provide more detail in between areas of sparse seismic coverage (Figure 6). The

gravity lows correspond to the sedimentary thicks within the grabens while the gravity highs correspond to the sedimentary thins or where basement is shallow.

A 2D seismic survey of 423 km of full fold data was acquired in April and May 2007, processed in May and June 2007 and subsequently interpreted in July 2007. The objective of the survey was to better define selected leads and where possible to mature them to prospect status.

4.2 Data Base

The available well data within Block XX is limited to 5 wells with only one modern well, 20-01. Wireline well logs are available for 2 wells, 20-01 and 19-3. Velocity surveys are not available for any of the wells however there are several interpreted seismic lines in the 2002 Report by PGS Reservoir Consultants (“PGS”), for SOCO International plc (“SOCO”). The seismic lines show the geological ties to 5 wells (19-19 to 19-23) over the Tolson Uul Oil Field.

Formation tops were picked from well log data by the previous operators in the area and these were also made available and cover 23 wells (19-01 to 19-23) in Block XIX. The formation tops are in metres and together with the corresponding time picks on the seismic sections, effectively provide time-depth curves for the 5 wells (19-19 to 19-23).

Time-depth data is not available in Block XX, so the well to seismic ties that were used are the time-depth data from the wells 19-19 to 19-23 in Block XIX. The use of this time-depth data results in less accuracy for the ties in Block XX. Seismic ties in Block XX were therefore based on seismic correlations to the 5 wells that have time-depth data and are located in the nearby oil fields data rather than on direct ties to wells within Block XX.

The other 4 wells in Block XX, are shallow Russian wells drilled in the 1950’s for which little data is available (restricted to sample descriptions). Of significance is the description of oil in samples in the K-24 well, thus confirming the presence of oil in Block XX. In K-24 conglomerates and sandstones between 353m and 360m are described as being coated and saturated with waxy oil. The 20-01 well, drilled by SOCO in 1998 to 2,503 metres, is the only well for which there is useful data in Block XX. The well failed to encounter hydrocarbons and current mapping, based on modern seismic data, shows that the well was drilled outside of closure.

The original 1,166 km of 2D seismic data interpreted in 2006 consisted of data recorded in 6 different surveys. The data were scans of previous hard copy displays and are of poor to fair data quality. The 2007 reprocessed lines are of higher data quality and significantly improved the quality and reliability of the interpretation.

The Petro Matad operated 2007 2D seismic survey consisted of 423 km of full fold data and was integrated into the existing seismic data base. The total seismic data base consists of 2,076 km of 2D seismic data.

The previous operator, SOCO, recorded a modern 3D seismic survey over the Tolson Uul oil fields in Block XIX, however these data are not yet available to third parties. It should be noted that the 2002 report by PGS, for SOCO, shows examples of the 3D seismic data and its interpretation.

4.3 Tectonic Setting and Chronostratigraphy

Block XX is located in the southern part of the Tamtsag Basin which covers an area of 300 km by 80 km, with up to 4 km of syn-rift and post-rift sedimentary fill (Figure 1). The basin is characterised by several relatively small grabens and half grabens that are in the order of 2,500m deep and in many cases complex transtensional structuring is mapped. In Block XX, six of these grabens can be identified from regional gravity mapping and the seismic interpretation (Figure 4). Basement highs such as the Baruun Uurt High and the Nukit Dabaan High dominate much of the block (Figure 4).

Sedimentation in the Tamtsag Basin consists of over 2,500m of syn-rift and post-rift Middle Jurassic to Tertiary rocks. Sedimentation within Block XX started around 160 million years ago with the deposition of the Middle to Upper Jurassic, Khamar Khoovor Formation Sandstones (Figure 7).

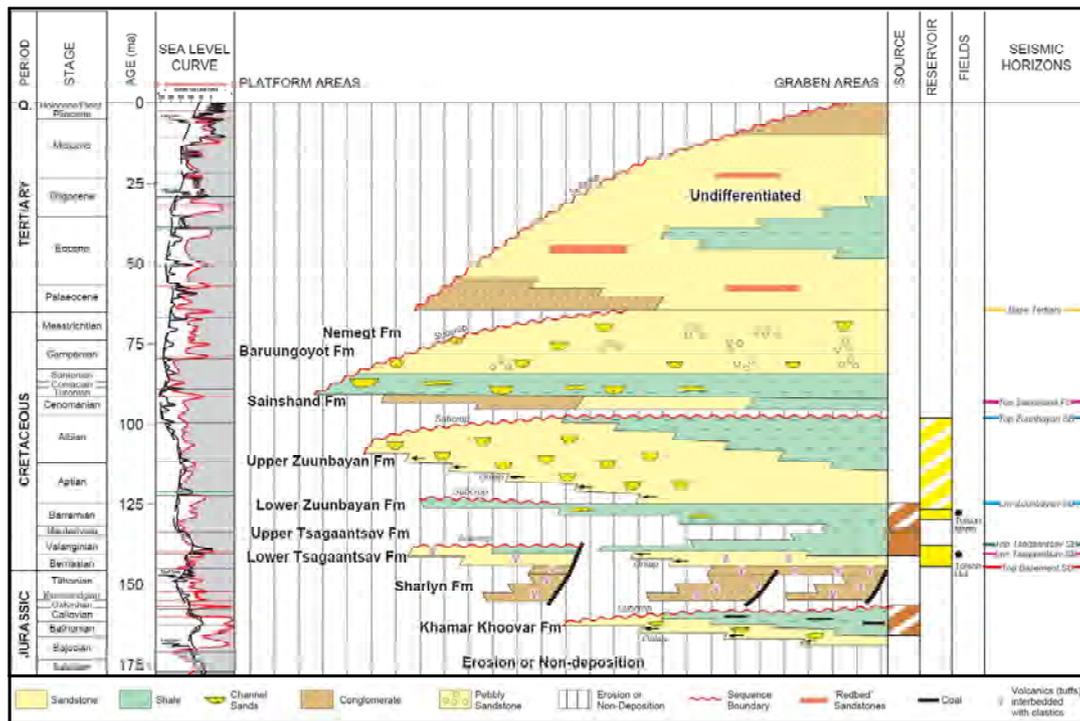


Figure 7: Mesozoic/Cainozoic Chronostratigraphy

The sandstones were deposited as braided, fluvial channels and lacustrine shales unconformably resting on Palaeozoic metamorphics and volcanics of the Tavan Tolgoi Formation. The Khamar Khoovor Formation Sandstones reach a maximum thickness of 750 metres in Block XX.

The succeeding widespread Tithonian to Kimmeridgian aged Sharlyn Formation is composed of braided, fluvial sandstones, volcanic conglomerates and minor lacustrine shales. The Sharlyn Formation forms the early syn-rift section within Block XX and the section is approximately 200 metres thick.

The overlying Valanginian sandstones and conglomerates are within the syn-rift section of the Lower Tsagaantsav Formation and consist of alluvial fans and braided streams (Figure 7). This section is the primary reservoir target in Block XX and is the oil producing reservoir in the Tolson Uul Oil Field.

The overlying Upper Tsagaantsav Formation is composed of dominantly lacustrine shales with minor fluvial sandstones. Organic rich lacustrine shales of this formation are proven source rocks to the north in the area of the Tolson Uul Oil Field.

The succeeding Lower Zuunbayan Formation is an important secondary reservoir target in Block XX and the oil producing reservoir for the North Tolson Uul Oil Field. The reservoir comprises the top sets of the prograding fluvio-deltaics.

The Hauterivian to Albian aged Upper Zuunbayan Formation overlies the Lower Zuunbayan Formation and consists of lacustrine shales and porous fluvial sandstones.

The Cenomanian Sainshand Formation unconformably overlies the Upper Zuunbayan Formation and consists of continental, cratonic fill, red sandstones, conglomerates and claystones.

The Turonian to Santonian Bayanshiree Formation comprises red and grey shales with occasional coarse fluvial channel sandstones.

The Santonian to Campanian Baruungoyot Formation and the overlying Campanian to Maastrichtian Nemegt Formation are both coarse grained, clastic, lacustrine sediments.

Tertiary sediments are thin and consist of fine to coarse alluvium.

4.4 Tamtsag Basin Petroleum System

The Tamtsag Basin contains an active, proven petroleum system involving lacustrine syn-rift source rocks and associated continental clastic reservoirs. The proven hydrocarbon system in the Tolson Uul Graben extends into the northeastern portion of Block XX. It is geologically similar to adjacent productive regions such as the Erlian Basin and the Songliao Basin in China.

Based upon available drilling data, the regional geological knowledge and the seismic interpretation, the following petroleum system elements have been identified in Block XX.

4.4.1 Reservoir

Valanginian aged sandstones and conglomerates of the Lower Tsagaantsav Formation form the primary reservoir target in Block XX and XIX (Figure 7). The sands were deposited in a fluvial, braided channel to shallow, lacustrine environment. They are the primary reservoir in the Tolson Uul Oil Field.

The thickness and quality of the sandstones is a key risk, as they can be lenticular, laterally discontinuous and have pronounced variations in thickness in the transport direction. Sands are compositionally immature and therefore compaction and chemical alteration of grains such as rock fragments and feldspars leads to pore-clogging with resultant reduction in porosity and permeability.

Where reservoirs are of good quality and are coarse grained then the permeability can be in the order of 100's of millidarcies however where the reservoirs are very fine to fine grained, the permeability can be very low.

The reservoir properties of the Lower Tsagaantsav Formation for the producing wells range from 10% - 40% for the net to gross, 15% – 20% for the porosity and 50% – 75% for the hydrocarbon saturation (Figure 8). The leads within Block XX are shallower than the Tolson Uul wells and so it is anticipated that the reservoir quality will be enhanced.

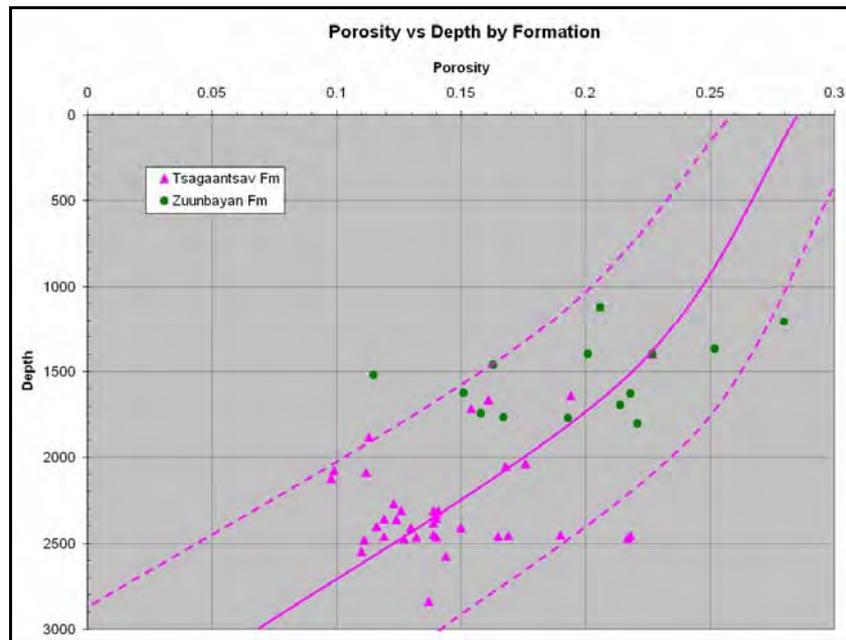


Figure 8: Porosity Vs Depth by Formation

Hauterivian to Albian aged prograding, fluvio-deltaic top sets of the Lower Zuunbayan Formation form the secondary reservoir target in Block XX. This reservoir is the producing sand at the North Tolson Uul Oil Field and is generally of better quality than the Lower Tsagaantsav Formation reservoir (Figure 7).

The reservoir properties of the Lower Zuunbayan Formation for the producing wells range from 5% - 20% net to gross, 15% – 30% porosity and 50% – 75% hydrocarbon saturation (Figure 8).

4.4.2 Source Rocks

Valanginian aged, organic rich lacustrine shales of the Upper Tsagaantsav Formation are the proven source rocks for the Tolson Uul Oil Field (Figure 7). The basal section of the Upper Tsagaantsav Formation has rich shales with total organic carbon TOC values in the range 2% - 3%, S2's of 3 mg – 5 mg and hydrogen indexes (HI) of 200-300. Burial modelling undertaken by the previous operators indicates that peak oil generation occurred between 98 and 85 million years ago and continued episodically, possibly to the present day.

The thermal gradients are high, exceeding 35 deg C per km. Thermal burial modelling by the previous operators predicts that the Tsagaantsav Formation source rocks are in the oil window at depths between 2,200 - 2,600 m. The burial history modelling suggests uplift of up to 500 m during the Cretaceous, and that the source rocks are now at or close to maximum burial.

Hauterivian to Albian organic rich shales of the Lower Zuunbayan Formation are moderately good source rocks with TOC's of 1.5 – 2.5%, S2 from 1.5 mg – 5 mg and HI's from 100 – 350.

The lacustrine source rocks generate waxy crude oils which require treatment to avoid solidification at atmospheric conditions.

The Isochron mapping of the Upper Tsagaantsav Formation shows that the source rock section is present within the grabens throughout the north eastern portion of Block XX. The southern extension of the Tolson Uul Graben is highly prospective and has a relatively low risk on source presence, maturity and migration and extends into the northeastern portion of Block XX (Figure 4).

Elsewhere in the north eastern area portion of Block XX, the risk on source presence is moderate and the risk on maturity increases away from the proven Tolson Uul Graben. It should be noted that within the South Sharabog Graben (Figure 4), the interpreted depth of burial of the Upper Tsagaantsav Formation may be insufficient to generate and expel oil however the original depth of burial could possibly be greater due to subsequent uplift (in the order of 500m) and faster sedimentary velocities. There is no well data available in the South Sharabog Graben and therefore the risks associated with the thermal maturity of any potential source rocks is the critical factor in exploring in this area.

Ten continuously cored deep uranium mineral bore holes were drilled in 2007 over and adjacent to the South Sharabog Graben (Figure 3). Petro Matad is currently seeking to gain access to the core material from these bore holes to undertake detailed petroleum geochemical analyses.

4.4.3 Seal

Valanginian shales of the Upper Tsagaantsav Formation and Hauterivian to Albian shales of the Lower Zuunbayan Formation form proven lateral and top seals for the primary and secondary reservoir targets (Figure 7).

Many of the traps in Block XX are formed and controlled by faults and they therefore require effective fault seals. A critical risk for the traps is therefore fault reactivation which may cause breaching of the trap after it has been charged with oil. It should be noted that the Tolson Uul oil fields are tilted fault blocks that have undergone fault reactivation but have still retained effective fault seals

4.4.4 Traps

A wide range of structural traps and structural / stratigraphic traps exist throughout the block due to the complex tectonic history of the basin. Eleven leads and prospects have been mapped to date across the north eastern portion of Block XX.

4.5 Leads and Prospects

Isis interpreted and mapped in time and depth 5 seismic events across Block XX and also generated isopach (thickness) maps of key intervals. It should be noted that the lack of well and / or seismic velocity data within Block XX decreases the confidence level in the depth conversion method and the resultant depth maps. The deepest event interpreted was Basement. The basement event defines the base of the prospective sedimentary section and also the underlying architecture and structural elements in the area of interest. The northeast to southwest structural grain is clearly evident on the Basement Map (Figure 9).

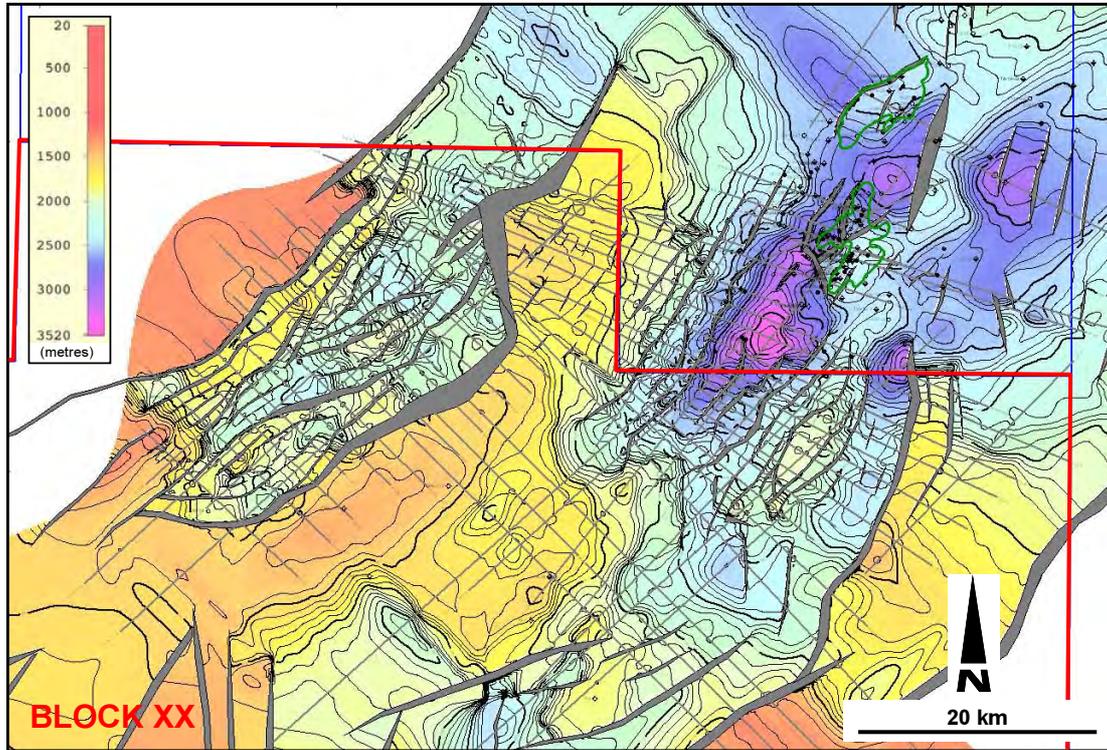


Figure 9: Basement Depth Structure Map

A series of horsts and grabens extend to the southwest from the area of the Tolson Uul oil fields. It is the southwest extension into Block XX of the proven hydrocarbon system in Block XIX that increases the prospectivity of Block XX. The grabens contain a proven and active oil generative source interval while the horsts and rotated faulted blocks are a proven play type in the area.

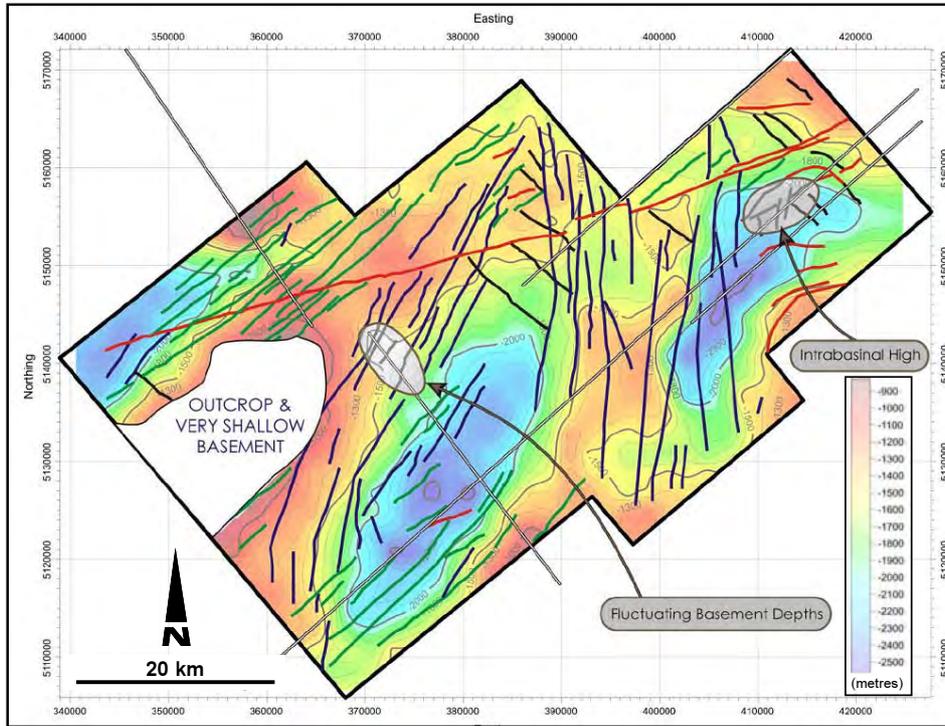


Figure 10: Depth to Basement Map based on Gravity and Magnetics Data

Additional northeast to southwest trending horst and graben complexes have been identified elsewhere in Block XX on the regional seismic data set and the gravity data. The 3,000 sq km gravity and magnetic survey acquired by Petro Matad in 2006/07 provided greater detail of the basement structure, delineated faults and recognised areas of interest (Figure 10). Petro Matad state that they are planning to acquire regional and semi detailed seismic data in year 2 of the PSC. The objective of this survey is to evaluate the prospectivity of the horst and grabens and to identify additional leads.

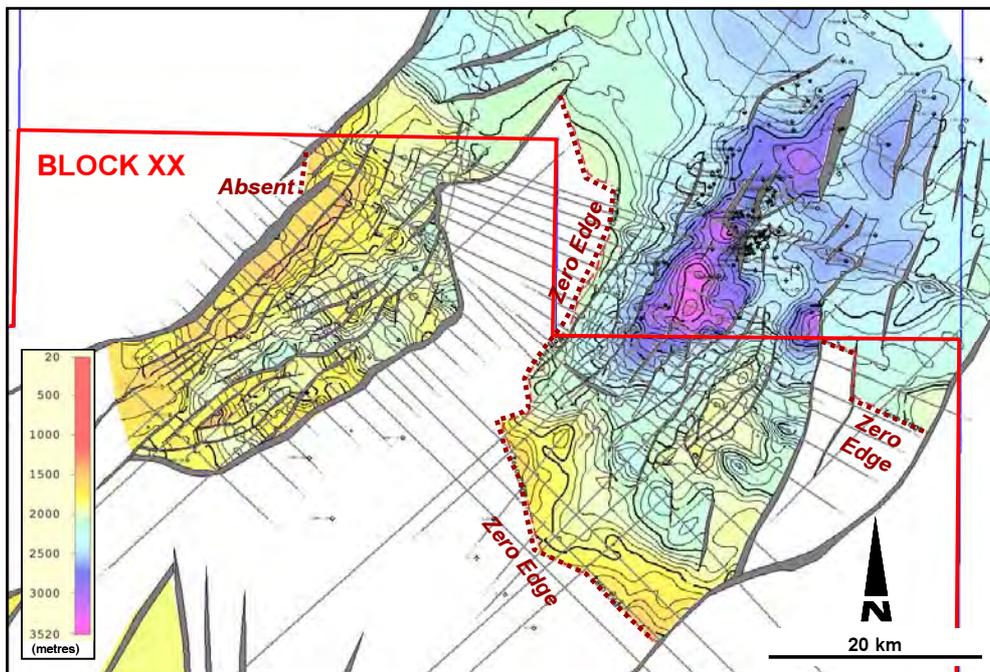


Figure 11: Lower Tsagaantsav Formation Depth Structure Map

The primary objective in Blocks XX and Block XIX are the Valanginian aged sandstones of the Lower Tsagaantsav Formation (Figure 11). The Lower Tsagaantsav Formation extends into Block XX and rises to the southeast on lapping onto the south eastern extension of the Tolson Uul Graben and the associated horsts.

The mapping identified 11 prospects and leads at the primary objective Lower Tsagaantsav Formation level and or at the secondary objective Lower Zuunbayan Formation level and Upper Zuunbayan Formation. The eleven leads and prospects warranted detailed interpretation, mapping and evaluation (Figure 12).

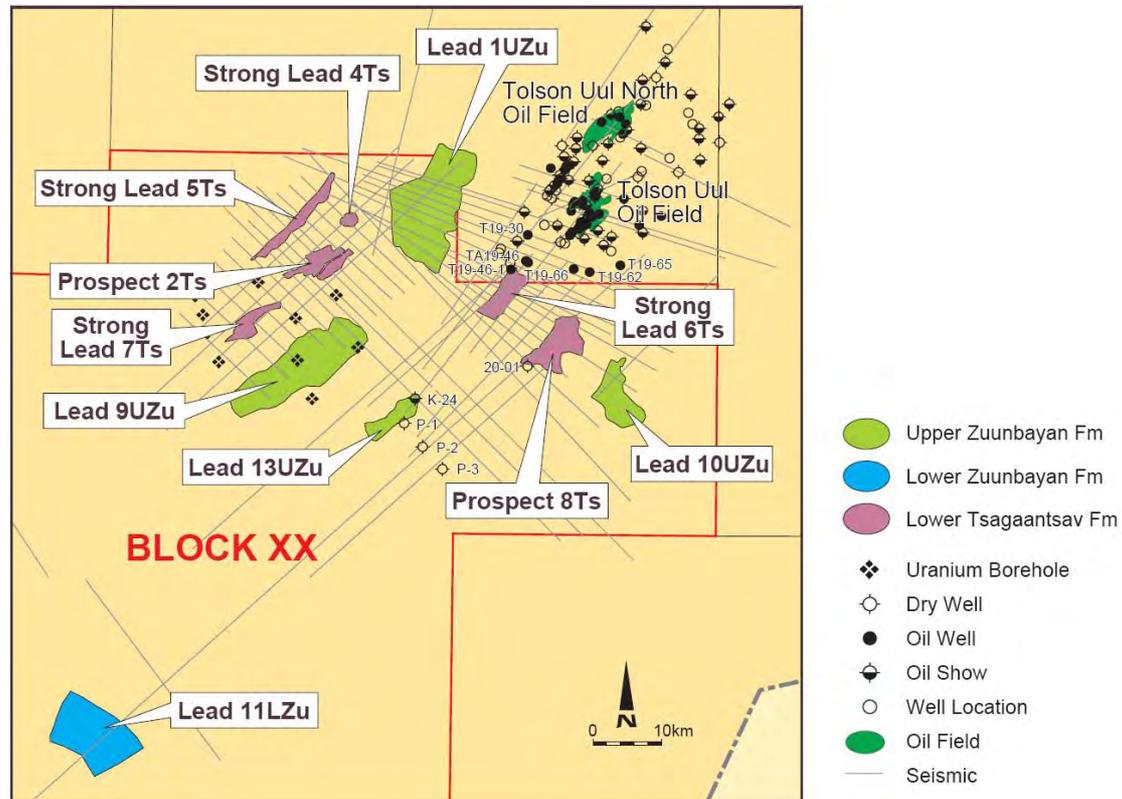


Figure 12: Block XX Leads and Prospects

Probabilistic volumetrics were calculated for each prospect and lead and they were then individually risked for trap, reservoir, source and seal to establish a probability of geological success (“POS”).

The input parameters to the probabilistic volumetric calculations for each prospect and lead were as follows:-

The range of Gross Rock Volumes (“GRV”) was computed from the seismic time maps which were converted to depth using the average Tolson Uul Time-Depth curve and Apparent Average Velocity maps calculated from the well and seismic intersections in Block XIX. The maximum mapped closure was generally used as the P10 or high case, and the P90 or low case was selected from a detailed geological evaluation of the trapping style and also quality and density of the data set.

The net to gross sand distributions were based on the ranges seen in the well data for the two main target reservoirs. The net to gross ratio is generally higher for the better quality Lower Zuunbayan Formation reservoir.

The porosity distribution for each lead was based on the low and high trend lines for each reservoir interpreted from the porosity versus depth plot (Figure 8). The depth to the structural crest determined the depth value for each lead.

The water saturation, Formation Volume Factor (“FVF”) and recovery factor distributions were based on scout information from the Tolson Uul Oil Field data.

Based on the input distributions of these parameters for each lead and prospect, probabilistic distributions of oil in place and the recoverable prospective resource volumes were calculated (Table 4).

Prospects & Leads	Location	Reservoir Target	Area (sq km)	Mean STOIP (MMbbl)	POS	Mean Unrisked Prospective Resources (MMbbl)	Mean Risked Prospective Resources (MMbbl)
Lead 1UZu	Tolson Uul High	Upper Zuunbayan	137	603	6%	146	9
Prospect 2Ts	South Sharabog	Lower Tsagaantsav	23	342	21%	83	17
Strong Lead 4Ts	South Sharabog	Lower Tsagaantsav	4	19	21%	5	1
Strong Lead 5Ts	South Sharabog	Lower Tsagaantsav	22	219	12%	53	6
Strong Lead 6Ts	Tolson Uul Extension	Lower Tsagaantsav	23	278	17%	67	11
Strong Lead 7Ts	South Sharabog	Lower Tsagaantsav	15	255	18%	62	11
Prospect 8Ts	Tolson Uul Extension	Lower Tsagaantsav	37	325	23%	79	18
Lead 9UZu	K-24 High	Upper Zuunbayan	122	541	4%	131	5
Lead 10UZu	Tolson Uul Extension	Upper Zuunbayan	38	129	6%	31	2
Lead 11LZu	Erdenetsagaan	Lower Zuunbayan	93	272	5%	65	3
Lead 13UZu	K-24 High	Upper Zuunbayan	20	94	9%	23	2
Total						745	85

Table 4: Prospects and Leads Inventory

The POS for each of the leads and prospects is also included in Table 4. The resultant Mean Risked Prospective Resource Potential is then calculated for each lead and prospect.

The prospective resource volumes are defined as per the SPE / WPC / AAPG Guidelines, as of March 2007.

5.0 ECONOMIC EVALUATION

The results of the economic evaluation and the EMV calculations using our central oil price assumption and a 10% nominal discount rate are set out in Table 5. Our central oil price assumption (refer to Economic Assumptions in Appendix 3) is that West Texas Intermediate will be US\$55 per barrel in real 2007 terms during the productive life of Block XX.

Results of EMV analyses in US\$MM (numbers might not add because of rounding)					
Nominal discount rate 10%					
Lead or prospect name	Assumed year of discovery	Means of un-risked resources MMBbl	Incremental NPV of discovery US\$MM	Probability of success %	Risk-weighted NPV US\$MM
Prospect 8Ts	2009	79	761	23	175
Prospect 2Ts	2009	83	834	21	175
Strong Lead 7Ts	2009	62	562	18	101
Strong Lead 6Ts	2009	67	586	17	100
Strong Lead 5Ts	2010	53	444	12	53
Sub-total					604
Lead 1UZu	2010	146	1,297	6	78
Lead 9UZu	2010	131	1,202	4	48
Lead 11LZu	2010	65	591	5	30
Lead 13UZu	2011	23	202	9	18
Lead 10UZu	2011	31	276	6	17
Strong Lead 4Ts	2011	5	39	21	8
Sub-total					198
Grand total					803
NPV of exploration programme excluding fiscal effects					-21
Expected value of fiscal relief on exploration					6
Total EMV					788

Table 5: Results of EMV analyses

The total EMV shown in Table 5 is the sum of the EMVs of the individual prospects and leads less the NPV of the exploration costs plus the NPV of fiscal relief on exploration costs if discoveries are made in the block.

Table 6 shows the results of a sensitivity analysis assuming oil prices lower and higher than our central assumption as well as a 15% nominal discount rate. The result for the central case shown above is repeated to make comparison easier.

Results of EMV sensitivity analyses (EMVs in US\$MM)			
Discount rate	WTI US\$40 / bbl	WTI US\$55 / bbl	WTI US\$70 / bbl
10%	469	788 (from above)	1,105
15%	295	515	734

Table 6: Results of EMV sensitivity analyses

The EMV is not necessarily the same as the market value of the Block as would be agreed between a willing buyer and a willing seller in current economic conditions.

Based on the Production Sharing Contract we assumed that no income tax would be payable on profits generated by production from any discoveries made in Block XX. We understand that this assumption is supported by accounting and legal advice. The DCF analysis to compute the NPVs and EMVs was run until the development no longer had a positive net cash flow.

The detailed methodology and assumptions used in deriving the EMVs shown above are set out in Appendix 3.

6.0 CONCLUSIONS

The Tamtsag Basin contains a proven hydrocarbon system within the Tolson Uul Graben. Oil is currently produced from the Tolson Uul and North Tolson Uul oil fields which lie in the adjacent Block XIX PSC, 10 km and 23 km northeast of Block XX respectively. Scout information indicates that five exploration wells were drilled in 2007 by Daqing in close proximity (1.5 km to 3.0 km) to the northern border of Block XX. The T19-46, T19-46-1, T19-62 and T19-66 wells all recorded oil shows during drilling and were subsequently tested. The T19-46-1 and T19-66 wells recovered oil and the T19-46 and T19-62 wells are now under production. The most recent well, T19-65, also recorded oil shows and is reported to have recovered oil on test.

Petro Matad's major asset is the prospective resource potential of Block XX. Exploration of Block XX is in its early stages and has been concentrated on evaluating the south western extension of the Tolson Uul Graben.

The South Sharabog Graben is analogous to the nearby Tolson Uul Graben however the lack of well data highlights the fact that it is in an early stage of exploration.

The East Erdenetsagaan Graben, the Erdenetsagaan Graben and the Asgat Graben are all identified on the existing gravity map. The grabens lie on trend and en-echelon to the prospective Tolson Uul Graben. It should be noted that one or more of the grabens could contain the equivalent or a greater sedimentary section than has been defined in the Tolson Uul Graben. The depositional history and stratigraphy within each of the grabens is likely to be similar to the prospective Tolson Uul Graben. The thickness of the sedimentary section and the depth of burial of the potential source rocks is critical in determining the prospectivity of each of the grabens.

The early evaluation of these areas will also aid in managing the mandatory relinquishment requirements at the end of PSC year 2 and PSC year 4.

Petro Matad has submitted and received approval from the MRPAM for its proposed exploration programme and indicative expenditure for PSC year 2. The approved programme is to reprocess existing seismic data to further help define additional leads and to also acquire at least 400 km of new 2D seismic data to evaluate the prospectivity of the block and to mature existing leads to prospect status.

Isis has reviewed the latest proposed five year work programme and budget provided by Petro Matad. Petro Matad has advised Isis that it plans to undertake a work programme in excess of that approved by the MRPAM. The programme is to acquire, process and interpret 100 sq km of 3D seismic data over the greater 8Ts Prospect area, 155 km of 2D seismic data over the greater 6Ts Strong Lead and to reprocess and interpret 330 km of existing seismic data. The objective of the programme is to reduce the geological risk of the 8Ts Prospect and to mature the 6Ts Strong Lead to drillable status. The programme will also provide appraisal locations in the greater 8Ts area and define leads and prospects on the fault terraces that lie between the 8Ts Prospect and the 6Ts Strong Lead. The seismic programme commence during April 2008. Subject to securing further funding, Petro Matad plans to drill four exploration wells in 2009.

The direction and emphasis of the exploration programme in 2010 and 2011 will be subject to the results of the 2009 drilling programme. Petro Matad currently plans to undertake an additional four well exploration and appraisal drilling programme commencing in 2010 which will then be followed by a 3 well exploration and appraisal programme in 2011. Isis has

concluded that Block XX has sufficient exploration potential to justify the planned exploration programme and that the proposed budgeted expenditures are reasonable to support the planned exploration programme.

The existing transport of oil to the Chinese refinery at Hohhot from the Tolson Uul oil fields in Block XIX is time consuming and inefficient. In the event that sufficient additional reserves and production volumes are established then it is likely that a rail line or a pipeline would be built to carry oil directly to the existing pipeline head in the Aershan Oil Field, some 400km by road from Block XIX, for on transport to the refinery. This may benefit Petro Matad in the event of oil discoveries in Block XX.

The two prospects, four strong leads and five leads that have been mapped and evaluated in detail each have an unrisksed mean prospective recoverable resource potential ranging from 5 MMbbl to 146 MMbbl of oil. The prospects and leads have a total mean prospective recoverable resource potential of 745 MMbbl and a total mean risksed prospective recoverable resource potential of 85 MMbbl. The probability of geological success (“POS”) for the prospects and leads ranges from 23% to 4%.

The economic evaluation of the existing leads and prospects has highlighted the potential of the area. The risksed NPV for each of the prospects and leads ranges from US\$8 MM to US\$175 MM. The total EMV of the existing leads and prospects is calculated to be US\$788 MM based on our central oil price assumption.

7.0 APPENDICES

Appendix 1 - Prospects and Strong Leads Evaluation

The 2007 seismic interpretation defined 2 prospects: 2Ts and 8Ts, 4 strong leads: 4Ts, 5Ts, 6Ts and 7Ts plus 5 leads. It is likely that at least 2 of the prospects and strong leads will be drilled in Petro Matad's initial round of drilling. The prospects and strong leads are described below.

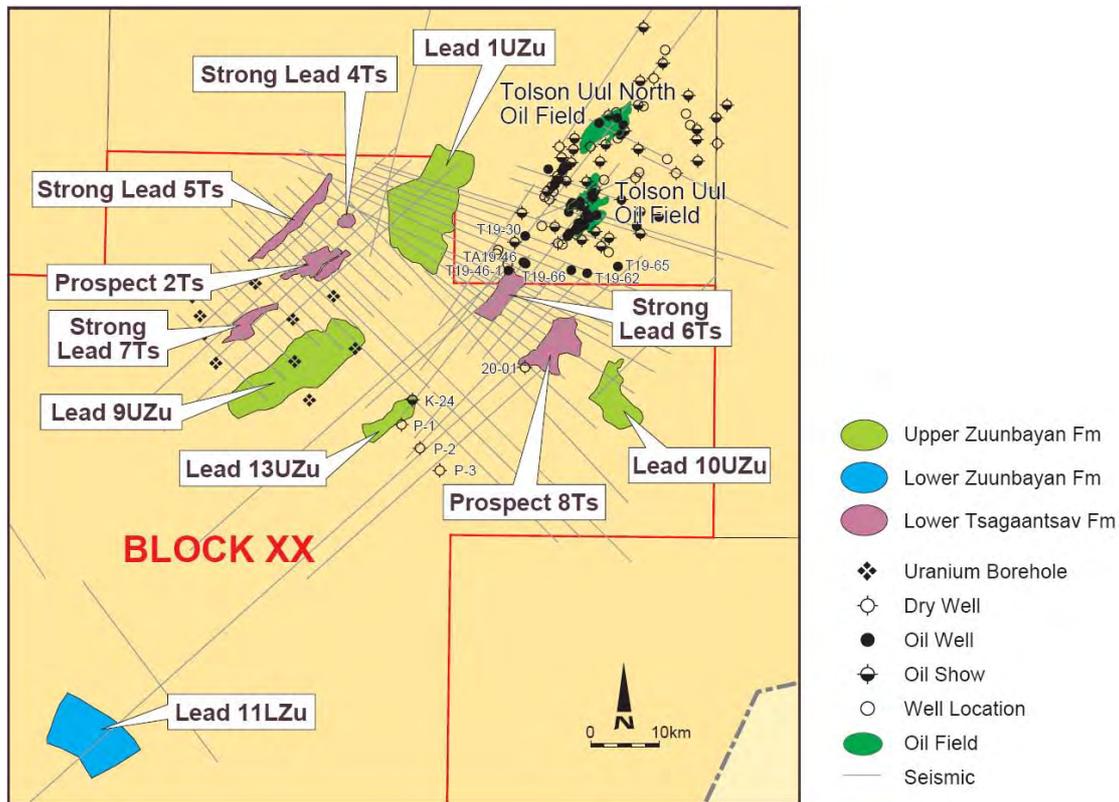


Figure 13: Block XX Leads and Prospects

The 2 prospects and 4 strong leads represent three different play types with the same primary reservoir objective. The faults are colour coded on both the maps and the seismic sections for ease of recognition and mapping. The predicted reservoir for each lead is a sandstone sequence in the Lower Tsagaantsav Formation, sealed by overlying Upper Tsagaantsav Formation shales. The lowest closing contour ("LCC") is marked on the maps and also highlighted at the primary objective level in yellow on each seismic section. The LCC is used for the calculation of the P10 reserves. The extent of the closure on the seismic section is also defined by the lateral extent of each prospect name. The source rocks for each lead are shales within the Upper Tsagaantsav Formation and the Lower Zuunbayan Formation.

Key to Seismic Sections and Maps
The faults are colour coded on both the maps and the seismic sections for ease of recognition and mapping.
The LCC is marked on the maps and also highlighted at the primary objective level on each seismic section. It is the basis for the calculation of P10 reserves.
The extent of closure on the seismic section is also defined by the lateral extent of each prospect name.
The depths on the maps are in metres. Red indicates the formation to be at the shallowest depth from the surface, blue at the greatest depth from the surface.

Prospect 2Ts

Prospect 2Ts is a large rotated fault block trap located in the South Sharabog Graben, with the primary reservoir in the Lower Tsagaantsav Formation (Figure 14 and Figure 15). The prospect consists of a series of 3 rotated fault blocks, with favourable juxtaposition of the reservoir against Upper Tsagaantsav Formation shales and, in part, impermeable basement. In order for the trap to be filled to spill point the most westerly fault will be required to seal or have favourable shale juxtaposition.

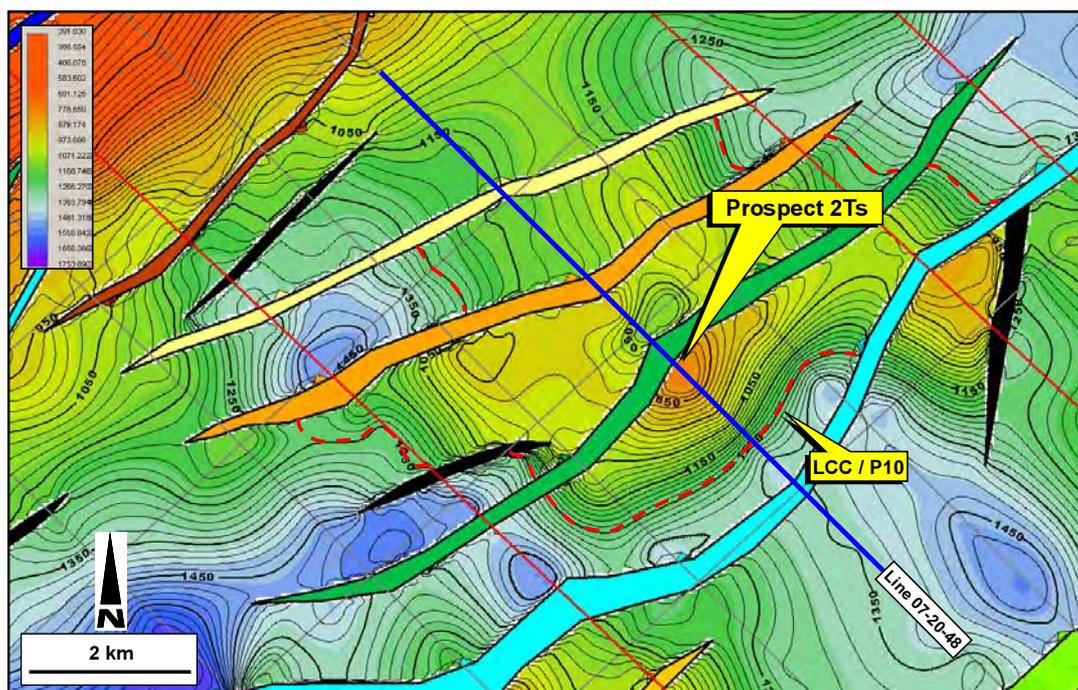


Figure 14: Prospect 2Ts Lower Tsagaantsav Formation Depth Structure Map

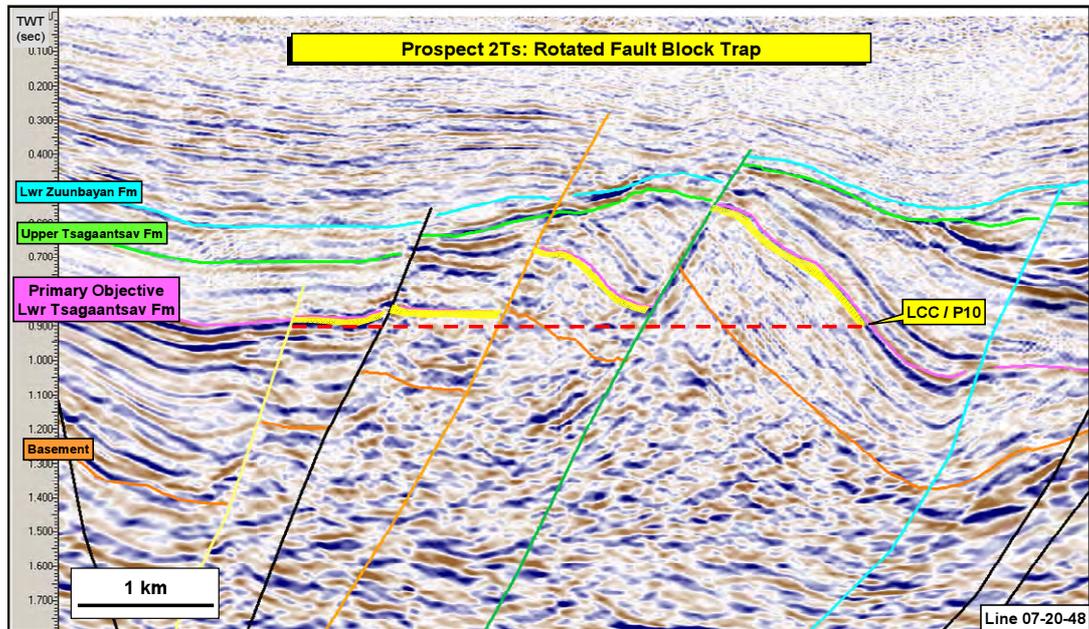


Figure 15: Prospect 2Ts Seismic Line 07-20-48

The source rocks in the South Sharabog Graben are as yet unproven, however the seismic mapping shows that the source intervals are at least as thick as in the proven Tolson Uul Graben. The source intervals are at a depth that is shallower than in the Tolson Uul Graben, thereby increasing the risk that they are insufficiently mature for oil generation. There is insufficient well data regarding source maturity and effectiveness in the South Sharabog Graben, so source is the key risk for prospect 2Ts.

The prospect has a mapped P10 area of closure of 23 sq km and a maximum column height of 500 m. The unrisks mean recoverable prospective resource is 83 MMbbl with a POS of 21%.

Prospect 8Ts

Prospect 8Ts is a large faulted anticline located in the southern extension of the Tolson Uul Graben and on trend with the Tolson Uul Oil Field (Figure 16 and Figure 17). The horst is clearly seen on several of the 2007 seismic lines which have matured this lead to prospect status.

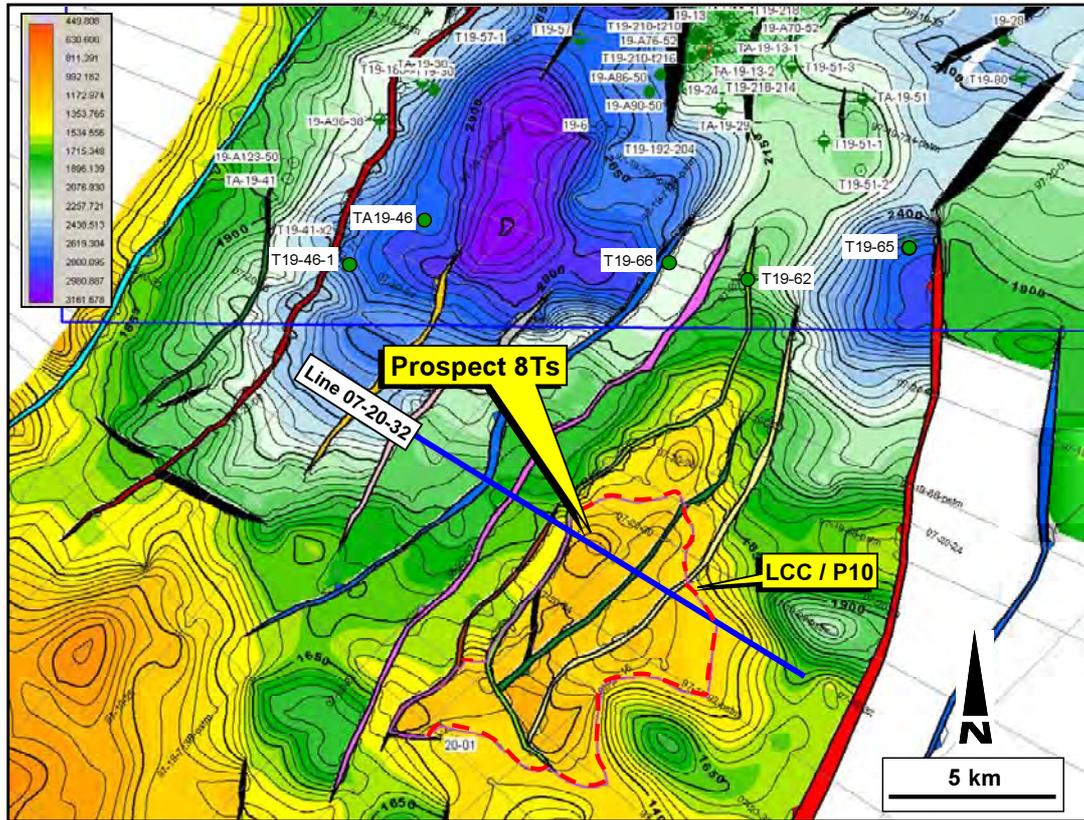


Figure 16: Prospect 8Ts Lower Tsagaantsav Formation Depth Structure Map

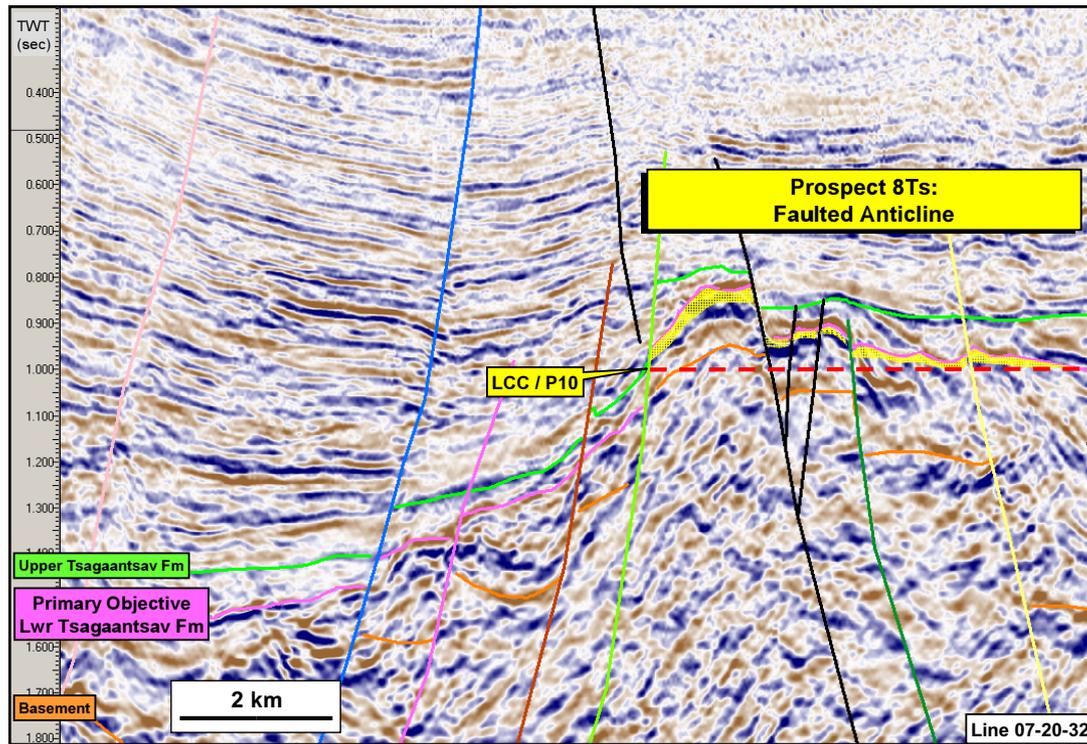


Figure 17: Prospect 8Ts Seismic Line 07-20-58

The Lower Tsagaantsav Formation sandstone reservoir is the primary target for this prospect. The reservoir presence is the key risk element as the interval is mapped as a thin over the crest of the horst. The reservoir is significantly shallower than in the Tolson Uul oil field which potentially means that the reservoir porosity may be improved. A secondary reservoir target is fractured basement at the crest of the horst.

The presence of an effective lateral and vertical seal is the secondary risk factor for the prospect. It should be noted that the mapped closure is partially fault dependent, so the faults are required to seal for the P10 closure. The 20-01 well is located on the edge of the P10 closure. The well was unable to be used for the seismic interpretation due to the lack of velocity data. We conclude from the current mapping that the well was a dry hole because it is likely to lie outside of structural closure.

The prospect is well positioned to be charged from the proven source kitchen in the Tolson Uul Graben. The T19-62 exploration well is located 1.5km north of the Block XX boundary and immediately down dip from the 8Ts Prospect. The well is an oil discovery and is reported to have tested oil at rates of up to 283 BOPD and it is currently a producing well. The results of the T19-62 well prove generation and migration from the proven source kitchens in the Tolson Uul Graben into the T19-62 structure. The 8Ts Prospect is therefore well positioned to be charged from the proven source kitchens in the Tolson Uul Graben and as a result the risk on source presence, maturation and migration are considered to be low.

The lead has a mapped area of closure of 37 sq km and a maximum column height of 200 m. The unrisked mean recoverable prospective resource is 79 MMbbl with a POS of 23%.

Strong Lead 4Ts

Strong Lead 4Ts is a fault block trap located in the South Sharabog Graben, with the primary reservoir in the Lower Tsagaantsav Formation (Figure 18 and Figure 19). The strong lead does show favourable juxtaposition of the reservoir against Upper Tsagaantsav Formation shales. The structure is clearly seen on one of the 2007 seismic lines however, it will require additional seismic coverage to mature this lead to prospect status.

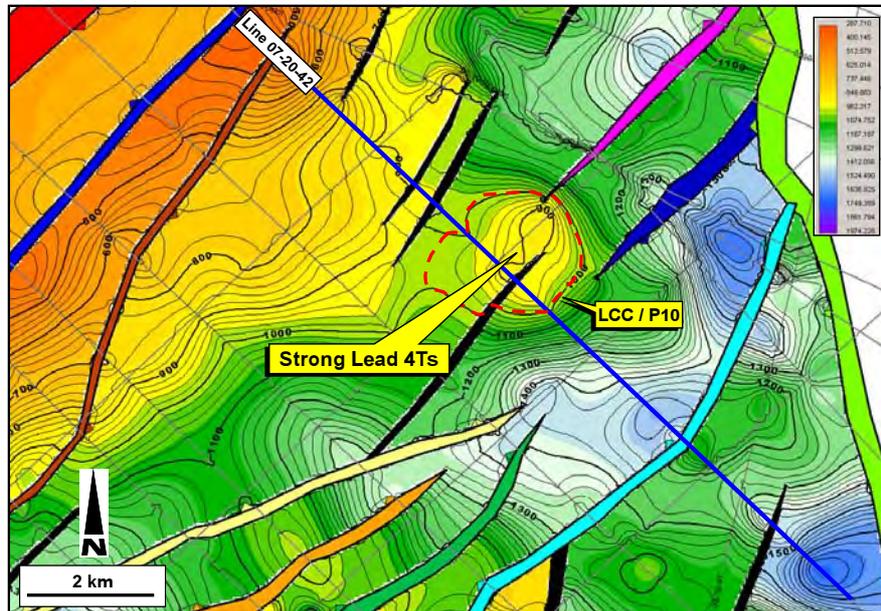


Figure 18: Strong Lead 4Ts Lower Tsagaantsav Formation Depth Structure Map

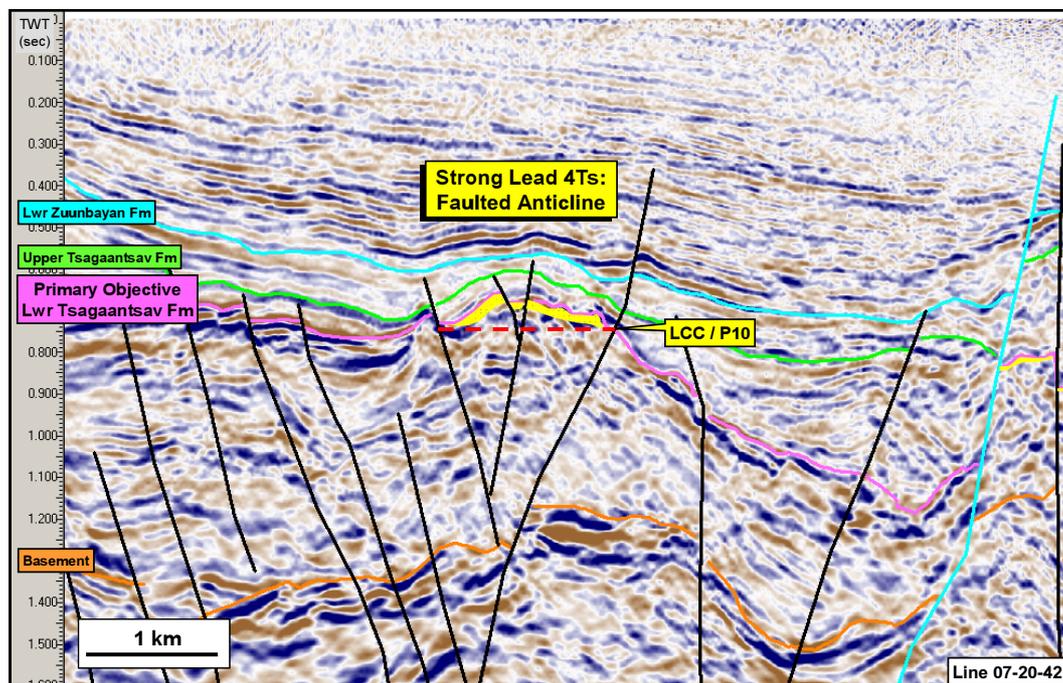


Figure 19: Strong Lead 4Ts Seismic Line 07-20-42

The source rocks in the South Sharabog Graben are as yet unproven, however the seismic mapping shows that the source intervals are at least as thick as in the proven Tolson Uul Graben. The source intervals are at a depth that is shallower than in the Tolson Uul Graben,

thereby increasing the risk that they are insufficiently mature for oil generation. There is insufficient well data regarding source maturity and effectiveness in the South Sharabog Graben, so source is the key risk for strong lead 4Ts.

The strong lead has a mapped area of closure of 4 sq km and a maximum column height of 125 m. The unrisks mean recoverable prospective resources are 5 MMbbl with a POS of 21%.

Strong Lead 5Ts

Strong Lead 5Ts is a narrow, northeast southwest elongate fault block trap located in the western edge of the South Sharabog Graben. The primary reservoir is in the Lower Tsagaantsav Formation (Figure 20 and Figure 21). The presence of an effective lateral and vertical seal is the primary risk factor for the strong lead. The lateral seal on the structure requires favourable juxtaposition of the reservoir against Upper Tsagaantsav Formation shales or fault seal. The structure is clearly seen on several of the 2007 seismic lines however, it will require additional seismic coverage to mature this lead to prospect status.

The source rocks in the South Sharabog Graben are as yet unproven however the seismic mapping shows that the source intervals are at least as thick as in the proven Tolson Uul Graben. The source intervals are at a depth that is shallower than in the Tolson Uul Graben, thereby increasing the risk that they are insufficiently mature for oil generation. There is insufficient well data regarding source maturity and effectiveness in the South Sharabog Graben, so source is a key risk for strong lead 5Ts.

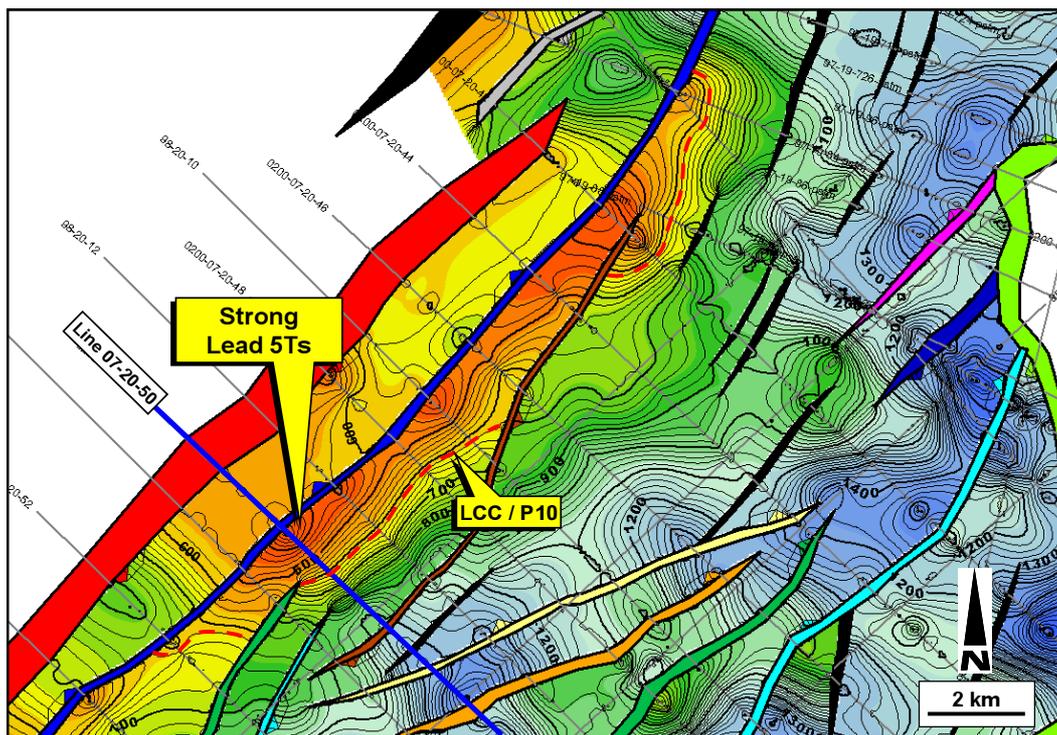


Figure 20: Strong Lead 5Ts Lower Tsagaantsav Formation Depth Structure Map

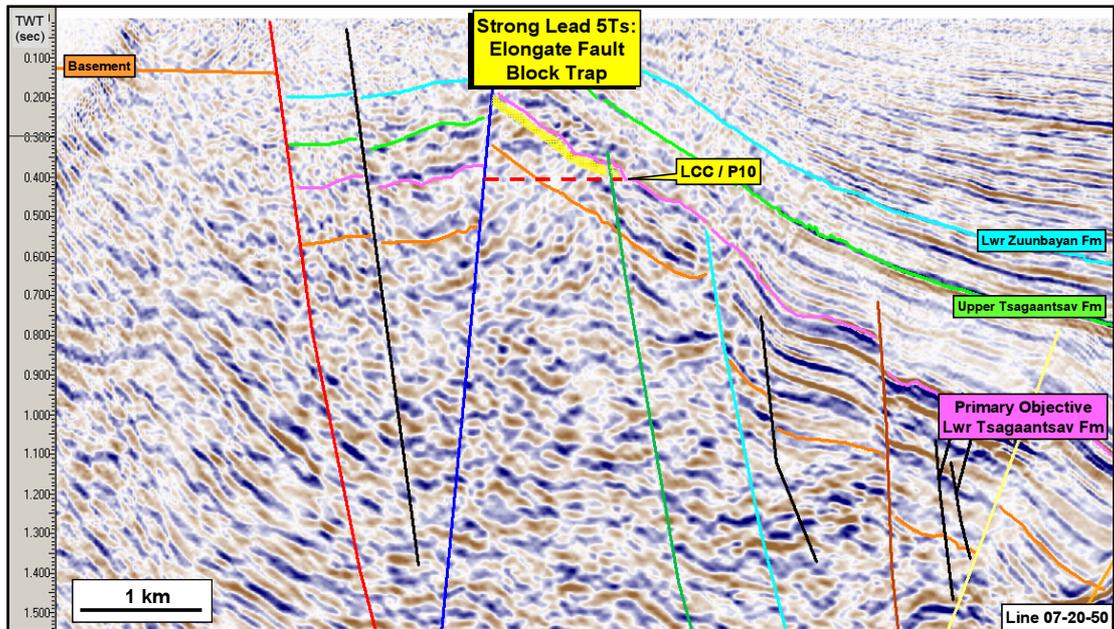


Figure 21: Strong Lead 5Ts Seismic Line 07-20-50

The strong lead has a mapped area of closure of 22 sq km and a maximum column height of 270 m. The unrisks mean recoverable prospective resources are 53 MMbbl with a POS of 12%.

Strong Lead 6Ts

Strong Lead 6Ts is structural / stratigraphic trap located in the south western part of the Tolson Uul Graben and on trend with the T19-46-1 oil discovery in Block XIX. The primary reservoir is in the Lower Tsagaantsav Formation (Figure 22 and Figure 23). The western limit of the trap is formed by a northeast - southwest trending rotated fault block and the southern limit is controlled by a northwest – southeast trending fault which places the primary reservoir in a down thrown fault position adjacent to impermeable basement sediments.

The strong lead is covered by a detail 2D seismic grid, however additional seismic data to address the southeast closure would be required to mature this feature to prospect status.

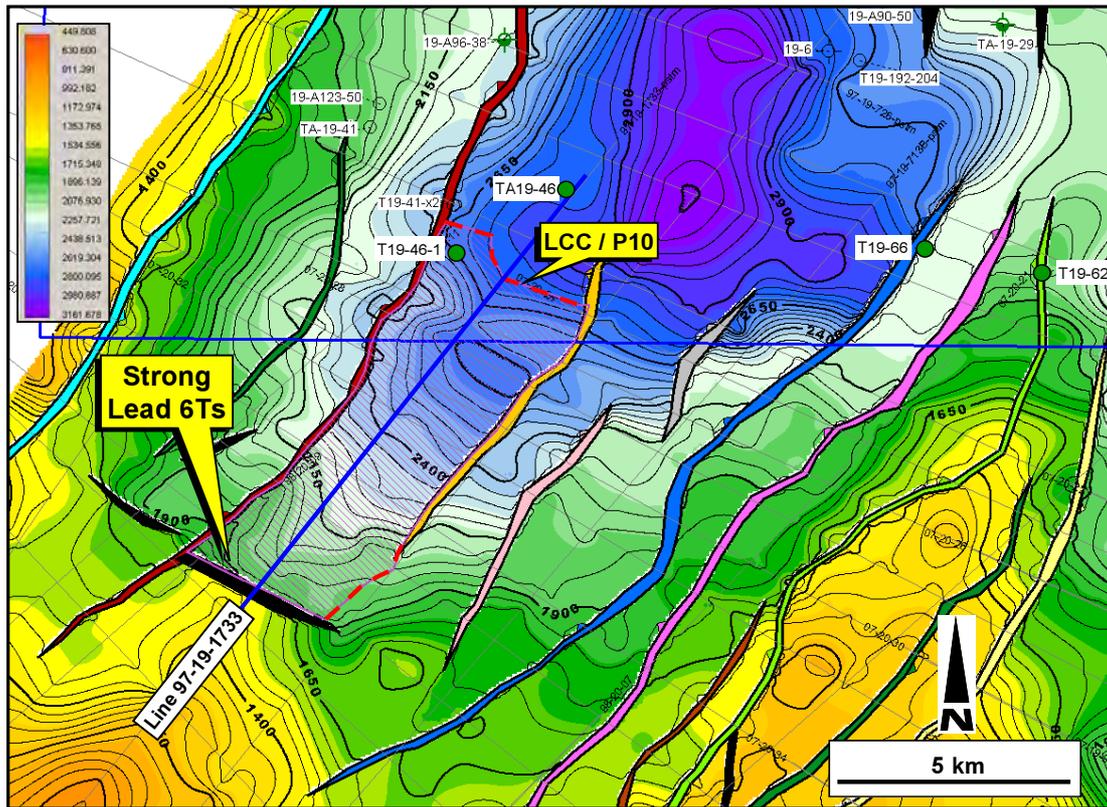


Figure 22: Strong Lead 6Ts Lower Tsagaantsav Formation Depth Structure Map

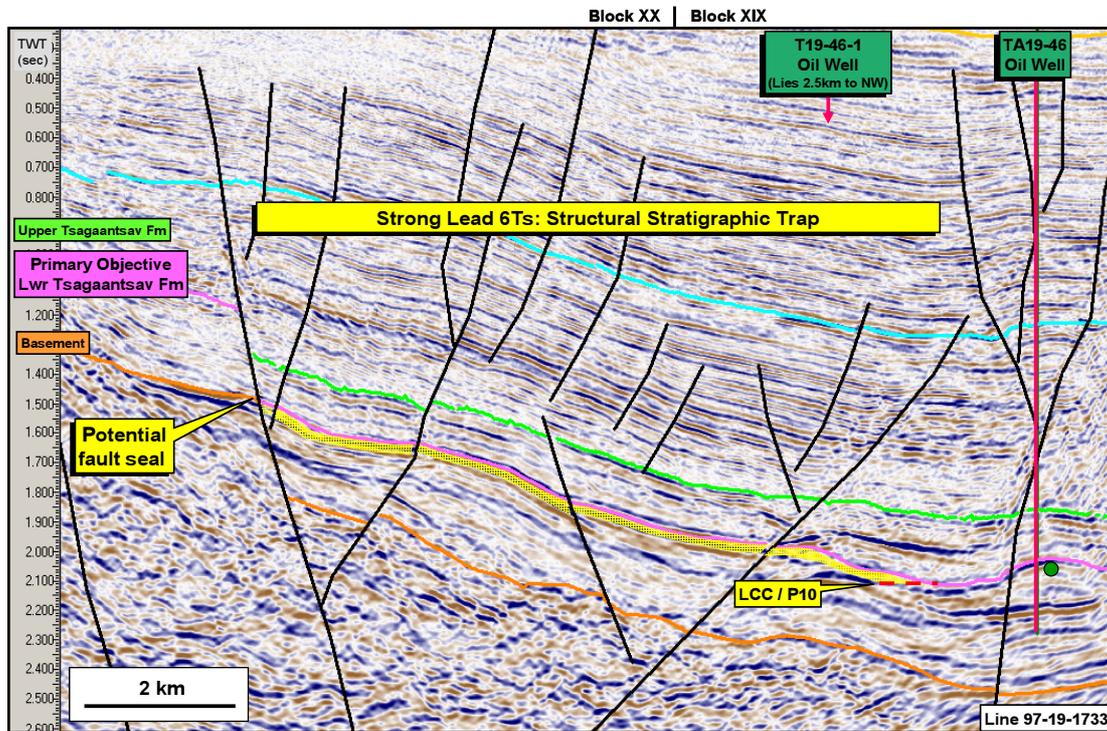


Figure 23: Strong Lead 6Ts Seismic Line 97-19-1733

The presence of an effective lateral seal for the southern limit of the trap is the primary risk factor. It should be noted that the strong lead is updip and on trend from the T19-46 oil producer and the T19-46-1 oil discovery and they all have the same primary reservoir objective. Scouting information supplied by Petro Matad indicates a gross 178m oil column intersected in the T19-46-1 well. Based on the current mapping a column of this thickness cannot be explained.

The lead is well positioned to be charged from the proven source kitchens in the Tolson Uul Graben. The risk on source presence, maturation and migration are therefore low.

The lead has a mapped area of closure of 23 sq km and a maximum column height of 100 m. The unrisked mean recoverable prospective resource is 67 MMbbl with a POS of 17%.

Strong Lead 7Ts

Strong Lead 7Ts is a rotated fault block trap located in the south eastern part of the South Sharabog Graben, with the primary reservoir in the Lower Tsagaantsav Formation (Figure 24 and Figure 25). The presence of an effective lateral and vertical seal is the primary risk factor for the strong lead. The lateral seal on the structure requires favourable juxtaposition of the reservoir against Upper Tsagaantsav Formation shales and / or fault seal.

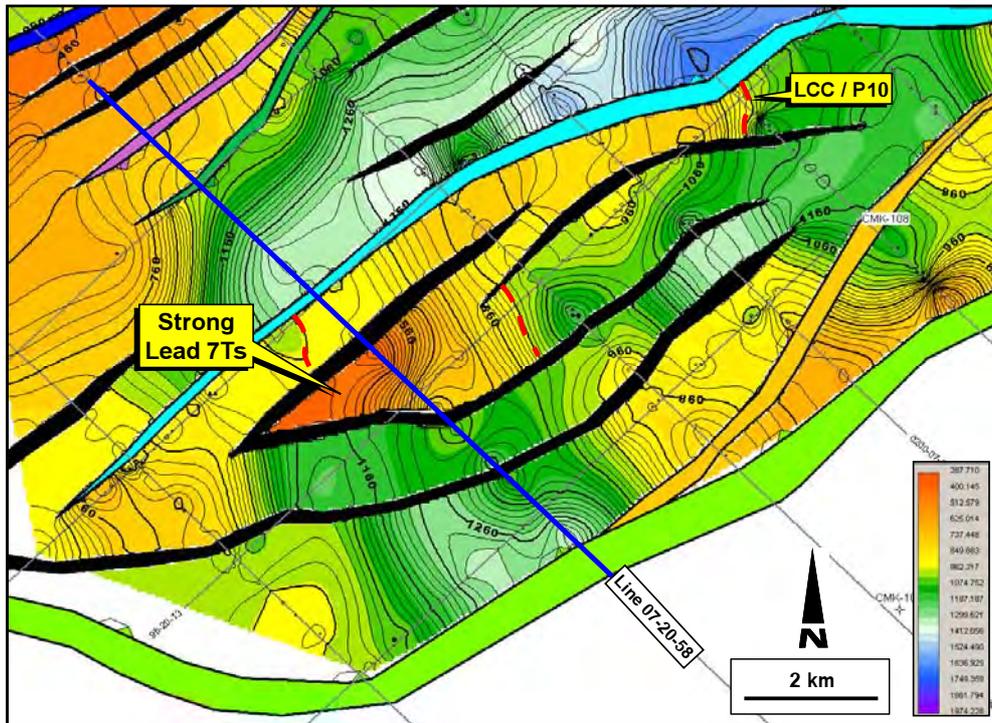


Figure 24: Strong Lead 7Ts Lower Tsagaantsav Formation Depth Structure Map

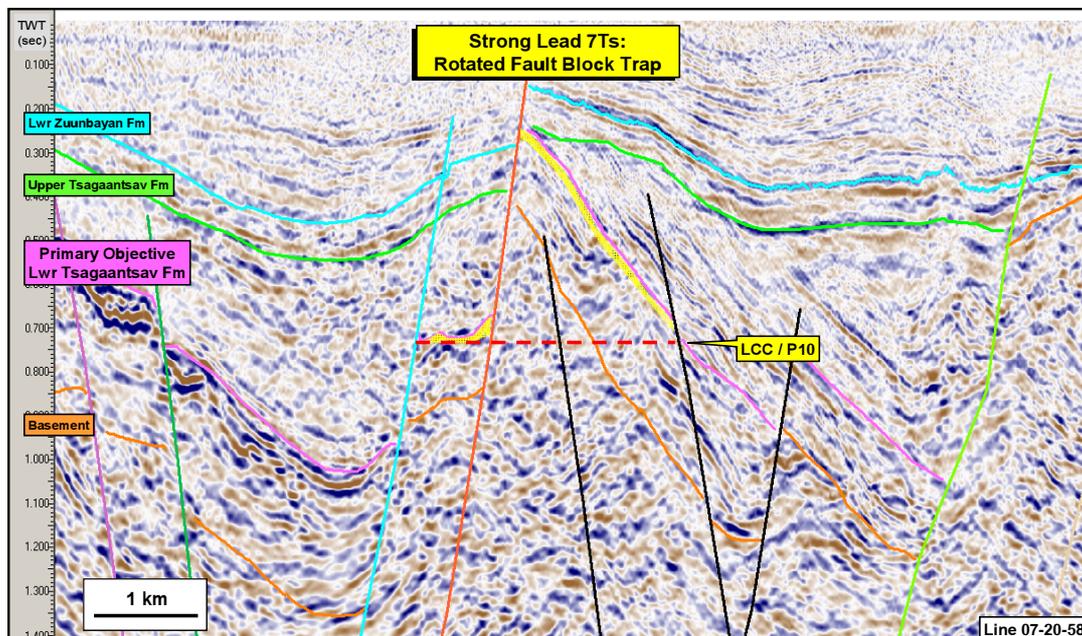


Figure 25: Strong Lead 7Ts Seismic Line 07-20-58

The source rocks in the South Sharabog Graben are as yet unproven however the seismic mapping shows that the source intervals are at least as thick as in the proven Tolson Uul

Graben. The source intervals are at a depth that is shallower than in the Tolson Uul Graben, thereby increasing the risk that they are insufficiently mature for oil generation. There is insufficient well data regarding source maturity and effectiveness in the South Sharabog Graben, so source is a key risk for strong lead 7Ts.

The strong lead has a mapped area of closure of 15 sq km and a maximum column height of 550 m. The unrisks mean recoverable prospective resources are 62 MMbbl with a POS of 18%.

Appendix 2 - Resources

Oil - Prospective Resources							
Operator:		Petromatad Invest Limited					
Oil Prospective Resource (recoverable)	Gross (MMbbl)			Net Attributable (MMbbl)			Risk Factor (%)
	Low (P90)	Best (P50)	High (P10)	Low (P90)	Best (P50)	High (P10)	
Prospect 2Ts	21	59	170	21	59	170	21
Prospect 8Ts	19	56	163	19	56	163	23
Strong Lead 4Ts	1	3	10	1	3	10	21
Strong Lead 5Ts	11	36	112	11	36	112	12
Strong Lead 6Ts	16	48	139	16	48	139	17
Strong Lead 7Ts	15	44	128	15	44	128	18
Lead 1UZu	39	107	293	39	107	293	6
Lead 9UZu	35	97	263	35	97	263	4
Lead 10UZu	7	21	65	7	21	65	6
Lead 11LZu	7	31	150	7	31	150	5
Lead 13UZu	6	17	46	6	17	46	9

Table 7: Oil Prospective Resources

Appendix 3 - Economic Evaluation

Introduction

Appendix 3 contains details of an analysis of the EMV of a 100% interest in the prospects and leads in Block XX in Mongolia. Petro Matad Invest is a Cayman Islands based, wholly owned subsidiary of Petro Matad and holds a 100% interest in Block XX. The analysis is prepared for Petro Matad. It is based on a geological evaluation of prospects and leads in the Block described elsewhere in this report coupled with our interpretation of the terms of a copy of the Block XX PSC.

The economic evaluation of prospects and leads in Block XX is subject to large uncertainties and the EMV analyses in this report are only representative illustrations of value based on the technical and economic assumptions made. The total EMV calculated for the Block does not necessarily represent the market cash price that would be paid in an arms-length transaction between a willing buyer and a willing seller. Different buyers and sellers will have different information, different views about the information, different financial positions and different attitudes to risk. These factors will lead to different views on the value of the property.

Data

We have used data from the following documents:

1. Production Sharing Contract for Block XX between the MRPAM and Petro Matad Limited.
2. "Evaluation of the Mongolian Assets of SOCO International plc" by PGS Reservoir Consultants (PGS Report), 2002.

We have also relied on information provided in emails and discussions with Petro Matad which we regard as being fair and reasonable.

Disclaimer

We have used all reasonable efforts to ensure that the contents of this report represent the current economics of prospects in Block XX in Mongolia based on the data available to us. We are not responsible for any errors, omissions or inaccuracies in the data provided to us.

Assumptions

The assumptions used for the economic analysis of the prospects in Block XX are set out below.

Prospects and Leads

Isis's geological analysis of drilling prospects and leads in Block XX are shown in Table 8.

Prospects and Leads				
Name of prospect or lead	Location	Means of un-risked resources MMbbl	Probability of success %	Risk-weighted means of resources MMbbl
Prospect 8Ts	Tolson Uul Extension	79	23	18
Prospect 2Ts	South Sharabog	83	21	17
Strong Lead 7Ts	South Sharabog	62	18	11
Strong Lead 6Ts	South Sharabog	67	17	11
Strong Lead 5Ts	South Sharabog	53	12	6
Lead 1UZu	Tolson Uul High	146	6	9
Lead 9UZu	K-24 High	131	4	5
Lead 11LZu	Erdenetsagaan	65	5	3
Lead 13UZu	K-24 High	23	9	2
Lead 10UZu	Tolson Uul Extension	31	6	2
Strong Lead 4Ts	South Sharabog	5	21	1
Total				85

Table 8: Prospects and Leads

The prospects and leads named in Table 8 are listed in the order of drilling assumed for the EMV analyses.

Economic Assumptions

We have made the following economic assumptions in this evaluation:

Oil Price

As a central case, we assume a West Texas Intermediate (WTI) crude oil price of US\$55 / bbl in real 2007 terms during the productive life of Block XX. We have prepared our analyses in nominal terms and have escalated this price at 2.5% per annum. This gives a nominal oil price of approximately US\$62 / bbl in 2012 when we assume first significant production from the block. Isis has recently undertaken a number of similar analyses for oil industry clients and, based on this recent experience, considers the oil price assumption described above to be a reasonable representation of oil industry valuation practice in the current environment.

We have carried out sensitivity analyses that show the effect of the WTI oil price being US\$40 / bbl and US\$70 / bbl in real 2007 terms Table 9 and Table 10).

Assumed Price of Crude for Block XX in US\$			
	Low	Middle	High
West Texas Intermediate	40	55	70
Differential	-1	-1	-1
Discount	-3	-3	-3
Assume price of Block XX crude oil	36	51	66

Table 9: Assumed Price of Crude for Block XX

Petro Matad has advised that any Block XX crude oil production would be sold at the Aershan Oil Gathering Station located in the Aershan Oil Field in Inner Mongolia, approximately 400 kilometres from the block. We are advised by Petro Matad that the crude price obtained at this point for any Block XX crude would be equal to the FOB price of Daqing crude oil less a differential of US\$1 / bbl.

Historically the FOB price of Daqing crude oil has been approximately US\$3 /bbl less than that of WTI. Therefore, for our central case we assume that the price obtained for any crude oil produced from Block XX in real 2007 terms would be US\$51 / bbl, which is equal to US\$55 /bbl (WTI) less US\$1 /bbl (differential) less US\$3 / bbl (discount with respect to WTI).

	ISIS Base Case WTI (\$US/bbl)	ISIS Base Case Block XX (\$US/bbl)	ISIS Low Case WTI (\$US/bbl)	ISIS Low Case Block XX (\$US/bbl)	ISIS High Case WTI (\$US/bbl)	ISIS High Case Block XX (\$US/bbl)
2007	55.00	51.00	40.00	36.00	70.00	66.00
2008	56.38	52.28	41.00	36.90	71.75	67.65
2009	57.78	53.58	42.03	37.82	73.54	69.34
2010	59.23	54.92	43.08	38.77	75.38	71.07
2011	60.71	56.29	44.15	39.74	77.27	72.85
2012	62.23	57.70	45.26	40.73	79.20	74.67
2013	63.78	59.14	46.39	41.75	81.18	76.54
2014	65.38	60.62	47.55	42.79	83.21	78.45
2015	67.01	62.14	48.74	43.86	85.29	80.41
2016	68.69	63.69	49.95	44.96	87.42	82.42
2017	70.40	65.28	51.20	46.08	89.61	84.49
2018	72.16	66.92	52.48	47.24	91.85	86.60
2019	73.97	68.59	53.80	48.42	94.14	88.76
2020	75.82	70.30	55.14	49.63	96.50	90.98

Table 10: Annual Assumed Price of Crude for Block XX

The assumed Block XX prices for 2007 are escalated by 2.5% per year and thus the differential with WTI increases with time in each case. The DCF analysis to compute the NPVs and EMVs was run until the development no longer had a positive net cash flow.

Cost Escalation

The real exploration, development, operating and abandonment cost assumptions we make for this report are described below. These are real costs in 2007 terms and we assume escalation at 2.5% per year for our analyses.

Discounting

We calculate nominal NPVs and EMVs of drilling the prospects in Block XX, assuming nominal discount rates of 10%, (as a central case) and 15% (as a sensitivity). We use mid-year discounting to 1st January 2008.

Fiscal Assumptions

Exploration and production operations in Block XX are subject to a PSC with the following provisions:

Royalty

Royalty is 5% of the gross value of crude oil sold. It is payable monthly in cash or in kind.

Cost Recovery

In any one year, 40% of the revenue available after deducting royalties is available to recover the costs of exploration, development and operation. The 40% limit is referred to as the cost recovery ceiling in this report.

If the total recoverable costs are greater than the revenue available for cost recovery, or the cost recovery ceiling, then the excess costs are carried forward for recovery in the following year or in later years.

We assume that all transport costs can be included in cost recovery including those for pipelines used to export crude oil production.

Production Sharing

"Production Sharing Oil" is the revenue remaining after deducting royalty and cost recovery from gross project revenue. It is shared between the Contractor and the State according to the schedule shown in Table 11.

Production sharing		
Rate of production in barrels per day	State's share of Production Sharing Oil	Contractor's share of Production Sharing Oil
below 25,000	40%	60%
25,001 to 50,000	45%	55%
50,001 to 75,000	50%	50%
over 75,000	55%	45%

Table 11: Production sharing

Contractor Revenue

The Contractor's gross revenue consists of revenue from Cost Petroleum plus a share of Production Sharing Oil.

Bonuses

We assume that bonuses are payable as set out in Table 12 below.

Bonuses	
Item	Amount
Signature bonus	US\$10,000
Production bonus on commercial discovery	US\$500,000
Training bonuses	
First year	US\$10,000
Second year	US\$10,000
Third year	US\$25,000
Fourth year	US\$25,000
Fifth year	US\$30,000

Table 12: Bonuses

Bonuses are not cost recoverable.

Income Tax

As per Article XVI Clause 16.1 (d) of the PSC states that “income gained from sold products allocated to foreign entities operating in Mongolia for the conduct of petroleum operations on accordance with the Contract on principles of production sharing, concluded with the Government of Mongolia shall be exempted from the business entity income taxes”.

Based on the above we assume that no income tax would be payable by Petro Matad Invest on profits generated by production from any discoveries made in Block XX.

Exchange Rights

As per Article XVII Section 17.3 of the PSC states that “The Contractor is hereby granted the following exchange rights:

- a) to provide in freely convertible foreign currencies all funds needed to conducted Petroleum Operations and to convert such currencies to Mongolian currency through commercial bank of Mongolia at the exchange rate prescribed in paragraph 1 of Article XVII;
- b) to hold and freely dispose of all funds held outside of Mongolia;
- c) to retain abroad and freely dispose of all proceeds received outside of Mongolia from the export, sale or exchange of it’s share of Petroleum and Natural Gas;
- d) to repatriate abroad and freely dispose of all proceeds received within Mongolia from the sale, exchange or export of it’s share of Petroleum;
- e) to pay its Subcontractors and expatriate employees in foreign currencies, either inside or outside of Mongolia; such shall only be required to bring into Mongolia such foreign currencies as are required to meet their personal living expenses;
- f) to maintain one or more accounts in a bank in Mongolia chosen by the Contractor which can be disbursed for the purposes of making payments to the Government Representative or the Government of Mongolia hereunder or making other payments required for Petroleum Operations.”

Based on this we assume that there is a very low risk on the movement of funds in and out of Mongolia.

Exploration

The exploration costs assumed for the illustrative economic analyses are based on an indicative hypothetical exploration programme and budget for Block XX as supplied by Petro Matad. The costs are set out in 0.

Exploration Costs in US\$MM in 2008 terms					
	Total	2008	2009	2010	2011
Seismic & studies	3.103	3.103			
Seismic and 4 wells	7.445		7.445		
Seismic and 4 wells	8.735			8.735	
Reviews and 3 wells	5.180				5.180
Total	24.463	3.103	7.445	8.735	5.180

Table 13: Exploration Costs in US\$MM in 2008 terms

It is emphasised that the above work programme is hypothetical and in way no reflects the actual Forward Programme and Budget. The above work programme was assumed purely for the illustrative economic analyses.

As regards the actual Forward Programme and Budget, Petro Matad is currently planning to complete a Firm Initial Work Programme of acquiring, processing and interpreting 100 sq km of 3D seismic data, 155 km of 2D seismic data and the reprocessing and interpretation of 330 km of existing 2D seismic data in 2008.

Field Development

For the purposes of calculating EMV, we have made field development assumptions for each prospect and lead as set out below assuming discoveries are made. All costs are estimated in real US\$2007 terms and then escalated in the cash flow projections. Isis believes that the following assumptions are reasonable in the context of this analysis and are based where possible on scout information from the Tamtsag Basin.

Based on scouting data from nearby developments our economics are based on linking each development well to the processing facilities together with the construction of a trunk oil pipeline from the processing facilities to the point of sale at the Aershan Oil Field. Commercial production is assumed to start in 2012 when it is assumed that the trunk oil pipeline would be completed. It should be noted that in practice any oil production prior to 2012 is likely to be trucked to the pipeline terminal at the Aershan Oil Field. We assume that the field will be produced with water injection for pressure support. It is also assumed that the crude oil from Block XX will be waxy and have a high pour point and therefore it will require heating.

Peak Field Rates

We assume that 15% of reserves are produced at peak. Production builds up to peak as development wells and the export pipeline are available and then declines.

Individual Well Rates

We assume that peak individual well rates are 250 BOPD per well which is based on the average peak rate per well from nearby fields as noted in the PGS Report. We add one well for contingency in each case. In addition, for the majority of potential developments there are a large number of wells and we assume that production shortfalls in one well can be made up by increased production from other wells.

Individual Well Costs

We assume that drilling and completion costs are US\$1.25 MM per well. We assume a maximum of 4 drilling rigs in one year and that each rig can drill up to 9 wells in one year.

Gathering Lines

We assume that the costs of the gathering lines are 1.5 times the costs presented in the PGS Report, which were estimated in US\$2002. Therefore, that costs per well are US\$0.11MM per well.

Process Facilities and Camp

We assume that the costs of process facilities and the camp are 1.5 times the costs estimated in the PGS Report, which were in US\$2002. A development with a peak rate of 20,000 BOPD would cost US\$18 MM. Processing facilities and the camp for a development with a peak rate of 20,000 BOPD are approximately US\$18MM. Therefore, a development with a peak rate of 30,000 BOPD would cost:

$$\text{US\$18MM} * (30,000 \text{ BOPD} / 20,000 \text{ BOPD})^{0.5} = \text{US\$22MM}$$

The costs of facilities and the camp are shared between all potential field developments in the Block.

Transport (pipeline, pumping stations, receiving plant)

We assume that the costs of pipeline transport are 1.5 times the costs estimated in the PGS Report, which were in US\$2002. A development with a peak rate of 20,000 BOPD would cost US\$175 MM. Therefore, a development with a peak rate of 30,000 BOPD would cost -

$$\text{US\$175MM} * (30,000 \text{ BOPD} / 20,000 \text{ BOPD})^{0.5} = \text{US\$214MM}$$

The costs of transport are shared between all potential field developments in the Block.

Other front end costs

We assume that indirect costs are 12% of total Engineering, Procurement and Construction costs (EPC) costs. We exclude indirect costs for drilling.

We assume a contingency of 20% of all costs including indirect costs.

Abandonment Costs

We assume that field abandonment costs at end of field life are 25% of total initial development costs.

Operating Costs

We assume that real annual fixed operating costs of the facilities in Block XX are 5% of total development costs excluding the pipeline. We assume that real annual fixed transport operating costs are 2.5% of pipeline transport costs. Operating costs are shared between field developments.

We assume no significant production nor operating costs until the pipeline is ready.

Exploration and Field Development Timing

We assume the following schedule for exploration and field development in Block XX.

A. Complete the full exploration programme as set out above.

If a discovery is made –

B. In the following year drill 3 appraisal wells that are not used for production.

C. Then drill development wells subject to a maximum of 36 wells per year.

D. Construct and install process facilities and camp as discoveries are brought on stream.

E. Build an export pipeline in 2010 and 2011. It transports oil from and including 2012. There is no significant production until a pipeline is available. Estimated development costs are based on the costs of a grouped field development, not separate fields. Therefore, there are shared costs and economies of scale

F. For an individual field development, production builds up as wells are drilled and become available for production.

G. For an individual field development, peak field rate lasts one year and then declines.

Methodology

We have adopted the methodology set out below to determine the EMV of prospects and leads in Block XX.

Expected Monetary Value

The expected monetary value (EMV) of an individual prospect or lead is defined as –

$EMV = NPV \text{ of success} * \text{Probability of success} + NPV \text{ of failure} * \text{Probability of failure} (1)$

Where –

"Success" means the discovery of at least one barrel of oil.

"Failure" means a dry hole

"NPV of success" means the incremental nominal net present value (NPV) of the nominal net cash flow of a discovery of oil over and above the total net present value of existing discoveries, if any. It includes the cost of the discovery well and PSC effects. Ideally, the incremental NPV should be the mean of a probability distribution of incremental NPVs for a range of potential field developments for a particular discovery. In this report, as a first approximation the incremental NPV is estimated as the mean of the un-risked probability distribution of prospect sizes if they are developed.

"NPV of failure" means the net present value of the net cash flow of a dry hole including PSC effects.

"Probability of success" means the probability of finding at least one barrel of oil.

"Probability of failure" means the probability of a dry hole. This is equal to 100% less the probability of success.

An alternative formulation of equation (1) above as follows –

$$EMV = NPV \text{ of success} * \text{Probability of success} + NPV \text{ of failure} \quad (2)$$

In this equation, the NPV is the same as is described above except that it excludes the cost of the discovery well. We use this second formulation in this report.

The DCF analysis to compute the NPVs and EMVs was run until the development no longer had a positive net cash flow.

EMV of Prospects

We assume that the full exploration programme as set out above is completed and all prospects and leads are drilled. The year of discovery is determined by the order in which the prospects and leads are drilled.

The un-risked NPV of a discovery is calculated as an increment to the NPV of all existing discoveries in the PSC. The NPVs are interdependent. This is because some of the costs are shared between fields and because the development of an additional discovery changes the cost recovery and profit sharing profile of the PSC as a whole. We calculate the NPV of one prospect or lead as an increment to the NPVs of discoveries already made by previous drilling and assume that that all previous drilling is successful. We do not model different combinations of possible interdependent successes and failures. There are 11 prospects and leads, which implies a total of over 2,000 combinations of interdependent possible successes and failures. In principle, each combination would yield different incremental NPVs for each prospect. However, modelling such a combination of events is not practical for this exercise.

As a first approximation, we assume that the prospects and leads are geologically independent of one-another. In other words, we assume that a success or a failure on one prospect or leads does not alter the probability of success or failure in subsequent drilling. In the same way as is mentioned above, taking interdependence into account fully would require constructing a decision tree with over 2,000 branches. That is not practical for this exercise.

Given this background, we calculate the EMV for Block XX as follows -

A. We calculate the incremental NPV assuming each prospect and lead results in a discovery. We exclude exploration costs from these NPV calculations.

B. We multiply the NPV of each discovery by its probability of success. This gives the risk weighted NPV of each discovery.

C. We add up the risk weighted NPVs of each discovery to give a total risked NPV for the PSC excluding exploration costs.

D. We deduct from the result of C above the NPV of the costs of the complete exploration programme excluding the fiscal effects of exploration costs.

E. We add to the result of D above the NPV of the fiscal relief of the exploration costs multiplied by the probability of at least one discovery, which is the same as the probability that fiscal relief on exploration will be obtained. Assuming independence, the probability of at least one discovery = $(1 - \text{the probability of all failures}) = (1 - 21\%) = 79\%$. Assuming independence, the probability of all failures = the product of a dry hole for each prospect or lead = the product of $(1 - \text{the probability of success for each prospect or lead})$. The probability of all failures is 21%.

Results

The results of our EMV calculations are set out in Table 14. These are based on a WTI oil price of US\$55 / bbl in real 2007 terms and a nominal discount rate of 10%

Results of EMV analyses in US\$MM (numbers might not add because of rounding)					
Nominal discount rate of 10%					
Lead or prospect name	Assumed year of discovery	Means of un-risked resources MMbbl	Incremental NPV of discovery US\$MM	Probability of success %	Risk-weighted NPV US\$MM
Prospect 8Ts	2009	79	761	23	175
Prospect 2Ts	2009	83	834	21	175
Strong Lead 7Ts	2009	62	562	18	101
Strong Lead 6Ts	2009	67	586	17	100
Strong Lead 5Ts	2010	53	444	12	53
Sub-total					604
Lead 1UZu	2010	146	1,297	6	78
Lead 9UZu	2010	131	1,202	4	48
Lead 11LZu	2010	65	591	5	30
Lead 13UZu	2011	23	202	9	18
Lead 10UZu	2011	31	276	6	17
Strong Lead 4Ts	2011	5	39	21	8
Sub-total					198
Grand total					803
NPV of exploration programme excluding fiscal effects					-21
Expected value of fiscal relief on exploration					6
Total EMV					788

Table 14: Results of EMV analyses

The total EMV shown in Table 14 is the sum of the EMVs of the individual prospects and leads less the NPV of the exploration costs set out in Section 3 plus the NPV of fiscal relief on exploration costs if discoveries are made in the block.

The effects of assuming an oil price lower and higher than the US\$55 / bbl as well as a 15% nominal discount rate are shown in Table 15. The result for the central case shown above is repeated in Table 15 to make comparison easier.

Results of EMV sensitivity analyses (EMVs in US\$MM)			
Discount rate	WTI US\$40 / bbl real	WTI US\$55 / bbl real	WTI US\$70 / bbl real
10%	469	788 (from above)	1,105
15%	295	515	734

Table 15: Results of EMV sensitivity analyses

As mentioned in the introduction, the EMV is not necessarily the same as the market value of the Block.

Appendix 4 - Qualifications

The CPR was prepared by Isis which is an independent geosciences consultancy firm based in Perth, Western Australia.

Isis has been in operation for seven years. We have a fully equipped 'state of the art' technical office offering clients a comprehensive range of technical and commercial capabilities. Isis has a core team of 14 contracted professional geoscientists together with a small group of additional internationally recognised associated specialists in relevant "high tech areas" of expertise.

Isis provides a comprehensive bureau and in-house geoscience services and through associates, reservoir engineering, economic, facilities and project engineering services. Our activities range from regional "wildcat" acreage assessments, through permit exploration activities and prospect generation to field developments, reserves certifications and asset evaluations. The asset evaluations include acreage evaluations for farmin, independent asset assessments and due diligence evaluations for project and or bridging finance, independent technical evaluations and experts reports in support of issuing a prospectus.

Isis has deep knowledge of over 80 petroleum basins worldwide and has completed over 250 projects in 25 countries. We have worked for more than 75 clients both in our Perth office and in the client's overseas location.

The Isis personnel involved in this report are as follows:-

Paul A. Carter is a founding director of Isis Petroleum Consultants and a Principal Geophysicist with the group. He holds a B. Sc. in Applied Science, Curtin University, Perth, WA. He has 30 years of oil and gas exploration, appraisal and development experience.

He worked for Hudson Bay Oil & Gas for 5 years, Minora Resources for 10 years, WMC for 3 years, Novus for 2 years, GSI for 2 years and as an independent international consultant at Isis for 7 years.

He has worked on a wide range of Tertiary and Cretaceous Basins in Southeast Asia, West Africa, South Asia and Australia.

He has worked in several major Tertiary and Cretaceous oil and gas provinces in Australia, Indonesia and India. He is very experienced in interpreting within both shallow and deepwater depositional environments. He has successfully completed projects in carrying seismic stratigraphic interpretations into frontier deepwater areas.

He is a member of the American Association of Petroleum Geologists and the Petroleum Exploration Society of Australia.

Krista Atkinson is a Principal Geoscientist/Sequence Stratigrapher with Isis. She holds B. App. Sc. (Applied Geology) from the University of Technology, Sydney and First Class Honours from the National Centre for Petroleum Geology and Geophysics, Adelaide. She has over 12 years of experience in petroleum geology and environmental management.

She worked with Woodside for 5 years, CSIRO for 1 year, MIM for 2 years, Henry Walker 2 years and as an independent consultant for 2 years.

She has studied and worked extensively as a sequence stratigrapher in the Timor Sea, the Vulcan Sub-basin, the Carnarvon Basin and South East Asia. She completed high end research projects at the CSIRO in detailed sequence stratigraphic well and seismic interpretation with an emphasis on Stratigraphic Forward Modelling.

Eric Tucker is the Chief Operating Officer / Principal Explorationist with Isis. He holds a Fellowship Diploma in Geology from the Royal Melbourne Institute of Technology. He has over 30 years of oil and gas exploration, appraisal and development experience.

He worked with BHP / Woodside for 7 years; Hudson Bay Oil & Gas for 5 years; Trans Canada Pipelines for 7 years, as an international consultant for 7 years and for Command Petroleum / Cairn Energy for 8 years. He has held a wide variety of technical positions in successful oil & gas exploration, appraisal and development teams.

He established and developed Cairn's G & G function in Chennai. He was a key member of the subsurface team that made the initial oil discovery in Rajasthan, the Lakshmi and Gauri Gas Fields; the 5 deepwater discoveries in the Krishna Godavari Basin; and the ongoing upgrade of the reserves for the Ravva Oil & Gas Field.

In late 2002 he left Cairn and returned to work as an independent, international oil & gas consultant.

He is a member of the American Association of Petroleum Geologists and the Petroleum Exploration Society of Australia.

Rod Lovibond is a Principal Geophysicist with Isis. He holds a B.Sc in Physics and Mathematics from the University of Sydney and a Graduate Diploma in Applied Geophysics from the University of N.S.W. He has over 30 years of oil and gas exploration, appraisal and development experience.

He worked with GSI for 9 years; Shell for 3 years; Hudbay / Lasmo for 6 years and Origin / BORAL for 11 years. He is currently working as a consultant in exploration and development.

He has worked on a wide range of Tertiary and Cretaceous Basins in Southeast Asia and Australia. He has an excellent understanding and knowledge base in the entire seismic acquisition, processing, interpretation and drilling sequence. He has been involved in several successful exploration programmes in Tertiary Basins in Indonesia and Australia.

He is a member of the Australian Society of Exploration Geophysicists and the Petroleum Exploration Society of Australia.

Guy Allinson is a Principal Economist with Isis. He holds a B.Sc. in Engineering from Leeds University, UK and a Diploma in Social Science from Birmingham University, UK. He has over 30 years of experience in petroleum economics.

In the UK he worked with ERC Energy Resource Consultants for 3 years and the British National Oil Corporation for 2 years. In Australia, he worked for ERC/Robertson Research Australia for 4 years, Schrodgers Australia for 2 years, Petroconsultants Australasia for 10 years and Cairn Energy Asia Ltd for 2 years. He has presented international oil industry short courses since 1986 and has been an independent consultant for 8 years. He currently lectures

at the School of Petroleum Engineering, University of New South Wales and is a non-executive director of Orion Petroleum Limited.

He has carried out numerous independent valuations of oil and gas properties and oil and gas property economic modelling assignments, has advised companies and Governments on petroleum fiscal terms and has carried out numerous research and feasibility studies.

Appendix 5 - Competent Person's Declaration

The Directors of Petro Matad Limited ('Petro Matad') and their Nominated Advisers, Hanson Westhouse Limited commissioned Isis Petroleum Consultants Pty Ltd ('Isis') to undertake an independent evaluation of the sub-surface hydrocarbon assets of Petro Matad, in connection with their application for admission to trading on the AIM. We understand that Petro Matad's main assets are held through its working interest in the Petroleum Sharing Contract of Block XX in Mongolia. Petro Matad also has current applications for PSC Blocks IV and V, also in Mongolia.

The evaluation of petroleum assets is subject to uncertainty because it involves judgements on many parameters that cannot be precisely assessed and which may change as new information becomes available.

The opinions and statements in the report are made in good faith and in the belief that such statements are neither false nor misleading. The technical and commercial evaluation work that forms the basis for this report is based on a public literature search and information provided to Isis by Petro Matad. Consequently Isis and its servants do not accept any liability for the accuracy of such information, nor do we warrant that our enquiries have revealed all of the matters that a more extensive examination may disclose.

Neither Isis nor its subcontractors, employees or directors have any pecuniary interest nor other interest in the assets evaluated, other than for professional fees received for carrying out this evaluation.

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Appendix 6 - Glossary of Abbreviations and Technical Terms

Abbreviation	Definition
1P	Taken to be equivalent to Proved Reserves; denotes low estimate scenario of Reserves
1Q	1 st quarter
2P	Taken to be equivalent to the sum of Proved plus Probable Reserves; denotes best estimate scenario of Reserves
2Q	2 nd quarter
2D	Two dimensional
3D	Three dimensional
3P	Taken to be equivalent to the sum of Proved plus Probable plus Possible Reserves; denotes high estimate scenario of Reserves
3Q	3 rd quarter
4Q	4 th quarter
ACQ	Annual contract quantity
A\$	Australian dollars
A\$ MM	Million Australian dollars
Bg	Gas formation volume factor unit reservoir volume per volume at standard conditions
Bo	Oil formation volume factor reservoir volume per volume at standard conditions
BOE	US barrels of oil equivalent
bb1	US barrel
bb1/d	US barrels per day
Bcf	Billion (10 ⁹) cubic feet
BBTU	Billion (10 ⁹) British Thermal Units
BFPD	Barrels of fluid per day
BOPD	Barrels of oil per day
BRF	Batu Raja Formation
BTU	British Thermal Units
BFPD	Barrels of fluid per day
BWPD	Barrels of water per day
C	Celsius
Capex	Capital expenditure
CGR	Condensate Gas Ratio – usually expressed as bbl/MMscf
CIIP	Condensate initially in-place
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies
CO ₂	Carbon dioxide
Cp	Centipoise (measure of viscosity)
CPI	Consumer Price Index
CPF	Central processing facilities
deg	Degrees
DCF	Discounted cashflow
DCQ	Daily contract quantity
DHI	Direct hydrocarbon indicator
Discount Rate	The interest rate used to discount future cash flows into a dollars of a reference date
DST	Drill stem test
Eg	Gas expansion factor. Gas volume at standard (surface) conditions / gas volume at reservoir conditions (pressure & temperature)

Abbreviation	Definition
EIA	US Energy Information Administration
EMV	Expected monetary value
EOR	Enhanced oil recovery
ESP	Electric submersible pump
EUR	Estimated ultimate recovery
Expectation	The mean of a probability distribution
F	Degrees Fahrenheit
FDP	Field Development Plan
FEED	Front end engineering design
FID	Final investment decision
Fm	Formation
FPSO	Floating offshore production and storage unit
FWL	Free water level
FVF	Formation volume factor
GIIP	Gas initially in-place
GJ	Giga (10 ⁹) joules
GOC	Gas-oil contact
GRV	Gross rock volume
GSA	Gas sales agreement
GWC	Gas water contact
H ₂ S	Hydrogen sulphide
HHV	Higher heating value
ID	Internal diameter
IRR	Internal Rate of Return is the discount rate that results in the NPV being equal to zero.
JV(P)	Joint Venture (Partners)
K _h	Horizontal permeability
k _{rg}	Relative permeability to gas
k _{ro}	Relative permeability to oil
k _{rw}	Relative permeability to water
k _v	Vertical permeability
kPa	Kilo (thousand) pascal (measurement of pressure)
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect
LNG	Liquefied natural gas
LPG	Liquefied petroleum gas, predominantly propane and butane
Mstb/d	Thousand US barrels per day
m	Metres
MDT	Modular dynamic formation tester
MDQ	Maximum daily quantity
Mean	Arithmetic average of a series of values
mD	Millidarcies (permeability)
Mgal	Milligal. A unit of acceleration used with gravity measurements (1.0 ⁺⁵ Mgal = 1.0 m/sec ²)
MJ	Mega (10 ⁶) Joules
MMm ³	Million cubic metres
MMbbl	Million US barrels
MMBOE	Million US barrels of oil equivalent
MMBTU	Million British Thermal Units
MMscf	Million standard cubic feet
MMscfd	Million standard cubic feet per day

Abbreviation	Definition
MMstb	Million US stock tank barrels
MOD	Money of the Day (nominal dollars) as opposed to money in real terms
Mscf	Thousands standard cubic feet
Mstb	Thousand US stock tank barrels
MPa	Mega (10 ⁶) pascal (measurement of pressure)
mss	Metres subsea
Mtpa	Million metric tonnes per annum
mTVDss	Metres true vertical depth subsea
NPV	Net Present Value (of a series of cash flows)
NTG	Net to Gross (ratio)
NZ\$	New Zealand dollars
NZ\$ MM	Million New Zealand dollars
Opex	Operating expenditure
OWC	Oil-water contact
P10 / high estimate	There should be at least a 10% probability that the quantities actually recovered will equal or exceed the high estimate
P50 / best estimate	There should be at least a 50% probability that the quantities actually recovered will equal or exceed the best estimate
P90 / low estimate	There should be at least a 90% probability that the quantities actually recovered will equal or exceed the low estimate
PBU	Pressure build-up
PHIE	Effective porosity
PHIT	Total porosity
PJ	Peta (10 ¹⁵) Joules
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent viable drilling target
Prospective Resources	Those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations according to the definitions of the Society of Petroleum Engineers, World Petroleum Council and American Association of Petroleum Geologists.
P&L	Prospects and leads
PSC	Production Sharing Contract
POS	Probability of success
PSDM	Pre-stack depth migration
psi(a)	Pounds per square inch pressure (absolute)
p.u.	Porosity unit e.g. porosity of 20% +/- 2 p.u. equals a porosity range of 18% to 22%
PVT	Pressure, volume & temperature
QA	Quality assurance
QC	Quality control
rb/Mscf	Reservoir barrels per thousand standard cubic feet under standard conditions
rb/stb	Reservoir barrels per stock tank barrel under standard conditions
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions
RT	Measured from Rotary Table or Real Terms (in the reference date dollars) as opposed to Nominal Terms of Money of the Day, depending on context
SC	Service Contract
scf	Standard cubic feet (measured at 60 degrees F and 14.7 psia)
S _g	Gas saturation
S _{gr}	Residual gas saturation
SPE	Society of Petroleum Engineers
sq km	Square kilometres
ss	Subsea

Abbreviation	Definition
STB	Stock tank barrels
STEO	Short term energy outlook
STOIIP	Stock tank oil initially in-place
s.u.	Fluid saturation unit. e.g. saturation of 80% +/- 10 s.u. equals a saturation range of 70% to 90%
S _w	Water saturation
TAC	Technical assistance contract
TBTU	One trillion (10 ¹²) British thermal units
Tcf	Trillion (10 ¹²) cubic feet
TJ	Tera (10 ¹²) Joules
TVD	True vertical depth
US\$	United States dollar
US\$ MM	Million United States dollars
WACC	Weighted average cost of capital
WHFP	Well Head Flowing Pressure
Working interest	A company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.
WP&B	Work programme and budget
WPC	World Petroleum Council
WTI	West Texas Intermediate Crude Oil

Appendix 7 - Glossary of Geological Terms

(modified after (1) Dictionary of Geological Terms, American Geological Institute, 1962 and (2) Glossary of Geology; Bates R. L. & Jackson J. A. (eds), American Geological Institute, 1980

Geological Term	Definition
alluvial fans	A cone-shaped deposit of alluvium made by a stream where it runs from hills onto a level plain
anticline	A fold, generally convex upward, whose core contains older rocks; forms basis of many hydrocarbon traps
basement depth structure maps	A map which illustrates the depth to the top of the basement surface; contour lines are drawn to link points of equal basement depth; basement usually consists of non-sedimentary rocks, but the term is often used to indicate the base of the prospective section
basement highs	Elevated structures at the basement level; significant because related structures may exist in the overlying prospective sedimentary section
bouguer gravity map	A map showing the variations in Bouguer gravity over an area; Bouguer gravity is the gravity measurement corrected for the altitude of the station & the attraction of the rock mass between the station & sea-level
braided	Refers to a stream where branches form and rejoin producing a braided or net-like pattern; caused by stream dumping some of its sediment load and being forced to create new branches
burial modelling	Describing the infilling of a sedimentary trough as a function of time and space; used to predict the time of generation, migration and expulsion of oil & gas
chronostratigraphy	The organisation of rock strata in an area into units on the basis of their age or time of origin; usually includes information on periods of non-deposition or erosion & the lithology and environments of deposition of the sediments
clastic	Refers to rock or sediment composed mainly of broken fragments which are derived from pre-existing rocks & have been transported some distance from their place of origin; the commonest clastics are sand and shale
conglomerate	Coarse grained clastic sedimentary rock composed of rounded to subangular fragments larger than 2 mm in diameter set in a fine grained matrix of sand or silt
continuously cored	An interval where that is cored over the entire interval of interest or in some cases the entire well; the recovered core is invaluable for directly analysing rock properties
cratonic fill	Refers to sediments deposited in basins or troughs within an area of the earth's crust which has been stable and relatively undeformed for a prolonged period
depth structure map	Refers to a map which shows the varying depths to a specific geological horizon or unit; contour lines are drawn to link points with equal depth
depth to basement map	See above for basement depth structure map
EMV	Expected monetary value; refers to the computed value of a business opportunity taking into consideration cost, benefit and chance of success; allows different opportunities to be compared
fault block and fault block trap	A mass bounded on at least two opposite sides by faults; it may be elevated or depressed relative to the adjoining region; a sealed fault block closure
fault lineaments	A fault is a fracture or fracture zone where there has been displacement of the sides relative to each other parallel to the fracture; the displacement may range from a few cm to several km; faults appear in map view as lineaments or lines
fault reactivation	When a fault is reactivated and moves more than once
fault seals	The plane of the fault or line of weakness is sealing with respect to the movement of fluids
feldspars	The most widespread mineral group, comprising 60% of the earth's crust; decompose to form most of the clay in soils, including kaolinite; may be significant in reducing reservoir porosities in sandstones
fluvial channel	A channel produced by the erosional action of a river or a stream
fluvio deltaics	Sediments which are deposited in river channels and deltas where the river is close to or reaches a lake or the sea
formation tops	The top of a geologically defined unit that is based on age, lithology and or environment of deposition
formation volume factor	The conversion factor required to convert a barrel of gas-free oil in a stock tank at the surface into an equivalent amount of oil in the reservoir
G&G studies	Geological and geophysical studies which are conducted to understand some or all of the components of a petroleum system, e.g. source, maturation, migration, reservoir, seal, play, structure, trap
graben	An elongated trough bounded by faults on its longer sides
gravity & magnetic survey	A field operation and the results thereof, in which the earth's magnetic field or gravity field are measured on the surface in some form of regular grid

Geological Term	Definition
gravity maps	Contoured maps that display the results of a gravity survey
HI	Hydrogen index; the ratio of hydrogen atoms in a unit volume of rock to the number of hydrogen atoms in a unit volume of pure water at surface conditions
horst	A structurally high block generally elongated and bounded by faults on its two longer sides
hydrocarbon system	A term which describes the total environment in which oil and gas has been generated, migrated and trapped; it can refer to a proven system such as the Viking Graben in the North Sea hydrocarbon system or it can be used to describe an unproven system
isochron mapping	Mapping in which the interpreted seismic time interval between mapped geological horizons is shown; contour lines are drawn to link points of equal time interval
lacustrine	Pertaining to, produced by or formed in a lake; e.g. lacustrine sediments are deposited in lakes
LCC	Lowest Closing Contour defines the extent of the closure on each Prospect/Lead
lead	A potential trap for hydrocarbons which is not mature for drilling; additional information could make it mature it to prospect status e.g. a structure which has sparse seismic control
lenticular	Shaped like a lens; e.g. a lenticular sand body refers to the cross-sectional shape of a sand deposit
metamorphics	Types of rocks which have been altered from their original state by marked changes in temperature, pressure or chemical environment, usually at depth within the Earth's crust
net to gross	The proportion of "pure" or net reservoir section over a defined gross interval
permeability	The capacity of a rock for transmitting a fluid; the unit is the Darcy
play types	The types of traps that may be present to entrap hydrocarbons in an area
pore-clogging	During the drilling of a well, the invasion of drilling fluids can either result in clays being forced into the reservoir section or cause clays in reservoir pore spaces to swell or to be altered, resulting in pore-clogging and damaging the formation
post-rift sedimentary fill	Refers to the ongoing infilling of a sedimentary depression at the end of a rifting phase; post rifting, a more quiescent period usually follows, with more widespread deposition
porosity	The percentage of the volume of a given rock mass which is not made up of solid rock, but of interstices or voids between the rock material
probabilistic volumetrics	A method of calculating the potential distribution of hydrocarbon volumes in a trap using probability distributions of the key parameters such as gross rock volume, porosity, net to gross etc.; assumes lognormal distribution functions
prograding	A seaward advance or building outwards of the shore line into the ocean or a lake
prospect	A project associated with a potential accumulation that is sufficiently well defined to represent viable drilling target
rotated fault block	A fault block that has been rotated and tilted so that the beds within the block are now tilted
S2	As sediments are heated in the laboratory, the proportion of hydrocarbons that can be liberated as the temperature rises are defined as S1, S2 and S3. S1 is the initial amount of hydrocarbons that lies with in the pore spaces; S2 is amount of hydrocarbons generated after S1 has been released and is the latent potential of the rocks prior to the generation of CO2
seal	An impermeable layer of rocks which does not allow transmission of fluids
seismic	A geophysical technique in which the generation of sound waves near the ground surface or in the ocean and the recording of reflected signals from rock interfaces allows a picture of the subsurface structure of the earth to be generated
shale	A fine-grained laminated fissile sedimentary rock formed by the consolidation of clay
source kitchen	An area of sedimentary basin that is believed to contain source rocks that have the potential to have generated and expelled oil and gas
source rock maturity maps	A map which shows for a specific source rock the level of maturity of the organic material in the rocks over an area; contour lines are drawn linking points of equal maturity
spectrometry	The art of using a spectrometer which measures the intensity of radiation as a function of wave length
spill point	A point on a hydrocarbon trap where if the structure is filled to that level with hydrocarbons, any additional hydrocarbons which move to the structure will spill out of the trap
stratigraphy	The science of rock strata; the original succession of strata, their age relations, form, distribution, lithologic composition, fossil content, geophysical & geochemical properties; their interpretation in terms of environment, mode of origin, geologic history.
syn-rift fill	The sediments deposited during a period of active rifting; sediment type and distribution is profoundly affected by the horsts and grabens which develop during the rifting

Geological Term	Definition
tectonic elements	Tectonics- a branch of geology dealing with the broad architecture of the outer part of the earth, i.e. the regional assembling of structural or deformational features, a study of their mutual relations, origin and historical evolution Tectonic elements- The key features that define the architecture of the outer part of the earth; including but not limited to faults, basins and structural highs
tectonic evolution	The development through geological time of an area in regard to the large-scale architecture of its crustal blocks
tectonic setting	The large scale architecture of crustal blocks in an area which provides a context for the development and history of sedimentary basins or troughs
thermal gradient	The rate of change of temperature with distance; for the earth, it is referred to as geothermal gradient, i.e. rate of change of temperature with depth below the surface of the earth
time structure maps	Refers to a map which shows the varying seismic travel-time to a specific geological horizon or unit; contour lines are drawn to link points with equal depth
time thickness maps	See isochron maps above
TOC	Total organic carbon- percentage of rock which comprises organic carbon
transtensional structuring	Structuring which combines the two elements of extension and strike-slip motion
trap	Trap- any barrier to the upward movement of oil and or gas allowing either or both to accumulate; it includes both the reservoir rocks and the overlying or updip impermeable sealing rocks Structural trap- in this case the trap or “container” is formed entirely by folding or faulting of beds to create the impermeable barriers to further migration Stratigraphic trap- at least in part. the trap is formed by a lateral change in the reservoir permeability, e.g. a reservoir sand being replaced by a shale
unconformity	A surface of erosion or no-deposition that separates younger strata from older rocks
velocity surveys	Measurements of seismic travel-time recorded at various depths in a well to allow seismic reflectors to be associated with specific geological boundaries in the rock sequence
volcanics (tuffs)	An igneous rock resulting from volcanic action at or nears the earths surface either ejected or extruded; a general term fro all consolidated pyroclastic or ejected rocks

PART IV

SUMMARY OF PSC AND CERTAIN OTHER MONGOLIAN LAWS

Introduction

The sedimentary basins of Mongolia containing prospects for petroleum have been divided into 25 exploration blocks (with a total area of over 614,000 square kilometres). Each block comprises ten minutes of latitude and ten minutes of longitude. The size of an area to be utilized for the production of petroleum by a contractor (the “Contract Area”) pursuant to a PSC is determined by the mutual agreement of the MRPAM and the relevant contractor on the basis of exploration data. The main law regulating petroleum exploration and activity in Mongolia, the Petroleum Law 1991 (the “Petroleum Law”), allows a contractor to acquire more than one Contract Area, however each Contract Area requires a separate PSC.

Summary of the PSC (PSC)

The PSC was originally made on 30 June 2006 between Petro Matad LLC (the “Contractor”) and the Mongolian Government, as represented by the MRPAM (together, the “Parties”). The PSC was assigned to Petromatad Invest Limited pursuant to the Protocol of Assignment on 6 November 2007. Its key terms are as follows:

Obligations of the Contractor

The Contractor must:

- (a) comply with existing Mongolian Law and the PSC;
- (b) carry out petroleum operations as set out in the PSC (“Petroleum Operations”) in accordance with Mongolian and international standards, rules and regulations;
- (c) use efficient technology, techniques and equipment for Petroleum Operations;
- (d) prior to the beginning of its activities, conduct an environmental impact assessment of their proposed activities (an “Environmental Impact Assessment”);
- (e) develop plans for preventing hazards to the public, animals, nature, national resources, the land surface and the environment, and obtain the relevant approval from the relevant governmental environmental authorities;
- (f) submit to the MRPAM originals of all documentation concerning geological, geophysical, geochemical research, drilling, well and production data, laboratory analysis results, and other ancillary data;
- (g) bear all costs and expenses necessary to conduct Petroleum Operations;
- (h) pay the following administrative services fees to the MRPAM:

	<i>US\$'000</i>
I. For each application for a Contract Area	10
II. For each extension of an exploration term (for two years, with MRPAM consent)	25
III. For each extension of an exploration term (for five years, with Mongolian Government consent)	100
IV. For Development Area (as defined below) Permission	50
V. For each change or adjustment in the Development Area	25
VI. For each extension of a development term	100
VII. For each application to transfer any rights and obligations for Petroleum Operations	100

- (i) pay to the MRPAM the sum of US\$10,000 within 60 days after the approval of the PSC by the Mongolian Government (signature bonus);
- (j) pay to the MRPAM the sum of US\$500,000 within 60 days after the date of the first commercial discovery (production bonus);
- (k) pay to the MRPAM a training bonus annually within 30 days after the beginning of each year of the contract (each a “Contract Year”) as follows:

	<i>US\$'000</i>
1. Year 1	10
2. Year 2	10
3. Year 3	25
4. Year 4	25
5. Year 5	30

- (l) pay to the MRPAM a training bonus of US\$60,000 annually within 180 days after the beginning of the Production.

All bonuses payable as at the date of this document have been paid.

- (m) Pay royalties to the Mongolian Government based on the amount of oil (the “Contract Crude Oil”) produced from the Contract Area. The royalties shall be equal to 5 per cent. of the total production of Contract Crude Oil. The royalties shall be paid by produced crude oil, or in cash.

- (n) After deductions for royalties and for that amount of oil needed to cover the costs and expenses incurred in respect of Petroleum Operations under the PSC (“Petroleum Costs”), for each Calendar Month, the remaining quantity of Contract Crude Oil (herein referred to as “Production Sharing Oil”) shall be allocated between the Mongolian Government and the Contractor in proportion to the percentages set forth below, based upon the average daily quantity of Contract Crude Oil for a given calendar month:

- a. If the average daily quantity of Contract Crude Oil for any calendar month is equal to 25,000 barrels or less:

Mongolian Government	40%
Contractor	60%

- b. If the average daily quantity of Contract Crude Oil for any calendar month is equal to or exceeds 25,001 barrels but is less than 50,000 barrels:

Mongolian Government	45%
Contractor	55%

- c. If the average daily quantity of Contract Crude Oil for any calendar month is equal to or exceeds 50,001 barrels but is less than 75,000 barrels:

Mongolian Government	50%
Contractor	50%

- d. If the average daily quantity of Contract Crude Oil for any calendar month is equal to or exceeds 75,001 barrels:

Mongolian Government	55%
Contractor	45%

- (o) When the outstanding Petroleum Costs reimbursable under the PSC equate to less than forty per cent. of the price of the total quantity of Contract Crude Oil, the difference shall be allocated between the Parties in accordance with the provisions of the PSC.

- (p) The payment of the Mongolian Government’s share of the Production Sharing Oil shall be made to the MRPAM within thirty days from the end of each calendar month or as otherwise approved by the Mongolian Government.

- (q) The Contractor shall perform the mandatory work and obligations with the minimum expenditure as follows:

<i>Exploration phase</i>	<i>Years</i>	<i>Explorations operations</i>	<i>Minimum expenditure \$'000</i>
1	1	Geological, geophysical and geochemistry study/gravity, magnetic & spectrometry survey/	US\$320
	2	Geological, geophysical and geochemistry study/seismic, gravity, magnetic & spectrometry survey/	US\$740
2	3	Geological and geophysical study and 2D seismic survey	US\$615
	4	3D seismic survey and drilling one well	US\$1,200
3	5	3D seismic survey and drilling one well	US\$1,275
		Total	US\$4,150

The Contractor must notify the Chairman of the MRPAM (designated under the PSC as the “Government Representative”) within fifteen days in writing if a well is determined to be a discovery well. The Contractor must provide to the Government Representative for his approval a programme with an appropriate budget for the appraisal, a map and other descriptions of the area to be appraised (the “Appraisal Area”) for his approval within ninety days after the date of each discovery well. Upon the Government Representative’s approval of the programme, the Contractor may commence appraisal work in the Appraisal Area.

If the Contractor, taking into account all relevant facts, determines a discovery well to be one capable of commercial development (a “Commercial Discovery”), the Contractor shall notify in writing the Government Representative within fifteen days after such Commercial Discovery. The Contractor shall submit a plan with an appropriate budget (the “Work Programme”) for development and a map, reserves estimates and other descriptions of the area to be developed (the “Development Area”) to the Government Representative for approval.

The Contractor shall commence development operations within 90 days of receiving approval of the development plan and budget. The Contractor may move from exploration to production operations in respect of the Commercial Discovery, provided that, prior to commencing production and as required by the Mongolian Law on Licensing for Business Activities, the Contractor is in possession of a Special Permit (see relevant paragraph below) in order to carry out petroleum production activities.

Term

The PSC shall be up to five years in duration and shall consist of three phases: first phase two years, second phase two years, third phase one year.

The exploration period in respect of each Commercial Discovery shall be up to twenty years. The Contractor shall have a right to construct pipelines, bridges, roads, storage facilities, houses, landing fields, radio towers and communication facilities in accordance with requisite approvals. If the Contractor sets up additional industrial infrastructure, e.g. processing plants or oil or natural gas pipelines, the period for oil-field development may be extended twice by not more than five years each time, subject to written approval from the MRPAM and Government Representative.

Covenants

The PSC contains various covenants on the part of the Contractor, including that upon expiration or termination of the PSC, or if the Contractor shall relinquish or abandon any part of the Contract Area, the Contractor must remove all equipment and installations from the Contract Area in a manner acceptable to the Government Representative, and perform all necessary site restoration activities. The Contractor also agrees that in a national emergency, all or part of its share of the petroleum from the Contract Area may be requisitioned by the Mongolian Government. The Contractor must obtain the approval of the Government Representative for choosing or concluding contracts with subcontractors in carrying out certain portions of the Petroleum Operations, and submit a copy of the contracts to the Government Representative.

Government Rights

Pursuant to the PSC, the Mongolian Government has various rights, including to inspect the Contractor's Petroleum Operations and financial statements and certain documentation connected with the Petroleum Operations and to request the Contractor to supply (in return for payment) a proportion of the petroleum required for Mongolian domestic consumption.

Warranties and Indemnities

The Contractor shall pay disability allowances in accordance with Mongolian law to those Mongolian national employees who may temporarily or permanently lose their ability to work as a result of an accident while performing their duties under the PSC.

Guarantees

There are no guarantees given by either of the Parties under the PSC.

Termination

- If the effective date does not occur within 180 days following the date on which the parties execute the PSC, the Contractor may notify the Government Representative that the PSC is cancelled. The effective date of the PSC was 19 July 2006, which was within the required period.
- If the Contractor fails to commence exploration operations within 180 days following the effective date, the Government Representative shall cancel the PSC. Exploration operations commenced within the required period.
- The Mongolian Government shall have the right to terminate the PSC if the Contractor commits a material unremedied breach of the PSC, or if the Contractor fails to commence the Work Programme.

If the Mongolian Government decides to exercise such termination rights, the Government Representative shall give the Contractor written notice. If within thirty days from such notice the Contractor has not remedied such breach, and if the Contractor has not been delayed or prevented from doing so because of *force majeure*, the Government Representative may thereafter issue a decree to terminate the PSC subject to the right of the Contractor to invoke the arbitration provisions contained in the PSC. In the event of the termination of the PSC, the Contractor shall pay to the MRPAM its failed budgeted work fees for the Contract Year.

Following termination of the PSC, the Contractor shall have the right to remove from Mongolia all movable property used in respect of the Petroleum Operations, which is leased or otherwise not wholly owned by the Contractor. Upon the termination of the PSC, the Contractor's imported equipment, facilities, real estate and supplies used for Petroleum Operations shall become the state property of the Mongolian Government at no additional cost, if the cost of such equipment, facilities and supplies have been recovered by the Contractor.

- The Contractor shall be entitled to cancel the PSC in the below-mentioned cases and must notify the Government Representative within 90 days advising of the cancellation:
 - if economical reserves of petroleum are not to be discovered on the Contract Area; or
 - if the production period expires.

Neither Petro Matad LLC nor Petromatad Invest Limited have taken any action nor, so far as the directors are aware, have any steps been taken and no legal, legislative, or administrative proceedings have been started or threatened, to trigger the termination clause under the PSC.

Government Consents

- To extend the exploration period, the Government Representative must approve the minimum exploration work programme and budget for the proposed extension period.
- The Government Representative's approval is required to commence appraisal work of the discovery wells.

- The Government Representative has 180 days to approve each Commercial Discovery upon submission by the Contractor.
- The MRPAM must approve a Development Plan and budget, and maps, reserves estimates and other descriptions of the Development Area.
- The procedure for determining the value of Contract Crude Oil shall be adopted by mutual agreement between the Government Representative and the Contractor prior to conclusion of any agreements with third parties with regard to the marketing and transportation of Contract Crude Oil.
- If there has been an error in the measurement of the level of production, a report on the necessary corrections made shall be submitted to the Mongolian Government for its approval.
- The Government Representative's written consent is required before data resulting from the Petroleum Operations can be disclosed to third parties.
- In the case of transferring rights and obligations under the PSC to a third party, the original Contractor must obtain the written consent of the Mongolian Government prior to such migration.
- Before selecting and contracting with a subcontractor for the Petroleum Operations, the Contractor is required to obtain the approval of the Government Representative.

The Contractor shall have the exclusive rights to conduct Petroleum Operations in the Contract Area under the Special Permit (as described below) and the Mongolian Business Entity Special Permission Law 2001. Under the Petroleum Law, the Mongolian Government shall grant the mine tenure permit, including special permits for the exploration and development of oil, in order to enable the Contractor to conduct Petroleum Operations in the Contract Area.

The Government Representative exercises a right to approve the exploration work programmes and the budget for the extension to the exploration period. The MRPAM shall assist the Contractor in obtaining all required permits necessary to conduct Petroleum Operations. Therefore, it is the responsibility of the MRPAM and the Government Representative, which approved the extension of the term of the PSC, to advise the Mongolian Government to grant any necessary licences to the Contractor.

Relinquishment

The PSC requires certain areas of the Contract Area to be relinquished at certain intervals. Pursuant to article 7.1 of the PSC, the Contractor shall relinquish at, or prior to, the expiration of the period under which exploration operations may be carried out under the PSC (including a period that has been extended in accordance with the requirements discussed above), all remaining portions of the original Contract Area, except Appraisal Areas and Development Areas.

Change of Control and Assignment

In accordance with article 122.2 and 122.3 of the Civil Code of Mongolia, a possessor of a right may transfer his/her right under a contract (such as a licence to conduct petroleum related operations and rights and duties under the PSC) to the ownership of a third party to the extent of its/his/her possession, without the consent of the other party, provided that such transfer does not contravene the provisions of any laws, contracts, or the nature of the obligation as set out in the agreement.

The Petroleum Law does not contain any restrictions on foreign entities being parties to the PSC. Article 2 states that a "contractor" may be a foreign entity or an individual. Article 5 of the Petroleum Law provides that a "foreign contractor" shall enjoy the same legal protection, and bear the same duties and obligations as Mongolian legal persons and individuals. The transfer of the PSC to a foreign company and in particular to the parent company that is the 100 per cent. owner of the contractor, should be lawful and possible.

The main regulation in respect of the Petroleum Law is the Regulation of Mongolia on the Implementation of the Petroleum Law (the "Petroleum Regulation"). The Petroleum Regulation deals with the pre-conditions for the transfer of rights and obligations related to participation in the oil business, including the amounts payable to the Mongolian Government in the case of such transfer. Under the Petroleum Regulation, rights and obligations related to the oil exploration and extraction business, including those incorporated in the PSC, could be transferred.

The PSC defines “contractor” in conformity with Article 2 of the Petroleum Law. Article 15.3 of the PSC identifies the conditions for the transfer of the rights. In accordance with Articles 3.3 and 15.3 of the PSC, the Contractor shall be entitled to transfer its rights and obligations under the PSC to any third party with the prior written consent of the Government Representative if the Contractor retains not less than 5 per cent. of its rights and obligations on Petroleum Operations. Additionally, pursuant to article 10.4 of the PSC, the Contractor shall pay to the Government administrative service fees in equal amount to US\$100,000 for each application to transfer any rights and obligations in respect of Petroleum Operations. Petro Matad LLC duly paid such fee when the PSC was transferred from Petro Matad LLC to Petromatad Invest Limited.

Under the Law on Special Permits of Commercial Entities, the business of petroleum exploration and extraction requires a special permit. Petro Matad LLC has such Permit # 33, dated 7 November 2006. Article 3.3(a) of the PSC suggests that the contractor can enjoy all of the rights under the PSC provided that it has ensured, *inter alia*, the issuance of the special permit in its name.

Governing Law

Any property dispute arising out of or in the course of Petroleum Operations shall be settled by the Mongolian Courts in accordance with the laws of Mongolia.

Any dispute related to the PSC, such as modification of its terms or its cancellation may be settled in accordance with the UNICITRAL Arbitration Rules.

Special Permit

The Ministry of Industry and Trade issued Special Permit #33 (the “Special Permit”) in the name of Petro Matad LLC to carry out exploration and research activities with regards to petroleum within the territory of Mongolia, on November 7, 2006. The term of the licence is three years, from 11 November 2006 to 7 November 2009. The Special Permit was issued by order of the Minister for Industry and Commerce of Mongolia dated 11 July 2006. The Special Permit provides special conditions and requirements of the License holder, Petro Matad LLC, including compliance with relevant laws, regulations, and terms and conditions of the PSC.

Certain Other Mongolian law

Pursuant to the Mongolian Law on Subsoil of 1988 (the “Subsoil Law”), the subsoil means the space which spreads into the depth beneath the soil, as well as all material objects in this space, including minerals and petroleum. In Mongolia, ownership and control of petroleum is vested in the State pursuant to the provisions of the Petroleum Law. The Subsoil Law provides that the Ministry of Trade and Industry of Mongolia, the superior agency to the MRPAM, is entitled to grant rights over subsoil to citizens or legal entities for commercial purposes including geological surveying and mining/extracting minerals. Therefore, activities related to petroleum including exploration, protection, production, processing/development, transportation, storage and marketing of petroleum within the territory of Mongolia, shall be carried out only in accordance with a special permit (licence) issued by the Mongolian Central Administrative Authority in charge of petroleum, the Ministry for Trade and Industry of Mongolia.

The Mongolian Government may prohibit or restrict production of petroleum in any part of the territory of Mongolia for reasons of national security, prevention of damage to natural oil reserves, and environment, or protection of relics of historical and cultural importance.

The Petroleum Law empowers the MRPAM to supervise and regulate activities related to petroleum. The core objective of the Mongolian Government and the MRPAM is to promote the development of the petroleum industry and the production of petroleum within the territory of Mongolia through mutually beneficial cooperation with potential oil companies.

In order to develop a favourable investment climate for the industry and reduce the risk for potential foreign investors, the following tax exemptions are in effect:

- all materials and equipment necessary to conduct petroleum operations imported by a contractor are exempt from all customs taxes, and value added taxes; and
- contractors not residing in Mongolia are exempt from corporate income taxes on their share of earnings from petroleum, including withholding tax which would otherwise be payable on the transfer of such income out of Mongolia.

In addition, the Mongolian Foreign Investment Law of 1993 allows the Mongolian Government to enter into a Stability Agreement with any strategic investor who is intending to undertake a project for value of not less than US\$2 million in Mongolia. Such Stability Agreement operates as a legal guarantee for a stable fiscal environment for 10 to 15 years. This offers a contractor protection from any changes in taxation policy.

If the MRPAM is satisfied that an oil exploration company meets the requirements specified in the Petroleum Law, then the Government will grant the company rights to share in the production of petroleum in respect of such licences. The company shall share the remainder of the total production with the Government after royalties for production and an amount of petroleum for cost recovery have been deducted. The percentage shares shall be negotiated by reference to the daily production rate and recorded in a PSC between the Mongolian Government and the contractor. The conclusion of the PSC is subject to authorisation and clearance by the Mongolian Government and the National Security Council of Mongolia. A PSC is effective if the Mongolian Government and National Security Council of Mongolia provide approval. The requirements of the Petroleum Law are as follows:

- the machinery/equipment and technology of the contractor must be capable of extracting not less than 20 per cent. of the petroleum reserve in respect of such licences;
- the contractor must be dedicated to the petroleum processing/development industry in Mongolia;
- any matters relating to the preparation of qualified personnel, including the employment of high qualified foreign experts must be resolved prior to the submission of the PSC application;
- machinery/equipment and technology must be highly economically efficient and the production and processing of the petroleum must be ecologically harmless;
- the contractor must agree to transfer all information, data and original documents and reports related to petroleum operations to the MRPAM; and
- the contractor must take all necessary measures to ensure the safety of the population, protect the life and health of its staff, prevent accidents, avoid damage to property, natural resources, soil, subsoil, and ecology, and restore the natural environment of the area in respect of the licence.

The PSC between the Mongolian Government and the contractor governs not only production sharing arrangements and the commercial relationship between parties, but also sets out the compliance requirements in relation to the exploration and production of petroleum insofar as they relate to the contractor.

Exploration and development licences

A special permit (licence) to carry out exploration for petroleum within the territory of Mongolia will be granted to a contractor for an initial period of up to five years. This licence may be extended a total of three times, by two two-year periods and under a 2003 amendment to the Petroleum Law, an additional five year extension term at the request of the contractor, provided the MRPAM is satisfied that the contractor is capable of extending and implementing the terms of the PSC. The MRPAM can grant a licence in respect of the production of petroleum with a term of up to twenty years. This term begins on the day the MRPAM grants a special permission for the production of petroleum. If the contractor sets up additional industrial infrastructure, such as processing plants or oil or natural gas pipelines, the MRPAM may extend the period for the production of the petroleum for an additional period of not more than five years, such extension may be granted twice.

Surface rights

The Subsoil Law provides that users of the subsoil, namely those conducting geological surveys and mining/extracting natural resources, must act in accordance with any regulations that regulate the use and/or possession of certain land. Pursuant to the Mongolian Land Law of 2002, the Mongolian Government is entitled to requisition land where necessary for the special needs of the state. One of the purposes for which such land can be requisitioned is where such land may be utilised for the exploration of petroleum in accordance with a PSC which has been recommended by the state central administrative organisation in charge of land matters in Mongolia. In such event the land in question may be transferred under the control of relevant authorities. Prior to its utilisation, the area covered by the licence has to be classified as land for state special needs and transferred under control of the MRPAM.

The Mongolian Law on Administrative and Territorial Units and their Management of 2006 provides that the governor of the relevant local administrative unit in Mongolia shall grant permission to a licence holder on the site/land as specified in the licence for exploration and mining/extracting of natural resources. The Petroleum Law requires local authorities to permit a contractor to exercise land tenure in order to enable a contractor to conduct activities related to petroleum. However, there is no legal requirement that the permission granted by the governor, is to be in any formal or written form. Therefore, it can be assumed that the local governor of the area in question shall not object to a contractor conducting petroleum exploration activities as long as a contractor possesses the special permit.

A contractor must pay an annual land rent for conducting activities related to petroleum to the MRPAM, as follows:

- during the initial exploration period of US\$1.00 per square kilometre (excluding Development Areas);
- during the second exploration period of US\$2.00 per square kilometre (excluding Development Areas);
- during the third exploration period of US\$4.00 per square kilometre (excluding Development Areas); and
- during the producing/development period of US\$50.00 per square kilometre.

Lawful occupiers retain their rights to graze stock and to cultivate the surface of the land in so far as the grazing or cultivating does not interfere with mineral exploration or development operations. The holder of a licence granted under the Petroleum Law is required to exercise its rights so as to minimise the effect on the interests of any lawful occupier of the land the subject of the licence. It is an obligation of the Mongolian Government to compensate the possessor of land if his/her/its land is taken for the state's special needs without replacement.

Where exploration or development causes any damage or disturbance to the rights of the lawful occupiers, the licence holder is liable to pay fair and reasonable compensation (such compensation to be determined by the court if the parties are unable to reach agreement) to the lawful occupier in respect of such disturbance or damage. The licence holder or contractor shall assume all responsibility for its petroleum related activities in Mongolia, including paying damages and compensating for any loss which may be incurred by any organisation or individual because of any violation of petroleum operations procedures.

If a contractor needs land for the purposes of building structures, and establishing industrial and mining sites, it may apply to the governor of the relevant local unit for a certificate for possession or utilisation of land.

The certificate holder of the land is under a duty to use the land efficiently and rationally and to protect the land, to comply with legislation on protection of nature and environment, and to meet the general requirements related to land use, made by any relevant state authority.

Environmental legislation

Pursuant to the Environmental Protection Law of 1995 (the "EPL") the land, its underground resources, forests, water, animals, plants and other natural resources shall be protected by the

Mongolian Government. Citizens, business entities, organisations, foreign citizens and legal persons may use natural resources upon the payment of relevant fees in accordance with any contract, special permit, or licence.

The EPL requires citizens and legal entities who intend to use natural resources for commercial purposes to produce natural resource assessments, quantitative and qualitative assessments and financial valuations of the natural resource in question, and Environmental Impact Assessments.

The Law on Environmental Impact Assessments of 1998 provides that general Environmental Impact Assessments shall be conducted by an inspector in accordance with procedures approved by the Mongolian Ministry for the Environment prior to commencement of any exploration of the licence area. If the inspector concludes that Detailed Environmental Impact Assessments are required for the project to be implemented such assessments must be conducted by an authorised legal entity and approved by the Mongolian Ministry for Environment.

In addition, a contractor must produce an annual environmental protection plan together with an estimated budget for its implementation and an environmental monitoring programme, which must be approved by the body which conducted the general Environmental Impact Assessments. A contractor is obliged to allocate, as a guarantee, a sum of no less than 50 per cent. of the total annual expenditure pursuant to the approved annual environmental protection plan into the account of the local environmental protection unit and report annually on its implementation.

Related legislation

Pursuant to the Law on Water of 2004, the Ministry for Environment and the Professional Institution in charge of the matter on matters related to water shall be in charge of the protection and effective use of water. This Law on Water provides that a citizen or legal entity utilising water for business purposes shall enter into a water usage contract with a local environmental protection officer, which must be approved by the local governor. The water utilisation contract may be for a term of up to twenty years, however such term may be extended for five years provided that the standards and terms contained in all applicable legislation and the contract are met.

Pursuant to the Law on Supervision for Circulation of Explosive Substances and Exploding Devices (“LSCECED”) of 2004 and the Law on Licensing of 2001, a special permit is required for a legal entity to conduct detonating activities. However, the LSCECED allows the Contractor to receive the assistance of a legal entity which holds the necessary special permit (licence), in relation to such detonation work. KHET LLC, the current seismic contractor is contracted in this regard.

Taxation

Pursuant to the Mongolian Law on Economic Entity Income Tax of 2006, (the “Mongolian Economic Entity Income Tax Law”), a taxpayer is liable to pay income tax on its gross taxable income for the tax year. A “taxpayer” is defined to include a “non-resident taxpayer” of Mongolia, which pursuant to article 5.4 of the Mongolian Economic Entity Income Tax Law includes Petromatad Invest Limited, as it is incorporated in the Cayman Islands.

Where the representative office of a foreign economic entity transfers its profit overseas, the transferred income shall be taxed at the rate of 20 per cent. (article 17.2.8 of the Mongolian Economic Entity Income Tax Law).

Pursuant to article 17.2.9 of the Mongolian Economic Entity Income Tax Law, the following earned income of a non-resident taxpayer in Mongolia shall be taxed at the rate of 20 per cent.:

- (a) Dividend income received from an economic entity that is registered and operates in Mongolia;
- (b) Loan interest and payment for issuing a guarantee;
- (c) Royalty income and interest on finance leases, payment for administrative expenses, rent, management expenses, and income from tangible and intangible asset leases; and
- (d) Income from goods sold, work performed, and services provided in the territory of Mongolia.

There are certain exemptions granted in the Mongolian Economic Entity Income Tax Law including the exemption granted to a non-resident taxpayer from corporate income tax on the annual taxable income derived from sales of its portion of the oil under a PSC with the Mongolian Government (Article 1.2 of paragraph 18 of the Mongolian Economic Entity Tax Law) and tax (10 per cent.) on dividends. Also, pursuant to article 18.2 of the Mongolian Economic Entity Income Tax Law, a representative office of a non-resident taxpayer operating under a PSC is exempted from a duty of 20 per cent. withholding tax on the earned income upon its transfer abroad.

Based on the above mentioned, therefore, the following exemptions apply to Petromatad Invest Limited as a non-resident taxpayer:

- (a) Exempted from corporate income tax on the annual taxable income derived from sales of its portion of the oil, under the PSC;
- (b) Exempted from tax (10 per cent.) on dividends; and
- (c) Exempted from 20 per cent. withholding tax when transferring overseas from Mongolia the tax exempted income from sales of its portion of the oil under the PSC.

Pursuant to the Customs Tariff Law of 1996, customs duties are imposed on goods crossing the customs frontier. However, there are certain customs tax exemptions, which are available to Petromatad Invest Limited, for costs incurred in respect of the following:

- (a) Equipment, materials, raw materials, spare parts, gasoline and diesel fuel, food and personal use items of employees imported for the purpose of oil exploration, extraction, and use under a PSC;
- (b) Re-exporting equipment and machinery that had been imported into Mongolia for the purpose of being used in respect of oil activities under the PSC; and
- (c) Exporting of the oil share that belongs to the contractor.

Pursuant to the Mongolian Law on Value-Added Tax of 2006, (the “Mongolian VAT Law”), a new VAT rate has been introduced, comprising 10 per cent. of the taxable amount of goods imported, produced or sold, work performed, or services provided. There are certain exceptions. Equipment, materials, raw materials, spare parts, gasoline and diesel fuel imported for the purpose of oil exploration and extraction under a PSC are exempt.

Pursuant to article 7.2 of the Mongolian VAT Law, if a foreign legal entity, not residing in the territory of Mongolia, such as Petromatad Invest Limited, performs a job and provides services within the territory of Mongolia for more than 10,000,000 Tugriks, it shall be subject to VAT.

PART V
FINANCIAL INFORMATION RELATING TO THE GROUP

SECTION A
ACCOUNTANT'S REPORT ON PETRO MATAD LIMITED

The Directors
Petro Matad Limited
Victory House
Douglas
Isle of Man IM1 1EQ



and

The Directors
HansonWesthouse Limited
One Angel Court
London EC2R 7HJ

25 April 2008

Dear Sirs

Financial information on Petro Matad Limited (“Petro Matad” or the “Company”)

We report on the financial information of Petro Matad. This financial information has been prepared for inclusion in the Admission Document dated 25 April 2008 of the Company on the basis of the accounting policies set out in paragraph 1 to the financial information set out in Section B of this Part V. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with paragraph (a) of Schedule Two of the AIM Rules and for no other purpose.

Petro Matad was incorporated as Petro Matad Limited on 30 August 2007 and has not yet prepared any statutory financial statements.

Responsibility

The Directors of Petro Matad are responsible for preparing the financial information on the basis of preparation set out in paragraph 1 to the financial information set out in Section B.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Standards of Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 25 April 2008, a true and fair view of the state of affairs of Petro Matad as at 30 August 2007 in accordance with the basis of preparation set out in paragraph 1.

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PKF (UK) LLP

SECTION B

FINANCIAL INFORMATION ON PETRO MATAD LIMITED

1. Accounting Policies

Basis of Accounting

The financial information has been prepared under the historical cost convention and in accordance with applicable international financial reporting standards.

2. Balance Sheet

	<i>Note</i>	<i>30 August 2007</i>
Current Assets		\$
Debtors		<u>0.04</u>
Capital and Reserves		
Called up share capital	(i)	<u>0.04</u>

3. Notes to the Financial Information

(i) *Share capital*

Allotted, issued and fully paid

4 ordinary shares of US\$0.01 each

\$

0.04

(ii) *Post balance sheet events*

On 12 November 2007, 23,340,000 ordinary shares were issued pursuant to the completion of agreements with the shareholders of Central Asian Petroleum Corporation Limited (“Capcorp”) providing for the acquisition of the whole of the share capital of that company held by them, in consideration for the issue of such ordinary shares.

On 12 November 2007, 23,340,000 ordinary shares were issued pursuant to the completion of agreements with Petrovis LLC and Dr. Janchiv Oyungerel to acquire an aggregate of 25,000 shares in Petromatad Invest Limited, being the balance of the shares not held by Capcorp, in consideration for the issue of such ordinary shares.

The vendors of the Capcorp and the Petromatad Invest Limited shares agreed to provide a written undertaking to vote their new ordinary shares in the Company in favour of the allotment and issue of 20,000,000 new ordinary shares to Citadel Equity Fund Ltd and its affiliates (“Citadel”) in exchange for its shares in Capcorp, which issue shall be made on Admission.

On 17 March 2008, the Company issued 18,444,356 units (“Units”) (comprising one ordinary share and one warrant to subscribe for one ordinary share at an exercise price of US\$1.00) pursuant to the private placing (the “Private Placing”).

On 24 April 2008, the Company issued 1,555,644 units pursuant to the Private Placing.

The Company entered into an agreement with Citadel to acquire the shares in Capcorp to be allotted to Citadel in consideration for the issue of 20,000,000 ordinary shares. The agreement is conditional upon the conversion of the convertible loan note held by Citadel in Capcorp. As at the date of Admission and conditional on Admission, an aggregate of 20,000,000 ordinary shares will be issued to Citadel in accordance with this agreement.

On 24 April 2008, it was agreed that 10,000,000 Ordinary Shares would be allotted and issued to Petrovis conditional on Admission for non-cash consideration.

On 25 April 2008, the Company entered into an option agreement with Hanson Westhouse granting Hanson Westhouse an option to acquire, at US\$0.75 per ordinary share, 966,800 ordinary shares.

SECTION C

ACCOUNTANT'S REPORT ON CENTRAL ASIAN PETROLEUM CORPORATION LIMITED

The Directors
Petro Matad Limited
Victory House
Douglas
Isle of Man IM1 1EQ



and

The Directors
Hanson Westhouse Limited
One Angel Court
London EC2R 7HJ

25 April 2008

Dear Sirs

Financial information on Central Asian Petroleum Corporation Limited (“Capcorp” or the “Company”)

We report on the financial information of Capcorp. This financial information has been prepared for inclusion in the Admission Document dated 25 April 2008 of Petro Matad Limited (“Petro Matad”) on the basis of the accounting policies set out in paragraph 1 of the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with paragraph (a) of Schedule Two of the AIM Rules and for no other purpose.

Responsibility

The Directors of Petro Matad are responsible for preparing the financial information on the basis of preparation set out in paragraph 1 to the financial information set out in Section D. It is our responsibility to form an opinion on the financial information and to report our opinion to you.

The financial information contains unaudited comparatives for the period ended 30 June 2006. These comparatives are unaudited and are included solely for the purposes of paragraph (a) of Schedule Two of the AIM Rules and we express no opinion upon them.

Basis of opinion

We conducted our work in accordance with the Standards of Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 25 April 2008, a true and fair view of the state of affairs of Capcorp as at 31 December 2006 and 30 June 2007 and its losses and cash flows for the periods then ended in accordance with the basis of preparation set out in paragraph 1.

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PKF (UK) LLP

SECTION D

FINANCIAL INFORMATION ON CENTRAL ASIAN PETROLEUM CORPORATION LIMITED (CAPCORP) INCLUDING AUDITED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. Accounting Policies

Basis of Accounting

The financial information covers the consolidated entity of Capcorp and its controlled entities.

Capcorp is a company incorporated in the Cayman Islands which, during the period covered by the financial information, had two wholly owned subsidiaries, Capcorp Mongolia LLC, situated in Mongolia and Central Asian Petroleum Corporation (HK) Limited, which is situated in Hong Kong and was disposed of by Capcorp on 29 August 2007 and renamed Karmaliz Limited.

Basis of Preparation

The financial information has been prepared in accordance with the requirements of Australian equivalents to International Financial Reporting Standards (“IFRS”).

Capcorp was incorporated on 26 July 2005. The financial information covers the period from incorporation to 31 December 2006, the six months ended 30 June 2007 and, for comparative purposes, unaudited income and cash flow statements for the six months ended 30 June 2006.

The financial information has been prepared on a historical cost basis, except where stated.

Statement of Compliance

This financial information has been prepared in accordance with the requirements of all applicable Australian Accounting Standards (“AASB’s”) and Urgent Issues Group Interpretations (“UIG’s”) and other authoritative pronouncements of the AASB that have a material effect. International Financial Reporting Standards (IFRS’s) form the basis of the AASB’s adopted by the AASB. No other applicable Accounting Standards or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

Certain Australian Accounting Standards and UIG interpretations have been recently been issued or amended but are not yet effective. These standards have not been adopted by Capcorp for the period ended 30 June 2007 and would not have a material effect on its current accounting policies.

Basis of Consolidation

The consolidated financial information comprises the financial statements of Capcorp and its subsidiaries (“Capcorp Group”).

Subsidiaries are entities controlled by the Capcorp Group. Control exists when the Capcorp Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial information of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial information of subsidiaries is prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Foreign Currency Translation

Both the functional and presentation currency of the Capcorp Group is United States Dollars.

The assets and liabilities of foreign operations are translated to United States Dollars at exchange rates at the reporting date. The income and expense of foreign operations are translated to United States Dollars at exchange rates at the approximate date of the transactions. Foreign currency differences are recognised directly in a foreign currency translation reserve (“FCTR”). When the foreign operation is disposed of, the relevant amount in the FCTR is transferred to the income statement. For the period ended 30 June 2007, the foreign currency translation movements were immaterial and charged to the income statement.

Property, Plant and Equipment

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset.

Exploration and evaluation Expenditure

Exploration and evaluation expenditure incurred by the Capcorp Group is accumulated separately for each area of interest. As at 30 June 2007, the Capcorp Group’s policy is to expense all exploration and evaluation costs.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Borrowing Costs

Borrowing costs include interest on convertible notes and are expensed as incurred.

Investment in associate

The Capcorp Group’s investment in its associate is accounted for under the equity method of accounting in the consolidated financial statements. This is an entity in which the Capcorp Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial information of the associate is used by the Capcorp Group to apply the equity method. The reporting dates of the associate and the Capcorp Group are identical and both use consistent accounting policies.

The investment in the associate is carried in the consolidated balance at cost plus post-acquisition changes in the Capcorp Group’s share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Capcorp Group’s share of the results of operations of the associate.

Where there has been a change recognised directly in the associate’s equity, the Capcorp Group recognises its share of any changes and discloses this, when applicable in the consolidated statement of changes in equity.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

The component parts of compound financial instruments are classified as financial liabilities and equity in accordance with the substance of the contractual arrangement. The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity.

Share-based payment transactions

The Group provides to certain key management personnel share-based payments, whereby directors render services in exchange for rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by use of the Black Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which they vest.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Financial Report and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) that affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Significant accounting judgments, estimates and assumptions

In applying Capcorp's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on Capcorp. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions.

2. Consolidated Income Statement

	<i>Notes</i>	<i>6 months ended 30 June 2007 \$000</i>	<i>Period from incorporation on 26 July 2005 to 31 December 2006 \$000</i>	<i>6 months ended 30 June 2006 Unaudited \$000</i>
Continuing operations				
Revenue				
Finance revenue	(i)	7	–	–
		<u>7</u>	<u>–</u>	<u>–</u>
Expenses				
Exploration and evaluation expenditure		(379)	(48)	(336)
Administrative expenses		(800)	(714)	–
Finance costs		(360)	(300)	–
Share of loss of an associate		<u>(366)</u>	<u>–</u>	<u>–</u>
Loss before income tax		(1,898)	(1,062)	(336)
Income tax expense	(ii)	<u>–</u>	<u>(1)</u>	<u>–</u>
Loss after tax from continuing operations		(1,898)	(1,063)	(336)
Loss attributable to members of the company		<u>(1,898)</u>	<u>(1,063)</u>	<u>(336)</u>
Loss per share (cents per share)				
– basic loss per share	(xvi)	(8.13)	(14.29)	
– diluted loss per share		(8.13)	(14.29)	

3. Consolidated Balance Sheets

	<i>Notes</i>	<i>30 June 2007 \$000</i>	<i>31 December 2006 \$000</i>
ASSETS			
Current assets			
Cash and cash equivalents	(iii)	1,343	5,917
Trade and other receivables	(iv)	180	421
Other current assets	(v)	21	3
Total current assets		<u>1,544</u>	<u>6,341</u>
Non-current assets			
Property, plant and equipment	(vi)	49	20
Investment in associates	(vii)	3,395	–
Total non-current assets		<u>3,444</u>	<u>20</u>
TOTAL ASSETS		<u>4,988</u>	<u>6,361</u>
LIABILITIES			
Current liabilities			
Trade and other payables	(viii)	224	59
Tax liabilities		<u>1</u>	<u>1</u>
Total current liabilities		<u>225</u>	<u>60</u>
Non-current liabilities			
Interest bearing loans and borrowings	(ix)	<u>5,662</u>	<u>5,066</u>
Total non-current liabilities		<u>5,662</u>	<u>5,066</u>
TOTAL LIABILITIES		<u>5,887</u>	<u>5,126</u>
NET (LIABILITIES)/ASSETS		<u>(899)</u>	<u>1,235</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	(x)	1,064	1,064
Reserves	(xi)	998	1,234
Retained losses		<u>(2,961)</u>	<u>(1,063)</u>
TOTAL EQUITY		<u>(899)</u>	<u>1,235</u>

4. Consolidated Cash Flow Statement

	<i>6 months ended 30 June 2007</i>	<i>Period from incorporation on 26 July 2005 to 31 December 2006</i>	<i>6 months ended 30 June 2006 Unaudited</i>
	\$000	\$000	\$000
Cash flows from operating activities			
Payments to suppliers and employees	(1,009)	(766)	(8)
Interest received	7	–	–
Net cash flows from/(used in) operating activities	(iii) (1,002)	(766)	(8)
Cash flows from investing activities			
Purchase of property, plant and equipment	(32)	(20)	–
Purchase of other financial assets	(20)	–	–
Payment for investment in associate	(3,700)	–	–
Net cash flows used in investing activities	(3,752)	(20)	–
Cash flows from financing activities			
Proceeds from issue of shares	180	703	384
Proceeds from convertible notes	–	6,000	–
Net cash flows from financing activities	180	6,703	384
Net (decrease)/increase in cash and cash equivalents	(4,574)	5,917	376
Cash and cash equivalents at beginning of period	5,917	–	–
Cash and cash equivalents at end of period	(iii) 1,343	5,917	376

5. Statement of Consolidated Changes in Equity

	<i>Issued Capital \$000</i>	<i>Option Premium on Convertible Notes \$000</i>	<i>Retained Earnings \$000</i>	<i>Total \$000</i>
At 25 July 2005	–	–	–	–
Loss for the period	–	–	(1,063)	(1,063)
Issue of convertible notes	–	1,431	–	1,431
Unwinding of convertible note	–	(197)	–	(197)
Issue of share capital	1,064	–	–	1,064
Balance as at 31 December 2006	1,064	1,234	(1,063)	1,235
Loss for the period	–	–	(1,898)	(1,898)
Unwinding of convertible note	–	(236)	–	(236)
At 30 June 2007	1,064	998	(2,961)	(899)

6. Notes to the Financial Information

The Capcorp Group operates in one industry, and one geographical location, Mongolia.

(i) Revenue and Expenses

	<i>6 months ended 30 June 2007</i>	<i>Period from incorporation ended on 26 July to 31 December 2006</i>
	<i>\$000</i>	<i>\$000</i>
Finance costs		
Interest on convertible notes	360	300
Depreciation	4	1
Wages & salaries	27	20
Exploration and evaluation expenditure		
Exploration (Capcorp Ltd – Cayman)	379	48

(ii) Income tax

	<i>6 months ended 30 June 2007</i>	<i>Period from incorporation ended on 26 July to 31 December 2006</i>
	<i>\$000</i>	<i>\$000</i>
(a) Income tax recognised in the income statement		
<i>Tax expense/(income) comprises:</i>		
Current tax expense/(income)	–	1
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	–	–
Total tax expense/(income)	–	1
The <i>prima facie</i> income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Net Loss for the period	(1,898)	(1,063)
Income tax expense calculated at 20%	380	213
(Profit)/losses incurred which are not subject to income tax	(283)	(202)
Tax losses not brought at account	(97)	(10)
Timing differences not brought to account	–	–
	–	1

The tax rate used in the above reconciliation is the corporate tax rate of 20 per cent. payable by Mongolian corporate entities on taxable profits under Mongolian tax law.

(b) Deferred tax balances

Unrecognised deferred tax balances:

The following deferred tax balances have not been brought to account as assets:

Tax losses – revenue	97	10
	97	10

Deferred tax balances relating to tax losses and timing differences have not been brought to account as it is not probable that they will reverse in the foreseeable future. Based on Mongolian Tax Laws, losses carried forward can be carried forward for two subsequent years, with the annual amount used not exceeding 50 per cent. of taxable income in the tax year.

(iii) *Cash And Cash Equivalents*

	<i>6 months ended 30 June 2007 \$000</i>	<i>Period from incorporation on 26 July to 31 December 2006 \$000</i>
Cash at bank and in hand	339	5,916
Short term deposits	1,004	1
Total cash and cash equivalents	<u>1,343</u>	<u>5,917</u>

Cash at bank and in hand earns interest at floating rates based on daily bank rates.

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is \$1,342,619 (2006: \$5,917,317).

Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:

	<i>6 months ended 30 June 2007 \$000</i>	<i>Period from incorporation on 26 July to 31 December 2006 \$000</i>
Cash at bank and in hand	339	5,916
Short-term deposits	1,004	1
	<u>1,343</u>	<u>5,917</u>

	<i>6 months ended 30 June 2007 \$000</i>	<i>Period from incorporation on 26 July to 31 December 2006 \$000</i>
Reconciliation from the net profit after tax to the net cash flows from operations		
Net Loss	(1,898)	(1,063)
<i>Adjustments for:</i>		
Depreciation	4	1
Interest expense on convertible notes	360	300
Share of associates' net losses	366	-
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	2	(64)
(Decrease)/increase in tax provision	-	1
Increase in trade and other payables	164	59
Net cash used in operating activities	<u>(1,002)</u>	<u>(766)</u>

(iv) *Trade And Other Receivables (Current)*

	<i>6 months ended 30 June 2007</i>	<i>Period from incorporation on 26 July to 31 December 2006</i>
	<i>\$000</i>	<i>\$000</i>
Loan to external party	–	61
Related party receivables:		
– loan to related parties	180	360
	<u>180</u>	<u>421</u>

For terms and conditions of related party receivables see note (xvii).

(v) *Other Current Assets*

	<i>2007</i>	<i>2006</i>
	<i>\$000</i>	<i>\$000</i>
Other current assets	20	–
Prepayments	1	3
	<u>21</u>	<u>3</u>

(vi) *Property, Plant and Equipment*

	<i>Plant and Equipment</i>	<i>Total</i>
	<i>\$000</i>	<i>\$000</i>
Period ended 31 December 2006		
At 25 July 2005		
Additions	21	21
Depreciation charge for the period	(1)	(1)
	<u>20</u>	<u>20</u>
At 31 December 2006, net of accumulated depreciation		
Period ended 30 June 2007		
At 1 January 2007, net of accumulated depreciation	20	20
Additions	32	32
Depreciation charge for the period	(3)	(3)
	<u>49</u>	<u>49</u>
At 30 June 2007, net of accumulated depreciation		
At 31 December 2006		
Cost or fair value	21	21
Accumulated depreciation and impairment	(1)	(1)
Net carrying amount	<u>20</u>	<u>20</u>
At 30 June 2007		
Cost or fair value	53	53
Accumulated depreciation and impairment	(4)	(4)
Net carrying amount	<u>49</u>	<u>49</u>

(vii) **Investment in Associates**

Capcorp has a 50 per cent. interest in Petromatad Invest Ltd which was acquired in February 2007. Petromatad Invest Ltd is a Cayman Island Company, which has a 100 per cent. interest in Petro Matad LLC, a Mongolian Company which owns the PSC on Block XX in Mongolia, which PSC has subsequently been transferred to Petromatad Invest Limited. The principal activity of the Capcorp Group is oil exploration in Mongolia.

The Capcorp Group's proportion of voting power held in each associate is the same as its ownership interest. The Group investment in the associate is accounted for in accordance with the accounting policy described above.

Movement in carrying amounts

	2007 \$000	2006 \$000
Carrying amount at the beginning of the financial period		
Acquisition of investment in associate	3,000	
Share of loss for the period	(366)	
Loan to associate	761	
Carrying amount at the end of the financial period	<u>3,395</u>	

Summarised financial information

	2007 \$000	2006 \$000
<i>Extract from the associates' balance sheet</i>		
Current assets		
Cash and cash equivalents	<u>3</u>	<u>–</u>
	<u>3</u>	<u>–</u>
Non-current assets		
Property, plant and equipment	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>
Total Assets	3	
Current liabilities		
Other payables	<u>765</u>	<u>–</u>
	765	
Total Liabilities	<u>765</u>	
Net Asset Deficiency	<u>(762)</u>	
Share of associates net asset deficiency – 50%	<u>(381)</u>	
<i>Extract from the associates' income statement</i>		
Expenses	<u>732</u>	
Net Loss	(732)	
Share of associates net loss – 50%	<u>(366)</u>	

(viii) *Trade And Other Payables*

	2007 \$000	2006 \$000
Trade payables	29	22
Other payables	195	37
	<u>224</u>	<u>59</u>

Trade payables are non-interest bearing and are normally settled on 60-day terms. Other payables are non-interest bearing and have an average term of 6 months.

(ix) *Interest Bearing Loans And Borrowings*

	2007 \$000	2006 \$000
<i>Unsecured</i>		
Convertible notes	<u>5,662</u>	<u>5,066</u>

Capcorp has issued \$6,000,000 convertible, unsecured loan notes due on 2nd August 2009. Interest accrues at a rate of 12 per cent. per annum and is capitalised to the principal. The notes are convertible into ordinary shares at a conversion price of 33.6 cents on the first anniversary date, 37.6 cents on the second anniversary date and 40.8 cents on the maturity date.

The notes are convertible in ordinary shares of the parent entity at any time at the option of the holder and automatically if the company completes an initial public offering. The maximum number of ordinary shares to be issued on conversion is 20,000,000 ordinary shares.

The convertible notes are presented in the balance sheet as follows:

	2007 \$000	2006 \$000
<i>Face value of convertible notes issued</i>		
Equity portion – value of conversion right	<u>(998)</u>	<u>(1,234)</u>
	5,002	4,766
Accredited Interest Capitalised	<u>660</u>	<u>300</u>
Total convertible note – Liability Portion	<u>5,662</u>	<u>5,066</u>

(x) *Issued Capital*

	<i>Shares Issued No.</i>	<i>Nominal Premium \$000 \$000</i>		<i>Issued Capital \$000</i>
At 31 December 2006 and 30 June 2007				
Ordinary Share Capital (\$0.01 Shares) at par, paid up	23,340,000	233	–	233
Share Premium	23,340,000	–	831	831
Total		<u>233</u>	<u>831</u>	<u>1,064</u>

Movement in ordinary shares:

	<i>No. of Shares</i>	<i>Issue Price</i>	<i>\$000</i>
At 25 July 2005			
Share issue	7,440,000	0.10	744
Issue of shares to directors for services performed	15,900,000	0.0201	320
At 31 December 2006 and 30 June 2007	<u>23,340,000</u>		<u>1,064</u>

On 23 May 2006, two directors agreed to settle outstanding consultancy fees totalling \$320,000 by way of the issue of 15.9 million shares at \$0.0201 each.

(xi) *Reserves*

	<i>2007 \$000</i>	<i>2006 \$000</i>
Option premium on convertible notes	998	1,234
Total reserves	<u>998</u>	<u>1,234</u>
<i>Option premium on convertible notes</i>		
Opening balance at the beginning of the financial period	1,234	–
Issue of convertible notes		1,431
Unwinding of convertible notes	(236)	(197)
Closing balance at the end of the financial period	<u>998</u>	<u>1,234</u>

The option premium on convertible notes represents the equity component (conversion rights) of the \$6,000,000, 12 per cent. convertible notes issued on 2 August 2006. Details are shown in Note (ix).

(xi) *Financial Risk Management Objectives and Policies*

The Capcorp Group's principal financial instruments comprise cash and short-term deposits and convertible notes on issue.

The main purpose of these financial instruments is to raise finance for the Capcorp Group's operations.

The Capcorp Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Capcorp Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Capcorp Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Capcorp Group's exposure to market risk for changes in interest rates relates primarily to the Capcorp Group's long-term debt obligations.

The Capcorp Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The Capcorp Group's policy is to keep between 25 per cent. and 55 per cent. of its borrowings at fixed rates of interest.

Foreign currency risk

As a result of significant investment operations overseas, the Capcorp Group's balance sheet can be affected significantly by movements in various exchange rates.

The Capcorp Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's measurement currency.

The Capcorp Group does not use forward currency contracts to eliminate the currency exposures on any individual transactions.

Commodity price risk

The Capcorp Group's exposure to price risk is minimal.

Credit risk

The Capcorp Group trades only with recognised, creditworthy third parties.

In addition, receivable balances are monitored on an ongoing basis with the result that the Capcorp Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Capcorp Group, which comprise cash and cash equivalents, available-for-sale financial assets, the Capcorp Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Capcorp Group.

Liquidity risk

The Capcorp Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and convertible notes.

(xiii) *Financial Instruments*

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

30 June 2007	<i>Floating interest rate \$000</i>	<i>Fixed interest rate maturing in:</i>			<i>Total \$000</i>
		<i>1 Year or less \$000</i>	<i>Over 1 to 5 years \$000</i>	<i>Non-interest bearing \$000</i>	
Financial assets:					
Cash and cash equivalents	339	1,004	–	–	1,343
Trade and other receivables	–	–	–	180	180
	<u>339</u>	<u>1,004</u>		<u>180</u>	<u>1,523</u>
Weighted average interest rate	7.75%	1.89%			
Financial liabilities:					
Trade and other payables	–	–	–	223	223
Convertible notes	–	–	5,662	–	5,662
	<u>–</u>	<u>–</u>	<u>5,662</u>	<u>223</u>	<u>5,885</u>
Weighted average interest rate			12%		
31 December 2006	<i>Floating interest rate</i>	<i>1 Year or less</i>	<i>Over 1 to 5 years</i>	<i>Non-interest bearing</i>	<i>Total</i>
Financial assets:					
Cash and cash equivalents	5,916	1	–	–	5,917
Trade and other receivables	–	–	–	421	421
	<u>5,916</u>	<u>1</u>		<u>421</u>	<u>6,339</u>
Weighted average interest rate	7.00%	1.97%			
Financial liabilities:					
Trade and other payables	–	–	–	59	59
Convertible notes	–	–	5,066	–	5,066
	<u>–</u>	<u>–</u>	<u>5,066</u>	<u>59</u>	<u>5,125</u>
Weighted average interest rate			12%		

Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the consolidated entity is equal to their carrying value.

(xiv) *Commitments*

Operating Leases

Operating leases relate to premises used by the Capcorp Group in its operations, generally with terms between 2 and 5 years. Some of the operating leases contain options to extend for further periods and an adjustment to bring the lease payments into line with market rates prevailing at that time. The leases do not contain an option to purchase the leased property.

	<i>2007 \$000</i>
Non-cancellable operating leases (includes lease on premises) with a term of more than one year	
Not longer than 1 year	30
Longer than 1 year but not longer than 5 years	17
	<u>47</u>

Commitments for Expenditure

Capcorp has minimum spend obligations, under the terms of its PSC on Block XX with the Minerals Resources and Petroleum Authority of Mongolia (“MRPAM”). The amounts set out here do not include general and administrative expenses.

<i>Exploration</i>			
<i>Phase</i>	<i>Years</i>	<i>Exploration Operations</i>	<i>Cost \$000</i>
	2007	Geological, geophysical and geochemistry study	
		seismic/gravity, magnetic & spectrometry survey	740
2	2008	Geological and geophysical study and 2D Seismic Survey	615
	2009	3D Seismic Survey and drilling 1 well	1,200
3	2010	3D Seismic Survey and drilling 1 well	1,275
		TOTAL	<u><u>3,830</u></u>

(xv) *Auditors’ Remuneration*

	<i>2007 \$000</i>
Amounts received or due and receivable by PKF Australia for:	
– an audit or review of the financial report of the entity and any other entity in the consolidated entity	21
Amounts received or due and receivable by auditors other than PKF Australia for:	
– an audit or review of the financial report of parent entity	29
	<u><u>50</u></u>

(xvi) *Earnings Per Share*

Basic earnings per share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary shareholders (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and dilutive convertible non-cumulative redeemable preference shares).

	<i>2007</i>	<i>2006</i>
Basic earnings per share		
Total basic earnings per share (note a)	<u>(8.13)</u>	<u>(14.29)</u>
Diluted earnings per share		
Total diluted earnings per share (note b)	<u>(8.13)</u>	<u>(14.29)</u>

(a) *Basic earnings per share*

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Net loss attributable to ordinary shareholders (\$000)	<u>(1,898)</u>	<u>(1,063)</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>23,340,000</u>	<u>7,440,000</u>

(b) *Diluted earnings per share*

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

Net loss attributable to ordinary shareholders (\$000)	(1,898)	(1,063)
Weighted average number of ordinary shares for the purposes of basic earnings per share	23,340,000	7,440,000

The convertible notes could potentially dilute basic earnings per share in the future, however they have been excluded from the calculation of diluted earnings per share because they are anti dilutive for either of the periods presented.

Save as disclosed in paragraph (xix), *Events After the Balance Sheet Date*, there have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of this financial information.

(xvii) ***Related Party Disclosures***

(a) *Subsidiaries*

The consolidated financial statements include the financial statements of Capcorp and the subsidiaries listed in the following table:

	<i>Country of incorporation</i>	<i>% Equity interest</i>		<i>Investment</i>	
		<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Capcorp Mongolia LLC Central Asian Petroleum Corporation (HK) Limited	Mongolia	100%	100%	10,000	10,000
	Hong Kong	100%	100%	—	—
				<u>10,000</u>	<u>10,000</u>

Capcorp Mongolia LLC was acquired on the 14 August 2006, on incorporation of the company. Capcorp holds 100,000 ordinary shares at \$0.10 each.

Central Asian Petroleum Corporation (HK) Limited was acquired on the 2 August 2006, on incorporation of the Company. It was disposed of on 29 August 2007, further details of which are set out in note (xix).

(b) *Key management personnel*

The names of persons who were directors of Capcorp at any time during the financial period and during the previous financial period are as follows:

- Gordon Toll
- Clyde Evans
- Gregory Meldrum
- Douglas McGay

Information on remuneration of directors is disclosed in Note (xviii).

(xviii) **Key Management Personnel**

(a) *Compensation of key management personnel*

	2007 \$000	2006 \$000
Key management personnel comprise directors and other persons having authority and responsibility for planning, directing and controlling the activities of the Capcorp and its controlled entities: Summary: Short-term employee benefits	228	529
Post-employment benefits	—	—
	<u>228</u>	<u>529</u>

On 23 May 2006, two directors agreed to settle outstanding consultancy fees totalling \$320,000 by way of the issue of 15.9 million shares at \$0.0201 each.

No options were granted to the directors during the period ended 30 June 2007 (31 December 2006: nil).

Directors are not entitled to any retirement benefits.

(b) *Shareholdings of key management personnel and their related parties*

	<i>Opening Balance 1 January 2007</i>	<i>Bought during the period</i>	<i>Transferred during the period</i>	<i>Closing Balance 30 June 2007</i>
<i>Period ended 30 June 2007</i>				
Gordon Toll	5,602,500	—	(500,000)	5,102,500
Clyde Evans	4,250,000	—	—	4,250,000
Gregory Meldrum	3,675,000	—	—	3,675,000
Douglas McGay	7,550,000	—	(1,300,000)	6,250,000
	<u>21,077,500</u>	<u>—</u>	<u>(1,800,000)</u>	<u>19,277,500</u>

On 17 September 2007 a related party of Doug McGay transferred 650,000 shares to a related party.

	<i>Opening Balance 25 July 2005</i>	<i>Bought during the period</i>	<i>Transferred during the 31 December period</i>	<i>Closing Balance 31 December 2006</i>
<i>Period ended 31 December 2006</i>				
Gordon Toll	—	5,602,500	—	5,602,500
Clyde Evans	—	4,250,000	—	4,250,000
Gregory Meldrum	—	3,675,000	—	3,675,000
Douglas McGay	—	7,550,000	—	7,550,000
	<u>—</u>	<u>21,077,500</u>	<u>—</u>	<u>21,077,500</u>

(c) *Other transactions with key management personnel and their related parties*

Included as a current receivable is an amount of \$180,250 (2006: \$360,250) owing from a company of which one of the directors, is the sole beneficiary. The amount is interest free and due for repayment on 31 December 2007, having been extended from its original repayment date of 30 June 2007.

Subsequent to 30 June 2007 the outstanding balance was settled through the raising of an invoice for services in relation to fees connected with assisting the Company with the raising of finance.

Included with other payables at 30 June 2007 is \$70,000 due to a company associated with one of the directors as reimbursement of expenditure incurred on behalf of the Group.

On 29 August 2007, Central Asian Petroleum Corporation (HK) Limited was disposed of by Capcorp to two of its directors for a consideration of HK\$100.

(xix) ***Events After The Balance Sheet Date***

Details of the Group reorganisation which took place subsequent to the balance sheet date are set out in the financial information on Petro Matad Limited in Part V Section A of this document.

On 29 August 2007, Central Asian Petroleum Corporation (HK) Limited was disposed of by Capcorp to two of its directors for a consideration of HK\$100.

On Admission, Citadel will convert the convertible loan notes into 20,000,000 ordinary shares of Petro Matad Limited of \$0.01 per ordinary share.

SECTION E

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

Set out below is a pro forma statement of net assets of the Group, which has been prepared on the basis of the notes set out underneath the table. The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, will not represent the actual financial position of the Group.

	<i>The Company (i) US\$'000</i>	<i>Capcorp (ii) US\$'000</i>	<i>(iii) US\$'000</i>	<i>Adjustments (iv) US\$'000</i>	<i>(v) US\$'000</i>	<i>Pro forma balances of the Group US\$'000</i>
ASSETS						
Current assets						
Cash and cash equivalents	–	1,343	10,000	–	3	11,346
Trade and other receivables	–	180	–	–	–	180
Other current assets	–	21	–	–	–	21
Total current assets	<u>–</u>	<u>1,544</u>	<u>10,000</u>	<u>–</u>	<u>3</u>	<u>11,547</u>
Non-current assets						
Property, plant and equipment	–	49	–	–	–	49
Investment in associate	–	3,395	–	–	(3,395)	–
Intangible assets	–	–	–	–	12,432	12,432
Total non-current assets	<u>–</u>	<u>3,444</u>	<u>–</u>	<u>–</u>	<u>9,037</u>	<u>12,481</u>
TOTAL ASSETS	<u>–</u>	<u>4,988</u>	<u>10,000</u>	<u>–</u>	<u>9,040</u>	<u>24,028</u>
LIABILITIES						
Current liabilities						
Trade and other payables	–	224	–	–	765	989
Tax liabilities	–	1	–	–	–	1
Total current liabilities	<u>–</u>	<u>225</u>	<u>–</u>	<u>–</u>	<u>765</u>	<u>990</u>
Non-current liabilities						
Interest bearing loans and borrowings	–	5,662	–	(5,662)	–	–
Total non-current liabilities	<u>–</u>	<u>5,662</u>	<u>–</u>	<u>(5,662)</u>	<u>–</u>	<u>–</u>
TOTAL LIABILITIES	<u>–</u>	<u>5,887</u>	<u>–</u>	<u>(5,662)</u>	<u>765</u>	<u>990</u>
NET ASSETS	<u>–</u>	<u>(899)</u>	<u>10,000</u>	<u>5,662</u>	<u>8,275</u>	<u>23,038</u>

Notes:

- (i) The net assets of the Company have been extracted without adjustment from the financial information on the Company at 30 August 2007 as set out in Section B of this Part V of this document.
- (ii) The net assets of Capcorp have been extracted without adjustment from the financial information on Capcorp at 30 June 2007 as set out in Section D of this Part V of this document. With the exception of the adjustments referred to below, no account has been taken of the activities of the Group subsequent to 30 June 2007.

The adjustments comprise:

- (iii) The Private Placing by the Company in March 2008 and April 2008 of 20,000,000 Units at \$0.50 per Unit. Each Unit comprised one Ordinary Share and one Warrant to subscribe for one further Ordinary Share at \$1.00 until 30 September 2008.
- (iv) Capitalisation of a loan note of \$5,662,000.
- (v) Acquisition of the balance of Petromatad Invest Limited for a consideration comprising the issue of 23,340,000 Ordinary Shares. For the purposes of the pro forma the fair value of the consideration has been estimated at \$0.50 per share totalling \$11,670,000. The net assets of Petromatad Invest Limited at 30 June 2007 have been extracted from the financial information on Capcorp as set out in Section D of this Part V of the Admission Document. The intangible asset arising on acquisition is made up of the total of the consideration plus the net liabilities of Petromatad Invest Limited of US\$762,000.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

The Directors, each of whose names appears on page 4 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

2. The Company

2.1 The Company was incorporated in the Isle of Man under the Companies Act on 30 August 2007 with company number 1483V under the name Petro Matad Limited.

2.2 The principal legislation under which the Company was formed and now operates and under which the Ordinary Shares were created is the Companies Act and regulations made thereunder. The Company is not subject to most of the provisions of the Isle of Man Companies Acts 1931 to 2004. The Companies Act 2006 provides a more flexible company law regime and, accordingly, some of the restrictions and formalities (including, for example, the capital maintenance provisions) applicable under the Companies Acts 1931 to 2004 do not apply to the Company.

2.3 The address of the registered office of the Company is 6th Floor, Victory House, Prospect Hill, Douglas, Isle of Man IM1 1EQ. The telephone number is + 44 (0)1624 627335. The principal place of business of the Company is Suite 407, NIC Building Amar Street -8, Sukhbaatar district, Ulaanbaatar 210646, Mongolia. The telephone number of the Company's principal place of business is +976 11 331099. The registered agent of the Company is HCW Fiduciaire Limited. The address of the Company's corporate website on which the information required by Rule 26 of the AIM Rules can be found is www.petromatad.com.

2.4 The liability of the Shareholders is limited.

2.5 The address of the Company's principal activity is that of a holding company. The Company is the ultimate holding company of the Group. The Company has 4 subsidiaries, details of which are set out below:

<i>Name</i>	<i>Date and place of incorporation</i>	<i>Authorised share capital</i>	<i>Issued share capital</i>	<i>Nature of business</i>	<i>Number of shares held by the Company</i>	<i>Percentage of voting rights</i>
Central Asian Petroleum Corporation Limited	26 July 2005, Cayman Islands	US\$1,000,000 divided into 100,000,000 shares of par value US\$0.01 each	43,340,000 ¹ shares of US\$0.01 each	Holding company	43,340,000 ¹	100%
Petromatad Invest Limited	27 July 2006, Cayman Islands	US\$50,000 divided into 50,000 shares of par value US\$1.00 each	50,000 shares of US\$1.00 each	Holding company	25,000 held directly and 25,000 held by Central Asian Petroleum Corporation Limited	100% (50% directly, 50% via Central Asian Petroleum Corporation Limited)
Petro Matad LLC	31 December 2004, Mongolia	12,000,000 Tugriks, divided into 1,200 ordinary shares of 10,000 Tugriks each	1,200 ordinary shares of 10,000 Tugriks each	Operating company	1,200 (via Petromatad Invest Limited)	100% (via Petromatad Invest Limited)

¹ This figure includes 20,000,000 shares to be issued and transferred to the Company following the conversion of the loan notes issued to Citadel, details of which are set out in paragraph 9(i) of this Part VI.

<i>Name</i>	<i>Date & place of incorporation</i>	<i>Authorised share capital</i>	<i>Issued share capital</i>	<i>Nature of business</i>	<i>Number of shares held by the Company</i>	<i>Percentage of voting rights</i>
Capcorp Mongolia LLC	15 August 2006, Mongolia	US\$10,000 divided into 100,000 ordinary shares of US\$0.10 each	100,000 ordinary shares of US\$0.10 each	Operating company	100,000 (via Central Asian Petroleum Corporation Limited)	100% (via Central Asian Petroleum Corporation Limited)

2.6 *Share capital*

- 2.6.1 The Companies Act does not prescribe that a company shall have an authorised share capital. Rather, subject to the Companies Act and the memorandum and articles of association, shares in a company may be issued at such times and to such persons, for such consideration and on such terms as its directors may determine. On incorporation, the Company's memorandum of association and articles of association did not restrict the authority of the directors to allot shares.
- 2.6.2 On incorporation, 4 Ordinary Shares were issued to the subscribers to the memorandum of association.
- 2.6.3 On 12 November 2007, 23,340,000 Ordinary Shares were issued in accordance with the Capcorp Share Exchange Agreements, further details of which are set out in paragraph 9(g) of this Part VI.
- 2.6.4 On 12 November 2007, an aggregate of 23,340,000 Ordinary Shares were allotted and issued in accordance with the Petromatad Invest Limited Share Exchange Agreements, further details of which are set out in paragraph 9(h) of this Part VI.
- 2.6.5 On 17 March 2008 and 24 April 2008, 18,444,356 Units and 1,555,644 Units were issued respectively pursuant to the Private Placing. Because the Articles include the rights of pre-emption described in paragraph 3.2 of this Part VI (the "Pre-emption Right"), in order to proceed with the Private Placing the Company obtained signed waivers from each of the existing Shareholders of the Company wherein each Shareholder waived their Pre-emption Right and consented to the Private Placing.
- 2.6.6 As at the date of Admission and conditional on Admission, an aggregate of 20,000,000 Ordinary Shares will be allotted and issued in accordance with the Citadel Share Exchange Agreement, further details of which are set out in paragraph 9(i) of this Part VI.
- 2.6.7 On 24 April 2008, it was agreed that 10,000,000 Ordinary Shares would be allotted to Petrovis conditional on Admission for non-cash consideration.
- 2.6.8 On 25 April 2008, an option over 966,800 Ordinary Shares was granted to HansonWesthouse on the terms of an option agreement as described in paragraph 9(f) of this Part VI, below.
- 2.6.9 The total number of Ordinary Shares which could be issued either pursuant to the exercise of options or pursuant to the Performance Share Awards (as described in paragraph 8.1 of the Part VI) is 3,985,000 Ordinary Shares.

2.6.10 The following table shows the share capital of the Company (i) as at the date of this document and (ii) as it will be immediately following Admission:

	<i>Issued</i>		<i>Available for allotment</i>	
	<i>(Ordinary Shares of \$0.01 each)</i>		<i>(Ordinary Shares of \$0.01 each)</i>	
	<i>Nominal Value</i>	<i>Number</i>	<i>Nominal Value</i>	<i>Number</i>
As at the date of this document	\$666,800.04	66,680,004	\$993,652	109,033,200
Immediately following Admission	\$966,800.04	96,680,004 ¹	\$693,652	75,983,200

1 This figure includes 20,000,000 shares to be issued and transferred to the Company following the conversion of the loan notes issued to Citadel, details of which are set out in paragraph 9(i) of this Part VI and 10,000,000 shares to be issued to Petrovis, details of which are set out in paragraph 2.6.7 of this Part VI.

2 This figure is calculated by taking the number of Ordinary Shares authorised for allotment by a written resolution passed on 9 November 2007 (being 150,000,000 Ordinary Shares) and subtracting the number of Ordinary Shares issued since that date and also those Ordinary Shares which are committed to be allotted and issued.

2.6.11 There are no Ordinary Shares not representing capital.

2.6.12 Save as referred to in this document, since the date of its incorporation no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue of any such capital.

2.6.13 By written resolution passed on 9 November 2007, the Shareholders of the Company resolved that:

- (a) the Company amend its Memorandum by the deletion of a clause permitting the Memorandum and Articles to be amended by the Directors, to be replaced with a clause that the Memorandum and Articles may only be amended by a Special Resolution;
- (b) the Company adopt the Articles as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association;
- (c) the Directors of the Company be authorised to allot 150,000,000 Ordinary Shares each ranking *pari passu* in all respects with the existing Ordinary Shares currently in issue; and
- (d) the Directors of the Company be granted a general mandate to exercise the power of the Company to repurchase Ordinary Shares in the open market with an aggregate nominal value of not more than 15 per cent. of the aggregate nominal value of the Enlarged Share Capital.

2.6.14 The Companies Act provides that the statutory rights of pre-emption set forth in section 36 of the said Act shall only apply where the memorandum or articles of the company expressly provide that such section shall apply, but not otherwise. Section 36 of the Companies Act also permits such modifications to the statutory rights of pre-emption as may be drafted into a company's memorandum and articles. The memorandum and articles of the Company adopted on incorporation did not provide for rights of pre-emption. The Articles now provide for modified rights of pre-emption, as described in paragraph 3.2 below.

2.6.15 On Admission the Ordinary Shares in issue will rank *pari passu* in all respects.

2.6.16 The Ordinary Shares are in registered form and will be eligible for settlement in CREST. On Admission, the Shares will be registered with ISIN IM00B29WR19.

3. Memorandum and Articles of Association

3.1 Memorandum of Association

The Companies Act provides that the memorandum of association of a company may contain a statement specifying the purposes for which the company is established or the business, activities or transactions which the company is permitted to take or the restrictions (if any) upon such

purposes, business, activities or transactions for which the company is established. Any such statement is without prejudice to the provision of the Companies Act stating that a company has unlimited capacity to carry on or undertake any business or activity and to do or be subject to any act or to enter into any transaction. The Memorandum does not set forth any purposes for which the Company was established or any other restrictions or limitations on the exercise of its rights, powers and privileges.

3.2 *Articles of Association*

The Articles were adopted pursuant to a written resolution of the Company passed on 9 November 2007 and contain (among others) provisions to the following effect:

Issue and allotment of shares

The Directors are authorised to allot such number of Ordinary Shares as shall be prescribed from time to time by Special Resolution. Subject to a sufficient number of shares being authorised for allotment, the Directors shall be authorised to grant options, warrants or other rights over shares. Unless the Company shall otherwise determine by Special Resolution, unissued shares which are authorised for allotment shall be allotted and issued by the Directors generally on such terms as they think fit.

The Directors are under an obligation to offer shares to existing holders of Ordinary Shares before issuing shares for cash that rank or would rank as to voting or distribution rights, or both, equally with or in priority to the Ordinary Shares currently in issue in such a manner that, if the offer was accepted by the existing holders of Ordinary Shares, the existing voting or distribution rights, or both, of those holders would be maintained. Notwithstanding the basic rights of pre-emption, the Directors have the authority (without the need for further sanction) under the Articles to allot, free from pre-emption rights:

- (a) up to 30,000,000 Ordinary Shares for cash in connection with the proposed placing of Ordinary Shares by the Company upon Admission;
- (b) Ordinary Shares with an aggregate nominal value of not more than 15 per cent. of the aggregate nominal value of the issued share capital of the Company immediately following Admission;
- (c) Ordinary Shares that are, or are to be, paid up otherwise than in cash; and
- (d) Ordinary Shares issuable upon the due exercise of options or rights granted under any share option plan and/or the option agreement with HansonWesthouse described in paragraph 9(f) of this Part VI, below (provided that a sufficient number of Ordinary Shares are authorised for allotment),

with such authority, unless renewed, to expire at the end of the 2009 annual general meeting of the Company.

Subject to the provisions of the Companies Act and to any special rights for the time being attached to any existing shares, any shares may be issued which have attached to them such preferred, deferred or other special rights or restrictions as the Company may from time to time determine by resolution or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may determine. Subject to the provisions of the Companies Act and to any special rights for the time being attached to any existing shares, any share may be issued which is, or is at the option of the Company or the holder of such share, liable to be redeemed.

Voting rights

Subject to the provisions of the Companies Act and any rights or restrictions attached to any shares, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall have one vote, and on a poll every member shall have one vote for every Ordinary Share of which he is the holder. In the case of an equality of votes, the chairman of the meeting has a casting vote in addition to any other vote he may have. Unless the Board otherwise

determines, no member shall attend or vote at any general meeting or at any separate meeting of the holders of any class of shares in the Company or upon a poll, either in person or by proxy, in respect of any share held by him or exercise any other right or privilege conferred by membership in relation to any such meeting or poll unless all moneys presently payable by him in respect of that share have been paid.

General meetings

Subject to the provisions of the Companies Act, annual general meetings shall be held at such time and place outside the United Kingdom as the Board may determine but in any event not more than 15 months after the previous annual general meeting.

All general meetings other than annual general meetings, shall be called extraordinary general meetings.

The Board may convene an extraordinary general meeting whenever it thinks fit. At any meeting convened on such requisition (or any meeting requisitioned pursuant to section 67(2) of the Companies Act) no business shall be transacted except that stated by the requisition or proposed by the Board. If there are not within the Isle of Man sufficient members of the Board to convene a general meeting, any Director or any member of the Company may call a general meeting.

An annual general meeting shall be convened by not less than 21 clear days' notice in writing and an extraordinary general meeting shall be convened by not less than 14 clear days' notice in writing.

The Board may resolve to enable persons entitled to attend a general meeting to do so by simultaneous attendance and participation at a satellite meeting place anywhere in the world. The shareholders present in person or by proxy at satellite meeting places shall be counted in the quorum for, and be entitled to vote at, the general meeting in question, and that meeting shall be duly constituted and its proceedings valid if the chairman of the meeting is satisfied that adequate facilities are available throughout the meeting to ensure that shareholders attending at all of the meeting places are able to participate in the business for which the meeting has been convened, hear and see all persons who speak in the principal meeting place and any satellite meeting place, and be heard and seen by all other persons so present in the same way.

The Board may make arrangements for persons entitled to attend a general meeting or an adjourned general meeting to be able to view and hear the proceedings of the general meeting or adjourned general meeting and to speak at the meeting by attending at a venue anywhere in the world not being a satellite meeting place. Those attending at any such venue shall not be regarded as present at the general meeting or adjourned general meeting and shall not be entitled to vote at the meeting at or from that venue. The inability for any reason of any shareholder present in person or by proxy at such a venue to view or hear all or any of the proceedings of the meeting or to speak at the meeting shall not in any way affect the validity of the proceedings of the meeting. The Board may from time to time make any arrangements for controlling the level of attendance at any venue which in its absolute discretion it considers appropriate, and may from time to time change those arrangements. If a shareholder, pursuant to those arrangements, is not entitled to attend in person or by proxy at a particular venue, he shall be entitled to attend in person or by proxy at another venue for which arrangements have been made. The entitlement of any shareholder to be present at any venue in person or by proxy shall be subject to any such arrangement then in force and stated by the notice of meeting or adjourned meeting to apply to the meeting.

If it appears to the chairman that the meeting place specified in the notice convening the meeting is inadequate to accommodate all shareholders entitled and wishing to attend, the meeting shall nevertheless be duly constituted and its proceedings valid provided that the chairman is satisfied that adequate facilities are available to ensure that any shareholder who is unable to be accommodated is nonetheless able to participate in the business for which the meeting has been convened and to hear and see all persons present who speak, whether in the meeting place or elsewhere, and to be heard and seen by all other persons so present in the same manner.

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business but the absence of a quorum shall not preclude the choice or appointment of a chairman which shall not be treated as part of the business of the meeting. Subject to the provisions of the Articles, two persons entitled to attend and to vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member, shall be quorum. If within five minutes (or such longer interval not exceeding 30 minutes as the chairman in his absolute discretion thinks fit) from the time appointed for the holding of a general meeting a quorum is not present, or if during a meeting such a quorum ceases to be present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case, the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other day and at such time and place as the chairman (or, in default, the Board) may determine. If at such adjourned meeting a quorum is not present within 15 minutes from the time appointed for holding the meeting one member present in person or by proxy or (being a corporation) by a duly authorised representative shall be a quorum. If no such quorum is present or, if during the adjourned meeting a quorum ceases to be present, the adjourned meeting shall be dissolved. The Company shall give at least seven clear days' notice of any meeting adjourned through lack of quorum (where such meeting is adjourned to a day being not less than 14 nor more than 28 days thereafter).

At any general meeting, a resolution put to a vote of the meeting shall be decided on a show of hands unless (before or immediately after the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. Subject to the provisions of the Act, a poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) by at least five members present in person or by proxy having the right to vote at the meeting; or
- (c) a member or members present in person or by proxy representing not less than one-tenth of the voting rights of all the members having the right to vote at the meeting; or
- (d) a member or members present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right;

and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself. The chairman may also demand a poll before a resolution is put to the vote on a show of hands.

At general meetings, resolutions shall be put to the vote by the chairman and there shall be no requirement for the resolution to be proposed or seconded by any person.

Dividends

The Company may, by resolution of the Directors, declare and pay a dividend (including an interim dividend) to members at such time and of such amount as the Directors think fit, if the Directors are satisfied, on reasonable grounds, that the Company will, immediately after payment of the dividend, satisfy the Solvency Test. However, no dividend shall exceed the amount recommended by the Board.

The Board shall announce any dividends (including interim dividends) on Ordinary Shares in U.S. dollars (or such other currency as it shall determine from time to time). The Board may at its discretion make provisions to enable a member to receive (or elect to receive) dividends payable in a currency or currencies other than U.S. dollars. Where a member wishes to be paid dividends in another currency, he shall notify the Company in writing of the same at least 30 days before the date on which the Board publicly announces its intention to recommend that specific dividend, which notice shall specify the number of Ordinary Shares held by the member and whether the notice is in respect of a particular dividend or all future dividends. All additional costs and expenses incurred by the Company in connection with the payment of a dividend in a currency other than U.S. dollars shall be borne by the member or members requesting same and the

Company shall be entitled to deduct any such costs and expenses from dividend payments made to any such member or members.

The Company in general meeting may, on the recommendation of the Board, by resolution direct that payment of any dividend declared in accordance with the Companies Act and the Articles may be satisfied wholly or partly by the distribution of assets, and in particular, of fully paid up shares or debentures of any other company or in any one or more of such ways.

The Board may with the prior authority of a resolution of the Company and subject to the Companies Act, the Articles and such conditions as the Board may determine, provided that the Company has sufficient unissued shares to give effect to it, offer to any holders of Ordinary Shares the right to elect to receive Ordinary Shares credited as fully paid, in whole or in part instead of cash in respect of the whole or some part of any dividend declared and specified by the resolution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. All dividends shall be apportioned and paid pro rata according to the amounts paid up or credited as paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as from a particular date, or be entitled to dividends declared after a particular date, it shall rank for or be entitled to dividends accordingly. All dividends shall be paid (subject to any lien of the Company) to those members whose names shall be on the register at the date at which such dividend shall be declared or at such other date as the Company by resolution or the Board may determine, notwithstanding any subsequent transfer or transmission of shares.

Distribution of assets on winding up

If the Company is wound up, the surplus assets remaining after payment of all creditors are to be divided among the members in proportion to the capital which at the commencement of the winding up is paid up on the shares held by them respectively and, if such surplus assets are insufficient to repay the whole of the paid up capital, they are to be distributed so that as nearly as may be the losses are borne by the members in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively, subject to the rights attached to any shares which may be issued on special terms or conditions.

If the Company is wound up the liquidator may, with the sanction of a resolution and any other sanction required by law, divide among the members *in specie* the whole or any part of the assets of the Company and may for that purpose value any assets and determine how the division shall be carried out as between the members or different classes of members. Any such division may be otherwise than in accordance with the existing rights of the members but if any division is resolved otherwise than in accordance with such rights the members shall have the same right of dissent and consequential rights as if such resolution were a Special Resolution passed pursuant to Section 222 of the Isle of Man Companies Act 1931. The liquidator may with the like sanction vest the whole or any part of the whole of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine but no member shall be compelled to accept any assets on which there is a liability.

A resolution sanctioning a transfer or sale to another company duly passed pursuant to Section 222 of the Isle of Man Companies Act 1931 may in the like manner authorise the distribution of any shares or other consideration receivable by the liquidator among the members otherwise than in accordance with their existing rights and any such determination shall be binding on all the members, subject to the right of dissent and consequential rights conferred by the said section.

Variation of rights

Subject to the provisions of the Companies Act, if at any time the share capital of the Company is divided into shares of different classes any of the rights for the time being attached to any share or class of shares in the Company (and notwithstanding that the Company may be or be about to be in liquidation) may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence

of any such provision, either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of a Special Resolution passed at a separate general meeting of the holders of shares of the class duly convened and held as provided in the Articles. Subject to the terms on which any shares may be issued, the rights or privileges attached to any class of shares shall be deemed to be varied or abrogated by the reduction of the capital paid up on such shares or by the allotment of further shares ranking in priority for the payment of a dividend or in respect of capital or howsoever or which confer on the holders voting rights more favourable than those conferred by such first mentioned shares but shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the purchase or redemption by the Company of its own shares or the Company permitting, in accordance with the CREST Regulations, the holding of and transfer of title to shares of that or any other class in uncertificated form by means of a relevant system in accordance with the provisions of the Companies Act and the Articles.

Uncertificated shares

Subject to the CREST Regulations, the Board may permit any class or classes of shares to be held and transferred in uncertificated form by means of a relevant system (i.e. CREST) and may determine that any class of shares shall cease to be held and transferred in this way.

Form and transfer of shares

Each member may transfer all or any of his shares in the case of certificated shares by instrument of transfer in writing in any usual form or in any form approved by the Board or in the case of uncertificated shares without a written instrument in accordance with the CREST Regulations.

Any written instrument shall be executed by or on behalf of the transferor, shall contain the name and business or residential address of the transferee and (in the case of a transfer of a share which is not fully paid up) shall be executed by or on behalf of the transferee.

The Board may refuse to register any transfer of a certificated share unless:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of a share on which the Company has no lien;
- (c) it is in respect of only one class of shares;
- (d) it is in favour of a single transferee or not more than four joint transferees;
- (e) the holding of such share would not result in a regulatory, pecuniary, legal, taxation or material administrative disadvantage for the Company or its shareholders as a whole including, but not limited to, where such a disadvantage would arise out of the transfer of any share to a Prohibited Person (as hereinafter defined); and
- (f) it is delivered for registration to the Registered Agent, or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer where a certificate has not been required to be issued) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or if the transfer is executed by some other person on his behalf, the authority of that person to do so,

provided that the Board's discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis.

The Board shall refuse to register any transfer of shares which is not made (i) in accordance with Regulation S promulgated under the US Securities Act, (ii) pursuant to registration under the US Securities Act or (iii) pursuant to an available exemption from registration under the US Securities Act.

The Board shall register a transfer of title to any uncertificated share or the renunciation or transfer of any renounceable right of allotment of a share which is a share or class of shares or a

renounceable right of allotment of a share title to which is permitted to be transferred by means of a relevant uncertificated system in accordance with the CREST Regulations (“Participating Security”), held in uncertificated form in accordance with the CREST Regulations, except that the Board may refuse (subject to any relevant requirements applicable to the recognised investment exchange(s) to which the shares of the Company are admitted) to register any such transfer or renunciation which is in favour of more than four persons jointly or in any other circumstance permitted by the CREST Regulations or the Board in its absolute discretion believes that the Company or its shareholders as a whole may suffer a regulatory, pecuniary, legal, taxation or material administrative disadvantage, including such disadvantage would arise out of the transfer of any share to a Prohibited Person.

The registration of transfers of shares or of any class of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may from time to time determine (subject to the CREST Regulations in the case of any shares of a class which is a Participating Security).

Compulsory transfer of shares

If it shall come to the notice of the Board that any shares are or may be owned or held directly or beneficially by any person in breach of any law or requirement of any country or by virtue of which such person is not qualified to own those shares and, in the sole and conclusive determination of the Board, such ownership or holding or continued ownership or holding of those shares (whether on its own or in conjunction with any other circumstance appearing to the Board to be relevant) would in the reasonable opinion of the Board, cause a pecuniary or tax disadvantage to the Company or any other holder of shares or other securities of the Company which it or they might not otherwise have suffered or incurred (a “Prohibited Person”), the Board may serve written notice (hereinafter called a “Transfer Notice”) upon the person (or any one of such persons whose shares are registered in joint names) appearing in the register as the holder (the “Vendor”) of any of the shares concerned (the “Prohibited Shares”) requiring the Vendor within 10 days (or such extended time as in all the circumstances the Board consider reasonable) to transfer (and/or procure the disposal of interests in) the Prohibited Shares to another person who, in the sole and conclusive determination of the Board, would not be prohibited person (such a person being hereinafter called an “Eligible Transferee”). On and after the date of such Transfer Notice, and until registration of a transfer of the Prohibited Shares to which it relates, the rights and privileges attaching to the Prohibited Shares will be suspended and not capable of exercise.

If within 10 days after the giving of a Transfer Notice (or such extended time as in the circumstances the Board considers reasonable) the Transfer Notice has not been complied with to the satisfaction of the Board, the Company may sell the Prohibited Shares on behalf of the holder thereof by instructing a London Stock Exchange member firm to sell them at the best price reasonably obtainable at the time of sale to any one or more Eligible Transferees. The net proceeds of the sale of the Prohibited Shares, after payment of the Company’s costs of the sale, shall be paid by the Company to the Vendor or, if reasonable enquiries have failed to establish the location of the Vendor, into a trust account at a bank designated by the Company, the associated costs of which shall be borne by such trust account.

A person who becomes aware that he is, or is likely to be, a Prohibited Person, shall forthwith, unless he has already received a Transfer Notice either transfer the shares to one or more Eligible Transferees or give a request in writing to the Board for the issue of a Transfer Notice. Every such request shall, in the case of certificated shares, be accompanied by the certificate(s) for the shares to which it relates or, as appropriate, an indemnity in respect of such shares.

The Board may, at any time and from time to time call upon any holder of shares by notice in writing to provide such information and evidence as they require upon any matter connected with or in relation to such holders of shares. In the event of such information and evidence not being so provided within such reasonable period (not being less than 10 clear days after service of the notice requiring the same) as may be specified by the Board in the said notice, the Board may, in its absolute discretion, treat any share held by such a holder or person who is automatically entitled to the shares by transmission or by law as being held in such a way as to entitle them to service a Transfer Notice in respect thereof.

The Board will not be required to give any reasons for any decision, determination or declaration taken or made in accordance with these provisions.

Amendment to Memorandum and Articles

The Memorandum and Articles may be amended by Special Resolution.

Disclosure of interests and suspension of interests

The provisions of Chapter 5 of the DTRs have been replicated in the Company's Articles. A person must notify the Company of the percentage of its voting rights if, at the date on which the Articles come into force, the percentage of voting rights which he holds as shareholder or through his direct or indirect holding of "qualifying financial instruments" (as such term is defined in DTRs 5.3.2R) (or a combination of such holdings) has reached or exceeded three per cent., four per cent., five per cent., six per cent., seven per cent., eight per cent., nine per cent. or ten per cent.

A person must notify the Company of the percentage of its voting rights if, at any time after the date on which the Articles come into force, the percentage of voting rights which he holds as shareholder or through his direct or indirect holding of qualifying financial instruments (or a combination of such holdings):

- (a) reaches, exceeds or falls below three per cent. and each one per cent. threshold thereafter up to 100 per cent. as a result of an acquisition or disposal of shares or qualifying financial instruments; or
- (b) reaches exceeds or falls below an applicable threshold in (i) above as a result of events changing the breakdown of voting rights and on the basis of information disclosed by the Company.

Any such notification shall include the following information:

- (a) the percentage of voting rights held, or the resulting situation in terms of voting rights and the date on which the relevant threshold was reached or crossed;
- (b) if applicable, the chain of controlled undertakings through which voting rights are effectively held;
- (c) so far as known to him, the identity of the shareholder, even if that shareholder is not entitled to exercise voting rights and of the person entitled to exercise voting rights on behalf of that shareholder;
- (d) the price, amount and class of shares concerned;
- (e) in the case of a holding of qualifying financial instruments:
 - (i) for qualifying financial instruments with an exercise period, an indication of the date or time period where shares will or can be acquired, if applicable;
 - (ii) date of maturity or expiration of the qualifying financial instruments;
 - (iii) identity of the holder;
 - (iv) name of the underlying company; and
 - (v) detailed nature of the qualifying financial instruments, including full details of the exposure to Ordinary Shares; and
- (f) any other information required by the Company.

An obligation to give a notice to the Company shall be fulfilled forthwith and without delay. Every person who holds 3 per cent. or more of the voting rights of any relevant class of shares of the Company shall, for as long as he holds such voting rights, be under a continuing obligation to give to the Company notice in writing of the particulars in relation to such voting rights, as specified above and of any change in those particulars, of which he becomes aware at any time after the event (or if more than one the most recent event) by virtue of which he became obliged by the preceding provisions of this Article to give notice to the Company of his percentage of voting rights held. Any such notice shall be given not later than 2 trading days after the day on

which the person giving the notice becomes aware of the relevant facts. The Company must on receipt of a notification, as soon as possible and in any event by not later than the end of the third working day following receipt of the notification, deliver an announcement detailing all the information contained in the notification to a service approved by the London Stock Exchange for the distribution to the public of announcements.

The Company must, at the end of each calendar month during which an increase or decrease has occurred, disclose to the public the total number of voting rights and capital in respect of each class of share which it issues. The Directors have a duty, under the Articles to keep a register of substantial interests.

The Board may at any time serve a notice (“Information Notice”) upon a member or any other person appearing to be interested in shares held by that member requiring the member to disclose to the Board in writing within such period (being no less than ten days and not more than thirty days) as may be specified in the notice, information relating to any beneficial interest of any third party or any other interest of any kind whatsoever which a third party may have in relation to any or all shares registered in the member’s name. If a member or any other person appearing to be interested in shares held by that member has been issued with an Information Notice and has failed in relation to any voting rights the subject of the Information Notice (“relevant shares”) to furnish any information required by such notice within the time period specified therein or if the Company determines that the member has not complied with the provisions with respect to the disclosure of substantial interests, then the Board may at any time following fourteen days from the expiry of the date on which the information required to be furnished pursuant to the relevant Information Notice is due to be received by the Board, serve on the relevant holder a notice (in this paragraph called a “disenfranchisement notice”) whereupon the following sanctions shall apply:

(a) *Voting*

The member shall not with effect from the service of the disenfranchisement notice be entitled in respect of the relevant shares to be present or to vote (either in person or by representative or proxy) at any general meeting of the Company or at any separate meeting of the holders of any class of shares of the Company or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll.

(b) *Dividends and transfers*

Where the relevant shares represent at least 0.25 per cent. in nominal value of their class:

- (a) any dividend or other money payable in respect of the relevant shares shall be withheld by the Company, which shall not have any obligation to pay interest on it and the member shall not be entitled to elect pursuant to the Articles to receive shares instead of that dividend; and
- (b) subject in the case of uncertificated shares to the CREST Regulations, no transfer, other than an approved transfer, of any relevant shares held by the member shall be registered unless the member is not himself in default as regards supplying the information required pursuant to the relevant Information Notice and the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

For the purposes of the foregoing a person, other than the member holding a share, shall be treated as appearing to be interested in that share if the member has informed the Company that the person is, or may be so interested, or if the Company (after taking account of any information obtained from the member or, pursuant to a disenfranchisement notice, from anyone else) knows or has reasonable cause to believe that the person is, or may be, so interested and “interested” shall be construed as it is for the purposes of Part 22 of the Companies Act 2006 of England and Wales.

Alteration of share capital

The Company in general meeting may from time to time by resolution:

- (a) consolidate and/or divide, all or any of its share capital into shares of larger or smaller nominal amount;

- (b) redenominate all or any such shares with a par value denominated in another currency on such basis as the Board sees fit;
- (c) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (d) sub-divide its shares or any of them into shares of smaller nominal amount.

Subject to the provisions of the Companies Act and to any rights for the time being attached to any shares, the Company may by Special Resolution reduce its share capital, in any manner provided that the Directors are satisfied, on reasonable grounds, that the Company will, immediately after such reduction, satisfy the Solvency Test.

Purchase of own shares

The Company may only purchase or acquire shares issued by the Company:

- (a) pursuant to an offer to all shareholders which, if accepted, would leave the relative rights of the shareholders unaffected and which affords each shareholder a period of not less than 14 days within which to accept the offer; or
- (b) pursuant to an offer to one or more shareholders to which all shareholders have consented in writing; or
- (c) in the open market pursuant to an offer or offers to which all shareholders have consented in writing or the shareholders have approved by Special Resolution in general meeting, provided that:
 - (i) any such authority shall grant a general mandate to the Directors to exercise all of the powers of the Company to repurchase shares up to such maximum number of Ordinary Shares as the Shareholders may so authorise, with such mandate continuing in force until the earlier of:
 - (A) the conclusion of the Company's first annual general meeting following the passing of the Special Resolution approving the general mandate; or
 - (B) the general mandate is revoked or varied by a subsequent Special Resolution of the shareholders in general meeting; or
 - (C) the expiry of the term for which the general mandate was first granted and approved; and
 - (ii) the Directors have passed a resolution stating that in their opinion the repurchase benefits the remaining shareholders and the terms of the repurchase are fair and reasonable to the Company and the remaining shareholders.

The Company may only purchase or otherwise acquire shares if the Directors are satisfied, on reasonable grounds that the Company will, immediately after the purchase or other acquisition, satisfy the Solvency Test and the Company will continue to have at least one member.

Any shares purchased or otherwise acquired by the Company are deemed to be cancelled immediately on acquisition.

Appointment of Directors

Unless otherwise determined by resolution of the Company, the number of Directors of the Company shall not be less than two nor more than ten. A majority of the Directors shall at all times be resident or ordinarily resident outside the United Kingdom.

Subject to the provisions of the Articles, the Company may by resolution appoint a person who is willing to act as a Director either to fill a vacancy or as an additional Director of the Company. The Directors of the Company may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director, provided that the appointment does not cause the number of Directors of the Company to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors of the Company and the majority of Directors

remain at all times resident or ordinarily resident outside the United Kingdom. A Director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors who are to retire by rotation at that meeting.

The Directors shall take measures to ensure that the composition of the Board complies with the requirements of the Corporate Governance Guidelines for AIM Companies published by the Quoted Companies Alliance to the appropriate extent, having regard to the size of the Company and the nature of its business.

Retirement of Directors

Commencing with the Company's 2009 annual general meeting, and at each annual general meeting of the Company thereafter, one third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one third, shall retire from office. If there are fewer than three Directors who are subject to retirement by rotation, one Director shall retire from office. Subject to the provisions of the Companies Act and of these Articles, the Directors to retire by rotation at each annual general meeting shall be so far as necessary to obtain the number required, first, any Director who wishes to retire and not offer himself for re-election and secondly, those Directors who have been longest in office since their appointment or last re-appointment. As between two or more Directors who have been in office for an equal length of time, the Director to retire shall, in default of agreement between them, be determined by lot. The Directors to retire on each occasion (both as to number and identity) shall be determined by the composition of the Board at the start of business on the date of the notice convening the annual general meeting notwithstanding any change in the number or identity of the Directors after that time but before the close of the meeting.

If the Company, at the meeting at which a Director retires, does not fill the vacancy created by his retirement, the retiring Director shall, if willing to act, be deemed to have been reappointed unless at the meeting it is expressly resolved not to fill the vacancy or unless a resolution for the reappointment of the Director is put to the meeting and lost or if the retiring Director has given notice in writing to the Company that he is unwilling to be re-elected or where the default in filling the vacancy is due to the moving of a resolution in contravention of the Articles.

Removal of Directors by resolution

The Company may by resolution passed at a meeting called for such purpose or by written resolution consented to by members holding at least 75 per cent. of the voting rights in relation thereto remove any Director before the expiration of his period of office notwithstanding anything in the Articles or in any agreement between the Company and such Director and, without prejudice to any claim for damages which he may have for breach of any contract of service between him and the Company, may (subject to the Articles) by resolution appoint another person who is willing to act to be a Director in his place. Any person so appointed shall be treated, for the purposes of determining the time at which he or any other Director is to retire by rotation, as if he had become a Director on the day on which the person in whose place he is appointed was last appointed or re-appointed a Director. In default of such appointment the vacancy arising upon the removal of a Director from office may be filled by a casual vacancy, provided that the majority of Directors shall at all times be resident or ordinarily resident outside the United Kingdom.

The Directors may also remove a Director from office and appoint another in his place.

Directors' fees

Each of the Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors (in addition to fees paid for executive services) such sum as the Board may from time to time determine. Any such fees shall be distinct from any salary, remuneration or other amounts payable to a Director and shall accrue from day to day. Each Director shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in or about the performance of his duties as Director, including any expenses incurred in attending meetings of the Board or any committee of the Board or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company. If by

arrangement with the Board any Director shall perform or render any special duties or services outside his ordinary duties as a Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration (whether by way of a lump sum or by way of salary, commission, participation in profits or otherwise) as the Board may from time to time determine.

Directors' indemnity

Subject to the Companies Act, but without prejudice to any indemnity to which he may otherwise be entitled, every Director, alternate Director, secretary or other officer of the Company (other than an auditor) shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution of his duties provided that the indemnity shall be void and of no effect unless the indemnified person acted honestly and in good faith and in what such person believed to be the best interests of the Company and, in the case of criminal proceedings, which the indemnified person had no reason to believe that their conduct was unlawful.

Directors' gratuities and pensions

The Directors shall have power to pay and agree to pay gratuities, pensions or other retirement, superannuation, death or disability benefits to (or to spouse or family member or other dependent of) any Director or ex Director and for the purpose of providing any such gratuities, pensions or other benefits to contribute to any scheme, institution, association, club, trust, fund or other establishment and, subject to the provisions of the Companies Act, lend money or make payments to, guarantee or give an indemnity in respect of, or give any financial or other assistance in connection with, any of the aforesaid matters or bodies.

Permitted interests of Directors

Subject to the provisions of section 104 of the Companies Act and provided that the disclosure requirements set out in the Articles are complied with, a Director, notwithstanding his office:

- (a) may be a party to or otherwise be interested in any transaction or arrangement with the Company or in which the Company is otherwise interested;
- (b) may be a Director or officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested, and in any such case on such terms as to remuneration and otherwise as the remuneration committee of the Board may arrange either in addition to or in lieu of any remuneration provided for by any other Article; and
- (c) shall not, by reason of his office, be liable to account to the Company for any benefit which he derives from any such office, employment, contract, arrangement, transaction or proposal or from any interest in any such body corporate; and no such contract, arrangement, transaction, proposal or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.

Voting at Board meetings

Resolutions of the Board are adopted by majority vote of those present at the meeting. In the case of an equality of votes, the chairman of the meeting has a casting vote.

Restrictions on voting

A Director who to his knowledge is in any way (directly or indirectly) interested in any contract arrangement, transaction or proposal with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract, arrangement, transaction or proposal is first considered if he knows his interest then exists or, in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

Except as provided below, a Director shall not vote on or be counted in the quorum in relation to any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any proposal whatsoever to which the Company is or is to be a party

and in which he has (directly or indirectly) an interest which is material (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the Company) or a duty which conflicts with the interests of the Company unless his duty or interest arises only because the resolution relates to one of the matters set out in the following sub-paragraphs in which case he shall be entitled to vote and be counted in the quorum:

- (a) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (c) the giving of any other indemnity where all other Directors are also being offered indemnities on substantially the same terms;
- (d) where the Company or any of its subsidiaries is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- (e) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 820 to 825 of the Companies Act 2006 of England and Wales) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company;
- (f) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates;
- (g) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors; or
- (h) any proposal concerning the funding of expenditure by one or more Directors on defending proceedings against him or them, or doing anything to enable such Director or Directors to avoid incurring such expenditure.

An interest of a person who is, for any purpose of the Companies Act (excluding any such modification thereof not in force when the Articles became binding on the Company), connected with a Director shall be treated as an interest of the Director and, in relation to an alternate Director, an interest of his appointor shall be treated as an interest of the alternate Director without prejudice to any interest which the alternate Director otherwise has. A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or termination) of two or more Directors to offices or places of profit with the Company or any company in which the Company is interested, such proposals may be divided and a separate resolution considered in relation to each Director. In such case each of the Directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

Borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part or parts thereof and, subject to the provisions of the Companies Act, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Notices

Any notice or other document to be sent or given pursuant to the Articles shall be in writing except that a notice calling a meeting of the Directors of the Company need not be in writing. Any such notice or other document may be sent using electronic communications to such address (if any) as may for the time being be notified for that purpose to the person sending the notice or other document by or on behalf of the person to whom the notice or document is sent. The Directors of the Company may from time to time specify the form and manner in which a notice may be given by or to the Company by electronic communications. The Company may give any notice in writing, document or other communication to a member:

- (a) personally;
- (b) by sending it by first class post in a prepaid envelope addressed to the member at his address in the Company's register of members;
- (c) by leaving it at that address; or
- (d) by sending it using electronic communication to such address (if any) as may for the time being be notified to the Company by or on behalf of the member for that purpose.

In the case of joint holders of a share, all notices and other documents shall be given to the joint holder whose name stands first in the Company's register of members in respect of the joint holding and notice so given shall be sufficient notice to all the joint holders. A shareholder who has no registered address within the British Isles and has not supplied to the Company an address within the British Isles for the service of notices will not be entitled to receive notices from the Company.

Takeover Code

The Articles provide that if:

- (a) at any time when the Company is not subject to the Takeover Code or any successor regime (whether statutory or non-statutory) governing the conduct of takeovers and mergers in the UK (any of such being the "Takeover Regime"), any person (together with any persons held to be acting in concert with him) acquires any shares in the Company and as a result he (whether or not with other persons) would (in the opinion of the Board) have been obliged under the Takeover Regime to extend an offer (a "Mandatory Offer") to the holders of any other shares in the Company had the Takeover Regime applied to the Company (such person or persons who would from time to time have been required to have made such an offer being the "Mandatory Offeror(s)"); and
- (b) the Mandatory Offeror(s) fail(s) to make such an offer on terms no less favourable (in the opinion of the Board) to the other shareholders than he/they would have been obliged to offer under the provisions of the Takeover Regime had it applied (a "Compliant Offer") within 21 days following the date on which the obligation would have arisen,

the Board shall be entitled, but not obliged, to suspend with immediate effect, with notification thereof being given to the Mandatory Offeror(s) or (if different) the registered holders of the shares in the Company in which they have an interest, all voting rights attributable to the shares in the Company in which the Board considers the Mandatory Offeror(s) from time to time to have an interest. Any such suspension may, at the discretion of the Board extend for any period during which the obligation to make a Mandatory Offer would have continued to exist under the Takeover Regime unless and until a Compliant Offer is made.

In applying the foregoing provisions the Board shall be entitled but not obliged to take into account any notes included in, or prepared in connection with, the Takeover Regime and any views of the supervisory body under the Takeover Regime.

The Board shall have no liability to any shareholder of the Company, any person who has any interest in shares in the Company, or any other person for the manner in which they exercise or refrain from exercising any suspension powers or for any determination which the Board makes as to the application of the foregoing to any particular circumstances.

4. Takeover Code and other provisions

The Takeover Code is not currently applicable to the Company. Rule 9 of the Takeover Code stipulates, *inter alia*, that except with the consent of the Panel, when:

- (a) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company; or
- (b) any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested,

such person shall extend (an) offer(s) to the other shareholders in the company on the basis set out in the Takeover Code.

Where a person or group of persons acting in concert holds shares carrying more than 50 per cent. of the voting rights in a company no obligation would normally arise to make a general offer under Rule 9 if the concert party increases its aggregate shareholding. However, even if the concert party holds shares carrying over 50 per cent. of the voting rights, the Panel may, *inter alia*, regard any acquisition by a member that increases his interests in shares to 30 per cent. or more or if he is already interested in 30 per cent. or more, which increases the percentage of shares carrying voting rights in which he is interested as giving rise to an obligation on that individual to make an offer.

In the above summary persons “acting in concert” are persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate, through the acquisition by any of them of shares in the Company, to obtain or consolidate control of the Company. Control means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights of the Company, irrespective of whether the holding or holdings give *de facto* control.

A compulsory acquisition procedure is set forth in section 160 of the Companies Act. Where a scheme or contract involving the transfer of Ordinary Shares or any class of shares by the Company to another person (the “transferee”) has been approved by the holders of not less than 90 per cent. in value of the shares affected within 16 weeks after the offer being made, the transferee may, at any time within 8 weeks after the transferee has acquired or contracted to acquire the shares, give notice in the prescribed manner to any dissenting Shareholder that it desires to acquire such dissenting Shareholder’s shares, and where such notice is given the transferee shall, unless on application made by the dissenting Shareholder within one month from the date on which the notice was given the Court thinks fit to order otherwise, be entitled and bound to acquire those shares on terms which under the scheme or contract the shares of the approving Shareholders are to be transferred to the transferee (or on such terms as may be permitted by variation under the Companies Act in certain circumstances).

Where such a notice has been given by the transferee and the Court has not, on application made by the dissenting Shareholder, ordered to the contrary or any pending application to the Court by the dissenting Shareholder has been disposed of, the transferee shall send a copy of the notice to the Company and pay or transfer to the Company the consideration representing the price payable for the shares which the transferee is entitled to acquire and the Company shall thereupon register the transferee as the holder of those shares. The Company shall be required to hold such sums in a separate bank account on trust for the dissenting Shareholder.

5. Directors' and other interests

- (a) The Directors interests in the share capital of the Company as at 24 April 2008 (being the latest practicable date prior to the date of this document), all of which are beneficial, which have been notified to the Company and as they are expected to be immediately following Admission are as follows:

Ordinary Shares and Warrants

<i>Directors</i>	<i>As at the date of this document</i>			<i>Following Admission</i>		
	<i>No. of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>	<i>No. of Warrants</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of Issued Share Capital⁵</i>	<i>No. of Warrants</i>
Gordon Toll ¹	5,102,501	7.7	–	5,102,501	5.3	–
Janchiv Oyungerel	6,335,000	9.5	–	6,335,000	6.6	–
Douglas McGay ²	5,600,000	8.4	–	5,600,000	5.8	–
Gregory Meldrum ³	3,975,000	6.0	300,000	3,975,000	4.1	300,000
Clyde Evans ⁴	3,675,001	5.5	–	3,675,001	3.8	–

Note:

- (1) Through an interest in Coffee House Group Limited except for 1 Ordinary Share held through Lodestone Venture Capital Limited.
- (2) Through an interest in Canning International Ltd, Investec Sino Corporation and Titoni Corporation.
- (3) Through an interest in The Meldrum Superannuation Fund.
- (4) Through an interest in The Evans Family Superannuation Fund except for 1 Ordinary Share held by Clyde Robert Evans.
- (5) After the issue of 20,000,000 Ordinary Shares to Citadel under the Citadel Share Exchange Agreement and 10,000,000 Ordinary Shares issued to Petrovis as described in paragraph 2.6.7 in this Part VI.

Options to acquire Ordinary Shares

The following options will be granted under the LTIP to the Directors¹ on Admission²:

	<i>Number of Ordinary Shares</i>
Gordon Toll	250,000
Dr Janchiv Oyungerel	250,000
John Robertson	150,000
Sarangua Davaadorj	150,000
Douglas McGay	350,000
Gregory Meldrum	150,000
Clyde Evans	200,000

Note:

- (1) All of these options are to be granted with an exercise price per Ordinary Share equal to US\$0.75 being the market value of an Ordinary Share as determined by the Board immediately prior to Admission.
- (2) Full details of the vesting and exercise dates are set out in paragraph 8 of Part VI of this document.

The following performance share awards will be granted under the LTIP to the Directors on Admission¹:

	<i>Number of Ordinary Shares</i>
Gordon Toll	250,000
Dr Janchiv Oyungerel	250,000
John Robertson	150,000
Sarangua Davaadorj	150,000
Douglas McGay	350,000
Gregory Meldrum	200,000
Clyde Evans	200,000

Note:

- (1) All of these performance share awards are to be granted with a subscription price per Ordinary Share of no more than the nominal value of an Ordinary Share on the date of vesting. Full details of the performance and vesting conditions are set out in paragraph 8 of Part VI of this document.

The Ordinary Shares comprising the Directors' interests set out above, will be held immediately following Admission, directly or indirectly by the relevant Directors. Save as disclosed in this paragraph, no Director nor any member of their respective immediate families, nor any person connected with them within the meaning of section 96B(2) of FSMA, is interested in any share capital of the Company.

- (b) No loan or guarantee has been granted or provided by the Company to any Director or any person connected with them.
- (c) None of the Directors has or has had any interest in transactions effected by the Company since its incorporation which are or were unusual in their nature or conditions or which are or were significant to the business of the Company.
- (d) Other than the holdings of the Directors, which are set out in paragraph (a) of this paragraph 5, the Company is aware of the following persons who, as at 24 April 2008 (being the latest practicable date prior to the publication of this document) and following Admission, directly or indirectly, jointly or severally hold or will hold, 3 per cent. or more of the Company's share capital or exercise or could exercise control over the Company:

	<i>As at the date of this document</i>		<i>Following Admission</i>	
	<i>No. of Ordinary Shares</i>	<i>Percentage of Issued Share Capital</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of Issued Share Capital¹</i>
<i>Shareholders</i>				
Citadel	Nil	Nil	20,000,000	20.7
Petrovis	17,505,002	26.3	27,505,002	28.4
Galena Special Situations Master Fund	6,000,000	9	6,000,000	6.2
AM2 (Bermuda) Limited	2,000,000	3	2,000,000	2.1
Chilton Global Natural Resources Partners, L.P.	2,000,000	3	2,000,000	2.1

1 This figure includes 20,000,000 shares to be issued and transferred to the Company following the conversion of the loan notes issued to Citadel, details of which are set out in paragraph 9(i) of this Part VI and 10,000,000 shares to be issued to Petrovis, details of which are set out in paragraph 2.6.9 of this Part VI.

- (e) The persons referred to in section 5(d) and the Directors referred to in section 5(a) of this Part VI do not have voting rights in respect of the share capital of the Company (issued or to be issued) which differ from any other Shareholder.
- (f) No Director (nor any member of a Director's family) has a related financial product (as defined in the AIM Rules) referenced to their Ordinary Shares.
- (g) There are no arrangements as far as the Company is aware, the operation of which may at a subsequent date, result in a change in control of the Company.

6. Additional information on the Directors

- (a) The directorships and partnerships held by each of the Directors over the five years preceding the date of this document other than in the Company are as follows:

<i>Director</i>	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
Gordon Toll	Capcorp Compass Resources NL LinQ Resource Fund Ltd EMED Mining Public Limited Ferrous Resources Limited Satimola Limited FerroAlloys Limited	Ivanhoe Mines Ltd Goldamere Pty Ltd Fortescue Metals Group Ltd Avocet Mining plc Central Asian Petroleum Corporation (HK) Limited Tundra Gold Limited Russian Diamonds plc
Dr. Janchiv Oyungerel	NIC JSC Petromatad Invest Limited Petrovis Prime General Daatgal LLC Unigas LLC	
Douglas McGay	Canning International Limited Capcorp Investec Sino Corporation Karmaliz Limited Petromatad Invest Limited Titoni Corporation	Batu Mining Limited
<i>Director</i>	<i>Current directorships</i>	<i>Former directorships held in last five years</i>
Gregory Meldrum	Capcorp Island Haze Pty Ltd Meldrum Pty Ltd	Central Asian Petroleum Corporation (HK) Limited
Clyde Evans	Capcorp Karmaliz Limited Petromatad Invest Limited Sunshore Enterprises Pty Ltd	TCS Enterprises Pty Ltd JD Marketing (WA) Pty Ltd
Sarangua Davaadorj	AME LLC NIC JSC Pitprop Limited	Doriath Operation UK Limited Harad Operation UK Limited Oroskar Operation UK Limited
John Robertson	Bonaparte Diamond Mines NL Elixir Petroleum Limited Prosperity Minerals Holdings Limited Telrock plc	MineWorks Resources Corporation Mitra Energy Limited Nabarro Wells & Co. Limited NWCF LLP Telrock Communications Limited

Douglas McGay was a Director of Softcopy Digital Mapping Pty Limited when it entered voluntary administration in 1996.

- (b) At the date of this document none of the Directors has at any time:
- (i) had any unspent convictions in relation to indictable offences;
 - (ii) been declared bankrupt or entered into an individual voluntary arrangement;
 - (iii) save as disclosed in paragraph 6(a) above, been a director of any company at the time or within twelve months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;

- (iv) been a partner in a partnership at the time of, or within twelve months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of any such partnership;
- (v) had his assets the subject of any receivership or has been a partner of a partnership at the time of or within the twelve months preceding, any assets thereof being the subject of a receivership; or
- (vi) been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7. Directors' service contracts and emoluments

The terms of the Directors appointments are summarised below:

<i>Name</i>	<i>Date of Contract</i>	<i>Notice Period</i>	<i>Current Salary/Fees</i>
Douglas McGay	24 April 2008	12 months, to expire at any time after the first year following the commencement date of the agreement (1 March 2008)	US\$64,800 (net) per annum plus annual discretionary bonus
Canning International Limited (Douglas McGay)	24 April 2008	12 months, to expire at any time after the first year following the commencement date of the agreement (1 March 2008)	US\$10,800 per month plus US\$1,800 per month allowances
<i>Name</i>	<i>Date of Contract</i>	<i>Notice Period</i>	<i>Current Salary/Fees</i>
Meldrum Pty Ltd (Gregory Meldrum)	24 April 2008	3 months' notice in writing	US\$17,550 per month
Clyde Evans	24 April 2008	12 months, to expire at any time after the first year following the commencement date of the agreement (1 March 2008)	US\$9,000 per month
Sunshore Enterprises Pty Limited (Clyde Evans)	24 April 2008	12 months, to expire at any time after the first year following the commencement date of the agreement 1 March 2008	US\$6,750 per month
Gordon Toll	24 April 2008	3 months' notice in writing	£31,500 per annum
Janchiv Oyungerel	24 April 2008	3 months' notice in writing	£27,000 per annum
John Robertson	24 April 2008	3 months' notice in writing	£18,000 per annum
Sarangua Davaadorj	24 April 2008	3 months' notice in writing	£18,000 per annum

The following Directors have entered into service contracts or consultancy agreements with the Company or the Group:

- (a) On 24 April 2008 Petro Matad LLC entered into a service agreement with Douglas McGay (the "Employee"). The agreement provides for the Employee to act as Group Manager of Petro Matad LLC at a salary of US\$64,800 per annum which is the net figure after appropriate deductions for tax and other statutory deductions have been made plus a discretionary bonus payable in respect of each complete financial year during which the employment subsists. The agreement can be terminated by either party on not less than 12 months notice in writing to expire at any time after 12 months following the commencement date of the agreement (which is 1 March 2008). If the Employee is incapacitated by reason of ill health or accident for a period or periods aggregating 180 days in the preceding 12 months, or is dismissed in accordance with Petro Matad

LLC's disciplinary procedure, the agreement may be terminated by not less than 3 months' notice given in writing. The Employee may be eligible to participate in employee share or bonus schemes established by Petro Matad LLC from time to time, subject to the discretion of the Board. Under the agreement, the Employee is entitled to 20 working days' paid holiday plus normal remuneration for all public holidays normally observed in Mongolia and Western Australia. Petro Matad LLC shall contribute 10 per cent. of the Employee's annual salary to a personal pension plan nominated by the Employee and approved by the Board. The Employee shall participate in such permanent health insurance/death in service benefits/medical expenses insurance scheme as Petro Matad LLC shall from time to time maintain. Petro Matad LLC shall supply the Employee with an appropriate vehicle and driver for business use and Petro Matad LLC shall be responsible for the maintenance, insurance, tax and expenses of such vehicle and driver. Under the agreement, for a period of 12 months after the Employee ceases to perform work for the Group he agrees not to (i) engage in competition with the Group, or (ii) deal with or solicit business from clients of the Group, or (iii) entice certain employees away from the Group.

- (b) On 24 April 2008 the Company entered into an agreement for the provision of services with Canning International Limited (the "Consultant"). The agreement provides for the Consultant to provide general management services to the Company, including but not limited to the supply of Douglas McGay to act as Chief Executive Officer of the Company. Under the agreement, the Consultant is entitled to receive a fee at the rate of US\$10,800 per month plus US\$1,800 per month as a remote site and travel allowance. The agreement can be terminated by either party on not less than 12 months' notice in writing to expire at any time after 12 months following the date of commencement of the agreement (which is 1 March 2008). The agreement provides that Douglas McGay is an employee of the Consultant and that the Consultant shall be responsible for all matters in relation to his employment, including disciplinary action and payment of tax.
- (c) On 24 April 2008 the Company entered into an agreement for the provision of services with Meldrum Pty Ltd (the "Consultant"). The agreement provides for the Consultant to provide the services of Gregory Meldrum to the Company at a fee of US\$17,550 per month plus expenses. The agreement commenced on 1 March 2008 and continues for a period of 12 months and can be terminated by either party giving not less than 3 months' notice in writing at any point. Renewal of the agreement for further 12 month periods is by mutual consent of the parties. The Consultant agrees that, during the period of the agreement and for 12 months after the end of the agreement, it shall not solicit or entice away any director or employee of any company in the Group, nor shall it employ any person who has been a director or employee to any company in the Group during the period of the agreement. The agreement provides that Gregory Meldrum is an employee of the Consultant and that the Consultant shall be responsible for all matters in relation to his employment, including disciplinary action and payment of tax.
- (d) On 24 April 2008 the Company entered into a service agreement with Clyde Evans (the "Executive"). The agreement provides for the Executive to act as Finance Director of the Company at a salary of US\$9,000 per month. The agreement can be terminated by either party on not less than 12 months' notice in writing to expire at any time after 12 months following the commencement date of the agreement (which is 1 March 2008). The Executive may be eligible to participate in employee share or bonus schemes established by the Company from time to time, subject to the discretion of the Board. Under the agreement, the Executive is entitled to 20 working days' paid holiday plus normal remuneration for all public holidays normally observed in Western Australia. Under the agreement, for a period of 12 months after the Executive ceases to perform work for the Group he agrees not to (i) engage in competition with the Group, or (ii) deal with or solicit business from clients of the Group, or (iii) entice certain employees away from the Group. Clyde Evans shall be responsible for all tax arising on these payments.
- (e) On 24 April 2008 the Company entered into an agreement for the provision of services with Sunshore Enterprises Pty Limited (the "Consultant"). The agreement provides for the Consultant to provide finance and administration services to the Company, including but not limited to the supply of Clyde Evans to act as Finance Director of the Company. Under the agreement, the Consultant is entitled to receive a fee at the rate of US\$6,750 per month. The agreement can be terminated by either party on not less than 12 months' notice in writing to expire at any time after 12 months following the date of the commencement of the agreement (which is 1 March 2008). The agreement provides that Clyde Evans is an employee of the Consultant and that the

Consultant shall be responsible for all matters in relation to his employment, including disciplinary action and payment of tax.

- (f) Pursuant to a letter of appointment dated 24 April 2008, the Company appointed Gordon Toll to the office of non-executive director on and Chairman of the Board (the "Appointment") with effect from that date. Gordon Toll shall receive £31,500 per annum (which is made up of directorship fees of £27,000 and a committee allowance of £4,500) plus reimbursement for all reasonable expenses incurred in the proper performance of his duties pursuant to the Appointment. The Appointment is in accordance with the Articles (including the provisions on retirement by rotation) and shall continue unless terminated in accordance with the Articles or by either party giving to the other 3 months' notice in writing. Gordon Toll is required to devote 10 days per annum to his role. Under the Appointment, the Company shall indemnify Gordon Toll in accordance with the provisions of the Companies Act. Gordon Toll shall be responsible for all tax arising on these payments.
- (g) Pursuant to a letter of appointment dated 24 April 2008, the Company appointed Dr Janchiv Oyungerel to the office of non-executive director on and Deputy Chairman of the Board (the "Appointment") with effect from that date. Dr Janchiv Oyungerel shall receive £27,000 per annum (which is made up of directorship fees of £22,500 and a committee allowance of £4,500) plus reimbursement for all reasonable expenses incurred in the proper performance of her duties pursuant to the Appointment. The Appointment is in accordance with the Articles (including the provisions on retirement by rotation) and shall continue unless terminated in accordance with the Articles or by either party giving to the other 3 months' notice in writing. Dr Janchiv Oyungerel is required to devote 10 days per annum to her role. Under the Appointment, the Company shall indemnify Janchiv Oyungerel in accordance with the provisions of the Companies Act. Dr Janchiv Oyungerel shall be responsible for all tax arising on these payments.
- (h) Pursuant to a letter of appointment dated 24 April 2008, the Company appointed John Robertson to the office of non-executive director on the Board (the "Appointment") with effect from that date. John Robertson shall receive £18,000 per annum (which is made up of directorship fees of £13,500 and a committee allowance of £4,500) plus reimbursement for all reasonable expenses incurred in the proper performance of his duties pursuant to the Appointment. The Appointment is in accordance with the Articles (including the provisions on retirement by rotation) and shall continue unless terminated in accordance with the Articles or by either party giving to the other 3 months' notice in writing. John Robertson is required to devote 10 days per annum to his role. Under the Appointment, the Company shall indemnify John Robertson in accordance with the provisions of the Companies Act. John Robertson shall be responsible for all tax arising on these payments.
- (i) Pursuant to a letter of appointment dated 24 April 2008, the Company appointed Sarangua Davaadorj to the office of non-executive director on the Board (the "Appointment") with effect from that date. Sarangua Davaadorj shall receive £18,000 per annum (which is made up of directorship fees of £13,500 and a committee allowance of £4,500) plus reimbursement for all reasonable expenses incurred in the proper performance of her duties pursuant to the Appointment. The Appointment is in accordance with the Articles (including the provisions on retirement by rotation) and shall continue unless terminated in accordance with the Articles or by either party giving to the other 3 months' notice in writing. Sarangua Davaadorj is required to devote 10 days per annum to her role. Under the Appointment, the Company shall indemnify Sarangua Davaadorj in accordance with the provisions of the Companies Act. Sarangua Davaadorj shall be responsible for all tax arising on these payments.
- (j) There are no service contracts or consultancy agreements in existence between any of the Directors and the Company which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year and no such contracts are proposed.

8. Long-term Equity Incentive Plan

8.1 Introduction

The Company has established the Petro Matad Long Term Equity Incentive Plan (the “LTIP”) which will be used to provide equity incentives to selected employees (including executive directors), non-executive directors and consultants on and following Admission. The remuneration committee of the Board (the “Committee”) will oversee the LTIP and awards granted under it, having regard to market practice within the Company’s business sector and the need to incentivise and retain the best people and align their interests with those of Shareholders.

The LTIP provides for the following types of share award:

- (i) options (“Options”); and
- (ii) performance share awards (being conditional awards of Ordinary Shares subject to performance with a subscription price per Ordinary Share of no more than the nominal value of an Ordinary Share on the date of vesting) (“Performance Share Awards”)

(together the “Awards”).

The LTIP will be administered and operated by the Board. However, the grant of an Award to an executive director, its material terms and the exercise of any discretion pursuant to such executive director’s Award shall be subject to the recommendation and approval of the Committee.

It is the Company’s intention to grant Options (with an exercise price per Ordinary Share equal to US\$0.75 being the market value of an Ordinary Share as determined by the Board immediately prior to Admission) and Performance Share Awards (with a subscription price per Ordinary Share of no more than the nominal value of an Ordinary Share on the date of vesting) on Admission and details of the proposed grants are set out in paragraph 5(a) of Part VI of this document.

The following is a summary of the principal terms of the LTIP. Unless stated otherwise, the same terms apply to Options and Performance Share Awards.

8.2 Eligibility

Any employee (including a director and non-executive director) of the Group may be selected, at the Board’s or Committee’s discretion to be granted an Award under the LTIP.

8.3 Grant of Awards

No payment is required for the grant of an Award.

Awards may be granted on a day that the London Stock Exchange is open for business and trading at the following times:

- (a) upon Admission and during the 90 day period following Admission in the case of new appointments;
- (b) within 42 days following the announcement by the Company of its results for any period, or the issue by the Company of a prospectus, listing particulars or other document containing equivalent information relating to Ordinary Shares; or
- (c) where the Board resolves that exceptional circumstances have arisen which justify the grant of an Award.

No Awards may be granted after the tenth anniversary of Admission.

8.4 Distributions

If the Company makes a distribution (including by way of dividend) to its Shareholders between the grant of an Award and the date when that Award is exercised or vests (as the case may be), the Board may, in its absolute discretion, determine that the number of Ordinary Shares subject to the Award shall be increased to reflect the value of the distribution which would have been paid on the Ordinary Shares subject to the Award had such Ordinary Shares been held by the awardholder.

8.5 *Exercise price of Options and acquisition price of Performance Shares Awards*

Options granted on Admission and, in the case of new appointments, granted within the 90 days following Admission will have an exercise price per Ordinary Share equal to US\$0.75 being the market value of an Ordinary Share as determined by the Board immediately prior to Admission.

Options granted after the 90 day period from Admission, will have an exercise price per Ordinary Share not less than the market value of an Ordinary Share on the date of grant.

All Performance Share Awards will have a subscription price per Ordinary Share of no more than the nominal value of an Ordinary Share on the date of vesting.

All Performance Share Awards granted to non-executive directors will have a subscription price per Ordinary Share equal to the nominal value of an Ordinary Share on the date of vesting.

8.6 *Plan limit*

At any time, the total number of Ordinary Shares which have been issued or remain issuable pursuant to grants made under the LTIP, and under any other employees' share scheme established by the Company following Admission within the preceding 10 years, may not exceed ten per cent. (10 per cent.) of the Ordinary Shares in issue at that time. For the purposes of this limit, awards which have lapsed are to be disregarded.

8.7 *Individual limit*

During any financial year of the Company, Awards may not normally be granted to any individual over Ordinary Shares with an aggregate value (measured at the date of grant) in the case of Options of more than 200 per cent. and in the case of Performance Share Awards of more than 100 per cent. of his basic salary (for this purpose, Awards granted on or within 90 days following Admission are excluded). However, in circumstances deemed by the Board or Committee to be exceptional, this limit may be increased.

8.8 *Exercise or vesting of Awards*

Options may be exercised, subject only to continuing service, during such period as the Board may determine. Options granted on Admission will become exercisable in three parts: 25 per cent. on the second anniversary of Admission, 50 per cent. on the third anniversary of Admission and the remaining 25 per cent. on the fourth anniversary of Admission.

Performance Share Awards shall vest subject to continuing service and appropriate and challenging performance conditions determined by the Committee and, in the case of directors, relating to the overall performance of the Company.

The Performance Share Awards granted on Admission will vest on achievement of the following conditions:

- (i) 25 per cent. of the Ordinary Shares subject to each of those Performance Share Awards vest on the first discovery of oil on a commercial scale when clause 5.4 of the PSC is fulfilled;
- (ii) 25 per cent. of the Ordinary Shares subject to each of those Performance Share Awards vest on the first production of oil on a commercial scale as defined in clause 5.4 of the PSC; and
- (iii) 50 per cent. of the Ordinary Shares subject to each of those Performance Share Awards vest on the Company achieving the sale of 1 million barrels of oil.

8.9 *Leavers*

If an awardholder ceases to be employed by or provide services to the Group by reason of his death, injury, ill-health, disability, redundancy, retirement, as a result of the sale out of the Group of the business or subsidiary by which the awardholder is employed or to which he provides services or any other reason which the Board in its absolute discretion permits,

- (i) Options will become exercisable, provided that the number of Ordinary Shares shall be reduced to reflect the foreshortened vesting period; and

- (ii) Performance Share Awards may vest to the extent determined by the Board in its absolute discretion, taking into account the extent to which relevant performance conditions have been or are likely to be met,

unless the Board at its absolute discretion determines that the Option or Performance Share Award should be exercisable or vest (as the case may be) to a greater extent.

If an awardholder ceases employment for any other reason, his Award will lapse immediately on cessation.

8.10 *Reconstruction, takeover or liquidation*

In the event of takeover, reconstruction or winding-up of the Company, Options may be exercised in full for a period of time following such event. Performance Share Awards will vest to the extent determined by the Committee taking into account the extent to which the relevant performance conditions have been or are likely to be met, or to a greater extent if the Committee determines otherwise.

8.11 *Variation of share capital*

In the event of any variation in the ordinary share capital of the Company, by way of capitalisation of profits or reserves or by way of rights or any consolidation or sub-division, or reduction of capital or otherwise, or in the event of any payment of a special dividend, the plan limit, the exercise price of an Option and the number and the nominal value of Ordinary Shares subject to an Award may be adjusted in such manner as the Board determines is appropriate.

8.12 *Voting, dividend and other rights*

Awardholders will have no voting or dividend rights in respect of the Ordinary Shares subject to Awards until the Awards are exercised or vest.

Ordinary Shares allotted under the LTIP will rank *pari passu* with the existing Ordinary Shares with the exception of rights attaching by reference to a record date prior to the date of issue or vesting of the relevant Award. Application will be made to AIM for all such Ordinary Shares to be admitted to trading.

Awards are non-transferable and non-pensionable.

8.13 *Amendments*

The LTIP may be amended by the Board in any respect provided that no amendment may be made if it would adversely affect in any material way rights already acquired by awardholders without the approval of the majority of the awardholders affected, and no amendment to the material advantage of awardholders may be made to key provisions of the LTIP without the approval of the Shareholders by way of ordinary resolution.

The Board may however make minor amendments to benefit the administration of the LTIP, to take account of a change in the applicable legislation in any country or territory or to obtain or maintain favourable tax, exchange control or regulatory treatment for awardholders or any Group company.

9. **Material Contracts**

Save as disclosed herein, the Group has not entered into any contract not being a contract in the ordinary course of business in the past two years which is or may be material.

(a) *PSC*

Petro Matad LLC signed a PSC for Block XX with the MRPAM, the provisions of which are summarised in Part IV of this document. The PSC was transferred from Petro Matad LLC to Petromatad Invest Limited on 6 November 2007. Further details in relation to the transfer are set out in paragraph (b) below and in Part IV of this document.

(b) ***Protocol of Assignment and Consortium Agreement***

On 6 November 2007, Petromatad Invest Limited, Petro Matad LLC and the MRPAM entered into a Protocol of Assignment whereby the PSC was transferred to Petromatad Invest Limited from Petro Matad LLC. Pursuant to this transfer, Petro Matad LLC paid an administrative fee of US\$100,000 to the MRPAM.

On 1 October 2007, a consortium agreement (the “Consortium Agreement”) was entered into by Petromatad Invest Limited and Petro Matad LLC whereby these entities agreed to establish a consortium (the “Consortium”) with a view to carrying out the business in which they are mutually interested, being the exploration for and extraction of hydrocarbons; the sale of oil to third parties; research and development related to the oil industry; and in connection with these foregoing concerns, financing, services, technical and necessary assistance and research and development.

The Consortium Agreement notes that Petro Matad LLC and the MRPAM were the initial parties to the PSC and that Petro Matad LLC’s rights and obligations under the PSC have been transferred to Petromatad Invest Limited.

The Consortium Agreement provides for various obligations on the part of each party. Petromatad Invest Limited is, *inter alia*, responsible for the Consortium’s budget, marketing and financing, whilst Petro Matad LLC is, *inter alia*, required to carry out exploration and extraction work and is responsible for monitoring the Consortium’s compliance with Mongolian law. Petro Matad LLC is to be reimbursed by Petromatad Invest Limited for the services it provides, on a cost plus 10 per cent. basis.

(c) ***Nominated Adviser and Broker Agreement***

Pursuant to an agreement (the “Nominated Adviser and Broker Agreement”) dated 25 April 2008 between the Company and HansonWesthouse, the Company has appointed HansonWesthouse to act as Nominated Adviser and Broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay HansonWesthouse an annual retainer fee of £40,000 per annum (plus VAT) for its services as Nominated Adviser and Broker under the agreement. The agreement contains certain undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement continues for a fixed period of nine months from the date of the agreement and, thereafter, is subject to termination on the giving of three months’ notice in respect of the appointment as nominated adviser. In respect of the appointment as broker, the agreement continues for a fixed period of six months from the date of the agreement and, thereafter, is subject to termination by either party on the giving of three months’ notice.

(d) ***Introduction Agreement***

Pursuant to an agreement (“the Introduction Agreement”) dated 25 April 2008 between the Company, the Directors and HansonWesthouse conditional upon, *inter alia*, Admission taking place no later than 5.00 p.m. on 1 May 2008 (or such later date as the Company, the Directors and HansonWesthouse may agree in writing, but in any event not later than 8.00 a.m. on 20 May 2008) HansonWesthouse has agreed to use reasonable endeavours to facilitate the Admission of the Company to AIM.

The Introduction Agreement contains warranties and an indemnity from the Company and the Directors in favour of HansonWesthouse together with provisions which enable HansonWesthouse to terminate the Introduction Agreement in certain circumstances prior to Admission, including circumstances where any warranties are found to be untrue, inaccurate or misleading. The liability of the Directors under the Agreement is limited and for the Company is unlimited. In addition to fees totalling £40,000 which the Company has paid to HansonWesthouse, under the Introduction Agreement the Company has agreed to pay HansonWesthouse a further corporate finance fee of £140,000 and has also agreed to grant HansonWesthouse an option on the basis summarised in paragraph (f) below.

Under the Introduction Agreement, each of the Directors also undertakes, subject to certain exceptions and conditional on Admission, not to, and to use all reasonable endeavours to

procure that his or her connected persons do not, for the period of 12 months following Admission, dispose of their Ordinary Shares or any interest (as defined in Section 820 of the Companies Act of England and Wales) therein held at the time of Admission or issued pursuant to the exercise of any Warrants. The Directors further undertake that for a further 6 month period, they will only dispose of Ordinary Shares through HansonWesthouse from time to time, provided that HansonWesthouse offers competitive terms (including as to commission and price).

(e) ***Lock-In Deeds***

Pursuant to a lock-in deed dated 25 April 2008 between the Company, HansonWesthouse and Citadel (the “Citadel Lock-in Deed”), Citadel undertakes, subject to certain exceptions and conditional on Admission, that it will not dispose of any Ordinary Shares designated as Locked-In Shares under the Citadel Lock-in Deed for the period of 12 months following Admission.

Pursuant to a lock-in deed dated 25 April 2008 between the Company, HansonWesthouse and Petrovis (the “Petrovis Lock-in Deed”), Petrovis undertakes, subject to certain exceptions and conditional on Admission, that it will not dispose of any Ordinary Shares designated as Locked-In Shares under the Petrovis Lock-in Deed for the period of 12 months following Admission. Petrovis further undertakes that for a further 6 month period, it will only dispose of Locked-In Shares through HansonWesthouse from time to time, provided that HansonWesthouse offers competitive terms (including as to commission and price).

(f) ***Option Agreement***

Pursuant to an option agreement, the Company has agreed to grant to HansonWesthouse an option to subscribe for 966,800 Ordinary Shares, at a price of US\$0.75 per Ordinary Share at any time during the period of 5 years following Admission. The option may only be exercised in certain limited circumstances in the first year following Admission.

(g) ***Acquisition of Capcorp***

Pursuant to the Capcorp Share Exchange Agreements with each of the shareholders (each, a “Capcorp Vendor”) of Capcorp, the Company agreed to acquire all of the issued shares in the capital of Capcorp (the “Capcorp Shares”) held by each Capcorp Vendor. The aggregate consideration for the acquisition of the Capcorp Shares was the issue of 23,340,000 Ordinary Shares (the “Consideration Shares”) to the Capcorp Vendors. As additional consideration for the allotment and issue of the Consideration Shares, each of the Capcorp Vendors agreed to execute and deliver to the Company a written undertaking to vote the Consideration Shares in favour of the approval of the allotment and issue of 20,000,000 Ordinary Shares (the “Citadel Shares”) to Citadel upon Citadel’s application to exchange its shares in Capcorp for Citadel Shares.

(h) ***Acquisition of Petromatad Invest Limited***

Pursuant to the Petromatad Invest Limited Share Exchange Agreements, dated 4 October 2007 between the Company and each of Petrovis and Dr. Janchiv Oyungerel, the Company agreed to acquire 18,750 shares and 6,250 shares respectively in the capital of Petromatad Invest Limited, representing 50 per cent. of the issued and outstanding capital in Petromatad Invest Limited (the “Petromatad Invest Limited Shares”). The consideration for the acquisition of the Petromatad Invest Limited Shares was the issue to Petrovis of 17,505,000 Ordinary Shares and 5,835,000 Ordinary Shares to Dr. Janchiv Oyungerel (collectively, the “Petromatad Invest Limited Consideration Shares”). The Petromatad Invest Limited Consideration Shares were issued on 12 November 2007.

As additional consideration for the allotment and issue of the Petromatad Invest Limited Consideration Shares, Petrovis and Dr. Janchiv Oyungerel agreed to execute and deliver to the Company a written undertaking to vote the Petromatad Invest Limited Consideration Shares in favour of the approval of the allotment and issue of the Citadel Shares to Citadel upon Citadel’s application to exchange its shares in Capcorp for Citadel Shares.

(i) ***Citadel Agreements***

Pursuant to an agreement dated 2 August 2006 between Capcorp and Citadel, Citadel agreed to subscribe for up to US\$6,000,000 convertible unsecured loan notes. An investment agreement of the same date was entered into between Capcorp and Citadel containing various provisions governing the position of Citadel as a shareholder. Both agreements will terminate on Admission.

Citadel will convert the loan notes into 20,000,000 shares in Capcorp, conditional on Admission.

Pursuant to the Citadel Share Exchange Agreement between the Company and Citadel, the Company will, conditional on Admission, acquire the issued shares in the capital of Capcorp held by Citadel in exchange for the issue of 20,000,000 Ordinary Shares.

(j) ***Joint Venture Agreement***

Pursuant to an agreement dated 22 February 2007, governed by English law, a joint venture agreement was entered into between Petrovis, Petromatad Invest Limited and Capcorp (the “Joint Venture Agreement”) pursuant to which the parties agreed to participate in a joint venture for the exploration of oil and gas through a PSC.

Capcorp’s principal obligations under the Joint Venture Agreement are: (i) to invest in and finance oil and gas exploration in the area of Mongolia subject to the PSC; (ii) to contribute certain technical expertise in respect of the PSC; (iii) to finance certain other expenditures under the PSC provided that such expenditures do not exceed US\$1,100,000 during the first year from 19 July 2006; and (iv) to finance further expenditures under the PSC after the first year in accordance with a budget to be agreed each year by Petrovis and Capcorp. The technical expertise, financing of the oil and gas exploration in respect of the PSC and the payment of the expenditures by Capcorp are to form part of the consideration for Capcorp to acquire 50 per cent. of the beneficial interest in Petromatad Invest Limited. Petrovis agreed to act as a liaison to the government of Mongolia where necessary, in order to promote the interests of the original party to the PSC, Petro Matad LLC.

(k) ***Warrant Instrument***

The Warrants were issued under a Warrant Instrument dated 17 March 2008 (the “Warrant Instrument”). Under the Warrant Instrument, the exercise price for each share to be issued on the exercise of Warrants (the “Warrant Shares”) is US\$1 (the “Exercise Price”). Warrants may be exercised at any time on or prior to 30 September 2008 by a holder of warrants lodging the relative warrant certificates at the registered office of the Company, or as otherwise specified by the Company, together with payment for the Exercise Price of each Warrant exercised. The Warrant Shares shall be allotted and issued fully paid and shall rank *pari passu* with the fully paid Ordinary Shares then in issue. No application will be made for the Warrants to be admitted to trading on AIM.

10. Related party transactions

Details of certain related party transactions are set out in Notes (xvii) and (xviii) “Related Party Disclosures” to the financial statements in Section D of Part V of this document.

11. Significant Change

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 30 June 2007.

12. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, taking into account the Company’s existing cash reserves, the working capital available to the Company and its Group will be sufficient for its present requirements that is for at least twelve months from the date of Admission.

13. Litigation

No member of the Group is, nor has at any time in the 12 months immediately preceding the date of this document been, engaged in any governmental, legal or arbitration proceedings, and the Company is not aware of any governmental, legal or arbitration proceedings pending or threatened by or against the Company or any member of the Group, nor of any such proceedings having been pending or threatened at any time in the 12 months immediately preceding the date of this document in each case which may have, or have had in the recent past, a significant effect on the Company's or the Group's financial position or profitability.

14. Isle of Man Taxation

The statements set out below are intended only as a general guide to certain aspects of current Isle of Man tax law and practice as at the date of this document. The summary does not purport to be a complete analysis of all Isle of Man tax issues for the Company or the holders of Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers on the taxation consequences of the acquisition, ownership and disposal of Ordinary Shares.

Capital taxes in the Isle of Man

The Isle of Man has a regime for the taxation of income, but there are no capital or stamp taxes in the Isle of Man (save for capital duty applicable to companies incorporated under the Companies Act 1931). No capital duty is payable by companies incorporated under the Companies Act. As such, the Company is not liable to pay capital duty. No Isle of Man stamp duty or stamp duty reserve tax will be payable on the issue or transfer of, or any other dealing in, Ordinary Shares.

Zero rate of corporate income tax in the Isle of Man

The Isle of Man now operates a zero rate of tax for most corporate taxpayers. This will include the Company. There will be no withholding to be made by the Company on account of Isle of Man tax in respect of dividends paid by the Company.

Notwithstanding the zero rate of corporate tax, there are measures in place to ensure that Isle of Man resident Shareholders are subject to Isle of Man income tax on their share of undistributed corporate profits by means of a "distributable profits charge" that is payable by certain companies in certain circumstances. However, upon Admission, the Company will obtain the benefit of an exemption from this regime that is accorded to companies whose shares are traded on a recognised stock exchange which for these purposes includes AIM.

Deductions in respect of Isle of Man employees

The application of the zero rate of corporate income tax described above does not affect the liability of a company to deduct and account for income tax under the Isle of Man Income Tax (Instalment Payments) Act 1974 or national insurance contributions, if applicable, although this is not expected to be relevant to the Company as it does not have, nor does it currently intend to engage, any Isle of Man employees.

EU Savings Directive

Directive 2003/48 of the European Union on the taxation of savings income seeks to bring about the effective taxation of interest payments in a beneficial owner's member state of tax residence through the automatic exchange of information on cross border interest payments to individual beneficial owners. During the transitional period set out in the Directive, three member states (namely Austria, Belgium and Luxembourg) shall not be required to exchange information but shall apply a withholding tax to savings income covered by the Directive. The Isle of Man has entered into agreements with all the EU member states to apply a retention tax during the transitional period in the same manner as the withholding tax under the Directive and, thereafter, to apply automatic exchange of information. These measures now apply in the Isle of Man, but the Directive does not currently extend to dividend payments.

15. United Kingdom Taxation

The following is intended as a general guide to the UK tax treatment of the ownership of Ordinary Shares under current legislation and published HM Revenue & Customs' practice at the date of this document, both of which are subject to change at any time. It only deals with the general UK tax position of certain Shareholders resident or ordinarily resident in the UK (excluding those who are chargeable to tax on a remittance basis) who hold those Ordinary Shares as investments, and does not deal with other Shareholders (such as dealers in securities, insurance companies and collective investment schemes) whose tax position might in some cases be different. The information given is by way of general summary only and does not constitute legal or tax advice to any person. Shareholders who are in any doubt about their tax position, or who are taxable in a jurisdiction other than the UK, should obtain detailed tax advice.

The Company

It is the intention of the directors to conduct the affairs of the Company so that central management and control of the Company is not exercised in the UK and so that the Company does not carry out any trade in the UK (whether or not through a permanent establishment situated there). On this basis, the Company should not be liable for UK taxation on its income or gains other than certain income deriving from a UK source.

UK Shareholders

UK Taxation of Dividends

Shareholders who are resident in the UK for tax purposes may, depending on their circumstances, be liable to UK income tax or corporation tax in respect of dividends paid by the Company.

Dividends received by an individual who is resident or ordinarily resident in the UK for taxation purposes will be chargeable to UK income tax on that dividend. If the dividend is subject to any overseas withholding tax ("WHT") the amount of the dividend received plus the WHT ("the gross dividend") will be included in the taxable income of the UK Shareholder. For such Shareholders who are liable to UK income tax at the starting or basic rates, dividends received from the Company will be liable to UK income tax at the dividend ordinary rate, currently 10 per cent. of the dividend paid. For individual Shareholders who are liable to UK income tax at the higher rate, dividends received from the Company will be subject to UK income tax at the dividend higher rate, currently 32.5 per cent. of the dividend paid.

The government has announced its intention that with effect from 6 April 2008, UK resident individuals and certain non-UK resident individuals who, either alone or with other connected persons, hold less than a 10 per cent. shareholding in the Company may receive a non-payable tax credit equal to one-ninth of the net dividend received. For individual Shareholders who are liable to UK income tax at the higher rate, the effect of this tax credit is to reduce the effective rate of income tax payable in respect of such dividends from 32.5 per cent. of the gross dividend received to 25 per cent. of the gross dividend received. For individual Shareholders who are liable to UK income tax at the starting or basic rates, the effect of this tax credit is that they will have no further tax to pay on such dividends.

A UK resident corporate Shareholder will be liable to UK corporation tax in respect of any gross dividend received from the Company.

UK Taxation of Capital Gains

In the case of those Shareholders who are individuals or otherwise not within the charge to corporation tax, UK capital gains tax may be payable on a disposal, or deemed disposal, at the flat rate of 18 per cent. in respect of assets disposed of on or after 6 April 2008. No indexation allowance will be available to such holders. Such Shareholders may be entitled to an annual exemption from capital gains. For the 2008/2009 tax year this is £9,600 of gains.

Shareholders within the charge to UK corporation tax may be subject to corporation tax on chargeable gains in respect of any gain arising on a disposal or deemed disposal of Ordinary Shares. Indexation allowance may apply to reduce any chargeable gain arising on disposal of the Ordinary Shares but will not create or increase an allowable loss.

It is possible that the Company will, following Admission, be a close company if it were resident in the UK. As a result, UK resident or ordinarily resident Shareholders who, together with persons connected with them, hold more than a 10 per cent share or interest in the capital or income of the Company should be aware that part of certain chargeable gains realised by the Company could be attributed to such Shareholders under section 13 Taxation of Chargeable Gains Act 1992.

Other UK Taxation Matters

A UK resident corporate Shareholder who, together with connected or associated persons would, broadly, be entitled to at least 25 per cent. of the profits of the Company were such profits to be distributed, should note the provisions of the controlled foreign companies legislation contained in sections 747 to 756 of the Taxes Act. These provisions only apply if the Company is controlled by UK residents.

The attention of individuals ordinarily resident in the UK is drawn to the provisions of Chapter 2 of Part 13 of the Income Tax Act 2007 which may render such individuals liable to tax on the income of the Company (taken before any deduction for interest) in certain circumstances.

The attention of UK resident investors is drawn to Chapter 1 of Part 13 of the Income Tax Act 2007 under which HMRC may seek to cancel tax advantages from certain transactions in securities.

Non-UK Shareholders

Non-UK Shareholders will need to take specific professional advice about their individual tax position.

Stamp Duty and Stamp Duty Reserve Tax

The following comments are intended as a guide to the general UK Stamp Duty and Stamp Duty Reserve Tax (“SDRT”) position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with depository arrangements or clearance services to whom special rules apply. No UK Stamp Duty or SDRT will be payable on the issue of the Ordinary Shares. UK Stamp Duty (at the rate of 0.5 per cent., rounded up where necessary to the next £5, of the amount of the value of the consideration for the transfer) is payable on any instrument of transfer of Shares executed within, or in certain cases brought into, the UK. Provided that Shares are not registered in any register of the Company kept in the UK any agreement to transfer the Shares should not be subject to SDRT.

Any person who is in any doubt as to his/her tax position or requires more detailed information than the general outline above should consult his/her professional advisers.

16. General

- (a) The accounting reference date of the Company is 31 December.
- (b) Save as set out herein and in paragraph 7 of this Part VI, no persons (excluding professional advisers otherwise disclosed in this document and trade suppliers) (i) have received directly or indirectly from the Company within the 12 months preceding the date of this document nor (ii) have they entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission any of the following:
 - (a) fees totalling £10,000 or more; or
 - (b) securities in the Company with a value of £10,000 or more calculated by reference to the share price on Admission; or
 - (c) any other benefit with a value of £10,000 or more at the date of Admission.
- (c) The financial information contained in this document does not constitute statutory accounts.
- (d) Save as disclosed in this document, there are no patents or other intellectual property rights, licences or industrial, commercial or financial contracts or new manufacturing processes which are material to the Company’s business or profitability.
- (e) Save as disclosed in this document, the Company has no significant investments in progress.

- (f) The expenses of the Admission are estimated at approximately US\$940,000, including VAT, all of which are payable by the Company.
- (g) Each of the Directors is, or may be deemed to be, a promoter of the Company.
- (h) The Company's nominated adviser and broker is HansonWesthouse, whose principal place of business is 12th Floor, One Angel Court, London EC2R 7HJ.
- (i) HansonWesthouse has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear. HansonWesthouse is regulated by the Financial Services Authority and is registered in England and Wales with registered number 05861129.
- (j) Isis has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which they appear and has authorised the inclusion of its report set out in Part III of this document and has accepted responsibility for its report.
- (k) PKF has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which they appear and has authorised the inclusion of its report set out in Part V of this document and has accepted responsibility for its report.
- (l) It is intended that application will be made for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Ordinary Shares will be enabled for settlement in CREST following Admission.
- (m) The Ordinary Shares are not currently admitted to dealings on a recognised investment exchange and, other than the Company's application for the Ordinary Shares to be admitted to trading on AIM, no applications for such admission have been made.

17. Availability of this document

Copies of this document will be available for collection only, free of charge, from the offices of HansonWesthouse at 12th Floor, One Angel Court, London EC2R 7HJ and from the Company at its registered office during normal office hours on any weekday (Saturdays and public holidays excepted) for a month from the date of Admission.

Dated: 25 April 2008

PART VII
DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires.

For a glossary of abbreviations and a glossary of geological and technical terms please refer to pages 57 to 63 of the Competent Person's Report in Part III of this document.

“Admission”	the admission of the Ordinary Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the AIM Rules for Companies and the AIM Rules for Nominated Advisers
“AIM Rules for Companies”	the rules for AIM companies issued by the London Stock Exchange in relation to AIM traded securities
“AIM Rules for Nominated Advisers”	the rules for Nominated Advisers issued by the London Stock Exchange in relation to AIM traded securities
“Articles”	the articles of association of the Company from time to time
“Board” or “Directors”	the board of directors of Petro Matad as at the date of this document, whose names are set out on page 4 of this document
“Capcorp”	Central Asian Petroleum Corporation Limited, a company incorporated under the laws of the Cayman Islands, and which is a wholly owned subsidiary of the Company
“Capcorp Share Exchange Agreements”	the agreements entered into on various dates between 26 September 2007 and 15 October 2007 with each of the Shareholders of Capcorp whereby the Company acquired all of the issued shares of Capcorp
“Citadel”	Citadel Equity Fund Ltd and its affiliates
“Citadel Share Exchange Agreement”	the agreement dated 24 April 2008 entered into between the Company and Citadel, further details of which are set out in paragraph 9(i) of Part VI of this document
“Combined Code”	the revised code on the principles of good corporate governance and best practice published by the Financial Reporting Council in June 2006
“Companies Act” or “Act”	the Isle of Man Companies Act 2006 (as amended)
“Company” or “Petro Matad”	Petro Matad Limited, a company incorporated in the Isle of Man with company number 1483V
“Competent Person's Report” or “CPR”	the competent person's report prepared by Isis, which is set out in Part III of this document
“CREST”	the computerised system for the paperless settlement of trades and the holding of shares in uncertificated form, operated by Euroclear UK & Ireland Limited

“CREST Regulations”	the Uncertified Securities Regulations 2006 of the Isle of Man (Statutory Document No 743/06), as amended
“Daqing”	Daqing Oilfield Ltd Co, a subsidiary of PetroChina
“DTRs”	the Disclosure and Transparency Rules published by the FSA
“EMV”	expected market value
“FSA”	the Financial Services Authority of the United Kingdom
“FSMA”	the Financial Services and Markets Act 2000 of the United Kingdom
“Group”	the Company and/or all or any of its subsidiary undertakings
“HansonWesthouse”	Hanson Westhouse Limited (company number 05861129), the nominated adviser and broker to the Company
“HMRC”	the UK HM Revenue & Customs
“Introduction Agreement”	the conditional agreement dated 25 April 2008 between the Directors, the Company and HansonWesthouse relating to the Admission, further details of which are set out in paragraph 9 of Part VI of this document
“ISIN”	International Securities Identification Number
“Isis”	Isis Petroleum Consultants Pty Ltd, the competent person
“Issued Share Capital”	the 96,680,004 Ordinary Shares in issue on Admission
“London Stock Exchange”	London Stock Exchange plc
“LTIP”	the Petro Matad Long-Term Equity Incentive Plan details of which are set out in paragraph 8 of Part VI of this document
“Memorandum”	the memorandum of association of the Company from time to time
“MPRP”	the Mongolian People’s Revolutionary Party
“MRPAM”	the Mineral Resources and Petroleum Authority of Mongolia
“OECD”	Organisation for Economic Co-operation and Development
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of US\$0.01 each in the capital of the Company
“Panel”	the UK Panel on Takeovers and Mergers
“PetroChina”	PetroChina Company Limited, a company listed on the Stock Exchange of Hong Kong Limited and on the New York Stock Exchange Inc
“Petromatad Invest Limited Share Exchange Agreement”	the agreement dated 4 October 2007 between the Company and each of Petrovis and Dr Janchiv Oyungerel whereby the Company acquired 50 per cent. of the issued and outstanding capital of Petromatad Invest Limited

“Petrovis”	Petrovis LLC, a company incorporated in Mongolia with registration number 9011027052
“Private Placing”	the recently completed private placing of 20,000,000 Units
“Prospectus Rules”	the Prospectus Rules published by the FSA under section 73A of FSMA
“PSC”	the production sharing contract to which PetroMatad Invest Limited is a party, in respect of Block XX or, when the context so requires, a production sharing contract
“Shareholders”	holders of Ordinary Shares
“SOCO”	SOCO International Plc, a company registered in England with Company No. 3300821 and listed on the London Stock Exchange
“Solvency Test”	the solvency test referred to in section 49 of the Companies Act which the Company satisfies if it is able to pay its debts as they become due in the ordinary course of the Company’s business and the value of its assets exceeds the value of its liabilities
“Stability Agreement”	an agreement between the Cabinet Minister in charge of taxation matters on behalf of the Government of Mongolia and an investor who is intending to undertake an investment project of not less than US\$2 million or equivalent amount in Mongolian Tugriks in Mongolia, as a legal guarantee for a stable environment to conduct business during fixed period
“Takeover Code”	the UK Takeover Code on Takeovers and Mergers
“Tugriks”	the lawful currency of Mongolia
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the United Kingdom Listing Authority, being the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“Units”	Units (comprising one Ordinary Share and one Warrant to subscribe for one Ordinary Share at an exercise price of US\$1.00) issued pursuant to the Private Placing at US\$0.50 per Unit
“US”, “USA” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“US\$”	US dollars, the lawful currency of the United States
“VAT”	value added tax
“Warrant”	the warrants, forming part of the Units, issued to subscribers on 17 March 2008 and 24 April 2008, which, on exercise, enables warrant holders to subscribe for one Ordinary Share at a price of US\$1.00 per Ordinary Share up until 30 September 2008
“WTI price”	West Texas Intermediate Crude Oil price
“£” and “p”	pounds and pence sterling, the lawful currency of the United Kingdom

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