Petro Matad Limited

Annual Report for the year ended 31st December 2008

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Chairman / CEO Statement

We are pleased to present this Annual Report for the financial year ended 31 December 2008.

Summary

2008 was an eventful year for Petro Matad Limited. We started the year with a substantial fund raising, and followed with admission to AIM. Trading commenced on May 1st. An event such as this is a milestone in a company's development, but admission to AIM was a particularly proud achievement for Petro Matad, as it was the first time that a company with a substantial Mongolian shareholding was tradable on an international exchange.

Following admission to AIM, we continued with our exploration of Matad Block XX in the east of Mongolia for the remainder of the year. We are very pleased with the results of the 3D seismic work on Davsan Tolgoi, which provide further validation of our faith in the prospectivity of Matad Block XX, particularly when read in conjunction with the 2008 and previous years' 2D seismic survey results. Davsan Tolgoi is "drill-ready", and the prospectivity of other areas of Block XX has been advanced or enhanced.

In addition, the Company has been pursuing other exploration opportunities in Mongolia, including applications for two new Production Sharing Contracts through a wholly owned subsidiary, Central Asian Petroleum Corporation Limited.

Due to these programmes, achievements and initiatives, we are confident that your company will evolve in a positive manner in the next financial year.

The year has been marked by economic turmoil, which affected the global economy and the sector in which the Company operates. Overall economic conditions remain challenging, the effects of which will continue to have a significant bearing on the Company's future.

Matad Block XX

After being awarded Block XX in July 2006, and prior to 2008, Petro Matad reprocessed 565km of previous seismic data and commissioned 423 km of new 2D seismic surveys. The

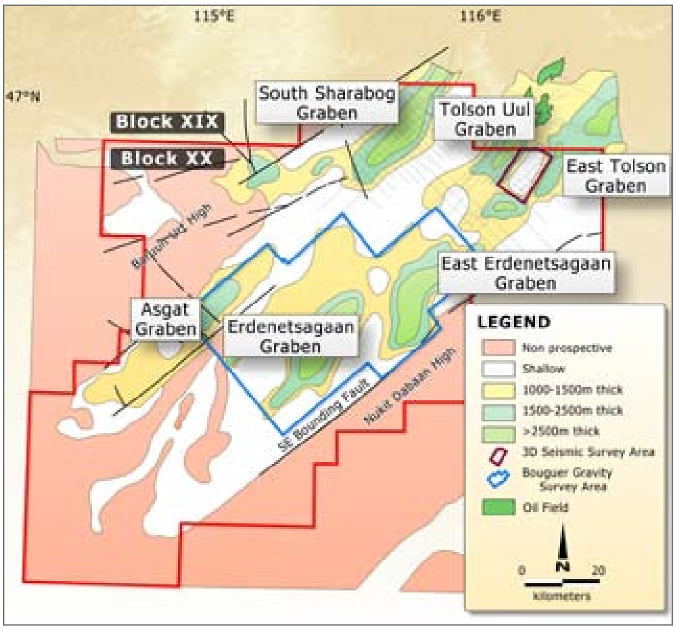
Chairman / CEO Statement

Company also commissioned a 3,000km² gravity and magnetic survey in 2007, which improved our understanding of the structural elements of the block.

Our 2008 exploration works included a 2D seismic survey programme, consisting of the acquisition of a further 155km of seismic data and the amalgamation, interpretation and mapping of the data with all of the 2D seismic data previously held by the Company. The 2008 programme also consisted of a 145km² 3D seismic survey to mature, to drillable status, the Company's most advanced prospect, "Davsan Tolgoi", which was formerly known as "8Ts".

The results of the 2008 surveys can be summarised as follows:

> The Davsan Tolgoi Prospect was materially advanced as a drillable prospect. Two additional prospects were defined in the area of Davsan Tolgoi and the aggregate prospective resources of the Davsan Tolgoi area were increased. As a result of this new information, Isis has increased the probability of success on the main Davsan Tolgoi structure from 23% to an average of 37%. The key findings from the 3D seismic survey are discussed in detail below. The prospect has been renamed the Davsan Tolgoi prospect, which is the local Mongolian nomenclature for the general area of 8Ts.
>
> Strong Lead 6Ts did not mature into a prospect because, on analysis of the enlarged 2D data set, the previously interpreted continuous faults necessary for the trapping mechanism broke up into smaller discontinuous segments. 6Ts has now been remapped as a small fault bounded closure and re-designated Prospect 6Ts with a Mean Risked Prospective Resource of 0.27 million barrels.
>
> A new Lead 15Ts was discovered during this 2D programme, to the southwest of 6T. It requires additional seismic work to advance it to prospect status, and is relatively small, but promising.



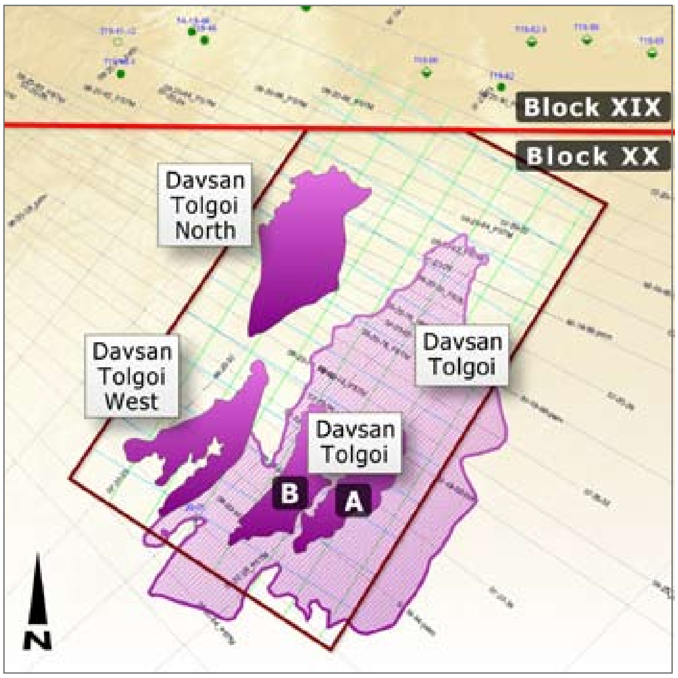
Mongolian sub-contractors and consultants carried out the majority of the 2006-2008 in-field programmes. The data obtained was a credit to those companies, in particular Khet LLC and Geosan LLC, and it enabled some sophisticated processing and analysis to be performed. The only work not to be undertaken by a national company was the 3D survey. Chinese contractor, BGP Inc. performed creditably in that project.

All processing and analytical work was carried out in Australia by various consultants and contractors. This was either supervised or performed by your Company's prime consultant, Isis Petroleum Consultants Pty Ltd ("Isis").

Finally, your Company's own professional staff in Mongolia had invaluable input and supervision over various aspects of both the fieldwork and research.

As a result of the 2008 work, the total inventory increased to 15 prospects with the mean unrisked prospective resources totalling 638 million barrels and the mean risked prospective resources totalling 112 million barrels.

The Company remains confident about the overall prospectivity for oil exploration of Block XX. Davsan Tolgoi (discussed below) is the most advanced prospect, but the work described above has also, in general advanced our confidence in the other leads, strong leads and prospects outside of that prime target. In addition, the unexplored grabens to the south-west provide significant longer term exploration potential.



The Davsan Tolgoi Prospect

Isis reported that the 2008 3D data is of very good quality and has greatly improved fault definition. The overall structural configuration from the 3D data shows significant improvement over the structural definition shown by the 2D seismic data set. Our understanding of the reservoir presence, trap integrity, migration pathways and sealing potential over the prospective area has been appreciably enhanced by the acquisition of the 3D dataset.

The 3D survey increased the previous STOIIP and Mean Unrisked Prospective Resources of the Davsan Tolgoi Prospect by 71%, to 607 million barrels and 147 million barrels respectively. Its Mean Risked Prospective Resource increased by 192% to 55 million barrels.

Included in the mapping are three separate prospects. The Davsan Tolgoi Prospect is the largest feature with Mean Unrisked Prospective Resources of 122 million barrels. The Davsan Tolgoi Prospect has two high points; “A” and “B”. In addition, the Davsan Tolgoi North and Davsan Tolgoi West prospects have been mapped as separate prospects.

Daqing Oilfields Activity

Since it took over Blocks XIX, XXI and XXII in 2005, Petro China subsidiary, Daqing Oilfields (“Daqing”) has been very active and has drilled more than 340 wells. This has led to the discovery of a third oilfield, nominally named Tolson West.

In the last two years, Daqing’s activity has markedly increased and in 2008 Daqing drilled 207 wells - exploration, appraisal and development - on the three blocks with in excess of 90% success (defined as “oil shows”). Production from the three blocks averaged approximately 2,750 b/d in 2008 and ended the year at around 3,300 b/d. Some of those wells are closer than five kilometres from Petro Matad’s boundary with Daqing’s Block XIX. This production is termed “test production” as the exploration phase of Daqing’s PSCs is not yet completed, and reserves and full development plans have yet to be established.

Daqing has announced it will drill approximately 390 wells in 2009, of which approximately 280 wells are likely to be on the neighbouring Block XIX. Half of the wells on Block XIX will be development wells with the remainder exploration and appraisal wells.

The 2009 Drilling Programme

With a view to furthering the exploration of Block XX, in March 2009 the Board commissioned both technical and economic studies, as well as employing an internationally respected drilling consultancy to examine the costs and logistics of drilling. These studies all endorsed the earlier work on Davsan Tolgoi, and established sufficient economic and technical parameters to provide comfort for a Board decision to drill in 2009.

The Company currently envisages that it will drill up to three wells in the 2009 drill season. There are a number of options available to Petro Matad and the Board is in the process of evaluating the optimal means by which the wells may be funded. Block XX is an inexpensive location for exploration drilling due to the shallow target depth of the wells, the nature of the regional topography and the ready availability of drilling equipment because of the proximity of large oil producing regions of China. The final drilling location of the wells has yet to be determined but in all likelihood all will be on the Davsan Tolgoi prospect.

The Company's Environmental Impact Statement and resultant practices are being upgraded from the original, approved Mongolian studies, to internationally recognised standards, using a combination of Mongolian and international consultancy firms. At the same time, Health and Safety standards are progressively being introduced and Social Impact programmes commenced.

Administrative and Corporate

Our Mongolian operating entities are developing an international standard of operation and are amongst the leading examples of modern business in Mongolia. We are particularly proud of our Mongolian subsidiaries and their Mongolian leadership. Our Mongolian staff have shown a willingness to grow and adapt to meet the challenges their management has set.

Our fellow Board Directors, both executive and non-executive have all had invaluable input into your Company's development. In mid-year, Mr Gregory Meldrum gave notice of his resignation as director of the Company. The Board reiterates its thanks to Mr Meldrum for his contribution to the Company, particularly in its formative years, and wishes him well.

The Board and management have been well served by the Company's professional advisers and consultants in the Isle of Man, London, Mongolia and Australia who have all contributed in a positive manner to your Company's growth.

The successes of 2008, the positive outlook for Block XX specifically and the Company in general, are due to the hard work of the Board, management, staff and consultants.

Our single largest shareholder, the leading Mongolian company Petrovis LLC, has been particularly supportive and active. However, we also recognise the valuable support of all shareholders, large or small, corporate or individual. Thus, we would like to thank you all for your continued support of Petro Matad Limited.

Gordon L Toll
Chairman

Douglas J McGay
Chief Executive Officer

10th June 2009

2008 оны 12 дугаар сарын 31-ний өдрөөр дуусгавар болсон санхүүгийн жилийн тайлан тэнцлийг толилуулахдаа баяртай байна.

Тайлангийн товч утга

Петро Матад Лимитедийн хувьд 2008 он үйл явдлаар дүүрэн жил байлаа. Оныг бид ихээхэн хэмжээний хөрөнгө хуримтлуулах ажлаар эхлүүлж түүнчлэн олон улсын хөрөнгийн хоёрдогч зах зээл болох AIM-д бүртгүүлж чадсан явдал юм. Бирж дээрхи компаний хувьцааны арилжаа 5 дугаар сарын 1-ний өдрөөс эхлэн явагдсан. Ийм үйл явдал нь ямар ч компаний цаашдын хөгжилд онцгой чухал үйл явдал бөгөөд ялангуяа хувьцааны дийлэнхийг Монгол тал эзэмшиж байгаа компаний хувьд хувьцаагаа анх удаа олон улсын хөрөнгийн бирж дээр арилжаалах боломжтой болсондоо Петро Матад туйлын бахархалтай байгаа юм.

Хөрөнгийн зах зээл дээр бүртгүүлж тухайн оны үлдсэн хугацаанд бид Монголын дорнод хэсэг дэх Матад XX талбайд хайгуулын ажлыг үргэлжлүүлэн явууллаа. Давсан Толгойд явуулсан 3Д-гийн чичирхийллийн судалгааны дүнг, 2007, 2008 онуудын 2Д чичирхийллийн судалгааны дүнтэй холбон үзэхэд Матад XX талбайд тавьж байсан бидний найдварыг улам баталгаажуулсанд сэтгэл хангалуун байна. Давсан Толгой өнөөдөр "өрөмдлөг хийхэд" бэлэн болоод байгаа бөгөөд XX талбайн бусад хэсгүүдэд явуулсан ажлын үр дүн мөн нэмэгдсэн болно.

Үүнээс гадна, Монголд хайгуулын үйл ажиллагаагаа өргөжүүлэх боломжийг эрэлхийлэн өөрийн бүрэн эзэмшлийн Сентрал Азиан Петролеум Корпорейшн Лимитедээр дамжуулан Бүтээгдэхүүн Хуваах Гэрээ байгуулах хоёр өргөдөл гаргаад байна.

Эл бүх хөтөлбөрүүд, олсон ололт амжилт мөн бидний санал санаачлага зэргийг авч үзэхэд ирэх санхүүгийн жилд манай компаний үйл ажиллагаа нааштай байдлаар үргэлжилнэ гэдэгт бид итгэлтэй байна.

Энэ жилийн хувьд дэлхийн эдийн засаг хямралд орж манай компаний үйл ажиллагаа явуулж буй салбар мөн адил өртөж эдийн засгийн тогтворгүй байдал бий болсон юм. Одоогийн байдлаар ерөнхий эдийн засгийн нөхцөл хүнд хэвээр байсаар байгаа бөгөөд энэ нь компаний цаашдын үйл ажиллагаанд тодорхой хэмжээгээр нөлөөлөх нь дамжиггүй.

МАТАД XX ТАЛБАЙ

2006 оны 7 дугаар сард Матад XX талбайд үйл ажиллагаа явуулах эрх авсны дараа 2008 он хүртэл 565 км өмнөх чичирхийллийн мэдээлэлд дахин боловсруулалт хийж, 423 км-т 2Д чичирхийллийн судалгааг шинээр хийсэн болно. Компани 2007 онд 3000 хавтгай дөрвөлжин км талбайд хүндийн хүч болон соронзон хайгуулын судалгааг явуулснаар талбайн бүтэцийн элементүүдийн талаархи ойлголтыг сайжруулсан.

2008 оны хайгуулын ажлын хөтөлбөрт нэмэлт 155 км чичирхийллийн мэдээллийг авах, өмнө нь компанид байсан 2Д чичирхийллийн мэдээлэлүүдтэй нэгтгэх, тайлах, зураглал хийх зэрэг тусгагдсан байсан. 2008 оны хөтөлбөрт мөн 145 хавтгай дөрвөлжин км талбайд 3Д чичирхийллийн судалгаа хийж улмаар өрөмдлөг хийх газрыг нарийвчлан тогтоох асуудал орж манай компани "Давсан Толгойг" (өмнө нь "8Ts" гэж тэмдэглэгдсэн) сонгон авсан.

2008 оны судалгааны ажлыг бүхэлд нь авч үзвэл:

- Урьд судалгаагаар тогтоогдсон 8Ts хэмээх нэрийг шинэчлэн орон нутгийн нэрлэж ирсэнээр нь Давсан Толгой гэж өөрчлөв. Судалгааны үр дүнгээс харахад Давсан Толгой нь өрөмдлөг хийх боломжтой газар гэж тодорхойлогдсон ба Давсан Толгойн орчим нэмэлт хоёр талбайг тодорхойлсноор гол Давсан Толгойн таамаг нөөц нийт дүнгээрээ нэмэгдэж байна. Энэхүү шинэ мэдээллийн үндсэн дээр "ISIS" Давсан Толгойн үндсэн хэсэгт газрын тос илрүүлэх боломж 23% гэж тооцоолж байсан бол одоо дундажаар 37% болгоод байна. 3Д чичирхийллийн судалгааны гол үр дүнг дор тодорхой авч үзэх болно.
- Шинээр хийсэн 2Д судалгааны үр дүнгээр урьд нь хайгуулын хэтийн төлөвтэй байх боломжтой гэж тогтоогдсон 6Ts судлын хэмжээ нь багасаж газрын тос агуулагч хурдас нь хагарлуудаар хэрчигдэн тасарч бие даасан жижиг блокууд болон хуваагдсан болохыг харууллаа. 6Ts –ыг одоо шинээр зураглал хийн жижиг талбай болгон тэмдэглэж түүний эрсдэл тооцсон газрын тосны дундаж нөөц 0,27 сая баррел байх боломжтой гэж үзэв.
- 2Д чичирхийллийн судалгааны явцад 6Ts талбайгаас урагш, газрын тосны эрлийн хэтийн төлөвтэй байх боломжтой

15Ts талбайг шинээр илрүүлсэн. Хайгуулын хэтийн төлөвтэй гэсэн зэрэглэлд оруулахын тулд судалгааны нэмэлт ажил шаардлагатай, харьцангуй жижиг боловч ирээдүйн төлөв сайтай талбай болно.

2006-2008 онд дийлэнх хөтөлбөрт ажлыг Монголын гэрээт гүйцэтгэгчид болон зөвлөхүүд гүйцэтгэсэн болно. Хайгуулын хээрийн судалгааны ажлыг Монголын үндэсний компаниуд болох Хэт ХХК болон Геосан ХХК голлон амжилттай гүйцэтгэсэн ба үүний үр дүнд илүү нарийвчилсан боловсруулалт, шинжилгээ хийх боломж бүрэлдсэн. Монголын үндэсний компани оролцоогүй цорын ганц ажил нь 3Д чичирхийллийн судалгаа байсан ба үүнийг Хятад Улсын BGP Inc. компани гэрээгээр өндөр түвшинд хийж гүйцэтгэсэн юм.

Шинжилгээний болон боловсруулалтын бүхий л ажлыг Австрали дахь зөвлөхүүд болон гэрээт гүйцэтгэгчид хийсэн. Энэ бүх ажиллагаанд манай гол зөвлөх компани болох ISIS Petroleum Consultants Pty Ltd (“ISIS”) хяналт тавин ажилласан болно.

Эцэст нь тэмдэглэхэд, манай компаний Монгол дахь мэргэжлийн ажилтнууд талбайн болон судалгаа шинжилгээний ажилд үнэлж баршгүй их хувь нэмэр оруулсан.

2008 онд гүйцэтгэсэн ажлын үр дүнд хэтийн төлөв бүхий 15 талбай байгаа ба одоогоор манай талбайд хайгуулын эрсдэл тооцоогүй газрын тосны таамаг нөөц 638 сая баррель, харин эрсдлийг нь тооцож үзвэл 112 сая баррелийн таамаг нөөц байх боломжтой гэж тогтоогоод байна.

XX талбайн газрын тосны хайгуулын үйл ажиллагаа амжилттай явагдана гэдэгт компани итгэл төгс хэвээр байна. Судалгаанаас харахад Давсан Толгой нь хамгийн ирээдүйтэй талбай боловч мөн түүнээс гадна орших зарим талбайнууд ирээдүйтэй байж болохыг хайгуулын үр дүн харууллаа. Үүнээс гадна, Давсан Толгойгоос баруун өмнө зүгт байгаа гүйцэд судлагдаагүй Эрдэнэцагааны хотгорууд ч цаашид хайгуулын ажлыг урт хугацаанд үргэлжлүүлэх шаардлагатай болохыг харуулж байна.

Хэтийн төлөв бүхий Давсан Толгой талбай

3Д-ийн чичирхийллийн судалгааны мэдээллийн чанар өндөр төвшинд байсан тул газрын гүний геологийн тогтоц, түүний дотор хагарлуудын байршлыг үнэн зөв тогтоож чадлаа гэж ISIS мэдээлсэн юм. 3Д судалгааны мэдээллийг авсанаар талбайн газрын тосны агууламж, тос хуримтлуур, тос шилжилтийн сувгууд болон хучлага хурдсын талаархи ойлголт мэдэгдэхүйц нэмэгдсэн юм.

Судалгаагаар өмнө нь тогтоосон байсан таамаг нөөцийн хэмжээ нийтдээ 71% -иар өсч Давсан Толгойн STOIIP нөөц- 607 сая баррель, эрсдэл тооцоогүй хайгуулын таамаг нөөц-147 сая баррель болжээ. Мөн хайгуулын эрсдэл тооцсон таамаг нөөцийг 192% өсгөж 55 сая баррельд хүргэсэн байна.

Талбай нь тус бүрдээ бие даасан 3 хэсгээс бүрдэнэ. Эдгээрээс 122 сая баррель тосны эрсдэл тооцоогүй дундаж таамаг нөөцтэй Давсан Толгой хамгийн том нь болно. Давсан Толгойн дотор бас “А”, “Б” гэсэн хоёр өргөгдсөн талбай бий. Үүнээс гадна, Хойд Давсан Толгой, Баруун Давсан Толгойг жич хэтин төлөв бүхий талбай болгон оруулсан болно.

Дайчин Ойлфийлдийн газрын тосны үйл ажиллагаа

Петро Чайнагийн салбар болох Дайчин Ойлфийлд \”Дайчин”\ газрын тосны компани нь 2005 онд XIX, XXI, XXII талбайнуудыг авсанаас хойш идэвхитэй үйл ажиллагаа явуулж 340 гаруй цооног өрөмдөөд байна. Үүний үр дүнд Баруун Тосон хэмээх гуравдахь газрын тосны талбайг илрүүлсэн.

Сүүлийн хоёр жилд, Дайчингийн үйл ажиллагаа мэдэгдэхүйц идэвхжиж, 2008 онд 207 цооног өрөмдөж, гурван талбайд хайгуул, үнэлгээ, нээлтийн ажлыг 90 гаруй хувийн амжилттай \”газрын тос илэрсэн” гэж тодорхойлсон\ гүйцэтгэсэн байна. Энэ гурван талбайгаас олборлосон бүтээгдэхүүний хэмжээ 2008 онд ойролцоогоор 2,750 б\ө хүрч, оны эцэс гэхэд 3,300 б\ө болжээ. Эдгээр цооногийн зарим нь Дайчингийн XIX талбайтай хиллэж байгаа манай Петро Матадын талбайгаас тав хүрэхгүй км-ийн зайд байгаа юм. Эдгээр олборлосон тосоо “туршилтын бүтээгдэхүүн” гэж нэрлэж байгаа ба Дайчингийн байгуулсан БХГ-ний хайгуулын үе шат дуусаагүй байгаа тул, нөөцийг тогтоож бүрэн ашиглалт явуулах төлөвлөгөөг хараахан боловсруулаагүй байгаа болно.

2009 онд 390 цооног өрөмдөхөө Дайчин зарласан бөгөөд эдгээрийн 280 шахам нь зэргэлдээ орших XIX талбайд ноогдох бололтой байна. Тэдгээрийн тэн хагас нь олборлолтын, үлдсэн нь хайгуулын болон үнэлгээний цооног байх юм.

2009 оны өрөмдлөгийн хөтөлбөр

2009 оны 3 дугаар сард XX талбайн хайгуулын ажлыг цаашид гүнзгийрүүлэх зорилгоор техникийн болон эдийн засгийн судалгааг хийх, мөн олон улсын хэмжээнд нэр хүнд бүхий өрөмдлөгийн компаниас өрөмдлөгийн зардал, болон өрөмдлөгтэй уялдан хийгдэх бусад ажлыг шалгуулж зөвлөлгөө авах талаар удирдах зөвлөлөөс шийдвэр гаргасан. Давсан Толгойд өмнө нь хийж гүйцэтгэсэн ажлуудыг дээрхи судалгаа батламжилсан бөгөөд энэ нь 2009 онд өрөмдлөгийг эхлүүлэх шийдвэрийг удирдах зөвлөлөөс гаргах техник, эдийн засгийн гол үзүүлэлтүүд нь болсон.

2009 оны өрөмдлөг явуулах боломжтой улирлын хугацаанд гурван цооног өрөмдөхөөр компани төлөвлөж байна. Өрөмдлөгийг санхүүжүүлэхтэй холбогдсон олон тооны хувилбаруудыг Петро Матад судалж байгаа бөгөөд санхүүжүүлэлтийн хувьд хамгийн сайн хувилбарыг нь сонгох ажлыг удирдах зөвлөл хэлэлцэж байгаа. XX талбайн хувьд, өрөмдлөг хийх цэг гүнзгий биш, байршлын хувьд нэвтрэлт сайтай тал газар, өрөмдлөгийн туслан гүйцэтгэгчийг олоход хялбар зэрэг нь нийт өрөмдлөгийн ажлын зардлыг хямдруулах боломжтой харуулна. Өрөмдлөг гүйцэтгэх газрыг эцэслэн тогтоогүй байгаа боловч Давсан Толгойг сонгох магадлал өндөр байна.

Монголын болон олон улсын зөвлөх компаниудын оролцоотойгоор, хайгуул хийх талбайн "Байгаль орчныг сэргээн засварлах төлөвлөгөө"-г зөвхөн Монгол улсын хэмжээнд батлагдан мөрдөгдөж байгаа стандарт төдийгүй , олон улсын хэмжээнд хүлээн зөвшөөрөгдсөн хэм хэмжээнд хүргэлээ. Үүний зэрэгцээ, эрүүл мэнд, аюулгүй ажиллагааны стандартыг нэвтрүүлж, нийгмийн чанартай хөтөлбөрүүдийг хэрэгжүүлж эхэлсэн болно.

Захиргааны болон корпорацийн ажиллагаа

Манай Монголд үйл ажиллагаа явуулж байгаа компаниуд нь олон улсын хэм хэмжээнд тохируулан ажиллаж орчин үеийн Монголын бизнесийн хүрээнд тэргүүлэгчдийн эгнээнд үйл ажиллагаагаа явуулж байна. Ялангуяа Монгол дахь өөрийн салбар болон тэнд ажиллаж байгаа Монгол удирдлагын хувьд сэтгэл хангалуун байдаг. Манай Монгол ажиллагсад нь удирдлагын зүгээс дэвшүүлсэн зорилтыг хэрэгжүүлэхийн тулд ажил дээрээ өсөх, тэр хэмжээнд үйл ажиллагаа явуулах эрмэлзэл чадавхи дүүрэн байгаагаа харуулсан.

Isle of Man, Лондон, Монгол ба Австрали дахь компаний мэргэжлийн зөвлөхүүд, удирдах зөвлөл ба удирдлагад үнэхээр сайн үйлчилж, компаний хөгжил дэвшилд үнэтэй хувь нэмэр оруулсан.

2008 оны ололт амжилт, тухайлбал XX талбайн ирээдүй болон компаний нийт үйл ажиллагаа нь удирдах зөвлөл, удирдлага, нийт ажиллагсад болон зөвлөхүүдийн хичээнгүй ажиллагааны үр дүн юм.

Манай компаний хувьцааны ихэнх хувийг эзэмшигч Монголын тэргүүлэгч компани Петровис нь бидний үйл ажиллагаанд байнгын дэмжлэг үзүүлэн, идэвхитэй ажиллаж ирсэн. Бид мөн их, бага хэмжээний хувьцаа эзэмшигчид, хувь хүн, компаниудын дэмжлэгийг гүнээ хүндэтгэн хүлээн зөвшөөрч байна. Петро Матад Лимитедийг ийнхүү байнга дэмжиж ирсэн та бүхэндээ талархал илэрхийлье.

Гордон Л Толл	**Даглас Ж МакГэй**
Дарга	Ерөнхий Гүйцэтгэх Захирал

2009 оны 6 дугаар сарын 10

Directors' Report

Your directors submit their financial report for the 12 months ended 31 December 2008. The report covers the consolidated entity of Petro Matad Limited and its controlled entities.

Petro Matad Limited is a company incorporated in the Isle of Man on 30 August 2007, which has 4 wholly owned subsidiaries, Capcorp Mongolia LLC and Petro Matad LLC, situated in Mongolia, and Central Asian Petroleum Corporation Limited ("Capcorp") and Petromatad Invest Limited, incorporated in the Cayman Islands.

DIRECTORS

The names of the Company's directors in office during the period and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

- Gordon Toll
- Janchiv Oyungerel
- Douglas McGay
- Clyde Evans
- John Robertson
- Sarangua Davaadorj
- Gregory Meldrum (resigned on 1 July 2008)

PRINCIPAL ACTIVITIES

The Group's principal activities in the course of the financial period consisted of oil exploration in Mongolia.

During the financial period, there were no significant changes in the nature of those activities.

REVIEW AND RESULTS OF OPERATIONS

The loss after tax for the Group for the 12 months ended 31 December 2008 was $6,277,306 (31 December 2007: Loss $4,430,442).

During the period, the Group focused on exploration activities on its PSC on Block XX in Mongolia.

CHANGES IN STATE OF AFFAIRS

Between 25 January 2008 and 23 April 2008, Petro Matad Limited concluded a private placement comprising of one ordinary share and one warrant at a price of US$0.50 per unit. One warrant entitled the holder to subscribe for one new ordinary share at an exercise price of US$1.00 per warrant at any time prior to 30 September 2008. The warrant exercise date was extended until 30 January 2009 and have all since expired. The company raised a total of US$10,000,000 by the issue of 20,000,000 ordinary shares and 20,000,000 warrants, with the proceeds raised primarily to fund exploration activities relating to Block XX in Mongolia.

On 24 April 2008, it was agreed that 10,000,000 ordinary shares would be allotted and issued to Petrovis LLC conditional on AIM Admission for a non-cash consideration. This allotment of shares occurred immediately prior to listing on 1 May 2008.

On 25 April 2008, the Company entered into an option agreement with Hanson Westhouse Limited ("Hanson Westhouse") granting Hanson Westhouse an option to acquire 966,800 ordinary shares at US$0.75 per ordinary share, exercisable at anytime up to 1 May 2013.

The Company entered into a share exchange agreement with Citadel Equity Fund Ltd and its affiliates ("Citadel") to acquire the shares in Capcorp to be allotted to Citadel in consideration for the issue of 20,000,000 ordinary shares in the Company. The agreement was conditional upon the conversion of the convertible loan note held by Citadel in Capcorp. On 1 May 2008 the convertible loan note was converted through the issue of 20,000,000 shares in Capcorp, which on the same day were exchanged for 20,000,000 shares in Petro Matad Limited.

On 1 May 2008, Petro Matad Limited was successfully admitted to the AIM of the London Stock Exchange plc ("AIM Admission").

On 3 June 2008, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 1,930,000 options over ordinary shares to employees and directors at US$0.75 per ordinary share, exercisable in three parts; 25 % after 1 May 2010, 50 % after 1 May 2011 and 25 % after 1 May 2012. The number of options outstanding as at 31 December 2008 has subsequently been reduced to 1,745,000 as a result of employee resignations.

Also on 3 June 2008, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 2,055,000 performance share awards of ordinary shares to employees. These have an acquisition price per ordinary share equal to the nominal value of an ordinary share after vesting. The performance share awards will vest on achievement of the following conditions:

(i) 25 % vest when the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled;
(ii) 25 % vest when the first production of oil on a commercial scale in accordance with the PSC is fulfilled; and
(iii) 50 % vest on the Company achieving the sale of 1 million barrels of oil.

The number of awards outstanding as at 31 December 2008 has subsequently been reduced to 1,820,000 as a result of employee resignations.

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

On 27 January 2009, pursuant to the Group's Long Term Equity Incentive Plan it was determined that the option granted to Damdin Janchiv over 40,000 ordinary shares of USD$0.01 each in the Company under the Plan are exercisable in full for a period of 6 months from 27 January 2009, at the end of which period the Option shall lapse to any extent that it is unexercised.

On 27 January 2009, pursuant to the Group's Long Term Equity Incentive Plan it was determined that 25,000 shares would be vested in Damdin Janchiv pursuant to the performance share award granted to him over 60,000 ordinary shares and that the Award would lapse as to the balance of 35,000 shares.

On 30 January 2009, 20,000,000 unlisted warrants issued under the private placement in March and April 2008, expired.

On the 19 March 2009, Mr Douglas McGay purchased 150,000 ordinary shares of US$0.01 in the Company at a price of 10 pence per ordinary shares. Mr McGay now has a beneficial interest in 5,750,000 ordinary shares in the Company.

On 2 April 2009, Damdin Janchiv paid USD$250 for the conversion 25,000 options at USD$0.01 each to ordinary shares.

On the 8 April 2009, the Company has issued 1,915,000 new options at an exercise price of 11 pence per share. The new options include 1,350,000 options issued to directors of the Company. The vesting terms of the directors' options are that 25% will vest on the first anniversary of the date of grant, 50% on the second anniversary of that date of grant and 25% on the third anniversary of grant. The number of new options issued to each director is set out in the table below:

Gordon Toll	250,000
Janchiv Oyungerel	250,000
Douglas McGay	350,000
Clyde Evans	200,000
John Robertson	150,000
Davaadorj Sarangua	150,000

The options will expire on the 8 April 2018.

Also on 8 April 2009, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 155,000 performance share awards of ordinary shares to employees. These have an acquisition price per ordinary share equal to the nominal value of an ordinary share after vesting. The performance share awards will vest on achievement of the following conditions:

(i) 25 % vest when the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled;
(ii) 25 % vest when the first production of oil on a commercial scale in accordance with the PSC is fulfilled; and
(iii) 50 % vest on the Company achieving the sale of 1 million barrels of oil.

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

DIVIDENDS

No dividends have been paid or are proposed in the current period.

FUTURE DEVELOPMENTS

The Group will continue to pursue exploration projects within the commercially proven areas of interest in Mongolia.

INDEMNIFICATION OF OFFICERS AND AUDITORS

The Group has not, during or since the financial period, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such by an officer or auditor.

ENVIRONMENTAL REGULATION

The Company is required to carry out its activities in accordance with the petroleum laws and regulations in the areas in which it undertakes its exploration activities. The Company is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings

Signed in accordance with a resolution of the directors.

Director (Clyde Evans)

10th June 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	CONSOLIDATED		PARENT	
		31 Dec 2008 USD$000	31 Dec 2007 USD$000	31 Dec 2008 USD$000	31 Dec 2007 USD$000
Continuing operations					
Revenue					
Finance revenue		190	12	-	-
		190	**12**	**-**	**-**
Expenses					
Exploration and evaluation expenditure	4(a)	(2,828)	(270)	-	-
Finance costs	4(b)	(240)	(720)	-	-
Audit	7	(57)	(61)	(39)	-
Accountancy		(189)	(238)	(58)	-
Consultancy expense		(1,174)	(1,252)	(599)	-
Depreciation		(16)	(7)	(1)	-
Directors fees		(196)	(102)	(81)	-
Employee benefits	4(d)	(930)	(594)	(363)	-
Other	4(c)	(837)	(622)	(174)	-
Share of loss of an associate	5	-	(577)	-	-
Loss before income tax		(6,277)	(4,431)	(1,315)	-
Income tax expense	6	-	-	-	-
Loss after tax from continuing operations		(6,277)	(4,431)	(1,315)	-
Loss attributable to members of the company		**(6,277)**	**(4,431)**	**(1,315)**	**-**
Loss per share (cents per share)					
- basic and diluted loss per share	20	(7.6)	(16.7)		

Consolidated Balance Sheet

As at 31 December 2008

	Notes	CONSOLIDATED		PARENT	
		31 Dec 2008 USD$000	31 Dec 2007 USD$000	31 Dec 2008 USD$000	31 Dec 2007 USD$000
ASSETS					
Current assets					
Cash and cash equivalents	8	3,248	170	15	-
Trade and other receivables	9	1	7	10,005	-
Other current assets	10	20	25	-	-
Total current assets		3,269	202	10,020	-
Non-current assets					
Exploration and evaluation	11	15,275	15,275	-	-
Property, plant and equipment	12	98	49	13	-
Investment in subsidiaries	20	-	-	19,163	11,903
Total non-current assets		15,373	15,324	19,176	11,903
TOTAL ASSETS		18,642	15,526	29,196	11,903
LIABILITIES					
Current liabilities					
Trade and other payables	13	245	1,266	981	-
Total current liabilities		245	1,266	981	-
Non-Current liabilities					
Interest bearing loans and borrowings	14	-	6,022	-	-
Total non-current liabilities		-	6,022	-	-
TOTAL LIABILITIES		245	7,288	981	-
NET ASSETS		18,397	8,238	28,215	11,903
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	15	28,928	11,903	29,121	11,903
Reserves	16	1,240	1,829	409	-
Accumulated losses		(11,771)	(5,494)	(1,315)	-
TOTAL EQUITY		18,397	8,238	28,215	11,903

Cash Flow Statement

For the year ended 31 December 2008

	Notes	CONSOLIDATED		PARENT	
		31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
		USD$000	USD$000	USD$000	USD$000
Cash flows from operating activities					
Payments to suppliers and employees		(6,817)	(1,582)	(803)	-
Interest received		190	12	-	-
Income tax paid		-	-	-	-
Net cash flows from/(used in) operating activities	8	(6,627)	(1,570)	(803)	-
Cash flows from investing activities					
Purchase of plant and equipment	12	(81)	(35)	(14)	-
Proceeds from the disposal of plant and equipment		21	-	-	-
Purchase of other financial assets		-	(20)	-	-
Acquisition of subsidiary (net of cash acquired)		-	(2,999)	-	-
Net cash flows from/(used in) investing activities		(60)	(3,054)	(14)	-
Cash flows from financing activities					
Proceeds from issue of shares		10,000	-	10,000	-
Capital raising costs		(235)	-	(42)	-
Loans to related parties		-	-	(10,005)	-
Proceeds from loans from related parties		-	-	879	-
Payments made to related party		-	(1,123)	-	-
Net cash flows from/(used in) financing activities		9,765	(1,123)	832	-
Net increase/(decrease) in cash and cash equivalents		3,078	(5,747)	15	-
Cash and cash equivalents at beginning of period		170	5,917	-	-
Cash and cash equivalents at end of period	8	3,248	170	15	-

Statement of Changes in Equity

For the year ended 31 December 2008

		CONSOLIDATED					
	Notes	*Issued Capital* USD$000	*Merger Reserve* USD$000	*Options Reserve* USD$000	*Option Premium on Convertible Notes* USD$000	*Retained Earnings / (Accumulated Losses)* USD$000	*Total* USD$000
At 1 January 2007		**233**	**831**	**-**	**1,234**	**(1,063)**	**1,235**
Loss for the period		-	-	-	-	(4,431)	(4,431)
Total income / expense for the period		-	-	-	-	(4,431)	(4,431)
Unwinding of convertible note	16	-	-	-	(236)	-	(236)
Issue of share capital	15	11,670	-	-	-	-	11,670
At 31 December 2007		**11,903**	**831**	**-**	**998**	**(5,494)**	**8,238**
At 1 January 2008		**11,903**	**831**	**-**	**998**	**(5,494)**	**8,238**
Loss for the period		-	-	-	-	(6,277)	(6,277)
Total income / expense for the period		-	-	-	-	(6,277)	(6,277)
Issue of shares on conversion of convertible note	15	7,260	-	-	(998)	-	6,262
Issue of share capital	15	15,000	-	-	-	-	15,000
Issue of options to employees and directors	16	-	-	409	-	-	409
Cost of capital raising	15	(5,235)	-	-	-	-	(5,235)
At 31 December 2008		**28,928**	**831**	**409**	**-**	**(11,771)**	**18,397**

		COMPANY				
	Notes	*Issued Capital* USD$000	*Merger Reserve* USD$000	*Option Reserve* USD$000	*Retained Earnings / (Accumulated Losses)* USD$000	*Total* USD$000
At 1 January 2007		**-**	**-**	**-**	**-**	**-**
Issue of share capital	21	11,903	-	-	-	11,903
At 31 December 2007		**11,903**	**-**	**-**	**-**	**11,903**
At 1 January 2008		**11,903**	**-**	**-**	**-**	**11,903**
Loss for the period		-	-	-	(1,315)	(1,315)
Total income / expense for the period		-	-	-	(1,315)	(1,315)
Issue of shares on conversion of convertible note	15	7,260	-	-	-	7,260
Issue of share capital	15	15,000	-	-	-	15,000
Issue of options to employees and directors	16	-	-	409	-	409
Cost of capital raising	15	(5,042)	-	-	-	(5,042)
At 31 December 2008		**29,121**	**-**	**409**	**(1,315)**	**28,215**

1. CORPORATE INFORMATION

The financial report of Petro Matad Limited for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors.

The financial report covers the consolidated entity of Petro Matad Limited and its controlled entities.

Petro Matad Limited is a company incorporated in the Isle of Man on 30 August 2007, which has 4 wholly owned subsidiaries, Capcorp Mongolia LLC and Petro Matad LLC, situated in Mongolia, and Central Asian Petroleum Corporation Limited and Petromatad Invest Limited, incorporated in the Cayman Islands.

The nature of operations and principal activities of the consolidated entity are described in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of Australian equivalents to International Financial Reporting Standards ("IFRS").

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.

This transaction has been accounted for as a combination of entities under common control and as such is outside the scope of AASB 3 'Business Combinations'. Australian Accounting Standards currently do not provide guidance in relation to common control transactions therefore in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' other international pronouncements have been applied to account for the business combination. The transaction has been accounted for using merger accounting under UK Accounting Standard FRS 6 'Acquisitions and Mergers' where two or more companies are combined to form one group on terms such that the equity shareholders in each company become the equity shareholders in the combined entity. The accounts therefore represent a continuation of the financial statements of Capcorp, the legal subsidiary acquired.

The financial report covers the financial period 1 January 2008 to 31 December 2008. The comparison figures are from 1 January 2007 to 31 December 2007.

This financial report has been prepared on a historical cost basis, except where stated.

(b) Statement of Compliance

This general purpose financial report has been prepared in accordance with the requirements of all applicable Australian Accounting Standards ("AASB's") and Australian Accounting Interpretations 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 Australian Accounting interpretations have recently been issued or amended but are not yet effective. These standards have not been adopted by the company for the period ended 31 December 2008 and would not have a material effect on the company's current accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Petro Matad Limited and its subsidiaries ("the Group") as at 31 December 2008.

Subsidiaries are entities controlled by the Group. Control exists when the 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 statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are 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.

(d) Foreign Currency Translation

Both the functional and presentation currency of the consolidated entity 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 exchanges rates at the 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 year ended 31 December 2008, the foreign currency translation movements were immaterial and charged to the income statement.

(e) 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. The useful life of the assets is currently estimated to be an average of 6.6 years.

(f) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred by the Company is accumulated separately for each area of interest. The Company's policy is to expense all exploration and evaluation costs funded out of its own resources.

(g) Exploration and Evaluation Assets

Exploration and evaluation assets arising out of business combinations are capitalised as part of deferred exploration and evaluation assets. Subsequent to acquisition exploration expenditure is expensed in accordance with the Company's accounting policy.

Impairment review for deferred exploration and evaluation costs are carried out on a project-by-project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise, typically when one of the following circumstances apply:

- Unexpected geological occurrences that render the resource uneconomic;
- Title to asset is compromised;
- Variations in prices that render the project uneconomic; and
- Variations in the currency of operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) 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 twelve 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.

(i) Borrowing Costs

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

(j) Investment in Associates

The Group's investment in its associates is accounted for under the equity method of accounting in the consolidated financial statements. These are the entities in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and the Group are identical.

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

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

(k) Investments

Investments in subsidiaries are stated at cost less impairment losses.

(l) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) 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.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

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.

(n) Taxation

(i) *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).

(ii) *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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 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.

(iii) *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.

(o) Significant Accounting Judgments, Estimates and Assumptions

In applying the Company'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 the Company. 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.

(p) Revenue Recognition

Revenue from the sale of goods is recognised when risks and rewards of ownership of the goods have passed to the buyer.

Interest revenue is recognised on an accrual basis.

(q) Comparatives Figures

Where necessary, comparatives figures have been adjusted to conform with changes in presentation in the current year.

(r) Earnings Per Share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(s) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(t) Recoverable Amount of Assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SEGMENT INFORMATION

The company operates in one industry, and one geographical location, oil exploration in Mongolia.

4. REVENUES AND EXPENSES

(a) Exploration and evaluation expenditure

	CONSOLIDATED		*PARENT*	
	31 Dec 2008 USD$000	31 Dec 2007 USD$000	31 Dec 2008 USD$000	31 Dec 2007 USD$000
Exploration (Capcorp)	4	270	-	-
Exploration (Petromatad Invest Limited)	2,421	-	-	-
(a) Exploration (Petro Matad LLC)	403	-	-	-
Total exploration and evaluation expenditure	**2,828**	**270**	**-**	**-**

	CONSOLIDATED		PARENT	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	USD$000	USD$000	USD$000	USD$000

4. REVENUES AND EXPENSES (cont'd)

(b) Finance costs

Interest on convertible notes	240	720	-	-
Total finance costs	**240**	**720**	**-**	**-**

(c) Other expenses

Included in other expenses are the following:

Foreign exchange differences	39	-	-	-
Administration costs	606	371	121	-
Travel expenses	192	251	53	-
	837	**622**	**174**	**-**

(d) Employee benefits

Comprises the following:

Consultancy fees to directors	358	534	150	-
Wages	419	60	60	-
Share based payments expense	153	-	153	-
Total employee benefits	**930**	**594**	**363**	**-**

5. INVESTMENT IN ASSOCIATES

In previous financial year, Capcorp acquired a 50% interest in Petromatad Invest Limited for consideration of $3,000,000.

On 12 November 2007 the Group acquired the remaining 50%. Pursuant to the agreements entered into with Petrovis LLC, Petro Matad Limited acquired the remaining 50% interest in Petromatad Invest Limited not owned by Capcorp in consideration for the issue of 23,340,000 ordinary shares at $0.50 each, totalling $11,670,000.

The Group's share of Petromatad Invest Limited's loss to 12 November 2007 is as follows:

Extract from the associates' income statement at 12 November 2007:	*USD'000s*
Revenue	-
Expense	
Exploration and Evaluation Expenditure	1,109
Employee benefits expense	11
Insurance expense	2
Other expenses	32
	1,154
Net Loss	**1,154**
Share of associates net loss – 50%	**577**

	CONSOLIDATED		PARENT	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	USD$000	USD$000	USD$000	USD$000

6. INCOME TAX

Income tax recognised in the income statement

Tax expense / (income) comprises:				
Current tax expense / (income)	-	-	-	-
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	-	-	-	-
Total tax expense / (income)	-	-	-	-
The prima facie 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	(6,277)	(4,431)	(1,315)	-
Income tax expense calculated at 20%	1,255	886	263	-
(Profit) / Losses incurred which are not subject to income tax	(1,039)	(768)	(263)	-
Tax losses not brought at account	(216)	(118)	-	-
Timing differences not brought to account	-	-	-	-
	-	**-**	**-**	**-**

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

7. AUDITORS' REMUNERATION

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	54	22	39	-
- Other services in relation to the entity and any other entity in the consolidated entity	-	9	-	-
	54	31	39	-
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	-	-
- An audit or review of the financial report of subsidiary entities	3	1	-	-
TOTAL	57	61	39	-

	CONSOLIDATED		PARENT	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	USD$000	USD$000	USD$000	USD$000

8. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	3,248	170	15	-
Short term deposits	-	-	-	-
Total cash and cash equivalents	3,248	170	15	-

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

The fair value of cash and cash equivalents is $3,248,000 (2007: $170,000).

Reconciliation of cash

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

Cash at bank and in hand	3,248	170	15	-
Short-term deposits	-	-	-	-
	3,248	**170**	**15**	**-**

Reconciliation from the net profit after tax to the net cash flows from operations

Net Loss	(6,277)	(4,431)	(1,315)	-
Adjustments for:				
Depreciation	16	7	1	-
Interest expense on convertible notes	240	720	-	-
Share of associates' net losses	-	577	-	-
Loss on sale of plant & equipment	(5)	-	-	-
Consultancy fees	256	360	256	-
Share based payment	153	-	153	-
Changes in assets and liabilities				
(increase)/decrease in trade and other receivables	11	(9)	-	-
(decrease)/increase in trade and other payables	(1,021)	1,206	102	-
Net cash from operating activities	**(6,627)**	**(1,570)**	**(803)**	**-**

Non-cash investing and financing activities

The Company entered into a share exchange agreement with Citadel to acquire shares in Capcorp allotted to Citadel in consideration of 20,000,000 ordinary shares in the company. The agreement was conditional upon the conversion of the convertible loan note held by Citadel in Capcorp. On 1 May 2008 the convertible loan note of a value of $7,260,000 was converted through the issue of 20,000,000 shares in Capcorp, which on the same day were exchanged for 20,000,000 shares in Petro Matad Limited.

	CONSOLIDATED		PARENT	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	USD$000	USD$000	USD$000	USD$000

9. TRADE AND OTHER RECEIVABLES (CURRENT)

Other debtor	1	7	-	-
Related party receivables:				-
- loan to subsidiary	-	-	10,005	-
Total trade and other receivables (current)	**1**	**7**	**10,005**	**-**

For terms and conditions of related party receivables, refer to Note 21.

10. OTHER CURRENT ASSETS

Other current assets	20	20	-	-
Prepayments	-	5	-	-
Total other current assets	**20**	**25**	**-**	**-**

Other current assets of $20,000 represents mining fees of 2 x $10,000 government fees involved with the applications for PSCs for Blocks IV and V.

11. EXPLORATION AND EVALUATION ASSETS

Consolidated	USD$000
Year ended 31 December 2007	
At 1 January 2007, net of accumulated depreciation	-
Additions on acquisition of subsidiary	15,275
Disposals	-
Impairment	-
At 31 December 2007, net of accumulated depreciation	**15,275**
At 1 January 2008, net of accumulated depreciation	15,275
Additions	-
Disposals	-
Impairment	-
At 31 December 2008, net of accumulated depreciation	**15,275**

The exploration and evaluation asset arose on the acquisition of the 50% of Petromatad Invest Limited not already held by the Group on 12 November 2007. The consideration was 23,340,000 ordinary shares credited as fully paid up and with an estimated fair value of $0.50 per share totalling $11,670,000, taking into account assets and liabilities acquired on acquisition.

12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		PARENT	
	Plant and Equipment USD$000	*Total USD$000*	*Plant and Equipment USD$000*	*Total USD$000*
Period ended 31 December 2007				
At 1 January 2007, net of accumulated depreciation	20	20	-	-
Additions	36	36	-	-
Disposals	-	-	-	-
Impairment	-	-	-	-
Depreciation charge for the period	(7)	(7)	-	-
At 31 December 2007, net of accumulated depreciation	**49**	**49**	**-**	**-**
Period ended 31 December 2008				
At 1 January 2008, net of accumulated depreciation	49	49	-	-
Additions	81	81	14	14
Disposals	(16)	(16)	-	-
Impairment	-	-	-	-
Depreciation charge for the period	(16)	(16)	(1)	(1)
At 31 December 2008, net of accumulated depreciation	**98**	**98**	**13**	**13**

	CONSOLIDATED		PARENT	
	Plant and Equipment USD$000	*Total USD$000*	*Plant and Equipment USD$000*	*Total USD$000*
At 31 December 2007				
Cost or fair value	57	57	-	-
Accumulated depreciation and impairment	(8)	(8)	-	-
Net carrying amount	**49**	**49**	**-**	**-**
At 31 December 2008				
Cost or fair value	117	117	14	14
Accumulated depreciation and impairment	(19)	(19)	(1)	(1)
Net carrying amount	**98**	**98**	**13**	**13**

	CONSOLIDATED		PARENT	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
	USD$000	USD$000	USD$000	USD$000

13. TRADE AND OTHER PAYABLES

	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Trade payables	242	1,263	102	-
Other payables	3	3	-	-
Related party payables:				
- loan from subsidiaries	-	-	879	-
Total trade and other payables	**245**	**1,266**	**981**	**-**

Trade payables are non-interest bearing and are normally settled within 60-day terms.

For terms and conditions of related party payables, refer to Note 21.

14. INTEREST BEARING LOANS AND BORROWINGS

	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Unsecured				
Convertible notes	-	6,022	-	-
Total interest bearing loans and borrowings	**-**	**6,022**	**-**	**-**

Capcorp issued $6,000,000 convertible, unsecured loan notes due on 2 August 2009. Interest accrued at a rate of 12% per annum and was capitalised to the principal. The notes were convertible to 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 were convertible in ordinary shares of Capcorp at any time at the option of the holder and automatically if the company completes an initial public offering. The maximum number of shares to be issued on conversion was 20,000,000 shares.

The Company entered into a share exchange 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 in the company. The agreement was conditional upon the conversion of the convertible loan note held by Citadel in Capcorp. On 1 May 2008 the convertible loan note was converted through the issue of 20,000,000 shares in Capcorp, which on the same day were exchanged for 20,000,000 shares in Petro Matad Limited.

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

	CONSOLIDATED	
	1 May 2008 Conversion Date	31 Dec 2007
	USD$000	USD$000
Face value of convertible note	6,000	6,000
Equity portion – value of conversion right	(998)	(998)
	5,002	5,002
Accredited Interest Capitalised	1,260	1,020
Total convertible note – Liability Portion	**6,262**	**6,022**

15. ISSUED CAPITAL

	CONSOLIDATED		PARENT	
	31 Dec 2008 USD$000	31 Dec 2007 USD$000	31 Dec 2008 USD$000	31 Dec 2007 USD$000
Ordinary shares 96,680,004 shares paid up (2007: 46,680,004)	28,928	11,903	29,121	11,903
TOTAL	**28,928**	**11,903**	**29,121**	**11,903**

Ordinary Shares
Movement in ordinary shares:

CONSOLIDATED ENTITY:	*No of Shares*	*Issue Price*	*USD$*
Opening at 1 January 2007	**23,340,000**		**233,400**
Issue of founder shares 30 August 2007	4	0.01	-
Share issue on 12 November 2007 to acquire Petromatad Invest Limited (note (b))	23,340,000	0.50	11,670,000
At 31 December 2007	**46,680,004**		**11,903,400**
Issue of shares from private placement on 17 March 2008 and 24 April 2008 (note (c))	20,000,000	0.50	10,000,000
Issue of shares to Petrovis on 1 May 2008 (note (d))	10,000,000	0.50	5,000,000
Issue of shares on conversion of convertible note on 1 May 2008 (note (e))	20,000,000	0.363	7,260,000
Capital raising costs	-	-	(5,234,961)
At 31 December 2008	**96,680,004**		**28,928,439**

PARENT ENTITY:	*No of Shares*	*Issue Price*	*USD$*
Issue of founder shares 30 August 2007	4	0.01	-
Share issue on 12 November 2007 to acquire Capcorp (note (a))	23,340,000	0.01	233,400
Share issue on 12 November 2007 to acquire Petromatad Invest Limited (note (b))	23,340,000	0.50	11,670,000
At 31 December 2007	**46,680,004**		**11,903,400**
Issue of shares from private placement on 17 March 2008 and 24 April 2008 (note (c))	20,000,000	0.50	10,000,000
Issue of shares to Petrovis on 1 May 2008 (note (d))	10,000,000	0.50	5,000,000
Issue of shares on conversion of convertible note on 1 May 2008 (note (e))	20,000,000	0.363	7,260,000
Capital raising costs	-	-	(5,042,000)
At 31 December 2008	**96,680,004**		**29,121,400**

15. ISSUED CAPITAL (cont'd)

(a) On 12 November 2007, pursuant to agreements entered into with all shareholders of Capcorp the Company issued 23,340,000 ordinary shares at nominal value in the share for share exchange with Capcorp Refer to note 16 for further details.

(b) On 12 November 2007, the Company issued 23,340,000 ordinary shares at USD$0.50 per share for the purchase of 50% interest in Petromatad Invest Limited.

(c) On 17 March 2008 and 24 April 2008, Petro Matad Limited concluded a private placement comprising of one ordinary share and one warrant at a price of US$0.50 per unit, totalling 20,000,000 ordinary shares and 20,000,000 warrants.

(d) On 1 May 2008, 10,000,000 ordinary shares were allotted to Petrovis for non-cash consideration.

(e) On 1 May 2008, the Capcorp convertible loan note was converted through the issue of 20,000,000 shares in Capcorp. Pursuant to share exchange agreements entered into with Citadel, on the same day the Capcorp shares exchanged for 20,000,000 shares in Petro Matad Limited.

Warrants
Movements in warrants:

	No of Warrants	*Exercise Price*
Opening balances at 1 January 2007	-	-
At 31 December 2007	**-**	
Issue of warrants from private placement on 17 March 2008 and 24 April 2008	20,000,000	US$1.00
At 31 December 2008	**20,000,000**	

On 17 March 2008 and 24 April 2008, Petro Matad Limited concluded a private placement comprising of one ordinary share and one warrant at a price of US$0.50 per unit, totalling 20,000,000 ordinary shares and 20,000,000 warrants. One warrant entitled the holder to subscribe for one new ordinary share at an exercise price of US$1.00 per warrant at any time prior to 30 September 2008. The warrant exercise date was extended until 30 January 2009 and have all since expired.

16. RESERVES

	CONSOLIDATED		*PARENT*	
	31 Dec 2008	*31 Dec 2007*	*31 Dec 2008*	*31 Dec 2007*
	USD$000	*USD$000*	*USD$000*	*USD$000*
Merger reserve	831	831	-	-
Option Premium on convertible notes	-	998	-	-
Options reserve	409	-	409	-
Total reserves	1,240	1,829	409	-
Option premium on convertible notes				
Opening balance at the beginning of the financial period	998	1,234	-	-
Issue of convertible notes	-	-	-	-
Conversion of convertible notes to ordinary shares	(998)	(236)	-	-
Closing balance at the end of the financial period	**-**	**998**	**-**	**-**

16. RESERVES (cont'd)

The option premium on convertible notes represents the equity component (conversion rights) of the $6,000,000 12% convertible notes issued on 2 August 2006. On 1 May 2008, the convertible note was converted to ordinary shares. Details are shown in Note 14.

	CONSOLIDATED		*PARENT*	
	31 Dec 2008	*31 Dec 2007*	*31 Dec 2008*	*31 Dec 2007*
	USD$000	*USD$000*	*USD$000*	*USD$000*
Merger reserve				
Opening balance at the beginning of the financial period	831	831	-	-
Arising on the acquisition of Capcorp	-	-	-	-
Closing balance at the end of the financial period	**831**	**831**	**-**	**-**

The merger reserve arose from the Company's acquisition of Capcorp on 12 November 2007. As detailed in Note 2(a), this transaction is outside the scope of AASB 3 'Business Combinations' and as such directors have elected to use UK Accounting Standard FRS 6 'Acquisitions and Mergers'. The difference, if any, between the nominal value of the shares issued plus the fair value of any other consideration given, and the nominal value of the shares received in exchange are recorded as a movement on other reserves in the consolidated financial statements.

The following represents the adjustment to the previously reported figures of Capcorp as a result of the merger.

	USD$000
Nominal value of shares issued by Petro Matad Limited (note 15(a))	(233)
Nominal value of shares acquired by Capcorp	1,064
Merger reserve arising on consolidation	**831**

Option reserve				
Opening balance at the beginning of the financial period	-	-	-	-
Issue of options to employees and directors	153	-	153	-
Issue of options for services provided	256	-	256	-
Closing balance at the end of the financial period	**409**	**-**	**409**	**-**

The option reserve relates to issue of options relating to share based payment transactions.

17. SHARE BASED PAYMENTS

(a) Long Term Incentive Plan

The Company provides for long-term incentives to employees (including executive directors, non-executive directors and consultants through the company's 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 performance 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 and align their interests of shareholders.

Options may be exercised, subject only to continuing service, during such period as the Board may determine. Options granted will become exercisable in three parts:

- 25% on the second anniversary of the date of grant;
- 50% on the third anniversary of the date of grant; and
- 25% on the fourth anniversary of the date of grant.

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 will vest on achievement of the following conditions:

(i) 25 % vest when the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled;
(ii) 25 % vest when the first production of oil on a commercial scale in accordance with the PSC is fulfilled; and
(iii) 50 % vest on the Company achieving the sale of 1 million barrels of oil.

(b) Option Pricing Model

On 24 April 2008, the Company entered into an option agreement with Hanson Westhouse granting them an option to acquire 966,800 ordinary shares at US$0.75 per ordinary share, expiring 1 May 2013. These options may not be exercised for a period of one year from Admission on AIM (i.e. 1 May 2009). The fair value of the options granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ending 31 December 2008 for this transaction:

Share price at grant date	US$0.3725
Expected Volatility (%)	114
Risk-free interest rates (%)	7.25
Contractual life (years)	5
Exercise Price	US$0.75

The estimate fair value of each option at grant date is approximately US25.77 cents.

On 3 June 2008, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 1,930,000 million options on ordinary shares to employees and directors at US$0.75 per ordinary share, exercisable in three parts:

- 25% after 1 May 2010;
- 50% after 1 May 2011;
- 25% after 1 May 2012.

The fair value of the options granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ending 31 December 2008 for this transaction:

Share price at grant date	US$0.415
Expected Volatility (%)	106
Risk-free interest rates (%)	7.25
Contractual life (years)	10
Exercise Price	US$0.75

The estimate fair value of each option at grant date is approximately US37.08 cents.

17. SHARE BASED PAYMENTS (cont'd)

(c) Movement in share options

	Opening balance at 1 January 2008	Granted during the year	Forfeited during the year	Closing balance at 31 December 2008	Exercisable at year end
Grant of options for services provided on 24 April 2008	-	966,800	-	966,800	-
Grant of options to employees and directors on 3 June 2008	-	1,930,000	(185,000)	1,745,000	-
Total	**-**	**2,896,800**	**(185,000)**	**2,711,800**	**-**

(d) Performance Awards

On 3 June 2008, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 2,055,000 performance share awards of ordinary shares to employees. These have an acquisition price per ordinary share equal to the nominal value of an ordinary share after vesting. The performance share awards will vest on achievement of the following conditions:

(i) 25 % vest when the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled;
(ii) 25 % vest when the first production of oil on a commercial scale in accordance with the PSC is fulfilled; and
(iii) 50 % vest on the Company achieving the sale of 1 million barrels of oil.

As at 31 December 2008 and at the date of this report, none of the above conditions have been met, hence none of the performance award have vested or become exercisable.

(e) Movement in Performance Awards

	Opening balance at 1 January 2008	Granted during the year	Forfeited during the year	Closing balance at 31 December 2008
Grant of performace awards to employees and directors on 3 June 2008	-	2,055,000	(235,000)	1,820,000
Total	**-**	**2,055,000**	**(235,000)**	**1,820,000**

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The 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 Group's operations.

The 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 Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

The board is responsible for identification and control of financial risks. The board reviews and agrees policies for managing each of these risks and these are summarised below.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the Group uses. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. It is the Group's policy to settle trade payables within the credit terms allowed and the Group does therefore not incur interest on overdue balances.

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

Consolidated		*Fixed interest rate maturing in*			
31 December 2008	***Floating interest rate***	***1 Year or less***	***Over 1 to 5 years***	***Non-interest bearing***	***Total***
	USD$000	*USD$000*	*USD$000*	*USD$000*	*USD$000*
Financial assets:					
Cash and cash equivalents	3,248	-	-	-	3,248
Trade and other receivables	-	-	-	1	1
	3,248	-	-	1	3,249
Weighted average interest rate	3.25%				
Financial liabilities:					
Trade and other payables	-	-	-	245	245
Convertible notes	-	-	-	-	-
	-	-	-	245	245
Weighted average interest rate			12%		

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Consolidated		*Fixed interest rate maturing in*			
31 December 2007	***Floating interest rate***	***1 Year or less***	***Over 1 to 5 years***	***Non-interest bearing***	***Total***
	USD$000	*USD$000*	*USD$000*	*USD$000*	*USD$000*
Financial assets:					
Cash and cash equivalents	170	-	-	-	170
Trade and other receivables	-	-	-	7	7
	170	-	-	7	177
Weighted average interest rate	5.88%				
Financial liabilities:					
Trade and other payables	-	-	-	1,266	1,266
Convertible notes	-	-	6,022	-	6,022
	-	-	6,022	1,266	7,288
Weighted average interest rate			12%		

Parent		*Fixed interest rate maturing in*			
31 December 2008	***Floating interest rate***	***1 Year or less***	***Over 1 to 5 years***	***Non-interest bearing***	***Total***
	USD$000	*USD$000*	*USD$000*	*USD$000*	*USD$000*
Financial assets:					
Cash and cash equivalents	15	-	-	-	15
	15	-	-	-	15
Weighted average interest rate	3.25%				
Financial liabilities:					
Trade and other payables	-	-	-	102	102
	-	-	-	102	102

Sensitivity analysis
If interest rates on cash balances had weakened/strengthened by 1 % at 31 December, there would be no material impact on the income statement. There would be no effect on the equity reserves other that those directly related to income statement movements.

The group does not account for any fixed fate financial liabilities at fair value through profit or loss, therefore a change in interest rate is not subject to interest rate risk.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

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

The functional currency of the Company is deemed to be US$ because the future revenues from the sale of oil will be denominated in US dollars and the costs of the Company are likewise predominately in US dollars. Some transactions are however denominated in currencies other than US dollars. These transactions comprise operating costs and capital expenditure in the local currencies of the countries in which the Company operates. These currencies have a close relationship to the US dollar and the management believes that changes in the exchange rates will not have a significant effect on the Company's financial statements.

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

The following significant exchange rates applied during the year:

	Average Rate		*Spot Rate at Reporting date*	
USD	2008	2007	2008	2007
MNT 1	1,165.92	1,169.73	1,267.51	1,169.97
AUD 1	1.19700	1.19540	1.44871	1.14190

Sensitivity Analysis
A 5 % strengthening / weakening of the Mongolian Tugrik (MNT) against the US dollar at 31 December would not have a material effect on profit and equity.

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

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk on its cash and cash equivalents and other receivables as set out in notes 10 and 11 which also represents the maximum exposure to credit risk. The Group only deposits surplus cash with well established financial institutions of high quality credit standing.

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

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

Maximum exposure to credit risk at reporting date:

	CONSOLIDATED		*PARENT*	
	31 Dec 2008 USD$000	*31 Dec 2007 USD$000*	*31 Dec 2008 USD$000*	*31 Dec 2007 USD$000*
Cash and cash equivalents	3,248	170	15	-
Trade & other receivables	1	7	-	-
	3,249	177	15	-

Impairment Losses
None of the company's receivables are past due at 31 December 2008 (2007: Nil).

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to ensure that sufficient funds are available to allow it to continue its exploration activities. Up to 31 December 2008 the Group funded its activities predominately through the use of convertible notes. Subsequent to the year end, the company has raised a substantial amount of equity finance.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

The following are the contractual maturities of financial liabilities:

Consolidated
Year ended 31 December 2008:

Non derivative financial liabilities:	*Carrying Amount*	*Under 6 Months*	*6-12 Months*	*1-2 Years*
Trade and other payables	245	245	-	-
	245	245	-	-

Year ended 31 December 2007:

Non derivative financial liabilities:	*Carrying Amount*	*Under 6 Months*	*6-12 Months*	*1-2 Years*
Trade and other payables	1,266	1,266	-	-
Convertible note	6,022	-	-	6,022
	7,288	1,266	-	6,022

Parent
Year ended 31 December 2008:

Non derivative financial liabilities:	*Carrying Amount*	*Under 6 Months*	*6-12 Months*	*1-2 Years*
Trade and other payables	102	102	-	-
	102	102	-	-

All of the Group's amounts payable and receivable are current except for the convertible loan which was converted on 1 May 2008.

Fair Value of Financial Assets and Liabilities
The 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.

Capital Management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management of the Company and the Group's capital is performed by the Board.

The Company monitors its capital requirements based on the funding required for its exploration activities in Mongolia.

Neither the company nor the Group are subject to externally imposed capital requirements.

19. COMMITMENTS

Lease Commitments

Operating leases relate to premises used by the Company 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.

The Company has committed to an office lease in Australia of USD$29,150 per annum expiring 31/1/2010.

The Company has also committed to an office lease in Mongolia of USD$46,345 per annum expiring 31/12/2009.

	CONSOLIDATED		*PARENT*	
	31 Dec 2008 USD$000	*31 Dec 2007 USD$000*	*31 Dec 2008 USD$000*	*31 Dec 2007 USD$000*
0 to 1 year	75	36	29	-
1 to 5 years	2	3	2	-
Greater than 5 years	-	-	-	-
	77	39	31	-

Exploration Expenditure Commitments

Petromatad Invest Limited has minimum spending obligations, under the terms of its Production Sharing Contract ("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.

Production Sharing Contract Fees - Block XX:

Exploration Operations	**Cost USD$**
Land Surface Rental due by 18/08/2009	$28,500.00
Training Bonus due by 18/08/2009	$25,000.00
Government Assistance Contribution due by 18/08/2009	$5,000.00
Total	**$58,500.00**

Production Sharing Contract - Minimum Exploration Work Obligations:

Exploration Phase	**Years**	**Exploration Operations**	**Cost USD$**
4	2009/10	3D Seismic Survey and drilling 1 well	$1,200,000.00
5	2009/11	3D Seismic Survey and drilling 1 well	$1,275,000.00
		Total	**$2,475,000.00**

Under the PSC any expenditure over and above the annual minimum exploration work obligation may be used to reduce the next year's obligation.

In light of this allowance, the Company has a right to reduce the spending to NIL in 2009/2010.

Petromatad Invest Limited can voluntarily relinquish their rights on the contract area under the PSC, if the minimum work obligations for that year are accomplished.

20. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit / (loss) for the year 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 profit / (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 redeemable preference shares).

	CONSOLIDATED	
	31 Dec 2008	*31 Dec 2007*
	cents per share	cents per share
Basic earnings per share		
Total basic earnings per share (note a)	(7.6)	(16.7)
Diluted earnings per share		
Total diluted earnings per share (note b)	(7.6)	(16.7)

(a) Basic earnings per share	$000's	$000's
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	(6,277)	(4,431)
Weighted average number of ordinary shares for the purposes of basic earnings per share	82,311	26,537
(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	(6,277)	(4,431)
Weighted average number of ordinary shares for the purposes of basic earnings per share	82,311	26,537

The convertible notes, warrants, options and performance awards 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 the either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

21. RELATED PARTY DISCLOSURES

(a) Subsidiaries

Investments in subsidiaries:	*PARENT 31 Dec 2008 USD$000*	*PARENT 31 Dec 2007 USD$000*
Investment in Capcorp	7,493	233
Investment in Petromatad Invest Limited	11,670	11,670
Closing balance at the end of the period	**19,163**	**11,903**

On 1 May 2008, the Capcorp convertible loan note was converted through the issue of 20,000,000 shares in Capcorp of a value of $7,260,000. Pursuant to share exchange agreements entered into with Citadel, on the same day the Capcorp shares exchanged for 20,000,000 shares in Petro Matad Limited, therefore increased its shareholding in its subsidiary of the same value.

The consolidated financial statements include the financial statements of Petro Matad Limited and the subsidiaries listed in the following table:

	Country of incorporation	*% Equity interest*	
		31 Dec 2008	*31 Dec 2007*
Central Asian Petroleum Corporation Limited	Cayman Islands	100%	100%
Capcorp Mongolia LLC	Mongolia	100%	100%
Petromatad Invest Limited	Cayman Islands	100%	100%
Petro Matad LLC	Mongolia	100%	100%

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.

Petromatad Invest Limited was acquired on 12 November 2007. Petro Matad Limited holds 25,000 shares and Central Asian Petroleum Corporation Limited holds 25,000 shares.

Petro Matad LLC is 100% owned by Petromatad Invest Limited.

(b) Key management personnel

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

- Gordon Toll
- Janchiv Oyungerel
- Douglas McGay
- Clyde Evans
- John Robertson
- Sarangua Davaadorj
- Gregory Meldrum (resigned on 1 July 2008)

Information on remuneration of directors is disclosed in Note 22.

21 RELATED PARTY DISCLOSURES (cont'd)

(c) Transactions with related parties

Amounts receivable from related parties:	31 Dec 2008 USD$000	31 Dec 2007 USD$000
Petro Matad		
- Capcorp	10,000	-
- Petromatad Invest	5	-
Capcorp		
- Petro Matad LLC	7,767	-
- Capcorp Mongolia LLC	1,434	1,278
- Petromatad Invest	322	
Capcorp Mongolia LLC		
- Petro Matad	8	-
Petro Matad LLC		
- Petro Matad	871	-
- Petromatad Invest	2,326	-
- Capcorp Mongolia LLC	1,127	846

Terms and conditions:
Outstanding balances at year-end are non-interest bearing and repayable on demand.

22. KEY MANAGEMENT PERSONNEL

	CONSOLIDATED		PARENT	
	31 Dec 2008 USD$000	31 Dec 2007 USD$000	31 Dec 2008 USD$000	31 Dec 2007 USD$000

(a) Compensation of key management personnel

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	694	636	291	-
Post-employment benefits	-	-	-	-
Share based payment expense	107	-	107	-
	801	636	398	-

On 3 June 2008, 1,930,000 options on ordinary shares and 2,055,000 awards of ordinary shares were issued to employees and directors. (31 December 2007: Nil)

Directors are not entitled to any retirement benefits.

The short term employment benefits were paid to directors and associated entities of the directors.

22 KEY MANAGEMENT PERSONNEL (cont'd)

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

Period ended 31 December 2008	Opening Balance 1 January 2008	Acquired and (Disposed) off during the period	Transferred during the period	Closing Balance 31 December 2008
Gordon Toll	5,102,501	-	-	5,102,501
Janchiv Oyungerel	6,335,000	400,000	-	6,735,000
Douglas McGay	5,600,000	-	-	5,600,000
Clyde Evans	4,048,751	-	-	4,048,751
John Robertson	-	-	-	-
Davaadorj Sarangua	-	-	-	-
Gregory Meldrum (resigned 1 July 2008)	3,675,000	300,000	-	3,975,000
	24,761,252	700,000	-	25,461,252

Period ended 31 December 2007	Opening Balance 1 January 2007	Acquired and (Disposed) off during the period	Transferred during the period	Closing Balance 31 December 2007
Gordon Toll	5,602,500	1	(500,000)	5,102,501
Janchiv Oyungerel	-	5,835,000	500,000	6,335,000
Douglas McGay	7,550,000	-	(1,950,000)	5,600,000
Clyde Evans	4,048,750	1	-	4,048,751
John Robertson	-	-	-	-
Davaadorj Sarangua	-	-	-	-
Gregory Meldrum (resigned 1 July 2008)	3,675,000	-	-	3,675,000
	20,876,250	5,835,002	(1,950,000)	24,761,252

(c) Option holdings of key management personnel and their related parties

Period ended 31 December 2008	Opening Balance 1 January 2008	Acquired and (Disposed) off during the period	Forfeited during the period	Closing Balance 31 December 2008
Gordon Toll	-	250,000	-	250,000
Janchiv Oyungerel	-	250,000	-	250,000
Douglas McGay	-	425,000	-	425,000
Clyde Evans	-	200,000	-	200,000
John Robertson	-	150,000	-	150,000
Davaadorj Sarangua	-	150,000	-	150,000
Gregory Meldrum (resigned 1 July 2008)	-	150,000	(150,000)	-
	-	1,575,000	(150,000)	1,425,000

No options were held as at 31 December 2007.

22 KEY MANAGEMENT PERSONNEL (cont'd)

(d) Performance Awards of key management personnel and their related parties

Period ended 31 December 2008	Opening Balance 1 January 2008	Acquired and (Disposed) off during the period	Forfeited during the period	Closing Balance 31 December 2008
Gordon Toll	-	250,000	-	250,000
Janchiv Oyungerel	-	250,000	-	250,000
Douglas McGay	-	425,000	-	425,000
Clyde Evans	-	200,000	-	200,000
John Robertson	-	150,000	-	150,000
Davaadorj Sarangua	-	150,000	-	150,000
Gregory Meldrum (resigned 1 July 2008)	-	200,000	(200,000)	-
	-	1,625,000	(200,000)	1,425,000

No performance awards were held as at 31 December 2007.

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

Included within other payables at 31 December 2008 is an amount of $130,000 (2007: $100,000) owing to a company associated with one of the directors, in reimbursement of expenditure incurred on behalf of the Group.

23. EVENTS AFTER THE BALANCE SHEET DATE

On 27 January 2009, pursuant to the Group's Long Term Equity Incentive Plan it was determined that the option granted to Damdin Janchiv over 40,000 ordinary shares of USD$0.01 each in the Company under the Plan are exercisable in full for a period of 6 months from 27 January 2009 at the end of which period the Option shall lapse to any extent that it is unexercised.

On 27 January 2009, pursuant to the Group's Long Term Equity Incentive Plan it was determined that 25,000 shares would be vested in Damdin Janchiv pursuant to the performance share award granted to him over 60,000 ordinary shares and that the Award would lapse as to the balance of 35,000 shares.

On 30 January 2009, 20,000,000 unlisted warrants issued under the private placement in March and April 2008, expired.

On 20 February 2009, 25,000 ordinary shares of US$0.01 has been issued to Damdin Janchiv pursuant to a performance share award granted to him on admission of the Company's shares to AIM in May 2008.

On the 19 March 2009, Mr Douglas McGay purchased 150,000 ordinary shares of US$0.01 in the Company at a price of 10 pence per ordinary shares. Mr McGay now has a beneficial interest in 5,750,000 ordinary shares in the Company.

On 2 April 2009, Damdin Janchiv paid USD$250 for the conversion 25,000 options at USD$0.01 each to ordinary shares.

On the 8 April 2009, the Company issued 1,915,000 new options at an exercise price of 11 pence per share. The new options include 1,350,000 options issued to directors of the Company. The vesting terms of the directors' options are that 25% will vest on the first anniversary of the date of grant, 50% on the second anniversary of that date of grant and 25% on the third anniversary of grant. The options will expire 8 April 2018. The number of new options issued to each director is set out in the table below:

Gordon Toll	250,000
Janchiv Oyungerel	250,000
Douglas McGay	350,000
Clyde Evans	200,000
John Robertson	150,000
Davaadorj Sarangua	150,000

23. EVENTS AFTER THE BALANCE SHEET DATE (cont'd)

On the 8 April 2009, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 155,000 performance share awards of ordinary shares to employees. These have an acquisition price per ordinary share equal to the nominal value of an ordinary share after vesting. The performance share awards will vest on achievement of the following conditions:
(i) 25 % vest when the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled;
(ii) 25 % vest when the first production of oil on a commercial scale in accordance with the PSC is fulfilled; and
(iii) 50 % vest on the Company achieving the sale of 1 million barrels of oil.

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

24. OTHER INFORMATION

Registered Office:
Victory House
Douglas
Isle of Man
IM1 1EQ

Directors' Declaration

In accordance with a resolution of the directors of Petro Matad Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the company gives a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date in accordance with Australian Accounting Standards, mandatory professional reporting requirements and other authoritative pronouncements of the Australian Accounting Standards Board;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(b); and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Clyde Evans
Director

10th June 2009

PKF
Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PETRO MATAD LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Petro Matad Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Petro Matad Limited and of the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Petro Matad Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 (b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Tel: 61 8 9278 2222 | Fax: 61 8 9278 2200 | www.pkf.com.au
West Australian Partnership | ABN 39 542 778 278
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

PKF
Chartered Accountants
& Business Advisers

Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Audit Opinion

In our opinion,

(a) the financial report of Petro Matad Limited:

(i) gives a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of its performance for the year ended on that date;

(ii) complies with Australian Accounting Standards (including the Australian Accounting Interpretations); and

(b) the financial statements and notes or financial report also comply with International Financial Reporting Standards as disclosed in Note 2 (b).

PKF

PKF
Chartered Accountants

Chris Nicoloff

Chris Nicoloff
Partner

Dated in Perth, Western Australia on this 10th day of June 2009

Petro Matad Limited
6th Floor
Victory House
Douglas
Isle of Man
IM1 1EQ

Suite 407, NIC Building
Amar Street 8, Sukhbaatar District
Ulaanbaatar 210646
Mongolia
Phone: +976 11 331099
Fax: +976 11 321799
E-mail: admin@petromatad.com

НИК ХХК-ийн байр, 407 тоот
Ерөнхий сайд Амарын гудамж-8
Сүхбаатар дүүрэг
Улаанбаатар 210646, Монгол улс
Утас: +976 11 331099
Факс: +976 11 321799
И-майл: admin@petromatad.com

Suite 4, 20 Altona Street
West Perth 6005
Western Australia
Phone: +61 8 9486 4588
Fax: +61 8 9486 4587