

**2011 ANNUAL
REPORT**
**PETRO MATAD
LIMITED**
FOR THE YEAR ENDED
31 DECEMBER 2011



The **Power of Oil**
for the **Land of Eternal Sky**

2011 ANNUAL REPORT

PETRO MATAD LIMITED

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CHAIR'S STATEMENT

“My dream has been to discover oil beneath my homeland of Mongolia. I firmly believe that Petro Matad has the right assets and the right team to fulfil that dream.”

I introduce this Annual Report with a mixture of pride and disappointment.

Petro Matad has achieved much in its short life. After Petrovis LLC combined with Australian shareholders in 2006 and subsequently international finance in 2008, the Company set about exploring for petroleum in Mongolia in a meaningful manner. In the first two years we showed great endeavour and innovation as we mobilised Mongolian wisdom with international talent and technology in a bid to locate commercial oil in the eastern steppes of our country. When I accepted the appointment of Co-Chair in 2010, I was excited by the opportunity to pioneer the discovery of oil in my country at the head of a company with the assets and capability to achieve this.

For a period, we thought we had been successful. To our disappointment, this first stage of exploring our vast land position did not prove to be commercial oil.

Like true explorationists, Petro Matad has not given up. The Company has refashioned itself and still has both money in the bank and highly attractive exploration prospects. The fast developing Blocks IV and V in the centre of Mongolia are now supplementing our prospective eastern Block XX. And that is once again a cause for pride.

Growth and change are initiated at the top level of any Company, and Petro Matad commenced this process by strengthening our Board's technical and business expertise. I detail hereunder the changes that have been made to the Board over the past year.

In May 2011, the Company welcomed Ms Enkhmaa Davaanyam to the Board of Directors as Petrovis's nomination, in the place of Ms Enkhchimeg Davaanyam, who had resigned as a Director.

In January 2012, Mr Gordon Toll stepped down as Co-Chair and resigned as a Director of the Company. He had been with the Company since its formation and I would like to reiterate the Company's gratitude for his contribution. I was pleased to be appointed Chair of the Board at that time, accepting this appointment with a clear belief that the past hard work, although not rewarded with commercial success had laid the foundations for a sound future, and that I could contribute to the process of change that lay in front of us.

In March 2012, two more Directors retired: Dr John Robertson and Ms Sarangua Davaadorj, who had served on the Board with distinction since listing in 2008. The three new independent non-executive

Directors, Dr Philip Vingoe, Dr George Watkins CBE and Mr David Skeels, each prominent figures from within the oil and gas industry were appointed to the Board in March 2012. The appointments of these three individuals brought the benefit of a combined industry and exploration experience of 125 years to the Petro Matad board. In the same month, the Company also appointed Ms Amarzul Tuul to the Board of Directors, who had also been with the Company in management positions since its formation. Ms Tuul was appointed as an executive Director to ensure management representation on the Board after the retirement of the CFO, Mr Clyde Evans from his management role (although he has remained as a non-executive Director).

The above has resulted in a Board of nine members, an increase of one since the last report. I believe that the added expertise of the new independent non-executive Directors has greatly strengthened the resources, knowledge and skills available to the Company.

The Board has set policies to strengthen the Company and charged the CEO, Douglas McGay to work with his talented management team to implement those policies and guidelines. Importantly those changes focus upon the exploration processes and programmes of the Company and as he will report herein, those developments are now in place and progressing well.

Mr McGay, as CEO has provided stability combined with energy during these challenging and changing times. The period under review was difficult, and he and I resolved to be the steady nucleus of Petro Matad so that the necessary changes could be implemented whilst ensuring our core values were maintained.

I would like to express my gratitude to my fellow Directors for their continuing efforts on behalf of Petro Matad. Our patient shareholders, large and small also deserve our gratitude, along with our promise to work hard for the future success of the Company.

My dream has been to discover oil beneath my homeland of Mongolia. I firmly believe that Petro Matad has the right assets and the right team to fulfil that dream.



Janchiv Oyungerel
Chair of the Board

ТӨЛӨӨЛӨН УДИРДАХ ЗӨВЛӨЛИЙН ДАРГЫН МЭДЭГДЭЛ

Бид энэ жилийн тайланг ололт амжилтаараа бахархахын зэрэгцээ сэтгэл гонсойлгосон асуудлын хамтаар Та бүхэнд хүргэж байна.

Петро Матад компани үүсгэн байгуулагдсанаас хойшхи богино хугацаанд олон зүйлийг гүйцэтгэж чадсан. Петровис ХХК 2006 онд Австралийн хувьцаа эзэмшигчидтэй нэгдэж, 2008 онд олон улсын санхүүжилт авснаас хойш тус компани Монгол Улсад газрын тосны хайгуулыг жинхэнэ утгаар нь хийхээр зориг шулуудсан. Эхний хоёр жилийн хугацаанд бид асар их хүчин чармайлт, шинэ санаачилга гаргаж, олон улсын хэмжээний мэргэжлийн чадвар, технологийг монгол ухаантай хослуулан, Монгол Улсын дорнын тал нутагт газрын тосны хайгуулын ажлаа эхлүүлсэн. 2010 онд өөрийн эх оронд эдийн засгийн үр ашиг бүхий тосны нээлт хийх бүрэн боломжтой энэхүү компанийн хамтарсан ТУЗ-ийн даргын албан тушаалыг хүлээж авахдаа би баяртай байлаа.

Хэсэг хугацаанд бидний үйл ажиллагаа амжилттай явж байна гэж бодож байсан ч харамсалтай нь асар өргөн нутаг дэвсгэрийг хамарсан хайгуулын эхний шатанд энэхүү эдийн засгийн ач холбогдол бүхий газрын тосыг илрүүлж чадсангүй.

Гэвч жинхэнэ хайгуулчны зангаар Петро Матад компани шантраагүй бөгөөд бид шинэ зохион байгуулалт өөрчлөлтийг хийж, одоогийн байдлаар банкиндаа хөрөнгөтэй, сонирхол татахуйц хайгуулын талбайнуудтай хэвээр байна. Өнөөг хүртэл сонирхол татахуйц хэмжээнд байгаа дорнодын ХХ талбай дээр үр

дүн нь хурдан ахиж буй төвийн бүсийн IV, V талбай нэмэгдээд байна. Энэ нь бидний бахархаж болох зүйлсийн нэг юм.

Компаний дээд удирдлагад шинэчлэлт, өөрчлөлт хийх санаачилга гарч, Петро Матад компани нь ТУЗ-ийн мэргэжлийн болон бизнесийн чадавхийг сайжруулах үйл явцыг эхлүүлсэн ба өнгөрсөн жилийн хугацаанд ТУЗ-д хийсэн өөрчлөлтийг би дор илтгэе.

ТУЗ-ийн захирлын ажлаа хүлээлгэн өгсөн Даваанямын Энхчимэгийн оронд Даваанямын Энхмааг ТУЗ дахь Петровис компанийн төлөөллөөр 2011 оны 5 дугаар сард томилсон.

2012 оны 1 дүгээр сард Гордон Толл нь ТУЗ-ийн хамтарсан дарга болон ТУЗ-ийн захирлын ажлаа хүлээлгэн өгсөн. Тэрээр компанийг үүсгэн байгуулахаас эхлэн ажилласан бөгөөд энэ хугацаанд компанид оруулсан түүний хувь нэмрийг Компаний зүгээс өндрөөр үнэлж буйг дахин хэлэхийг хүсч байна. Ноён Толл ажлаа өгснөөр миний бие дангаараа ТУЗ-ийн даргаар ажиллах болсон бөгөөд өнгөрсөн жилүүдэд хийсэн бидний ажил арилжааны ашгийг авчраагүй хэдий ч компанийн цаашдын үйл ажиллагааны бат бэх байр суурийг тавьсанд гүнээ итгэж байгаа бөгөөд цаашид өөрийн хувь нэмрийг үргэлжлүүлэн оруулах болсондоо баяртай байна.

2012 оны 3 дугаар сард хоёр захирал ажлаа хүлээлгэн өгсөн нь Жон Робертсон болон Даваадоржийн Сарангуа бөгөөд эдгээр захирлууд компани анх 2008 онд хөрөнгийн



бирж дээр бүртгэгдснээс хойш компанийн ТУЗ-д маш амжилттай ажилласан хүмүүс юм. Филипп Винго, Жорж Уоткинкс, Дэвид Скийлс нарын бие даасан, гүйцэтгэх бус захирлууд 2012 оны 3 дугаар сард ТУЗ-д томилогдсон бөгөөд эдгээр хүмүүс нь газрын тос, байгалийн хийн салбарын хэмжээнд үнэлэгддэг мэргэжилтнүүд юм. Эдгээр хүмүүсийг томилсноороо салбарын болон хайгуулын ажлын нийт 125 жилийн арвин туршлагыг Петро Матадын ТУЗ-д авчирч чадсан юм. Мөн Компанийг байгуулах үеэс эхлэн удирдах албан тушаалд ажиллаж ирсэн Туулын Амарзулыг ТУЗ-д 3 дугаар сард томилсон. Хатагтай Амарзул нь Санхүүгийн гүйцэтгэх захирал Клайд Эванс (тэрээр одоо ТУЗ-д гүйцэтгэх бус захирлаар ажиллаж байгаа) албан тушаалаасаа чөлөөлөгдсөний дараа компанийн менежментийн удирдлагын багын төлөөллийн ТУЗ-д эзлэх тэнцвэртэй байдлыг хангах үүднээс томилогдсон.

Дээрх өөрчлөлтийн үр дүнд өнгөрсөн жилийн тайлангаас хойш ТУЗ-ийн бүрэлдэхүүн нэг гишүүнээр нэмэгдэн, нийт есөн гишүүнтэй болсон ч дээрхи гурван, бие даасан, гүйцэтгэх бус захирлын мэдлэг туршлага нь компаний нөөц бололцоо, мэдлэг, чадварыг асар их хэмжээгээр чадавхижуулсан гэдэгт би итгэж байна.

Компанийг илүү бэхжүүлэх бодлогыг ТУЗ-өөс гаргаж, Компаний гүйцэтгэх захирал Дуглас МакГэйд чадварлаг багтайгаа хамтран эдгээр бодлого, удирдамжийг хэрэгжүүлэх даалгавар өгсөн. Хамгийн чухал нь эдгээр өөрчлөлт нь компаний хайгуулын үйл явц, төслүүд дээр төвлөрч байгаа бөгөөд амжилттай хэрэгжилт, явцын талаар тэр өөрөө тайлагнах болно.

Гүйцэтгэх захирлын хувиар ноён МакГэй нь бидний өмнө тулгарсан ярвигтай, өөрчлөгдөх үйл явцын туршид цуцашгүй хүчин чармайлт гарган ажиллаж ирлээ. Бидний тайлагнаж буй хугацаанд бэрхшээл тулгарч байсан бөгөөд МакГэй бид хоёр хамтран Петро Матад компаний бат бэх цөм болж ажиллахаар шулуудсан маань компаний үнэт зүйлсийг хэвээр хадгалахын зэрэгцээ шаардлагатай өөрчлөлтийг хэрэгжүүлэхийг зорьсон.

Петро Матад компаний өмнөөс бидэнтэй ажиллаж байсан, одоо ажиллаж байгаа захирлууддаа тэдний цуцашгүй хүчин чармайлтынх нь төлөө би талархал илэрхийлэхийг хүсч байна. Биднийг тэвчээртэйгээр ойлгож буй том, жижиг хувьцаа эзэмшигчддээ мөн талархахын зэрэгцээ компаний ирээдүйн төлөө бид тууштай ажиллана гэдгээ амалж байна.

Монгол нутагтаа газрын тос нээх нь миний эртний мөрөөдлийн нэг. Хэдийгээр 2010 он бэрхшээлтэй байсан ч энэхүү мөрөөдлийг биелүүлэхэд шаардлагатай хөрөнгө, зөв багийг Петро Матад компани бүрдүүлж чадсан гэдэгт би бат итгэдэг.

Жанчивын Оюунгэрэл
ТУЗ-ийн Дарга



CHIEF EXECUTIVE OFFICER'S STATEMENT

“The Directors believe that the changes that have been wrought by the Company advantageously position it to properly exploit the opportunities that its assets represent.”

I am pleased to present Petro Matad's Annual Report for the financial year ended 31 December, 2011, and to comment more generally on the events of that year and up to the date of publication – 29 June, 2012.

2011 was a year that ended in disappointment for the Company and its shareholders, and the value of Petro Matad has dropped even further during the first part of 2012. The Directors experienced that sense of disappointment very keenly. While it is proper to reflect somewhat on the past year's challenges with the benefit of hindsight, this report will concentrate more on relaying to shareholders that the Company has taken positive steps to ensure that Petro Matad is better placed to address the exploration risks that are inherent to our business.

Petro Matad operates three Production Sharing Contracts (PSCs) over attractive and extensive exploration areas in the emerging country of Mongolia. Our Company's largest shareholder is the biggest petroleum products importer in Mongolia (Petrovis LLC). In 2008, Petro Matad was the first substantially owned Mongolian company to list on an international stock exchange.

Following a series of fund-raising, the Company's main focus was the exploration of its most advanced prospect at the time, the Davsan Tolgoi anticline from 2010 through to 2011.

Unfortunately that exploration proved unsuccessful and the Board and management are now concentrating on rebuilding and refocusing the Company so as to better explore the remainder of its vast acreage. The Directors believe that the changes that have been wrought by the Company advantageously position it to properly exploit the opportunities that its assets represent.

As part of the process of introducing positive changes to Petro Matad, the Company took advantage of Board and management resignations or retirements and proactively sought to strengthen those and other aspects of the Company. In addition, the Company decided to supplement its own in-house technical team with an independent firm of geoscience consultants, RISC Pty Ltd (RISC), to assist in the examination of previous results, assessment of assets and be a part of further planning and programmes.

The Directors believe that with the above initiatives the Company is now in a position to productively explore the sometimes difficult frontier environment in which we operate, and to apply experiences from the past. Additionally, we consider that the individuals we have brought together, when combined with the existing Directors and management and technical teams, have created a Company that is in an excellent position to progress forward.

2011 Drilling Programme on Block XX

During 2011, Petro Matad encountered problems with its log evaluation on certain Davsan Tolgoi wells due to the differing log responses that can occur in formations where the connate water has low salinity. This problem was exacerbated in the case of Davsan Tolgoi, because of the frontier nature of the area and a lack of prior samples on which to base standards. The Company is reviewing its operational logging and analysis procedures to ensure that these take full account of the issues associated with low salinity formations and are as robust as possible in this regard. As a means of calibrating these procedures, the Company plans to revisit the reservoir parameters (including porosity and fluid saturations) that should be derived from the log interpretation of the Davsan Tolgoi wells using the salinities measured from water samples taken from those wells.

Our technical team and consultants, in conjunction with RISC's peer assist programme will conduct a number of specific basin and other studies ahead of the next phase of drilling. The other studies include defining hydrocarbon play fairways and re-processing and interpreting some key seismic lines. The objective of these studies is to provide a more balanced and lower risk exploration drilling campaign for 2013. Accordingly, the Company decided to suspend drilling for the remainder of 2012, whilst the studies are completed and, consequently the drilling and workover rigs have been stood down.

Beyond Davsan Tolgoi

Petro Matad's PSCs in Blocks XX, IV and V with the Government of Mongolia cover over 60,000 square kilometres and encompass nineteen distinct basinal areas spread throughout the blocks. The basins total 18,000 square kilometres in extent. By contrast, drilling by Petro Matad in

While acreage alone is not the sole arbiter of exploration potential, the number of basins and the fact that there has only been drilling in one part of one of these basins illustrates the huge amount of exploration potential in the Company's portfolio.



2010 and 2011 took place in only one part of one basin and covered approximately 100 square kilometres. While acreage alone is not the sole arbiter of exploration potential, the number of basins and the fact that there has only been drilling in one part of one of these basins illustrates the huge amount of exploration potential in the Company's portfolio.

Block XX

Hydrocarbon maturation mapping using geochemical data combined with structural mapping indicates a significant area of hydrocarbon maturity in the area west of Davsan Tolgoi (West Tolgoi). Significantly this basin area is also on trend with, and adjacent to the basin area in the Tolson Uul oilfield in Block XIX to the north. This mapping has also identified a second smaller area of potential hydrocarbon maturity east of Davsan Tolgoi (East Tolgoi). Both areas contain several structural lead areas and current seismic mapping is being focused on confirming these leads as possible drilling prospects. Finally, even further to the east but still in the general area of Davsan Tolgoi a new type of play has been identified. The Lag Nuur thrust fault play shows promise and is also being subjected to further study with the objective of selecting locations for this play (as well as in West Tolgoi and East Tolgoi) for drilling in 2013.

In 2011, 835 kilometres of seismic lines were acquired in the central and southern parts of Block XX. Interpretation of this seismic data has revealed a number of basin areas with structural features that may, with further evaluation, progress into prospects. One of these basins, the Erdenetsagaan basin appears

of particular interest. As in the north of Block XX, hydrocarbon maturity in the central and southern part of Block XX depends on the structural and depositional history of individual basins. Therefore, in addition to prospect generation, basin modelling will be used to assess the potential for hydrocarbon source maturity prior to drilling.

Block V

Prior to Petro Matad's 2010-2011 exploration programmes, petroleum exploration in the Valley of Lakes region of Mongolia, in which both Blocks IV and V lie, was virtually non-existent. Our extensive surface and subsurface sampling programmes have vastly improved the Company's understanding of stratigraphic age and structural development for this part of Mongolia and as a result enhanced our knowledge of the potential of these assets.

In particular, a core hole drilled on Block V in 2011 provided the following data:

- Conclusive evidence that oil has been generated in the Tugrug Basin;
- The presence of good-to-excellent source rocks; and
- Reservoir rocks with good porosity and permeability.

Seismic has also revealed two major basins within Block V. These are the Taatsiin Tsagaan Nuur Basin and the Tugrug Basin, both about 30-35 km wide. At present, the wide grid spacing of the seismic lines precludes accurate precise prospect delineation; however, a number of possible leads have been mapped.



In order to further develop its regional understanding of the block and to better focus its exploration, the Company is undertaking additional studies at this time. The studies are scheduled to be completed over the next three months, with a view to the resultant recommended seismic acquisition taking place over the coming winter months. These studies and field programmes are all designed to generate the first drilling programme on Block V to take place in 2013.

Block IV

There is only a rudimentary 20 to 25 kilometre grid of seismic reconnaissance lines across Block IV. However, while this seismic shows a 3,000 metre thick section of sedimentary rocks with extensive lateral continuity, there appears to be a lack of structural deformation over most of the western part of the block. In the eastern part of the block adjacent to Block V, there is the possibility of some anticlinal folding, but more data is required.

A 1,440 metre stratigraphic core hole was drilled in the Biger Basin (to the west) and is being used to derive regional stratigraphy and oil potential from comparison with regional outcrops.

Oil Shale

Blocks IV and V contain approximately fourteen known occurrences of oil shale at this time. Most have been preliminarily assessed with respect to their association with conventional petroleum exploration.

One, Khoid Ulaan Bulag (KUB) on the southern boundary of Block IV showed early promise of

commercial grades of hydrocarbon saturation. As outlined in the 25 May 2012 news release, a programme of extra surface sampling, two drill holes and one seismic line have confirmed that this deposit has the potential to be a large hydrocarbon source at grades that could be considered commercial.

Exploration work and evaluation studies by our consultants continue at KUB, albeit at a reduced level when compared with our conventional hydrocarbon exploration programmes.

Note 17b to the Financial Statements sets out the Company's expenditure on its PSCs and details the minimum exploration commitments as set out in the agreements with the Petroleum Authority of Mongolia (PAM). For the period under review the Company has significantly exceeded the minimum commitments on Block XX and has recorded a small shortfall on Blocks IV and V. As exploration on Block XX took priority over Blocks IV and V it is anticipated that the Company will make further shortfalls on IV and V in the current period. The Company is currently revising programmes and budgets that reflect both the current stage of exploration of Blocks IV and V and the current funding environment and will submit these to PAM as part of its annual review process.

Petro Matad has now created a large knowledge base of petroleum systems in Mongolia, with detailed but early stage data of our own PSCs. As detailed elsewhere in this report the Company has modified its modes of operation and appropriately complemented or changed its Board and management so as to

more suitably explore these areas. The technical details of our various properties that I summarise above demonstrate ample evidence of the basic attractiveness of Petro Matad's assets.

Management Changes

In January 2012, Mr Mark Zebrowitz was appointed acting Chief Operating Officer replacing Rodney Graham, whose contract expired. Mr Zebrowitz joined the Company in March 2011 as Drilling Manager and brings 25 years of industry experience to the position.

In April 2012, Dr James Coogan resigned as the Company's Exploration Manager. Chief geophysicist Dr Kurt Constenius has been managing the exploration team until a new Exploration Manager can be appointed. Petro Matad has identified an exceptional and well qualified candidate who is expected to commence in Ulaanbaatar in late July.

Also in April of this year, Mr Clyde Evans retired as Chief Financial Officer and was replaced in mid-April by Mr John Henriksen. Mr Henriksen is an oil industry professional with almost 40 years' experience. He has moved to Ulaanbaatar and is now an integral part of the management team.

The changes that Petro Matad has made at senior management level reflect the Company's positive evolution since the commencement of its review of its 2011 drilling programme. The Company expects that the depth of knowledge and experience that the new appointees will bring to their positions and the management of the company will be significant.

New Financial Advisors

In November 2011, Petro Matad appointed Macquarie Capital (Europe) Limited to act as its joint corporate broker alongside its existing broker, Westhouse Securities Limited. In May 2012, the Company appointed RLM Finsbury as its investor and public relations adviser. The Board recognises the need to develop communication with investors and other stakeholders to ensure that it properly informs of its goals, strategy and activities in a transparent and efficient manner. The appointment of both Macquarie and RLM Finsbury are both positive steps in the development of Petro Matad.

Community Relations: Health, Safety and Environment and Corporate Governance

The Board is aware of the importance of good corporate governance. A Corporate Governance Social Action and Environmental Committee was formed in 2010.

In 2011 the Company also established a Legal and Compliance Division and resourced it with a team of internationally qualified lawyers. This Division is charged with monitoring and advising on corporate governance matters and answers to the CEO.

More details of our commitment to corporate governance can be found within this report.

Petro Matad is cognisant of the social impact of our operations and has developed a Social Action Plan to contribute to the social developments of communities impacted by our exploration and drilling activities in Blocks IV, V and XX. We believe that operating openly and transparently in the community is integral to developing and maintaining positive relationships.

Through meaningful engagement with communities we identify opportunities to make contributions that are beneficial to all stakeholders. Company representatives meet frequently with the local authorities and strive to educate the community on oil exploration and our planned activities.

The Company is very proud of our major scholarship programmes operated in co-operation with the PAM. Petro Matad sponsors Mongolian students and oil sector professionals with both international and domestic scholarships.

Petro Matad has been continuously developing an effective Health, Safety and Environment Management System along with its implementation and integration. At the corporate level, policies, guidelines and standards are defined and specific plans and procedures are formulated for each project.

In 2011 Petro Matad achieved a remarkable safety milestone in recording 665,336 worked man-hours without a lost-time-injury for Petro Matad's staff, contractors, sub-contractors, and consultants. This achievement, added to our Total Recordable Injury Frequency Rate, fulfils the

overall target set for the Group. The 2011 Health and Safety Plan also focused on safety on the road through Driving Safety Campaigns and regular vehicle inspections. We recorded over 3,000,000km travelled without a major accident.

Petro Matad is committed to conserving and protecting the environment in our areas of operations. The Environmental Policy adopted by Petro Matad underlines the management's commitment to the protection of the environment. This is achieved by the adoption of sound practices such as preventing or minimising disturbances or negative impact on the environment through improved waste management, controlled use of water resources and fuels, spill prevention practices and environmental awareness training for its employees.

Mongolia

Mongolia is holding general elections on 28 June, 2012. Additionally, the recent introduction of a Foreign Investment Law has caused concern in some quarters, although the final version would seem to be workable in both the nation's interest and that of reasonable foreign investment. The proof of that will be in the implementation of the law, along with the accompanying regulations and perhaps some post-introduction adjustments.

Finally, there is a national imperative to modernise the current Petroleum Law, which has been operating with little change for 21 years. Petro Matad was the catalyst in forming the Mongolian Petroleum Exploration and Producers Association and together with other companies has been invited to have meaningful input into to the process of amending the Petroleum Law. The process continues and we are confident that a sensible and modern law will result, with proper consideration of both the national interest and the promotion and care for the exploration of the country's petroleum resources.

Summary

The current share price causes the Directors and me appreciable concern, particularly when combined with the parlous state of the equity markets in general, the relatively depressed oil price and the widespread uncertainty in the world financial markets.

The Directors and staff have identified the areas we can influence and have applied and will continue to diligently apply ourselves to managing and shaping those elements of our business.

There is no doubt that Petro Matad has meaningful exploration assets. As outlined in this statement, the Company has spent time and resources over the past six months, rebuilding an appropriate and talented team. We have also sought professional outside advice as necessary. All of this has been aimed at ensuring that we are in a position to further examine those assets and assess a technical path forward, accompanied by sensible financing or partnerships to be able to implement those programmes.

We believe that Petro Matad is well placed to continue its exploration activities in Mongolia, although we continue to be watchful and proactive. We have great confidence in the democratic institutions of the nation, and believe Mongolia is on an irreversible road to a free-market economy with all the benefits of a resource rich country.

I look forward to the challenges of the future and I have full faith in the people that have stewardship of the Company on behalf of the shareholders. The Directors, management and staff are all united behind Petro Matad and applying their great talents, experience and work ethic for the Company's good. I wish to thank them for their past work, and look forward to working with them to build an even stronger Petro Matad in the future.

I would like to thank Mme Oyungerel, our Chair. She has always been a supportive pillar of strength and wise advice, and even more so in the past eight months. Finally, I wish to relay my appreciation, along with those of the Directors to our loyal shareholders.



Douglas J McGay
Chief Executive Officer

ЕРӨНХИЙ ГҮЙЦЭТГЭХ ЗАХИРЛЫН МЭДЭГДЭЛ

Санхүүгийн тайлант жил 2011 оны 12 дугаар сарын 31-ний өдрөөр дуусгавар болсонтой холбогдуулан Петро Матад ХХКомпанийн 2011 онд хийж гүйцэтгэсэн ажлын тайланг та бүхэнд танилцуулахад таатай байна. 2012 оны 6 дугаар сарын 29-ны өдөр хүртэлх буюу энэхүү тайланг хэвлүүлэх хугацаанд тус компаниас зохион байгуулсан үйл ажиллагаа, арга хэмжээний ерөнхий мэдээллийг орууллаа.

2011 он компани болон хувьцаа эзэмшигчдийн хувьд сэтгэл дундуур жил байлаа. 2012 оны эхний хагаст компаний хувьцааны ханш багагүй унасан нь захирлуудын хувьд нөхцөл байдалд дүгнэлт хийж, туршлага хуримтлуулсанг онцлох нь зүйтэй юм. Бидний хувьд өнгөрсөн жилийн ажлын үр дүн, сорилтуудыг эргэцүүлэн бодохын зэрэгцээ компанийн бизнесийн салшгүй хэсэг болох хайгуулын эрсдэлийг даван туулахад онцгой анхаарал хандуулж цаг тухайд нь зохистой арга хэмжээг авч ажиллаж байгаа талаар бодит мэдээллийг энэхүү тайлангаар дамжуулан хувьцаа эзэмшигчддээ хүргэхийг зорилоо.

Петро Матад компани нь Монгол Улсын нутаг дэвсгэрт өргөн уудам газрыг хамарсан 3 талбайд Бүтээгдэхүүн хуваах гэрээний дагуу хайгуулын ажлыг гүйцэтгэж байна. Манай компанийн хамгийн том хувьцаа эзэмшигч нь Монгол улсын хамгийн том нефть бүтээгдэхүүн импортлогч Петровис ХХК юм. Петро Матад компани нь 2008 онд олон улсын хөрөнгийн зах зээлд бүртгэлтэй анхны Монгол улсын эзэмшлийн компани билээ.

Бид хөрөнгө босгох цуврал ажлыг зохион байгуулсны дараа, тухайн үедээ хамгийн ирээдүйтэй гэж тооцогддог Давсан толгойн гүдэн бүтэц дээр 2010-2011 онуудад хайгуулын ажлыг төвлөрүүлэн ажиллалаа.

Уг хайгуулын ажил амжилтгүй болсон хэдий ч үлдсэн өргөн уудам талбайг үр дүнтэй ашиглахын тулд Төлөөлөн Удирдах Зөвлөл болон компанийн удирдлагын баг шинэ зохион байгуулалтыг хийж, ажлын төлөвлөлтөд анхааран ажиллаж байна. Дээрх өөрчлөлтийг хийснээр компанийн эзэмшлийн хайгуулын талбайг цаашид зохистой үр өгөөжтэй ашиглахад чухал хөшүүрэг болно гэдэгт компанийн захирлууд бүрэн итгэлтэй байна.

Петро Матад компанийн үйл ажиллагаанд хийсэн шинэчлэлт өөрчлөлтийн хүрээнд ТУЗ болон удирдлагын түвшинд ажлаас чөлөөлөх, тэтгэвэрт гаргах зэрэг ажлыг зохион байгуулсан нь компанийн бүтэц зохион байгуулалтыг бэхжүүлэхэд чиглэсэн бодит үр дүнтэй өөрчлөлт болсон юм. Түүнчлэн, компанийн удирдлага техникийн багийн чадавхийг сайжруулах ажлын хүрээнд өмнө нь хийгдсэн ажлын үр дүнд дүн шинжилгээ хийх, цаашдын төлөвлөлт, хөтөлбөрийг боловсруулах, үнэлгээ хийх зэрэг ажлыг гүйцэтгэхэд туслах зорилгоор геологийн RISC Pty Ltd ("РИСК") компанийн зөвлөхүүдийг нэмж ажиллуулах шийдвэрийг гаргалаа.

Эдгээр санаачилгыг авч хэрэгжүүлснээр өнгөрсөн хугацаанд олж авсан ажлын туршлагыг үндэслэн бага судлагдсан үйл ажиллагаа явуулж буй талбайд илүү үр дүнтэй хайгуулын ажлын гүйцэтгэх боломж бүрдлээ гэж компанийн удирдлагууд үзэж байна. Мөн одоо ажиллаж буй ТУЗ-ийн гишүүд, удирдлага болон техникийн багийг нэгтгэж нэгдмэл нэг санаатай хамт олонг бүрдүүлж чадсан нь ирээдүйд амжилттай хөгжих компанийг төвхнүүлсэн гэдэгт итгэл төгс байна.

XX талбайн 2011 оны өрөмдлөгийн хөтөлбөр

Петро Матад компани 2011 онд Давсан толгойн тодорхой цооногуудын тайланд үнэлгээ хийхэд бэрхшээл тулгарсан бөгөөд энэ нь давсжилт багатай, шаар бүхий тогтоцын тайллууд харилцан адилгүй байсантай холбоотой юм. Хамрах талбайн хэмжээ хязгаарлагдмал, суурь жишиг болгох урьдчилсан дээж дутагдаж байсан нь Давсан толгойн хувьд асуудлыг улам хүндрүүлсэн юм. Бага давсжилт бүхий тогтоцтой уялдан гарах бэрхшээлийг бүрэн хэмжээнд анхааралдаа авсан эсэхийг тодруулахын тулд компани өөрийн бүх үйл ажиллагааны тайлан болон дүн шинжилгээний горимыг эргэн хянаж, цаашид алдаагүй болгох талаар анхаарал тавин ажиллаж байна. Эдгээр горимд тохируулга хийх замаар резервуарын параметруудийг (нүх сүвжилт болон ханасан шингэнийг хамруулан) дахин хянахаар төлөвлөж байгаа бөгөөд үүнийг Давсан толгойн цооногуудын тайллуудад тулгуурлан, эдгээр цооногуудаас авсан усны дээжин дэх давсжилтийн хэмжээг ашиглан хийх болно.

Манай техникийн баг болон зөвлөхүүд, RISC-ын компанийн тусламжтайгаар тодорхой хэд хэдэн сав газруудын болон бусад судалгааг өрөмдлөгийн дараагийн үе шатны ажил эхлэхээс өмнө хийх болно. Бусад судалгааны ажилд талбайн эхлэл, төгсгөлийг тодорхойлох ба дахин боловсруулах, зарим нэг гол

сейсмийн шугмын тайлал зэргийг хамруулна. Дээрх судалгааны ажлын зорилго нь 2013 оны хайгуулын өрөмдлөгийн ажлыг илүү тэнцвэртэй, эрсдэл багатай гүйцэтгэхэд оршино. Бид 2012 оны үлдэж байгаа хугацаанд өрөмдлөгийн ажлыг зогсоож, судалгааны ажлыг эцэслэх шийдвэр гаргасантай холбогдон өрөмдлөгийн ажлыг зогсоож, ажиллаж байгаа өрөмдлөгийн төхөөрөмжүүдийг буулгаад байна.

Давсан толгойгоос бусад талбайнууд

Петро Матад компани нь 60,000 хавтгай дөрвөлжин км бүхий 19 сав газрыг хамарсан XX, IV, V блокууд дээр Монгол улсын Засгийн газартай Бүтээгдэхүүн хуваах 3 гэрээ байгуулсан билээ. Эдгээр сав газрууд нь нийтдээ 18,000 хавтгай дөрвөлжин км талбайг эзэлдэг. Компанийн 2010-2011 онд хийсэн өрөмдлөгийн ажил нь дээрх талбайн зөвхөн нэг сав газрын тодорхой хэсэгт буюу ойролцоогоор 100 хавтгай дөрвөлжин км талбайг хамарсан болно. Хэдийгээр хайгуулын чадавхийг зөвхөн талбайн хэмжээ, сав газрын тоогоор тодорхойлохгүй боловч өрөмдлөгийг зөвхөн нэг сав газрын тодорхой хэсэгт хийсэн нь компанийн хувьд хайгуулын асар их нөөц чадавхи байгааг харуулж байгаа юм.

XX талбай

Геохимийн мэдээллийг ашиглан хийсэн нүүрстөрөгчийн тогтолцооны зураглал болон бүтцийн зураглалаас харахад Баруун толгойн



хэсэгт нүүрстөрөгчийн тогтолцоо бүхий нилээд их хэмжээний талбай байна. Энэ сав газар нь XIX талбайгаас хойш Тосон Уул газрын тосны талбайн сав газартай зэрэгцэн үргэлжлэн оршиж байна. Энэ зураглал нь Зүүн Толгойд нүүрстөрөгчийн тогтолцоо бүхий хоёрдох жижгэвтэр талбайг тогтоосон байна. Мөн дээрх хоёр талбайд бүтцийн хэд хэдэн судал байгааг зураглалаар тогтоосон байна. Одоогийн сейсмийн зураглал нь өрөмдлөгийн үед аль болохоор эдгээр судлуудыг нотлоход анхаарч байна. Давсан толгойн талбайн хүрээнд баруун тал руу шинэ маягын талбайг тогтоогоод байна. Лаг нуурын хагарлын талбай нь нэлээд найдвар төрүүлж байгаа бөгөөд энэ талбайгаас (мөн Баруун болон Зүүн толгой) 2013 оны өрөмдлөгийн ажилд хамруулах байршлуудыг сонгох зорилгоор судалгааг цаашид нарийвчлан хийх болно.

2011 онд, XX талбайн төв болон өмнөд хэсэгт 835 км сейсмийн судлуудын мэдээллийг авсан болно. Сейсмийн мэдээллээр бүтцийн онцлог шинжтэй хэд хэдэн сав газруудыг тодруулсан бөгөөд нарийвчилсан үнэлгээ хийж, улмаар өрөмдлөг хийх боломжтой юм. Эдгээр сав газруудын нэг Эрдэнэцагааны сав газар нь онцгой сонирхол татаж байгаа юм. XX талбайн хойд, төв болон өмнөд хэсгийн нүүрстөрөгчийн тогтолцоо нь сав газар бүрийн бүтцийн болон хурдсын түүхээс хамаарна. Иймд өрөмдлөгийн үе шатуудаас гадна сав газрын загвар гаргалтыг өрөмдлөг хийхээс өмнө нүүрстөрөгчийн тогтолцооны эх үүсвэрийн потенциалийн үнэлгээ хийхэд ашиглах юм.

V талбай

Компанийн 2010-2011 оны хайгуулын хөтөлбөрөөс хэрэгжүүлэхээс өмнө IV болон V талбай орших Монгол улсын нууруудын хотгор бүс нутагт газрын тосны хайгуул үндсэндээ хийгдэж байгаагүй байна. Гадаргын болон гадаргын гүний өргөн хүрээтэй дээжлэлтийн судалгааны хөтөлбөрүүд нь Монгол улсын энэ бүс газарт давхрага зүйн эрин болон бүтцийн хөгжлийг танин мэдэхэд ахиц болж, эдгээр нуугдмал баялгийн талаархи бидний мэдлэгийг өргөжүүлэхэд үр дүнтэй ажил боллоо.

2011 онд V талбайн цөм цооногт өрөмдлөг хийснээр дараахь мэдээллийг олж авлаа. Үүнд:

- Төгрөгийн сав газарт газрын тос хуримтлагдсан байгааг бүрэн нотоллоо.

- Сайнгаас-онц сайн эх үүсвэрийн чулуулгийн илрэл байна,
- Нүх сүвшилт болон нэвчих шалгуур бүхий чулуулгийн сан сайн зэрэг болно.

Сейсмийн судалгааны үр дүнд V талбайн хүрээнд Таацийн Цагаан нуурын сав газар болон Төгрөгийн сав газрыг илрүүлээ. Дээр сав газар нь тус бүрдээ 30-35 км өргөн газрыг хамарсан байна. Одоогийн байдлаар, сейсмийн шугмуудын огтлолцол хоорондын зайг өрөмдлөгийн заагаар нарийвчлан гаргаагүй боловч боломжит хэд хэдэн судлын зураглалыг гаргасан юм.

Талбайн бүс нутгийн байдлын талаар нарийвчилсан ойлголт авах, улмаар хайгуулын ажлаа сайн төвлөрүүлэхийн тулд нэмэлт судалгааны ажлыг хийж байна. Судалгааны ажлыг ирэх гурван сарын хугацаанд хийж дуусгахаар төлөвлөж байгаа бөгөөд сейсмийн зөвлөмжийг үндэслэн ирэх өвлийн саруудад ажиллах болно. Эдгээр судалгаанууд болон талбайн ажлын хөтөлбөрүүд нь бүхэлдээ 2013 онд V блок дээр гүйцэтгэх эхний өрөмдлөгийн ажлыг хийхэд чиглэгдэнэ.

IV талбай

IV талбайг зөвхөн рудиментарийн 20-25 км-ийн сейсмийн хайгуулын шугмын огтлолцол дайран гарч байна. Энэхүү сейсмийн судалгаа нь хажуу тийш ихээхэн үргэлжилсэн суурь чулуулгийн зузаан нь 3000 метр байгааг харуулсан бөгөөд талбайн баруун хэсгийн ихэнх талбайд эвдрэлийн бүтэц байхгүй байна. V блоктой зэрэгцээ орших талбайн зүүн хэсэгт зарим нэг антиклиналийн нугалаас байх боломжтой бөгөөд харин нэмэлт мэдээлэл шаардлагатай байгаа юм.

Бигэрийн сав газарт (баруун тийш) 1440 метрийн давхрага зүйн үндсэн цооногт өрөмдлөг хийсэн ба үүнийг бүс нутгийн давхрага зүй болон газрын тосны боломжит бүсийн чулуулгийн илрэлтэй харьцуулан гаргахад ашигласан болно.

Шатдаг занар

Богд IV, Онги V талбайд шатдаг занарын арван дөрвөн илрэл тогтоогдлоо. Эдгээр илрэлүүдийн ихэнхи нь манай уламжлалт бус газрын тосны хайгуулын хөтөлбөрийн хүрээнд урьдчилсан байдлаар судлагдсан болно.

Богд IV талбайн урд үзүүрт орших Хойд улаан булгийн (ХУБ) нүүрс устөрөгчийн хяналтын хэмжээ нь үйлдвэрлэлийн үр ашигтай байж болох магадлалтайг харуулж байна. Бид гадаргын дээж, хоёр цооногийн өрөмдлөг болон сейсмийн судалгаагаар энэхүү орд нь үйлдвэрлэлийн үр ашигтай нүүрс устөрөгчийн эх үүсвэртэй байх боломжтойг тогтоосныг 2012 оны 05 дугаар сарын 25-ны мэдээлэлдээ дурдсан билээ.

Нүүрс устөрөгчийн уламжлалт хайгуулын хөтөлбөртэй харьцуулахад ажлын хэмжээгээр бага хэдий ч манай зөвлөх мэргэжилтнүүд Хойд улаан булагт үнэлгээ, судалгааны ажлаа үргэлжлүүлэн гүйцэтгэж байна.

Санхүүгийн тайлангийн 176 тайлбар хэсэгт Бүтээгдэхүүн хуваах гэрээний дагуу Группын эзэмшиж буй талбайнуудад зарцуулах хөрөнгийг тусгасан бол гэрээгээр хүлээсэн хайгуулын ажлын цар хүрээний доод хэмжээг Монгол Улсын Газрын тосны хэрэг эрхлэх газартай байгуулсан гэрээнд тусгаж өгсөн билээ. XX талбайд хийгдэхээр гэрээгээр хүлээсэн ажлуудаас илүү ажлыг хийж гүйцэтгэсэн бол IV болон V талбайд хийгдэх ажлууд төлөвлөснөөс бага зэрэг дутуу хийгдсэн байна. Тайлант хугацаанд Группын зүгээс XX талбайд хайгуулын ажлыг түлхүү хийхээр төлөвлөсөн учраас IV болон V талбайд хийгдэх ажил төлөвлөгөөнөөс бага зэрэг хоцрох магадлалтай байна. Бид IV болон V талбайн хайгуулын ажлын хөтөлбөр, төсөвт тодотгол хийж байгаад бөгөөд байгаль орчинд хийж буй санхүүжилтийн талаарх мэдээллийг Газрын тосны хэрэг эрхлэх газарт ажлын тайланг хүргүүлэх ажлын хүрээнд танилцуулгыг хийх болно.

Петро Матад компани өөрийн Бүтээгдэхүүн хуваах гэрээт талбайнуудын анхан шатны нарийвчилсан мэдээллийг боловсруулахын зэрэгцээ Монгол орны газрын тосны бүтцийн мэдээллийн суурийг бүрдүүлж өглөө. Бид компанийн захирлууд болон удирдлагын бүрэлдэхүүнд үр дүнтэй бүтцийн өөрчлөлт хийж, үйл ажиллагааны арга хэлбэрийг сайжруулан эдгээр талбайнуудыг зохих ёсоор судлахаар ажиллаж байна. Манай талбайнуудад хийгдэж буй дээр дурдсан судалгааны ажлуудаас харахад компанийн эзэмшлийн талбайнууд нь хангалттай сонирхол татахуйц байгааг харуулж байна.

Удирдлагын түвшинд хийсэн өөрчлөлт

Үйл ажиллагаа хариуцсан захирал Родни Грахамын гэрээ 2012 оны 1 дүгээр сард дуусгавар болсонтой холбогдуулан Марк Зебровицийг үйл ажиллагаа хариуцсан захирлаар томиллоо. Марк Зебровиц 2011 оны 3 дугаар сараас эхлэн Петро Матад компанид өрөмдлөгийн менежерийн албан тушаалд ажиллаж байсан бөгөөд газрын тосны салбарт сүүлийн 25 жил ажилласан туршлагатай юм.

Компанийн Хайгуулийн менежер Жеймс Куген 2012 оны дөрөвдүгээр сард үүрэгт ажлаасаа чөлөөлөгдсөн бөгөөд Хайгуулын шинэ менежер томилогдох хүртэл хайгуулын багийг Ерөнхий геофизикч Доктор. Курт Констениус удирдаж байна. Компанийн зүгээс дээрх албан тушаалд тэнцэх, чадварлаг нэр дэвшигчийг сонгосон байгаа бөгөөд 7 дугаар сарын сүүлээр томилон ажиллуулахаар төлөвлөж байна.

Мөн 2012 оны 4 дүгээр сард Санхүү хариуцсан захирал Клайд Еванс тэтгэвэртээ гарсан бөгөөд газрын тосны салбарт 40 гаруй жил ажилласан туршлагатай Жон Хенриксенийг Санхүү хариуцсан захирлаар томилов. Жон Хенриксен Монгол улсад шилжин суурьшиж, компанийн удирдлагын багийн салшгүй нэг хэсэг болон ажиллаж байна.

Компанийн удирдлагын дээд түвшинд хийсэн бүтцийн өөрчлөлтийг хийснээр 2011 оны өрөмдлөгийн хөтөлбөрт дүн шинжилгээ хийж эхэлсэн нь компанийн өсөлт хөгжилтөд нааштай хандлагыг төрүүлж байна. Шинээр томилогдсон захирлуудын арвин мэдлэг, баялаг туршлага нь тэдний эрхэлж байгаа ажил болон компанийн удирдлагад ихээхэн ач холбогдол өгнө гэдэгт эргэлзэхгүй байна.

Санхүүгийн шинэ зөвлөх

Вестхаус Секьюритиз Лимитед (Westhouse Securities Limited) компани нь манай компанийн брокерийн чиг үүргийг хариуцдаг бөгөөд 2011 оны 11 дүгээр сард, Macquarie Capital Limited (Европ) компанийг байгууллагын хамтарсан брокерээр давхар томилон ажиллуулж байна. 2012 оны 5 дугаар сард, компанийн хөрөнгө оруулагч бөгөөд олон нийттэй харилцах зөвлөхөөр RLM Finsbury компанийг томилов.

Компанийн зорилго, стратеги болон үйл ажиллагааны талаар ил тод, бодит мэдээллийг

олон нийтэд хүргэхийн тулд хөрөнгө оруулагч болон бусад оролцогч талуудтай харилцаагаа хөгжүүлэх ач холбогдолыг захирлууд мэдэрсэн билээ. Masquie болон RLM Finsbury компанийг сонгосон нь манай компанийн цаашдын хөгжил цэцэглэлтэд шинэлэг, өөрчлөлтийг бий болгоход нааштай алхам болсон юм.

Олон нийттэй харилцах; Эрүүл мэнд, аюулгүй ажиллагаа ба Байгаль орчин

ТУЗ-ийн захирлууд компани сайн засаглалтай байхын ач холбогдолыг бүрэн хүлээн зөвшөөрдөг бөгөөд улмаар Компанийн засаглал нийгмийн үйл ажиллагаа болон Байгаль орчны хороог 2010 онд байгууллаа.

Хууль болон хуулийн хэрэгжилтийг хянан нийцүүлэх хэлтсийг 2011 онд байгуулж, олон улсын хэмжээнд мэргэшсэн хуульчдийн багийг бүрдүүлэн ажиллаж байна. Уг хэлтэс нь компанийн засаглалын асуудлуудад хяналт тавьж, зөвлөх үүрэгтэй бөгөөд Гүйцэтгэх захирлыг мэдээллээр хангадаг юм.

Компанийн засаглалын дагуу бидний хүлээж буй үүргийн талаар илүү тодорхой мэдээллийг энэхүү тайлангаас үзэж болно.

Петро Матад компани нь өөрийн үйл ажиллагаанаас үүдэн нийгэмд үзүүлэх нөлөөг бүрэн ухамсарлан ажилладаг бөгөөд IV, V болон ХХ талбайд гүйцэтгэж байгаа хайгуулын болон өрөмдлөгийн үйл ажиллагаанаас үүдэх нөлөөнд өртөж байгаа орон нутгийн нийгмийн хөгжилд хувь нэмэр оруулах үүднээс Нийгмийн үйл ажиллагааны төлөвлөгөөг боловсруулсан юм. Үйл ажиллагаагаа олон нийтэд нээлттэй, ил тод явуулж тэдэнтэй найрсаг харилцаатай байж хамтран ажиллах нь бидний үйл ажиллагааны салшгүй чухал хэсэг юм.

Олон нийттэй найрсаг хамтын ажиллагаа тогтоож ажилласнаар оролцогч бүх талууд ашиг хүртэх боломж бүрдэх юм. Компанийн төлөөлөл орон нутгийн удирдлагатай тогтмол уулзалт зохион байгуулж, олон нийтэд газрын тосны хайгуул, компанийн үйл ажиллагаанаас үүдэн бүс нутагт үзүүлж болох нөлөөний талаар ухуулан тайлбарлаж чармайн ажиллаж байна.

Манай компани нь Газрын тосны хэрэг эрхлэх газартай хамтран сургалтын тэтгэлэгт хөтөлбөрүүд хэрэгжүүлж байгаадаа бахархдаг.

Монгол улсын оюутнууд болон газрын тосны салбарын мэргэжилтнүүдийн гадаад, дотоодын сургалтын тэтгэлэгийг ивээн тэтгэж байна.

Петро Матад компани нь эрүүл мэнд, аюулгүй ажиллагаа болон байгаль орчны менежмент болон түүний хэрэгжилтэнд тогтмол анхаарал хандуулан үйл ажиллагаагаа явуулж байна. Компанийн түвшинд бодлого, зааварчлага болон стандартыг тодорхойлон, төсөл бүрээр төлөвлөгөө, журмыг боловсруулан хэрэгжүүлж байна.

2011 онд компанийн ажиллагсад, гүйцэтгэгчид болон туслан гүйцэтгэгчид, зөвлөхүүд нийт 665,336 хүн/цаг ажил гүйцэтгэхдээ ямар нэг гэмтлийн улмаас алдагдсан цаг гаргаагүй нь аюулгүй ажиллагааны хувьд асар том амжилтад хүрсэн жил байлаа. Энэхүү амжилт нь, манай Нийт Нотлогдсон Гэмтлийн Давтамжийн Үнэлгээг давж, Группын хувьд дэвшүүлсэн бүх зорилтыг биелүүлсэн юм. 2011 оны Эрүүл мэнд, аюулгүй ажиллагааны төлөвлөгөөг хэрэгжүүлэх ажлын хүрээнд авто замын аюулгүй байдлыг хангах, авто машины аваар осолгүй жолоодлогын кампанит ажил болон авто машинд үзлэг хийх замаар анхаарч ирлээ. Бид 3,000,000 гаруй км замыг ямар нэг ноцтой аваар осолгүй туулсан байна.

Петро Матад компани нь үйл ажиллагаа явуулж байгаа нутаг дэвсгэрт байгаль орчинг хамгаалан хадгалах үүрэг хүлээдэг билээ. Компанийн зүгээс Байгаль орчинг хамгаалахад чиглэсэн бодлого баримтладаг бөгөөд энэхүү бодлого нь Байгаль орчны бодлогын баримт бичгээр хэрэгжиж байна. Хаягдлын менежментийг сайжруулах, усны нөөц, шатахууныг хяналттай ашиглах, асгахаас сэргийлэх практик болон өөрийн ажиллагсдад байгаль орчны талаар ухамсартай ажиллах сургалт зохиох замаар байгаль орчинд үзүүлэх нөлөөнөөс сэргийлэх болон эрсдэлийг багасгах ажлыг хэрэгжүүлж байна.

Монгол улс

Энэхүү захидлыг боловсруулж гарах цаг үетэй давхцан Монгол улсад бүх нийтийн сонгууль тохиож байна. Түүнчлэн, Гадаадын хөрөнгө оруулалтын тухай хуулийг саяхан соёрхон баталлаа. Уг хуулийн зарим заалт сэтгэл зовоож байсан хэдий ч эцсийн хувилбар нь үндэсний болон гадаадын хөрөнгө оруулагчдийн ашиг сонирхолын үүднээс хэрэгжүүлэх боломж байгааг харууллаа.

Энэхүү хуулийн хэрэгжилт, түүнийг хэрэгжүүлэх журам магадгүй хойшид хийх нэмэлт өөрчлөлт нь үүний нотолгоо болно гэдэгт итгэлтэй байна.

Эцэст нь тэмдэглэхэд сүүлийн 21 жилийн туршид дорвитой нэмэлт өөрчлөлт хийгдээгүй одоо үйлчилж буй Газрын тосны тухай хуулийг шинэчлэх нь үндэсний нэн чухал асуудал болон тавигдаж байна. Монгол улсын газрын тосны хайгуул болон үйлдвэрлэгчдийн ассоциацийг байгуулах ажлын хөдөлгөгч хүч нь Петро Матад байж, бусад компаниудын хамт хуульд нэмэлт өөрчлөлт оруулах үйл явцад үр өгөөжтэй санаа бодлоо оруулахаар уригдсан юм. Энэ үйл явц нь одоо үргэлжилж байгаа бөгөөд үүний үр дүнд нь үндэсний ашиг сонирхол болон улс орны газрын тосны баялгийн хайгуулыг өргөжүүлэх асуудлыг зохих ёсоор анхаарсан бодитой, орчин цагийн хууль гарна гэдэгт бид итгэлтэй байна.

Дүгнэлт

Компанийн хувьцааны өнөөгийн үнэ захирлуудын болон миний санааг зовоож байгаа бөгөөд ялангуяа хувьцааны зах зээлийн байдал үндсэндээ доройтож, нефтийн үнэ харьцангуй муу байгаа болон дэлхийн санхүүгийн зах зээлийн тодорхойгүй байдал бүхэлдээ санаа зовниулсан хэвээр байна.

Захирлууд болон компанийн нийт ажиллагсад бид өөрсдийн хэмжээнд нөлөөлөх боломжтой ажлуудыг тодорхойлон хэрэгжүүлж байгаа ба цаашид өөрсдийн хүч чармайлтыг гарган хичээнгүйлэн ажиллах болно.

Манай компани олны анхаарлын төвд буй хайгуулын талбай эзэмшдэг билээ. Бид сүүлийн зургаан сарын туршид чамлахааргүй цаг хугацаа, хөрөнгө зарцуулж, нөөц боломжоо ашиглан ур чадвартай багийг бүрдүүлсэн тухай өмнө нь дурдсан билээ. Мөн шаардлагатай гадаадын мэргэжилтний зөвлөлгөөг авч ажиллаж байна.

Үнэт баялгийг цаашид үр ашигтай нарийвчлан судлан, хайгуулын ажлыг эрчимжүүлэх техникийн арга замд үнэлгээ хийн санхүүжилт болон түншлэлтэй хослуулах замаар хөтөлбөрүүдийг хэрэгжүүлэх нөхцлийг ханган ажиллахыг зорьж байгаа билээ.

Петро Матад компани нь өөрийн хайгуулын үйл ажиллагааг Монгол улсад үргэлжлүүлэх бүрэн боломжтой гэдэгт бид итгэл төгс байгаа бөгөөд урьдын адил хянамгай, идэвхи санаачилгатай ажиллах болно. Монгол улс ардчилсан нийгэмд байгалийн баялгийнхаа үр шимийг хүртэн чөлөөт зах зээлийн эдийн засгийн замаар эргэлт буцалтгүй замнаа гэдэгт бид гүнээ итгэж байна.

Хүчийг сорьсон ирээдүй биднийг хүлээж байгаа бөгөөд хувьцаа эзэмшигчдийн өмнөөс энэхүү компанийг удирдан чиглүүлж байгаа хүмүүст би бүрэн итгэж байна. Захирлууд, удирдлагууд болон ажиллагсад нэгдэн нягтарч, өөрсдийн ур чадвар, туршлага, ажилд хандах ёс зүй бүхнээ компанийн сайн сайхны төлөө зориулж байна. Та бүхэнд уйгагүй, шантралгүй ажиллаж ирсэнд талархал илэрхийлэхийн ялдамд ирээдүйн хүчирхэг Петро Матад компанийн төлөө хамтран зүтгэхдээ баяртай байна.

Компанийн ТУЗ-ийн дарга хатагтай Оюунгэрэлд талархал илэрхийлье. Бидэнд эрч хүч, ухаалаг зөвлөгөө байнга өгч түшиг тулгуур байж ирсэн бөгөөд түүний энэхүү дэмжлэг туслалцааг сүүлийн найман сарын хугацаанд улам бүр мэдэрсэн билээ.

Эцэст нь, бидний үнэнч хувьцаа эзэмшигчиддээ хувиасаа болон захирлуудынхаа өмнөөс талархал илэрхийлье.



Дуглас МакГэй

Ерөнхий Гүйцэтгэх Захирал

BOARD OF DIRECTORS





Dr. Janchiv Oyungerel
Chair



Dr. Oyungerel graduated from the Institute of Petrochemical and Gas Industry, Moscow in 1979. She began her career as an economist at the Ulaanbaatar Oil Terminal and in 1982 became the Chief Economist at the Petroleum Supply Department at the Mongolian Ministry of Transportation where she was employed until 1991. In 1991, she was appointed the General Director of the Petroleum Import Concern of Mongolia and in 1994 became the General Director and Chair of the Board of Directors of the government owned company, Neft Import Company (NIC). In 1996, she founded Petrovis LLC and was the General Director until January 2008 and has been Chair ever since. She has completed an Oil Economics and Marketing Program at the Arthur D. Little Institute in Cambridge, USA. In January 2007, she completed a doctorate in economics in Moscow, Russia. In 2010, she became a Non-Executive Director of Mongolian Mining Corporation (MMC) which is listed on the Hong Kong Stock Exchange. MMC is a high quality coking coal producer and exporter in Mongolia.



Douglas John McGay
Chief Executive
Officer

Mr. McGay is a land, mining and engineering surveyor by profession. Between 1974 and 1988 he was the principal of his own practice, McGay Surveys. The head office was in Kalgoorlie, with offices and operations throughout Australia. Following the sale of McGay Surveys in 1988, he remained involved in the mining and mineral industry as a management consultant to international mining and exploration companies providing computer generated aerial mapping services. In 1997, he moved to Mongolia initially pursuing his profession, but then expanding to a general resource industry service consultancy, mainly as the Country Manager for mineral exploration companies. He was most recently involved in forming the Mongolian NGO, the "Minerals and Mining Development Foundation", serving as founding Executive Director. In 2005, he was part of the formation of Central Asian Petroleum Corporation Limited. Mr. McGay lives in Mongolia.



Tuul Amarzul
Executive Director
of the Petro Matad
Mongolian subsidiaries

Ms. Amarzul is a Mongolian citizen, educated in Singapore and has a BA degree in Foreign Relations. She has worked in the Mongolian Government's Foreign Investment and Foreign Trade Agency (FIFTA). Ms. Amarzul joined the resources sector in Mongolia in 2003, holding senior management positions in private sector resource companies.

Clyde Robert Evans
Non-Executive Director



Mr. Evans was a career banker, having spent 37 years with National Australia Bank (NAB), where he was involved in senior leadership roles. He successfully led and managed NAB's Western Australian corporate banking centres, catering for NAB's large base of public listed industrial and natural resource companies.

Ms. Collins has over 30 years experience in international corporate banking, including extensive experience in Russia, Eastern Europe and Central Asia. She began her banking career with Chase Manhattan in New York, and subsequently with Security Pacific Bank (later Bank of America) in Los Angeles, London and Paris. She was Director for Corporate Recovery at the European Bank for Reconstruction and Development in London until 2005. Ms. Collins holds an MBA in Finance from Wharton and a BS in Foreign Service from Georgetown University, Washington, DC. She is non-executive director for institutions in Latvia and Macedonia.



Mary Ellen Collins
Non-Executive Director



Davaanyam Enkhmaa
Non-Executive Director

Ms. Enkhmaa is based in Mongolia and is an investment banker. She is currently Head of Country Coverage for Mongolia for Macquarie Capital Advisers. Ms. Enkhmaa has been with the Macquarie Group of companies for the last nine years with a focus in energy, resources and infrastructure sectors. Prior to her current role advising Macquarie Capital Advisers, Ms. Enkhmaa was a Managing Director responsible for risk management in the energy sector for Macquarie Group in the United States.

Dr. Philip Arthur Vingoe
Non-Executive Director



Dr. Vingoe has over 35 years' experience of the oil and gas industry, commencing in the technical arena and progressing to executive leadership. He began his career with BP, where he spent nearly 20 years and was Chief Geophysicist and General Manager for worldwide exploration. In 1995, he moved to Australia to co-lead the IPO of an Australian independent, Novus Petroleum. Over the ensuing five years, the Company acquired a portfolio of assets across Asia, Africa and the Middle East. In 2000, he took up the role of Managing Director of Sasol Petroleum International (SPI) based initially in Johannesburg. In 2005, he joined Energy Equity Resources where he directed all the exploration and appraisal activity as well as communicating with investors and raising investment capital. During 2005 and 2006, he was also a Non-Executive Director of the Canadian-listed company Pan-Ocean Energy Corporation Ltd. Pan-Ocean was sold to Addax for C\$1.5 billion in September 2006. He left EER in November 2007 in order to establish Pan-Petroleum as its Chief Executive Officer and was instrumental in the subsequent merger and creation of Panoro Energy in mid 2010 - at which time he assumed his position of Non Executive Chairman of the Board. Panoro Energy is listed on the Oslo stock exchange and is focused on Brazil and West Africa.



**Dr. George
Edward Watkins CBE**
Non-Executive Director

Dr. Watkins holds a BSc in Mining, a PhD in Geophysics and an MSc in Management as well as an honorary degree of Doctor of Engineering DEng from Heriot Watt University. He has nearly 45 years' experience in the oil and gas industry. Dr Watkins began his career with Shell as a geophysicist in the Netherlands and Australia before moving to Conoco. He worked for Conoco for the next 30 years, starting as a geophysicist in the UK and then as Vice President Exploration and Production, North America. From 1993 until 2002 he was Chairman and Managing Director of Conoco UK Ltd. For the last 10 years, he has held a number of non-executive directorships at companies including Xtract Energy plc, Paladin Resources plc, Abbot Group plc, Production Services Network (PSN) Ltd and the Defence Procurement Agency. He is also a governor of the Robert Gordon University in Aberdeen.



David Daniel Skeels
Non-Executive Director

Mr. Skeels was educated as a geologist and has over 40 years' experience of working in the oil and gas industry. He spent 20 years at Conoco focusing on international upstream projects and has held a number of management positions, including Manager Exploration and Reservoir Management, West Siberia and Vice President and Manager Exploration, Indonesia where he was responsible for the Belida discovery in 1989. Mr Skeels then spent 10 years at BG Group where he was General Manager in Kazakhstan building the relationship between the company, the government and state agencies. He was recognized by the President of Kazakhstan for his contributions to the Kazakh oil and gas industry and was recorded in Who is Who in Kazakhstan. Recently he has been working with governments and state organisations across Eastern Europe and Azerbaijan.

DIRECTORS' REPORT

Your directors submit their report for the year ended 31 December 2011.

Petro Matad Limited ("Company") a company incorporated in the Isle of Man on 30 August 2007 has five wholly owned subsidiaries, including Capcorp Mongolia LLC and Petro Matad LLC (both incorporated in Mongolia), Central Asian Petroleum Corporation Limited ("Capcorp") and Petromatad Invest Limited (both incorporated in the Cayman Islands), and Petro Matad Services Limited (incorporated in the Isle of Man). The Company and its subsidiaries are collectively referred to as the "Group".

Directors

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

- Gordon Leonard Toll (resigned 27 January 2012)
- Janchiv Oyungerel
- Douglas John McGay
- Clyde Robert Evans
- John Campbell Robertson (resigned 12 March 2012)
- Davaadorj Sarangua (resigned 12 March 2012)
- Mary Ellen Collins
- Davaanyam Enkhchimeg (resigned 20 May 2011)
- Davaanyam Enkhmaa (appointed 20 May 2011)
- David Daniel Skeels (appointed 12 March 2012)
- Philip Arthur Vingoe (appointed 12 March 2012)
- George Edward Watkins (appointed 12 March 2012)
- Tuul Amarzul (appointed 19 March 2012)

Principal Activities

The Group's principal activity in the course of the financial year consisted of oil exploration in Mongolia. During the year there were no significant changes in the nature of those activities.

Review and Results of Operations

The functional and presentation currency of Petro Matad Limited is United States Dollars ("\$").

The net loss after tax for the Group for the 12 months ended 31 December 2011 was \$39.599 million (31 December 2010: Loss \$16.079 million).

During the year the Group focused on exploration activities on its Production Sharing Contracts

("PSC's") with the Petroleum Authority of Mongolia ("PAM") on Blocks IV, V and XX in Mongolia.

Changes in State of Affairs

On 25 March 2011, pursuant to the Group's Long Term Equity Incentive Plan ("Plan"), 191,479 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.

On 6 April 2011, pursuant to the Group's Plan, 519,100 options over shares were granted to employees with an exercise price per share of GBP1.8167, exercisable in three parts as follows:

- 33% after 6 April 2012;
- 33% after 6 April 2013;
- 34% after 6 April 2014.

On 6 April 2011, pursuant to the Group's Plan, 250,000 options over shares were granted to employees with an exercise price per share of GBP1.8167, exercisable in three parts on the anniversaries of their employment commencement dates.

On 6 April 2011, pursuant to the Group's Plan, 707,800 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale;
- 25% vest on the first production of oil on a commercial scale;
- 50% vest on the Group achieving the sale of 1 million barrels of oil.

On 6 April 2011, pursuant to the Group's Plan, 273,180 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2012.

On 6 April 2011, pursuant to the Group's Plan, 20,176 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The Performance Share Awards are available for vesting on various dates commencing in 2011.

On 12 April 2011, pursuant to the Group's Plan, 50,000 shares were awarded to a director

exercising options with an exercise price of \$0.75 per share.

On 12 April 2011, pursuant to the Group's Plan, 628,750 shares were awarded to directors and employees exercising options with an exercise price of GBP0.11 per share.

On 21 April 2011, pursuant to the Group's Plan, 142,447 shares were awarded to an employee exercising Performance Share Awards with an exercise price per share of \$0.01.

On 21 April 2011, pursuant to the Group's Plan, 25,000 shares were awarded to employees exercising options with an exercise price of GBP0.11 per share.

On 10 June 2011, pursuant to the Group's Plan, 83,534 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.

On 10 June 2011, pursuant to the Group's Plan, 7,500 shares were awarded to an employee exercising options with an exercise price of GBP0.11 per share.

On 5 July 2011, pursuant to the Group's Plan, 563,000 options over shares were granted to employees with an exercise price per share of GBP1.17, exercisable in three parts as follows:

- 33% after 5 July 2012;
- 33% after 5 July 2013;
- 34% after 5 July 2014.

On 5 July 2011, pursuant to the Group's Plan, 60,000 options over shares were granted to an employee with an exercise price per share of GBP1.17, exercisable in three parts on the anniversaries of her employment commencement dates.

On 5 July 2011, pursuant to the Group's Plan, 583,000 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale;
- 25% vest on the first production of oil on a commercial scale;
- 50% vest on the Group achieving the sale of 1 million barrels of oil.

On 5 July 2011, pursuant to the Group's Plan, 94,123 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2012.

On 5 July 2011, pursuant to the Group's Plan, 54,145 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The Performance Share Awards are available for vesting on various dates commencing in 2011.

On 5 August 2011, pursuant to the Group's Plan, 97,497 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.

On 5 August 2011, pursuant to the Group's Plan, 184,090 shares were awarded to employees exercising options with an exercise price of GBPO.4616 per share.

On 5 August 2011, pursuant to the Group's Plan, 5,000 shares were awarded to an employee exercising options with an exercise price of GBPO.11 per share.

On 21 November 2011, pursuant to the Group's Plan, 83,410 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.

On 21 November 2011, pursuant to the Group's Plan, 5,000 shares were awarded to an employee exercising options with an exercise price of GBPO.11 per share.

On 22 November 2011, pursuant to the Group's Plan, 215,000 options over shares were granted to employees with an exercise price per share of GBPO.225, exercisable in three parts as follows:

- 33% after 22 November 2012;
- 33% after 22 November 2013;
- 34% after 22 November 2014.

On 22 November 2011, pursuant to the Group's Plan, 119,000 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale;
- 25% vest on the first production of oil on a commercial scale;
- 50% vest on the Group achieving the sale of 1 million barrels of oil.

On 22 November 2011, pursuant to the Group's Plan, 150,000 Performance Share Awards over shares were granted to an employee with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2011.

On 5 December 2011, pursuant to the Group's Plan, 100,000 options over shares were granted to employees with an exercise price per share of GBPO.1975, exercisable in three parts as follows:

- 33% after 5 December 2012;
- 33% after 5 December 2013;
- 34% after 5 December 2014.

On 5 December 2011, pursuant to the Group's Plan, 100,000 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale;
- 25% vest on the first production of oil on a commercial scale;
- 50% vest on the Group achieving the sale of 1 million barrels of oil.

Significant Events after Reporting Date

On 13 February 2012, pursuant to the Group's Plan, 206,987 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.

On 13 February 2012, pursuant to the Group's Plan, 11,250 shares were awarded to employees exercising options with an exercise price of GBPO.11 per share.

On 5 March 2012, pursuant to the Group's Plan, 280,000 shares were awarded to a former director exercising Performance Share Awards with an exercise price per share of \$0.01.

On 25 April 2012, pursuant to the Group's Plan, 881,000 options over shares were granted to directors and employees with an exercise price per share of GBP0.225, exercisable in three parts as follows:

- 33% after 25 April 2013;
- 33% after 25 April 2014;
- 34% after 25 April 2015.

On 25 April 2012, pursuant to the Group's Plan, 100,000 options over shares were granted to an employee with an exercise price per share of GBP0.225, exercisable in three parts on the anniversaries of the employment commencement date.

On 25 April 2012, pursuant to the Group's Plan, 942,000 Performance Share Awards over shares were granted to directors and employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale;
- 25% vest on the first production of oil on a commercial scale;
- 50% vest on the Group achieving the sale of 1 million barrels of oil.

On 25 April 2012, pursuant to the Group's Plan, 789,090 Performance Share Awards over shares were granted to an employee with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2013.

On 25 April 2012, pursuant to the Group's Plan, 1,638 Performance Share Awards over shares were granted to an employee with an exercise price per share of \$0.01. The Performance Share Awards are available for vesting on various dates commencing in 2012.

On 26 April 2012, pursuant to the Group's Plan, 442,500 shares were awarded to former directors and employee exercising options with an exercise price of GBP0.11 per share.

On 26 April 2012, pursuant to the Group's Plan, 505,447 shares were awarded to former directors and employee exercising Performance Share Awards with an exercise price per share of \$0.01.

Dividends

No dividends have been paid or are proposed in respect of the 2011 year.

Future Developments

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

Indemnification of Officers and Auditors

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

Environmental Regulation

The Group 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 Group is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

Rounding

The amounts contained in the annual financial report have been rounded to the nearest \$1,000 (where rounding is applicable).

Signed in accordance with a resolution of the directors.



Clyde R Evans

Director
28 June, 2012





CORPORATE GOVERNANCE STATEMENT

Petro Matad has embraced the concept of corporate governance since our listing on AIM in 2008 and has continually reviewed our standards of governance.

The Board is aware of the importance of good corporate governance and operates so that the Company is in compliance with the QCA Corporate Governance Guidelines for AIM Companies, to the extent considered applicable.

A Corporate Governance Social Action and Environmental (CGSAE) Committee was formed in 2010. The Committee is charged, amongst other things, with overseeing and reviewing compliance and corporate governance issues.

In 2011 the Company also established a Legal and Compliance Division and resourced it with a team of internationally qualified lawyers. This Division is charged with monitoring and advising on corporate governance matters and answers to the CEO.

"Petro Matad has embraced the concept of corporate governance since our listing on AIM in 2008 and has continually reviewed our standards of governance. Board and management renewal over the past eight months have been made with the highest standards of corporate governance and our shareholders' values in mind. We will continue to supervise and implement such measures that are applicable for the size and operations of our Company." – Chair, Dr. J. Oyungerel

Board of Directors and Composition

The Board is comprised of 4 Non-Executive Directors (3 of whom are shareholder representatives), 3 Independent Non-Executive Directors and 2 Executive Directors.

The changes made to the Board composition in the recent months were undertaken with the following factors in mind:

- The principle of having an appropriate number of Independent Directors on the Board to oversee the interests of the Company and all shareholders
- Ensuring that the Board has appropriate skills, experience and expertise with the appointment of 3 experienced oil industry professionals as Non-Executive Directors
- Maintaining appropriate representation for two of the Company's major shareholders, Petrovis LLC (Petrovis) and the European Bank for Reconstruction and Development (EBRD)
- Ensuring appropriate executive representation on the Board with the appointment of the Company's most senior Mongolian executive (T. Amartzul) upon the retirement of the former CFO, Clyde Evans from his executive role

The Board is comprised of the following members at the date of this report:

- Janchiv Oyungerel,
Non-executive Chair (Petrovis appointee)
- Clyde Evans
Non-executive director
- Mary Ellen Collins
Non-executive director (EBRD appointee)
- Davaanyam Enkhmaa
Non-executive director (Petrovis appointee)
- Philip Vingoe
Non-executive director (independent)
- George Watkins
Non-executive director (independent)
- David Skeels
Non-executive director (independent)
- Douglas McGay
Chief Executive Officer
- Tuul Amartzul
Executive Director (Director of the Company's Mongolian subsidiaries)

Brief biographies of the directors are set out on pages 20-25. Directors are re-elected at the Annual General Meetings on a rotational basis as per the Company's Articles of Associations.

Whilst the 3 Independent Non-Executive Directors have been granted Options and Performance Share Awards to acquire shares in the Company, the amount of Options and Performance Share Awards granted are not significant so as to affect their independence. In the opinion of the Board, this aligns their objectives with those of shareholders and the Board considers that the 3 Independent Non-Executive Directors can be classified as being independent. The Board's Chair, Dr J. Oyungerel is not considered independent because of her relationship with Petrovis; however, the Board considers the benefit of her experience, skills and capabilities, which are well known within the Mongolian business community, outweighs the benefits of appointing an independent Chair.

The Board has not formally adopted performance evaluation procedures; however, the recent changes made to the Board demonstrate that the Board takes the effectiveness and efficiency of its Directors seriously and will continue to review its own performance and effectiveness in an informal way.

Board Processes

There is a clear division of responsibilities at Petro Matad through the separation of the positions of the Chair, Dr J. Oyungerel, and the CEO, Douglas McGay.

Dr J. Oyungerel ensures the efficient and effective functioning of the Board and, together with the Board as a whole, is responsible to the shareholders for the proper management, development, leadership and protection of the Company's assets. The roles of the Board and its Committees include but are not limited to, the establishment, review and monitoring of business and strategic plans, overseeing the Company's systems of internal control, governance and policies and protecting the shareholders' interests.

The CEO is charged by the Board with the day to day operations of the Company and is responsible for the execution of strategy set by the Board and to act as an interface between the Board, management and employees to ensure that everyone at Petro Matad works towards upholding the Company's goals, vision and mission. The CEO works with a team of appropriately qualified management executives to achieve those goals.

The Company, through its various communications with the public (website, news releases, annual reports, interviews, and presentations), also aims to communicate its goals, strategy and activities in a transparent and efficient manner.

The Board and its Committees meet quarterly and as and when issues arise that requires the Board's attention. During 2011, all Board meetings were attended by the majority of Board members in office at the time. The Board also aims to meet and visit the Company's employees and operating sites periodically so as to adequately oversee and remain acquainted with the Company's operations. The Board and its Committees are provided with detailed Board papers in advance of each Board meeting and receive regular management and financial reports.

Attendance at Board and Committee Meetings in 2011:

	Scheduled Board Meetings	Ad hoc Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	CGSAE Committee Meetings
Gordon Toll	5/5	2/4	1/3	2/4	2/5
Janchiv Oyungerel	5/5	2/4	-	4/4	-
Douglas McGay	5/5	4/4	-	-	-
Clyde Evans	5/5	3/4	-	-	-
John Robertson	5/5	3/4	3/3	4/4	-
Davaadorj Sarangua	4/5	3/4	3/3	-	-
Mary Ellen Collins	5/5	4/4	-	-	5/5
Davaanyam Enkhchimeg ¹	1/1	1/4	-	-	4/4
Davaanyam Enkhmaa ²	4/5	-	-	-	1/1
Total No. of Meetings	5	4	3	4	5

¹ Davaanyam Enkhchimeg resigned from the Board on 20 May 2011

² Davaanyam Enkhmaa was appointed to the Board on 20 May 2011

Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Corporate Governance Social Action and Environmental (CGSAE) Committee, each with formally delegated rules and responsibilities. The Board has not established a separate Nomination Committee, as it currently deems this unnecessary, given the size of the Company. For any appointments to the Board, special working groups are formed to methodically appraise and consider candidates. Each of the Committees contains two independent non-executive directors, in accordance with the QCA Guidelines, and meets regularly and at least three times a year. Management executives and other individuals are invited to attend all or part of the Committee meetings as and when appropriate.

Audit Committee

The members of the Audit Committee in 2011 and up to the date of this report are as follows:

Chair

- John Robertson (resigned on 12 March 2012)
- Davaanyam Enkhmaa (appointed Chair on 19 March 2012)

Members

- Gordon Toll (resigned on 27 January 2012)
- Davaadorj Sarangua (resigned on 12 March 2012)
- Philip Vingoe (appointed 19 March 2012)
- George Watkins (appointed 19 March 2012)

The Audit Committee met 3 times in 2011 and met with the Group's auditors, Deloitte Touche Tohmatsu in one of the meetings. The Audit Committee meetings are linked to events in the Group's financial calendar, including a review of the Company's annual and half yearly results, the

review of the internal controls of the Group and ensuring that the financial performance of the Group is properly reported and monitored. The Audit Committee is responsible, *inter alia*, for:

(a) considering the appointment of the auditors of the Group, their fees, any questions relating to the resignation or removal of the auditors and their objectivity and independence in the conduct of the audit, and reviewing the nature and extent of non-auditing services provided by the auditors, seeking to balance the maintenance of objectivity and value for money;

(b) discussions with the auditors before the audit commences on the nature and scope of the audit and subsequently reviewing the audit process;

(c) monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them, including reviewing the half-yearly and annual financial statements before submission to the Board;

(d) reviewing the Company's internal control systems; and

(e) considering such other matters as the Board may from time to time refer to it.

The Audit Committee meetings minutes are circulated to the Board and the Committee reports its findings to the Board and identifies any matters in respect of which it considers that action or improvement is needed.

Remuneration Committee

The members of the Remuneration Committee in 2011 and up to the date of this report are as follows:

Chair

- Janchiv Oyungerel (resigned as Chair on 12 March 2012)
- Philip Vingoe (appointed Chair on 19 March 2012)

Members

- Gordon Toll (resigned on 27 January 2012)
- John Robertson (resigned on 12 March 2012)
- Janchiv Oyungerel
- David Skeels (appointed 19 March 2012)

The Remuneration Committee met 4 times in 2011. The Remuneration Committee evaluates the scale and structure of remuneration for Executive Directors, reviews the CEO's recommendations for senior

management of the Company, and where appropriate overviews the broad issues of salary levels for all employees. The Company's remuneration policy is to facilitate the recruitment, retention and motivation of employees through appropriate remuneration in line with those prevailing in the market of similar positions and responsibilities taking into consideration qualifications and skills possessed. The Committee also makes recommendations to the Board regarding employee incentives and rewards under the share incentive schemes. The Committee reviews and recommends a framework for the remuneration of the Chair as well as the Non-Executive Directors fees. The full details of the Company's remuneration policy and remuneration of directors are set out in the Remuneration Report on pages 46-51.

Corporate Governance, Social Action and Environmental (CGSAE) Committee

The members of the CGSAE Committee in 2011 and up to the date of this report are as follows:

Chair

- Mary Ellen Collins

Members

- Gordon Toll (resigned on 27 January 2012)
- Davaanyam Enkhchimeg (resigned on 20 May 2011)
- Davaanyam Enkhmaa (appointed 20 May 2011 and resigned on 19 March 2012)
- George Watkins (appointed 19 March 2012)
- David Skeels (appointed 19 March 2012)

The CGSAE Committee met 5 times in 2011. The CGSAE Committee among other things: regularly reviews the Company's corporate governance and system of internal non-financial controls; assigns responsibilities for health, safety and environmental (HSE) matters and community liaison; reviews the application of the Company's social action policies and environmental policies and supervises the preparation of various reports in respect of these aspects of the Company's activities.

The application of the Company's social action and HSE policies are detailed on pages 43-45 and 37-41 respectively.

Internal Controls

The Board has responsibility for the Group's systems of internal controls and for reviewing their effectiveness. The internal controls systems are designed to safeguard the assets of the Company, ensure compliance with

applicable laws and regulations and internal policies with respect to the conduct of business and the reliability of financial information for both internal use and external publication. The Board has delegated management for the implementation of material internal control system and reviews policies and procedures through regular updates from management. A budgeting process is in place for all material items of expenditures, especially major exploration expenditures and an annual budget is approved by the Board. All major expenditures require senior management approval at the appropriate stages of each transaction. Actual versus budgeted expenditure data and the Company's cash position is monitored on a monthly basis. Whilst the Board is aware that no system can provide absolute assurance against material misstatement or loss, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective and the Board considers that the system of internal control operated effectively throughout the year.

Risk Management

The principal risks facing the Group are set out below. This list is not exhaustive and investors should be aware that additional risks which were not known to the Directors at the date of this report, or that the Directors considered at the date of this report to be immaterial, may also have a material adverse effect on the financial condition, performance or prospects of the Company, and the market price of Company' shares. The Board acknowledges that risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system.

- Exploration and development risks associated with the Company's objectives of oil exploration and future development and production in Mongolia and other risks inherent in all junior oil and gas exploration companies
- Weakness and movements in the equity and share markets in the United Kingdom and throughout the world including changes in market sentiments towards the resource industry
- Currency exchange rate fluctuations and in particular the relative prices of the Mongolian Tugrug (MNT), USD and GBP
- Changes in government policy, laws and regulations
- Political and country risks
- Ability to raise sufficient funds to continue exploration efforts on its assets
- Occupational Health, Safety and Environmental requirements
- Regulatory and compliance obligations
- Legal risks relating to contracts, licenses and agreements
- Attraction and retention of key employees

Business Conduct and Ethics

Extractive Industries Transparency Initiative (EITI)

The EITI is a global initiative in which extractive industries, governments and civil society, all work together for greater transparency. Improved financial transparency of extractive industries operating in the country would enable governments to better manage its natural resource wealth for the benefit of a country's citizens. Mongolia is one of the countries compliant with the EITI. Therefore the Company's Mongolian subsidiaries have cooperated with the government in this respect and participated in the transparency report prepared by the Mongolian government.

Anti-Bribery and Corruption Policy (ABCP)

At the enactment of the Bribery Act 2010, the Company's legal counsels undertook extensive review of the Act and the Board has accordingly adopted an ABCP, including training to its staff to ensure that the business integrity and ethics are upheld within the operations of the Company at all levels for a zero-tolerance approach to bribery and corruption.

Insurance

The Group maintains insurance in respect of its Directors and officers against liabilities in relation to the Company.

Share Dealing Code

The Company has adopted a model code for dealing in ordinary shares by directors and employees which is appropriate for an AIM-quoted company.

Shareholder and Investor Relations

The Board remains committed to maintaining communication with its shareholders. The Company maintains a website for the purpose of improving information flow to shareholders as well as potential investors. All press announcements and financial statements as well as extensive operational information about the Group's activities are made available on the website. Enquiries from individual shareholders on matters relating to their shareholdings and the business of the Group are welcomed through the Company's website and other methods of communication. Shareholders are also encouraged to attend the Annual General Meeting to discuss the progress of the Group.





HEALTH SAFETY AND ENVIRONMENT

In 2011 Petro Matad achieved a remarkable safety milestone in recording 665,336 worked man-hours without a lost-time injury for Petro Matad's staff, contractors, sub-contractors and consultants.



Petro Matad has developed an effective Health, Safety and Environment Management System (HSE Management System) to international standards. Following its implementation and integration, it has been monitored with a view to continual upgrading and improvement.

The Company understands that HSE training is an effective instrument for transferring and sharing safety and environmental expertise and ensures that adequate HSE training is conducted for all its management and employees. Petro Matad has developed a specific training matrix which sets out the minimum requirements for the implementation of the HSE Management System and the courses. The course schedules in the matrix are designed to suit the Company's needs.

The courses are divided into two categories: Type A (Approved Professional HSE Courses) and Type B (Standard HSE Courses). Type A courses are conducted by accredited third-party organisations and at the end of the course approved professional certificates are issued to participants. A final assessment or scheduled refreshment courses may be required, depending on the course provider and accredited training programme. Type B courses are non-accredited and are conducted by in-house trainers or third party organisations. In 2011, Petro Matad staff attended over 190 HSE training hours.

Health and Safety Policy

The Petro Matad Health and Safety Policy is based on a belief that the well-being of people employed at work, or people affected by the Company's activities is a major priority and must be considered a priority at all times. People are the Company's most important priority and their health and safety are accorded proper attention. Third parties and the public are given equal status to that of employees.

The Company's Health and Safety Policy aims to:

- Achieve an accident-free workplace
- Make health and safety an integral part of every managerial and supervisory position
- Ensure health and safety is considered in all planning and work activities
- Involve employees in the decision-making processes through regular communication, consultation and training
- Provide a continuous programme of education and learning to ensure that employees work in the safest possible manner
- Identify, manage and control all potential hazards in the workplace through hazard identification and risk analysis
- Ensure all potential accidents and incidents are controlled and prevented
- Provide effective injury management
- Comply with the relevant occupational health and safety laws, regulations, guidelines and project requirements specified by the regulators



Petro Matad's vision and commitment to safety, and ensuring incident and injury free workplace for its employees are specified in the 2011 Health and Safety Plan. A detailed management programme was also developed and implemented to achieve the Plan's objectives. The 2011 Health and Safety Plan's main objectives are to:

- Continue to improve and enhance safety culture
- Ensure zero fatalities
- Reduce the number of total recordable injuries.

In 2011 Petro Matad achieved a remarkable safety milestone in recording 665,336 worked man-hours without a lost-time injury for Petro Matad's staff, contractors, sub-contractors, and consultants. This was in a year when the Company had a very high level of field activity and a record number of employees. 11 wells and four drill holes were drilled and 1861 kilometres of seismic line were shot, along with geological expeditions.

This achievement, combined with a Total Recordable Injury Frequency Rate (TRIFR) fulfils the overall target set for the Group. The 2011 Health and Safety Plan also focused on safety on the road through Driving Safety Campaigns and regular vehicle inspections. Over 3,000,000 vehicle kilometres were recorded without a major accident.

The Company is committed to ensuring that the high standards and best practices of the HSE

Management System are adhered to by its contractors and sub-contractors. As a result of this policy the Petro Matad HSE team conducted a high level HSE Management System Audit of its drilling contractor, DQE International (DQE) covering all aspects of their activities. The purpose of the audit was to:

- Evaluate DQE drilling operations in terms of HSE standards and procedures
- Review the DQE HSE system and their practicality
- Evaluate the effectiveness of the implementation of the DQE's HSE Plan when compared and integrated with the Petro Matad HSE Management System.

Commitment to Environment

Petro Matad is committed to conserving and protecting the environment in the areas in which it operates. The Company achieves this through:

- Adhering to state-approved environmental impact assessment plans and all Mongolian environmental legislation
- Ensuring adequate awareness training is conducted for Petro Matad staff and contractors and local communities in areas of operation
- Adherence to standard international environmental protection practices, such as the guidelines published by the World Bank

- The development of, and adherence to, an environment management system
- Constant and consistent research into new environmental protection practices
- Ensuring all preventive, mitigation and restoration measures are strictly adhered to by all Petro Matad staff and contractors

The Environmental Policy adopted by Petro Matad underlines the management's commitment to the protection of the environment. This is achieved by the adoption of sound practices such as preventing or minimising disturbances or negative impact on the environment through improved waste management, controlled use of water resources and fuels, spill prevention practices and environmental awareness training for its employees. Petro Matad has successfully restored and reclaimed most of the drill sites and did not require the services of external service companies or chemicals for the reclamation. Those not yet fully restored are being worked upon in the prescribed manner. The reclaimed drill sites and other restoration activities have been inspected and accepted by the appointed Governmental environmental inspectors.

Spills

It is Petro Matad's highest priority to prevent oil and chemical spills during its operations. This is achieved through the implementation of risk assessment programmes and the adoption of various preventive measures. The Company's environmental team ensures that spill clean up material (spill kit) and suitable personal protective equipment are always available and stored at each site.

Waste Management

Petro Matad adopted a Waste Management Strategy to ensure that waste disposals follow best practice and standards. The Petro Matad Waste Management Plan identifies all wastes that can potentially damage human health and/or the environment, and involves implementing special controls for the safe handling and disposal of such wastes. The Company strives to reduce or eliminate the generation of waste from its operations through reusing and recycling/recovering materials in an economic and environmentally responsible manner, and in compliance with local authority regulations. The minimisation of

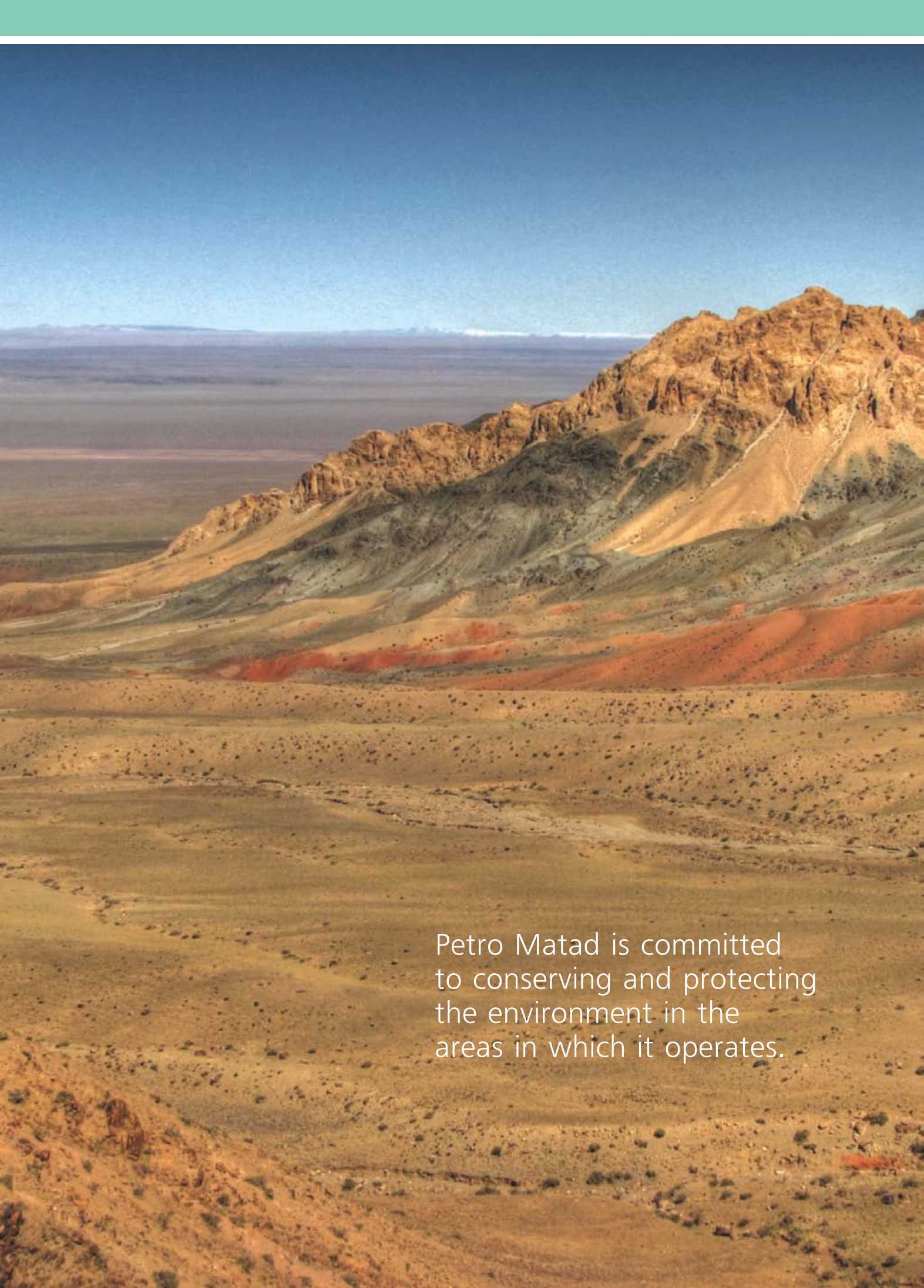
the volume or relative toxicity of liquid or solid wastes is applied to the extent practicable. Moreover, best practice procedures are applied in segregation, collection and transportation of wastes. Waste generated is clearly labelled and identified when stored and transported. As a general rule, different waste types are not mixed during storage except when their methods of disposal are similar and special caution is used for hazardous wastes, keeping the incompatible materials segregated from each other. Storage areas for waste are designed to retain spills and leakages so as to avoid the contamination of land and groundwater resources.

Air Quality

As one of the 2011 environmental initiatives, Petro Matad committed to studying the estimated emissions into the air caused by the consumption of fuel. The analysis aimed to compare the emission factors with emission parameters used by the local and international regulatory standards in order to identify reliable and accurate emission coefficients to be used for future emission estimations.

Maintaining Biodiversity

Petro Matad also aims to maintain and conserve biodiversity across areas of the Company's operations through collaboration with its subcontractors and local authorities, and through ensuring that the disturbance on various species of flora and fauna is prevented or minimised, especially in areas of critical habitats.



Petro Matad is committed to conserving and protecting the environment in the areas in which it operates.





CORPORATE SOCIAL RESPONSIBILITY

Through meaningful engagement with communities, we identify opportunities to make contributions that are beneficial to all stakeholders.

At Petro Matad, we are aware of the social impact of our operations and have developed and adopted a Social Action Plan (SAP) to contribute to the social developments of communities located near and impacted by our exploration and drilling activities in Blocks IV, V and XX. We believe that operating openly and transparently in the community is integral to developing and maintaining positive relationships.

Through meaningful engagement with communities, we identify opportunities to make contributions that are beneficial to all stakeholders. Company representatives meet frequently with the local authorities and strive to educate the community on oil exploration, as well as our planned activities and the possible impact on their community. The Company emphasises the delivery of meaningful assistance to communities. Our social development policies are focused on the quality and comfort of local community life through the support of local development plans, rather than through providing temporary reliefs.

Block XX is located in eastern Mongolia and covers Matad Soum¹ of Dornod Aimag² and Erdenetsagaan Soum of Sukhbaatar Aimag. In 2011, we spent a total of MNT34million (equivalent to approximately USD25,000) in the region. This included the purchase and installation of playgrounds in Matad and Erdenetsagaan Soums, the provision of a laptop and a printer to the Sukhbaatar Aimag Police Department and the provision of assistance to the Dornod Emergency Office Branch for the organisation of a drilling competition in the eastern region of Mongolia.

Petro Matad, through its subsidiary, Central Asian Petroleum Corporation Limited was successfully granted the Production Sharing Contracts on Blocks IV and V in July 2009. The two blocks currently cover over 50,000km² in area and spread over 3 Aimags (Uvurkhangai, Bayankhongor and Gobi-Altai) and 19 Soums. In the Soums where our operations are concentrated, we have established Community Reference Groups consisting of local citizen representatives, environmental officers, officers from other authorities (such as the police force) and other stakeholders (such as business representatives), as well as the Petro Matad Community Relations officers, in order to meaningfully engage with the communities.

Petro Matad receives requests for assistance towards projects and developments through the Community Reference Groups, or through local assistance request forms. The Company carefully considers and selects projects that are consistent with our SAP. In 2011, Petro Matad spent a total of MNT63million (equivalent to approximately USD47,000) in the 3 Aimags and 15 Soums covered by Blocks IV and V on projects which aimed to reduce poverty, as well as improve education, health awareness and the protection of the environment.

Improving Health Awareness

In 2011, the Government of Mongolia conducted a campaign to improve public physical training and social health. Bearing this in mind, Petro Matad implemented the following projects through its SAP:

- The establishing of a fully equipped gym in the Guchin-Us Soum of Uvurkhangai Aimag and the Immigration Office of Mongolia in Ulaanbaatar;
- The provision of an ultrasound apparatus to Tugrug Soum Hospital of Uvurkhangai Aimag;
- The provision of medication, anesthetics, medical supplies and dental care equipment for the treatment of children at the Biger Soum Hospital of Uvurkhangai Aimag.

Improving Education

Petro Matad has implemented a significant number of projects in an effort to improve education and encourage information sharing, providing the following:

- A laptop, a printer, a projector, tables and chairs to facilitate the creation of an anti-crime centre at the Bogd Soum Police Department in Bayankhongor Aimag;
- Tables, chairs, computers, a printer and a television to the new recreational, media and learning room of the Bayan-Ovoo Soum school's dormitory in Bayankhongor Aimag;
- Personal computers to the ecology studies room of Bumbugur Soum's Youth Development Centre in Bayankhongor Aimag;
- A laptop, a printer and a projector to the medical information sharing room of Nariinteel Soum's hospital in Uvurkhangai Aimag;
- New seating for the new Cultural Palace in Khaikhandulaan Soum in Uvurkhangai Aimag;
- A new playground for Bayangol Soum's kindergarten in Uvurkhangai Aimag

¹ A "Soum" is a sub-province of an Aimag.
² An "Aimag" is a Mongolian province.

Environmental Protection

Petro Matad assisted in the cleaning up of a dumpsite in Batsagaan Soum in Bayankhongor Aimag and Baruunbayan-Ulaan Soum in Uvurkhangai Aimag to protect the environment, as well as the health of the community. The Company also fenced off the seabuckthorn plantation in Buutsagaan Soum of Bayankhongor Aimag in an effort to protect it from livestock and humans. There are currently on-going projects to protect the water spring from sandstorm pollution in Jinst Soum of Bayankhongor Aimag and to prevent a water wellhead from freezing in winter in Chandmani Soum in Gobi-Altai Aimag.

Reducing Poverty and Improving Lives

New furniture was provided to replace ancient furniture of Baruunbayan-Ulaan Soum's administration office in Uvurkhangai Aimag in order to improve the working environment of public servants serving the community. Petro Matad also provided gers (Mongolian tents) to 5 single-mother families who were homeless and suffering from poverty.

Apart from working with the local communities, Petro Matad also assisted in the publication of 'Petroleum Drilling Machinery and Mechanism' textbooks, used as educational, teaching material at the Mongolian Science and Technology University

and in the renovation of the classrooms dedicated to the Geology and Petroleum Engineering faculty at the University.

Petro Matad committed to awarding scholarships to students studying Geology and Petroleum Engineering at the National University of Mongolia and the Mongolian Science and Technology University. Scholarships vary from MNT 500,000 to MNT 1 million (equivalent to approximately USD380 to USD760) per student which are contributed towards their tuition fees. To date, we have awarded a total of MNT 80.6million (equivalent to approximately USD61,000) to 128 students.

We are also committed to providing employment and career development opportunities to citizens of local communities where we operate. Besides offering part time positions to employees at our camp on Block XX, we have offered internships in Ulaanbaatar to university students studying in various fields. The internship positions are offered to students who are originally from the Aimags in which Petro Matad operates. To date, we have offered internship positions to 11 students in our Accounting, Community Relations, Drilling and Environmental departments and onsite on Block XX. The interns successfully completed their internships and some students have subsequently been offered full time employment with our Group companies.



**REMUNERATION
REPORT
(UNAUDITED)**

The Board of Directors of the Company has appointed a Remuneration Committee for the purposes of establishing a framework for setting and maintaining remuneration at appropriate levels in the Group.

The Remuneration Committee has been comprised of the following members during the year and until the date of this report.

Janchiv Oyungerel (retired as Chairperson 19 March 2012)
Gordon Leonard Toll (resigned 27 January 2012)
John Campbell Robertson (resigned 12 March 2012)
Philip Arthur Vingoe (appointed a member & Chairperson 19 March 2012)
David Daniel Skeels (appointed 19 March 2012)

The Committee's objective is to meet at least twice a year and as at such other times as the Committee Chairperson shall require in accordance with the formal "Terms of Reference for the Remuneration Committee" approved by the Board of Directors on 24 April 2008.

Remuneration Policy

The Committee determines and agrees with the Board on behalf of the shareholders the broad policy for the remuneration of the Company's Chairman, the Chief Executive of the Company, the executive directors and such other members of the executive management as it is designated to consider. No director or manager is involved in any decisions as to their own remuneration.

In determining the policy, the Committee takes into account all factors which it deems necessary. The objective of such policy is to ensure that members of the management of the Group are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

The Committee approves the design of, and determine targets for, any performance related pay schemes operated by the Group and approve the total annual payments made under such schemes.

The Committee approves the design of all share incentive plans for approval by the Board and shareholders. For any such plans, the Committee determines each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to any executive directors and other senior executives and the performance targets to be used.

The Committee determines the policy for, and scope of, pension arrangements for any executive directors and other senior executives. Currently the Group has not adopted any policy for pension arrangements.

The Committee ensures that contractual terms on termination of employment of any executive directors, and any payments made, are fair to the individual, and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

Within the terms of the agreed policy and in consultation with the Chief Executive as appropriate, the Committee determines the total individual remuneration package of each executive director including bonuses, incentive payments and share options or other share awards.

In determining such packages and arrangements, the Committee gives due regard to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance Code and the London Stock Exchange's AIM Rules for Companies and associated guidance. The Committee also gives due consideration to pay and employment conditions elsewhere in the Group.

The Committee reviews up-to-date remuneration information on companies of a similar size in a comparable industry sector, as well as on other companies within the same group as the Group and ensures that automatic increases are not implemented without considering relative performance and judging the implications carefully.

The Committee reviews and notes annually the remuneration trends across the Group.

The Committee is aware of and oversee any major changes in employee benefit structures throughout the Group.

The Committee ensures that all provisions regarding disclosure of remuneration, including pensions, are fulfilled.

The Committee is exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee, and for obtaining reliable, up-to-date information about remuneration in other companies. The Committee has full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

The Committee gives guidance to the executive management in setting the levels of remuneration for the Group.

The Committee reviews the ongoing appropriateness and relevance of the remuneration policy.

Long Term Equity Incentive Plan

The Group provides long term incentives to employees (including executive directors), non-executive directors and consultants through the Group's Plan based on the achievement of certain performance criteria. The Plan provides for share awards in the form of options and conditional Performance Share Awards. The incentives are awarded at the discretion of the Board, or in the case of executive directors, the Remuneration Committee of the Board, who 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.

Options may be exercised, subject only to continuing service, during such period as the Board may determine.

Performance Share Awards shall vest subject to continuing service and appropriate and challenging performance conditions determined by the Remuneration Committee relating to the overall performance of the Group.

(a) Details of Directors

The names of the Company's directors, having authority and responsibility for planning, directing and controlling the activities of the Group, in office during the year and until the date of this report are as below:

The directors were in office for this entire year unless otherwise stated.

Directors

Gordon Leonard Toll	Non-executive Co-Chairperson	Resigned 27 January 2012
Janchiv Oyungerel	Non-executive Co-Chairperson	Appointed Chairperson on 27 January 2012
Douglas John McGay	Chief Executive Officer	
Clyde Robert Evans	Chief Financial Officer	
John Campbell Robertson	Non-executive Director	Resigned 12 March 2012
Davaadorj Sarangua	Non-executive Director	Resigned 12 March 2012
Mary Ellen Collins	Non-executive Director	
Davaanyam Enkhchimeg	Non-executive Director	Resigned 20 May 2011
Davaanyam Enkhmaa	Non-executive Director	Appointed 20 May 2011
David Daniel Skeels	Non-executive Director	Appointed 12 March 2012
Philip Arthur Vingoe	Non-executive Director	Appointed 12 March 2012
George Edward Watkins	Non-executive Director	Appointed 12 March 2012
Tuul Amarzul	Executive Director	Appointed 19 March 2012

On 16 April 2012, Clyde Robert Evans retired as Chief Financial Officer, while continuing on in a role as a Non-executive Director. John Rene Henriksen was appointed Chief Financial Officer on the same date.

(b) Compensation of Directors

Note	Consolidated		Parent	
	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Short term employee benefits	939	663	874	602
Post-employment benefits	-	-	-	-
Share based payment expense	1,015	944	1,015	934
	1,954	1,607	1,889	1,536

Note	Consolidated		Parent	
	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Directors				
Gordon Leonard Toll	64	52	64	52
Janchiv Oyungerel	64	47	64	47
Douglas John McGay	356	263	291	202
Clyde Robert Evans	288	214	288	214
John Campbell Robertson	48	32	48	32
Davaadorj Sarangua	48	32	48	32
Mary Ellen Collins	22	-	22	-
Davaanyam Enkhchimeg	19	23	19	23
Davaanyam Enkhmaa	30	-	30	-
Total	939	663	874	602

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

Directors' compensation includes consultancy service payments of \$290,748 (2010: \$202,278) paid to a company associated with Douglas John McGay and consultancy service payments of \$123,420 (2010: \$91,605) paid to a company associated with Clyde Robert Evans.

Mary Ellen Collins, who serves as a non-executive director to the Company under the nomination of the European Bank for Reconstruction and Development ("EBRD"), commenced receiving remuneration from the Company from 15 July 2011. Before 15 July 2011, Ms Collins was paid a fee by EBRD for her role, and under those arrangements, the Company is not required to reimburse EBRD for Ms Collins' services.

Directors are not entitled to any termination or retirement benefits.

(c) Shareholdings of Directors and their related parties

For the year ended 31 December 2010	Balance as at 01-Jan-10	Acquired and (Disposed)	Options Exercised	Balance as at 31-Dec-10
Directors				
Gordon Leonard Toll	5,102,501	-	-	5,102,501
Janchiv Oyungerel	6,335,000	-	125,000	6,460,000
Douglas John McGay	5,750,000	(1,950,000)	175,000	3,975,000
Clyde Robert Evans	3,782,377	200,000	-	3,982,377
John Campbell Robertson	150,000	200,000	-	350,000
Davaadorj Sarangua	-	-	75,000	75,000
Mary Ellen Collins	-	-	-	-
Davaanyam Enkhchimeg	200,000	2,350,000	-	2,550,000
Total	21,319,878	800,000	375,000	22,494,878

For the year ended 31 December 2011	Balance as at 01-Jan-11	Acquired and (Disposed)	Options Exercised	Balance as at 31-Dec-11
Directors				
Gordon Leonard Toll	5,102,501	-	-	5,102,501
Janchiv Oyungerel	6,460,000	-	125,000	6,585,000
Douglas John McGay	3,975,000	(175,000)	175,000	3,975,000
Clyde Robert Evans	3,982,377	-	200,000	4,182,377
John Campbell Robertson	350,000	-	-	350,000
Davaadorj Sarangua	75,000	-	75,000	150,000
Mary Ellen Collins	-	-	-	-
Davaanyam Enkhchimeg	2,550,000	-	25,000	2,575,000
Davaanyam Enkhmaa	-	-	-	-
Total	22,494,878	(175,000)	600,000	22,919,878

All transactions with directors other than those arising from the exercise of options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Pursuant to the definition of Director's Family within AIM Rules for Companies, the respective holdings of Janchiv Oyungerel and Petrovis LLC ("Petrovis") are aggregated on account of Janchiv Oyungerel's shareholding of over 20% in Petrovis. The holdings as set out above are the direct interests of Janchiv Oyungerel. However, when applying AIM Rules for Companies, the holdings of Petrovis and Janchiv Oyungerel are treated on an aggregated basis and the aggregated holding is treated as a Director's interest.

(d) Options holdings of Directors

For the year ended 31 December 2010	Balance as at 01-Jan-10	Granted as Remuneration	Options Exercised	Options Lapsed	Balance as at 31-Dec-10	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Gordon Leonard Toll	500,000	175,000	-	-	675,000	550,000	125,000
Janchiv Oyungerel	500,000	225,000	(125,000)	-	600,000	600,000	-
Douglas John McGay	700,000	550,000	(175,000)	-	1,075,000	1,075,000	-
Clyde Robert Evans	400,000	400,000	-	-	800,000	700,000	100,000
John Campbell Robertson	300,000	150,000	-	-	450,000	375,000	75,000
Davaadorj Sarangua	300,000	100,000	(75,000)	-	325,000	325,000	-
Mary Ellen Collins	-	125,000	-	-	125,000	125,000	-
Davaanyam Enkhchimeg	-	100,000	-	-	100,000	100,000	-
Total	2,700,000	1,825,000	(375,000)	-	4,150,000	3,850,000	300,000

For the year ended 31 December 2011	Balance as at 01-Jan-11	Granted as Remuneration	Options Exercised	Options Lapsed	Balance as at 31-Dec-11	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Gordon Leonard Toll	675,000	-	-	-	675,000	242,250	432,750
Janchiv Oyungerel	600,000	-	(125,000)	-	475,000	275,750	199,250
Douglas John McGay	1,075,000	-	(175,000)	-	900,000	543,500	356,500
Clyde Robert Evans	800,000	-	(200,000)	-	600,000	368,000	232,000
John Campbell Robertson	450,000	-	-	-	450,000	175,500	274,500
Davaadorj Sarangua	325,000	-	(75,000)	-	250,000	142,000	108,000
Mary Ellen Collins	125,000	-	-	-	125,000	83,750	41,250
Davaanyam Enkhchimeg	100,000	-	-	(100,000)	-	-	-
Davaanyam Enkhmaa	-	150,000	-	-	150,000	150,000	-
Total	4,150,000	150,000	(575,000)	(100,000)	3,625,000	1,980,750	1,644,250

Davaanyam Enkhchimeg's holdings lapsed subsequent to her resignation on 20 May 2011.

(e) Performance Share Awards holdings of Directors

For the year ended 31 December 2010	Balance as at 01-Jan-10	Granted as Remuneration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-10	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Gordon Leonard Toll	250,000	175,000	-	-	425,000	425,000	-
Janchiv Oyungerel	250,000	225,000	-	-	475,000	475,000	-
Douglas John McGay	350,000	250,000	-	-	600,000	600,000	-
Clyde Robert Evans	200,000	200,000	-	-	400,000	400,000	-
John Campbell Robertson	150,000	150,000	-	-	300,000	300,000	-
Davaadorj Sarangua	150,000	100,000	-	-	250,000	250,000	-
Mary Ellen Collins	-	125,000	-	-	125,000	125,000	-
Davaanyam Enkhchimeg	-	100,000	-	-	100,000	100,000	-
Total	1,350,000	1,325,000	-	-	2,675,000	2,675,000	-

For the year ended 31 December 2011	Balance as at 01-Jan-11	Granted as Remuneration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-11	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Gordon Leonard Toll	425,000	-	-	-	425,000	425,000	-
Janchiv Oyungerel	475,000	-	-	-	475,000	475,000	-
Douglas John McGay	600,000	-	-	-	600,000	600,000	-
Clyde Robert Evans	400,000	-	-	-	400,000	400,000	-
John Campbell Robertson	300,000	-	-	-	300,000	300,000	-
Davaadorj Sarangua	250,000	-	-	-	250,000	250,000	-
Mary Ellen Collins	125,000	-	-	-	125,000	125,000	-
Davaanyam Enkhchimeg	100,000	-	(25,000)	(75,000)	-	-	-
Davaanyam Enkhmaa	-	150,000	-	-	150,000	150,000	-
Total	2,675,000	150,000	(25,000)	(75,000)	2,725,000	2,725,000	-

75,000 of Davaanyam Enkhchimeg's holding lapsed subsequent to her resignation on 20 May 2011.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Continuing operations					
Revenue					
Interest income	4(a)	1,385	48	95	1
		1,385	48	95	1
Expenditure					
Consultancy fees		199	104	189	86
Depreciation and amortisation		174	56	27	13
Employee benefits expense	4(b)	9,892	4,110	6,173	3,578
Exploration and evaluation expenditure	4(c)	27,807	9,579	-	4
Other expenses	4(d)	2,912	2,278	662	895
Loss from continuing operations before income tax		(39,599)	(16,079)	(6,956)	(4,575)
Income tax expense/(benefit)	5	-	-	-	-
Loss from continuing operations after income tax		(39,599)	(16,079)	(6,956)	(4,575)
Net (loss) for the year		(39,599)	(16,079)	(6,956)	(4,575)
Other comprehensive income					
Exchange rate differences on translating foreign operations		(609)	(68)	-	-
Other comprehensive loss for the year, net of income tax		(609)	(68)	-	-
Total comprehensive loss for the year		(40,208)	(16,147)	(6,956)	(4,575)
Loss attributable to owners of the parent		(39,599)	(16,079)	(6,956)	(4,575)
Total comprehensive loss attributable to owners of the parent		(40,208)	(16,147)	(6,956)	(4,575)
Loss per share (cents per share)					
Basic and diluted loss per share	6	21.5	10.5	-	-

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
ASSETS					
Current Assets					
Cash and cash equivalents	7	15,477	51,690	796	29,063
Trade and other receivables	8	316	88	-	-
Prepayments and other assets	9	729	354	5	6
Total Current Assets		16,522	52,132	801	29,069
Non-Current Assets					
Trade and other receivables	8	-	-	68,632	42,574
Exploration and evaluation assets	10	15,275	15,275	-	-
Property, plant and equipment	11	1,149	450	59	67
Investment in subsidiaries	12	-	-	19,163	19,163
Total Non-current assets		16,424	15,725	87,854	61,804
TOTAL ASSETS		32,946	67,857	88,655	90,873
LIABILITIES					
Current Liabilities					
Trade and other payables	13	1,952	1,421	99	127
Annual leave provision		24	-	24	-
Total Current Liabilities		1,976	1,421	123	127
TOTAL LIABILITIES		1,976	1,421	123	127
NET ASSETS		30,970	66,436	88,532	90,746
EQUITY					
Equity attributable to owners of the parent					
Issued capital	14	97,187	95,466	97,380	95,659
Reserves	15	6,232	3,900	6,154	3,213
Accumulated losses		(72,449)	(32,930)	(15,002)	(8,126)
TOTAL EQUITY		30,970	66,436	88,532	90,746

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Cash flows from operating activities					
Payments to suppliers and employees		(36,475)	(13,390)	(2,623)	(2,881)
Interest received		1,385	48	95	1
Net cash flows used in operating activities	7	(35,090)	(13,342)	(2,528)	(2,880)
Cash flows from investing activities					
Purchase of property, plant and equipment		(873)	(307)	(19)	(67)
Loans to related parties		-	-	(26,581)	(32,972)
Proceeds from loans to related parties		-	-	523	3,342
Net cash flows used in investing activities		(873)	(307)	(26,077)	(29,697)
Cash flows from financing activities					
Proceeds from issue of shares	14	303	61,960	303	61,960
Capital raising costs		-	(1,518)	-	(1,518)
Net cash flows from/(used in) financing activities		303	60,442	303	60,442
Net increase/(decrease) in cash and cash equivalents		(35,660)	46,793	(28,302)	27,865
Cash and cash equivalents at beginning of the year		51,690	5,215	29,063	1,198
Net foreign exchange differences		(553)	(318)	35	-
Cash and cash equivalents at the end of the year	7	15,477	51,690	796	29,063

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated Attributable to equity holders of the parent			Total USD\$'000
		Issued capital USD\$'000	Accumulated Losses USD\$'000	Other reserves Note 15 USD\$'000	
As at 1 January 2010		35,115	(16,851)	1,766	20,030
Net loss for the year		-	(16,079)	-	(16,079)
Other comprehensive income		-	-	(68)	(68)
Total comprehensive loss for the year		-	(16,079)	(68)	(16,147)
Issue of share capital	14	61,960	-	-	61,960
Cost of capital raising	14	(1,609)	-	-	(1,609)
Share-based payments	15 & 16	-	-	2,202	2,202
As at 31 December 2010		95,466	(32,930)	3,900	66,436
Net loss for the year		-	(39,599)	-	(39,599)
Other comprehensive income		-	-	(609)	(609)
Total comprehensive loss for the year		-	(39,599)	(609)	(40,208)
Issue of share capital	14	303	-	-	303
Cost of capital raising	14	-	-	-	-
Share-based payments	14, 15 & 16	1,418	80	2,941	4,439
As at 31 December 2011		97,187	(72,449)	6,232	30,970

	Note	Parent Attributable to equity holders of the parent			Total USD\$'000
		Issued capital USD\$'000	Accumulated Losses USD\$'000	Other reserves Note 15 USD\$'000	
As at 1 January 2010		35,308	(3,551)	1,011	32,768
Net loss for the year		-	(4,575)	-	(4,575)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		-	(4,575)	-	(4,575)
Issue of share capital	14	61,960	-	-	61,960
Cost of capital raising	14	(1,609)	-	-	(1,609)
Share-based payments	15 & 16	-	-	2,202	2,202
As at 31 December 2010		95,659	(8,126)	3,213	90,746
Net loss for the year		-	(6,956)	-	(6,956)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		-	(6,956)	-	(6,956)
Issue of share capital	14	303	-	-	303
Cost of capital raising	14	-	-	-	-
Share-based payments	14, 15 & 16	1,418	80	2,941	4,439
As at 31 December 2011		97,380	(15,002)	6,154	88,532

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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1 Corporate information

The financial report of Petro Matad Limited ("Company") for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the directors on 26 June 2012.

This financial report presents the consolidated results and financial position of Petro Matad Limited and its subsidiaries (together, the "Group").

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

2 Summary of significant accounting policies

(a) Basis of preparation

This financial report complies with Australian Accounting Standards ("AAS") as issued by the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

(b) Statement of compliance

This general purpose financial report has been prepared in accordance with the requirements of all applicable AAS and Australian Accounting Interpretations and other authoritative pronouncements of the AASB that have a material effect. IFRS form the basis of the AAS adopted by the AASB. Compliance with AAS ensures that the financial statements and notes to the financial statements comply with IFRS. No other applicable Accounting Standards or other authoritative pronouncements of the AASB have been applied.

Certain AAS and Australian Accounting Interpretations have recently been issued or amended but are not yet effective. These standards have not been adopted by the Group for the year ended 31 December 2011 and would not have a material effect on the Group's current accounting policies.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year.

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.

Investments in subsidiaries held by Petro Matad Limited are accounted for at cost less any impairment in the separate financial statements of the parent entity. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment.

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

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

Functional and presentation currency

Both the functional and presentation currency of Petro Matad Limited is United States Dollars ("USD"). The Cayman Island and Isle of Man subsidiaries' functional currency are USD. The Mongolian subsidiaries' functional currency is Mongolian Tugriks ("MNT") which is then translated to the presentation currency, USD.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal on the net investment.

Translation of subsidiaries' functional currency to presentation currency

The results of the Mongolian subsidiaries are translated into USD (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at the reporting date.

Exchange differences resulting from the translation are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in Mongolian subsidiaries are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. If a Mongolian subsidiary was sold, the proportionate share of exchange difference would be transferred out of equity and recognised in profit and loss in the statement of comprehensive income.

(e) Cash and cash equivalents

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

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

(f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 60 days overdue. The amount of the impairment loss is the amount by which the receivable carrying value exceeds the present value of the estimated future cash flows, discounted at the original effective interest rate.

(g) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset and is currently estimated to be an average of 6.5 years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(h) Exploration and evaluation expenditure

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

(i) 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.

(j) Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Group assesses whether there is any indication that tangible and intangible assets may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount for each asset or cash generating unit to determine the extent of the impairment loss (if any). Where the carrying amount of an asset (or cash-generating unit) 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment review for deferred exploration and evaluation assets 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.

(k) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(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 profit and loss in the statement of comprehensive income 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.

(m) 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding 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.

(n) 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.

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 statement of comprehensive income on a straight-line basis over the lease term.

(o) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest revenue

Revenue is recognised on an accrual basis.

(q) Share-based payment transactions

The Group provides to certain key management personnel share-based payments, whereby they 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 determining the fair value of the equity-settled transactions, no account is taken of any non-market based vesting conditions.

The cost of equity-settled transactions is recognised as an expense on a straight-line basis, 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 the vesting date reflects:

- the extent to which the vesting period has expired; and
- 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 the reporting date. The impact of the revision of original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

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.

(r) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(s) Income tax

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 the reporting date. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

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

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

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

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

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, 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.

(t) Earnings per share

Basic earnings per share is calculated as net profit attributable to owners of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to owners of the parent, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(u) Comparatives figures

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

(v) Significant accounting judgments, estimates and assumptions

In applying the Group'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 Group. 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.

Any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

The following are the most critical estimates and judgments made by management in applying the accounting policies and have the most significant effect on the amounts recognised in the financial statements.

Share -based payments

The Group measures the cost of equity settled transactions with directors and employees at the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model. One of the inputs into the valuation model is volatility of the underlying share price which is estimated on the 3.5 year history of the share price and has been estimated in a range from 78 % to 220% depending on the date of the option / award. The share price used in the valuation model is based on the Company's share price at grant date of each option / award. The term of each option issued is 10 years, whereas management have determined that awards will expire on 30 June 2028. To allow for the effects of early exercise, it was assumed that executives and employees would exercise the options / awards at the mid-point after the vesting date, but before expiry date.

Recovery of the exploration and evaluation assets

The ultimate recoupment of the exploration and evaluation assets is dependent upon successful development and commercial exploitation or alternatively the sale of the respective areas of interest at an amount at least equal to book value. At the point that it is determined that any capitalised exploration and evaluation expenditure is not recoverable, it is written off.

3 Operating segments

Operating segments have been identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the Board of Directors. On a regular basis, the Board receives financial information on a consolidated basis similar to the financial statements presented in the financial report, to manage and allocate their resources. Therefore, the Group has one operating segment and geographical segment, being Mongolia; as such no separate disclosure has been provided.

4 Revenues and expenses

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
(a) Revenue					
Interest Income		1,385	48	95	1
		1,385	48	95	1
(b) Employee benefits expense					
Included in employee benefits expense are the following:					
Wages and Salaries		1,762	750	210	244
Directors' fees (including directors of affiliates)		329	212	295	186
Consultancy fees		3,362	946	1,229	946
Expense of share-based payments		4,439	2,202	4,439	2,202
		9,892	4,110	6,173	3,578
(c) Exploration and evaluation expenditure					
Exploration and evaluation expenditure relates to the following PSCs:					
Block XX		19,333	7,593	-	-
Blocks IV and V		8,474	1,982	-	-
Other		-	4	-	4
		27,807	9,579	-	4
(d) Other expenses					
Included in other expenses are the following:					
Administration costs		2,426	1,625	381	418
Travel expenses		541	406	317	227
Foreign exchange (gains)/losses		(55)	247	(36)	250
		2,912	2,278	662	895

5 Income tax

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Income tax recognised in the statement of comprehensive income:					
Tax expense/(benefit) comprises:					
Current tax expense/(benefit)		-	-	-	-
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences		-	-	-	-
Total tax expense/(benefit) reported in the statement of comprehensive income		-	-	-	-

The prima facie income tax expense on pre-tax accounting profit/(loss) from continuing operations reconciles to the income tax expense/(benefit) in the financial statements as follows:

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Net loss for the year		39,599	16,079	6,956	4,575
Income tax expense calculated at 10%	(i)	3,960	1,608	696	457
Effect of different tax rates on entities in different jurisdictions	(ii)	(3,547)	(1,168)	(696)	(457)
Change in unrecognised deferred tax assets		(413)	(440)	-	-
		-	-	-	-

- (i) The tax rate used in the above reconciliation is the corporate tax rate of 10% payable by Mongolian corporate entities on taxable profits up to 3 billion MNT under Mongolian tax law.
- (ii) Petromatad Invest Limited and Capcorp are exempt of Mongolian corporate tax on profits derived from the sale of oil under their PSC's and are subject to Cayman Islands income tax at a rate of 0%. As a consequence, no provision for Mongolian corporate tax or Cayman Islands current tax or deferred tax has been made in the Company's accounts in relation to them.

Petro Matad Limited is subject to Isle of Man income tax at a rate of 0%. As a consequence, no provision for Isle of Man current tax or deferred tax has been made in the Company's accounts.

6 Loss per share

The following reflects the income and share data used in the total operations basic and diluted loss per share computations:

	Consolidated	
	31 Dec 2011 cents per share	31 Dec 2010 cents per share
Basic loss per share	21.5	10.5
Diluted loss per share	21.5	10.5
	USD\$'000	USD\$'000
The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:		
Net loss attributable to ordinary shareholders	39,599	16,079
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	183,995	153,558

Share options and Performance Share Awards could potentially dilute basic loss per share in the future, however they have been excluded from the calculation of diluted loss per share because they are anti-dilutive for both years presented.

There have been further transactions involving ordinary shares since the reporting date and before the completion of these financial statements, details of these can be found in Note 22 Events after the reporting date.

7 Cash and cash equivalents

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Cash at bank and in hand		15,477	51,690	796	29,063
		-	-	-	-
		15,477	51,690	796	29,063

Cash at bank and in hand earns interest at fixed and floating rates based on prevailing bank rates, and the fair value of the above cash and cash equivalents is \$15,477,000 (2010: \$51,690,000).

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Reconciliation from the net loss after tax to the net cash flows from operations:					
Net loss after tax		(39,599)	(16,079)	(6,956)	(4,575)
<i>Adjustments for:</i>					
Depreciation and amortisation		174	56	27	13
Share based payments		4,439	2,202	4,439	2,202
Unrealised foreign exchange (gains)/losses		(55)	-250	(35)	-
<i>Changes in assets and liabilities</i>					
(increase)/decrease in trade and other receivables		(228)	(54)	-	32
(increase)/decrease in prepayments and other assets		(375)	(332)	1	(6)
(decrease)/increase in trade and other payables		554	615	(4)	(546)
Net cash flows used in operating activities		(35,090)	(13,342)	(2,528)	(2,880)

Non-cash investing and financing activities

There were no non-cash investing or financing activities undertaken in the financial year or prior year.

8 Trade and other receivables

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Current					
Other debtors		316	88	-	-
		316	88	-	-
Non-current					
Related party receivables:					
- loan to subsidiaries		-	-	68,632	42,574
		-	-	68,632	42,574

All amounts are recoverable and are not considered past due or impaired.

For terms and conditions of related party receivables, refer to Note 18.

9 Prepayments and other assets

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Prepayments		262	41	5	6
Other assets		467	313	-	-
		729	354	5	6

Other current assets are mainly comprised of consumables, including casing, mud and drilling materials purchased for Block XX.

10 Exploration and evaluation assets

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Exploration and evaluation assets		15,275	15,275	-	-
		15,275	15,275	-	-

The exploration and evaluation asset arose following the initial acquisition in February 2007 of 50% of Petromatad Invest Limited, together with acquisition on 12 November 2007 of the remaining 50% not already held by the Group, for a consideration of 23,340,000 ordinary shares credited as fully paid up and with an estimated fair value of \$0.50 per share, taking into account assets and liabilities acquired on acquisition.

11 Property, plant and equipment

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Plant and equipment at cost		1,360	540	80	76
Accumulated depreciation and impairment		(211)	(90)	(21)	(9)
		1,149	450	59	67

Reconciliation of carrying amounts at the beginning and end of the year:

	Consolidated		Parent	
	Plant and Equipment USD\$'000	Total USD\$'000	Plant and Equipment USD\$'000	Total USD\$'000
As at 1 January 2009 (net of accumulated depreciation)	199	199	13	13
Additions	307	307	67	67
Disposals	-	-	-	-
Depreciation charge for the year	(56)	(56)	(13)	(13)
As at 31 December 2009 (net of accumulated depreciation)	450	450	67	67
Additions	873	873	19	19
Disposals	-	-	-	-
Depreciation charge for the year	(174)	(174)	(27)	(27)
As at 31 December 2010 (net of accumulated depreciation)	1,149	1,149	59	59

12 Investment in subsidiaries

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Investments in subsidiaries at cost		-	-	19,163	19,163
		-	-	19,163	19,163

For details of investments in subsidiaries, refer to Note 18.

13 Trade and other payables (current)

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Trade payables		1,949	1,418	99	127
Other payables		3	3	-	-
		1,952	1,421	99	127

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

14 Issued capital

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Ordinary Shares 184,565,284 shares issued and fully paid (2010: 183,061,577)		97,187	95,466	97,380	95,659
		97,187	95,466	97,380	95,659

Movements in ordinary shares on issue:

	Number of shares	Issue price USD\$	USD\$'000
Consolidated			
As at 1 January 2010	125,341,789		35,115
Issue of EBRD first tranche shares on 22 February 2010 (note (a))	13,730,103	0.218	3,000
Issue of shares to an employee on 11 June 2010 on exercise of options (note (b))	18,750	0.163	3
Issue of EBRD second tranche shares on 11 June 2010 (note (c))	14,644,004	0.205	3,000
Issue of Petrovis service shares on 21 July 2010 (note (d))	2,000,000	0.210	420
Issue of shares to Westhouse on 21 July 2010 on exercise of options (note (e))	966,800	0.750	725
Placement shares on 21 September 2010 (note (f))	13,640,203	2.080	29,154
Direct subscription shares on 5 October 2010 (note (g))	8,843,675	2.080	18,423
Issue of shares to directors and employees on 12 October 2010 on exercise of options (note (h))	235,500	0.750	177
Issue of shares to directors and employees on 12 October 2010 on exercise of options (note (i))	255,000	0.175	45
Issue of EBRD subscription shares on 12 October 2010 (note (j))	3,367,003	2.079	7,000
Issue of shares to an employee on 29 November 2010 on exercise of options (note (k))	18,750	0.750	13
Capital raising costs	-	-	(1,609)
As at 31 December 2010	183,061,577		95,466
Exercise of Performance Share Awards on 25 March 2011 (note (l))	191,479	0.010	2
Issue of shares to directors and employees on 12 April 2011 on exercise of options (note (m))	628,750	0.180	113
Issue of shares to a director on 12 April 2011 on exercise of options (note (n))	50,000	0.750	38
Exercise of Performance Share Awards on 21 April 2011 (note (o))	142,447	0.010	1
Issue of shares to employees on 21 April 2011 on exercise of options (note (p))	25,000	0.180	5
Exercise of Performance Share Awards on 10 June 2011 (note (q))	83,534	0.010	1
Issue of shares to an employee on 10 June 2011 on exercise of options (note (r))	7,500	0.180	1
Exercise of Performance Share Awards on 5 August 2011 (note (s))	97,497	0.010	1
Issue of shares to employees on 5 August 2011 on exercise of options (note (t))	184,090	0.752	138
Issue of shares to an employee on 5 August 2011 on exercise of options (note (u))	5,000	0.180	1
Exercise of Performance Share Awards on 21 November 2011 (note (v))	83,410	0.010	1
Issue of shares to an employee on 21 November 2011 on exercise of options (note (w))	5,000	0.174	1
Capital raising costs	-	-	-
Share based payment	-	-	1,418
As at 31 December 2011	184,565,284		97,187

	Number of shares	Issue price USD\$	USD\$'000
Parent			
As at 1 January 2010	125,341,789		35,308
Issue of EBRD first tranche shares on 22 February 2010 (note (a))	13,730,103	0.218	3,000
Issue of shares to an employee on 11 June 2010 on exercise of options (note (b))	18,750	0.163	3
Issue of EBRD second tranche shares on 11 June 2010 (note (c))	14,644,004	0.205	3,000
Issue of Petrovis service shares on 21 July 2010 (note (d))	2,000,000	0.210	420
Issue of shares to Westhouse on 21 July 2010 on exercise of options (note (e))	966,800	0.750	725
Placement shares on 21 September 2010 (note (f))	13,640,203	2.080	29,154
Direct subscription shares on 5 October 2010 (note (g))	8,843,675	2.080	18,423
Issue of shares to directors and employees on 12 October 2010 on exercise of options (note (h))	235,500	0.750	177
Issue of shares to directors and employees on 12 October 2010 on exercise of options (note (l))	255,000	0.175	45
Issue of EBRD subscription shares on 12 October 2010 (note (j))	3,367,003	2.079	7,000
Issue of shares to an employee on 29 November 2010 on exercise of options (note (k))	18,750	0.750	13
Capital raising costs	-	-	(1,609)
As at 31 December 2010	183,061,577		95,659
Exercise of Performance Share Awards on 25 March 2011 (note (l))	191,479	0.010	2
Issue of shares to directors and employees on 12 April 2011 on exercise of options (note (m))	628,750	0.180	113
Issue of shares to a director on 12 April 2011 on exercise of options (note (n))	50,000	0.750	38
Exercise of Performance Share Awards on 21 April 2011 (note (o))	142,447	0.010	1
Issue of shares to employees on 21 April 2011 on exercise of options (note (p))	25,000	0.180	5
Exercise of Performance Share Awards on 10 June 2011 (note (q))	83,534	0.010	1
Issue of shares to an employee on 10 June 2011 on exercise of options (note (r))	7,500	0.180	1
Exercise of Performance Share Awards on 5 August 2011 (note (s))	97,497	0.010	1
Issue of shares to employees on 5 August 2011 on exercise of options (note (t))	184,090	0.752	38
Issue of shares to an employee on 5 August 2011 on exercise of options (note (u))	5,000	0.180	1
Exercise of Performance Share Awards on 21 November 2011 (note (v))	83,410	0.010	1
Issue of shares to an employee on 21 November 2011 on exercise of options (note (w))	5,000	0.174	1
Capital raising costs	-	-	-
Share based payment	-	-	1,418
As at 31 December 2011	184,565,284		97,380

- (a) On 22 February 2010, 13,730,103 shares were issued to EBRD at a price per share of GBP0.14 being the first tranche of shares pursuant to the Subscription Agreement signed on 18 December 2009 between the Company and EBRD.
- (b) On 11 June 2010, pursuant to the Group's Plan, 18,750 shares were awarded to an employee exercising options with an exercise price per share of GBP0.11.
- (c) On 11 June 2010, 14,644,004 shares were issued to EBRD at a price per share of GBP0.14 being the second tranche of shares pursuant to the Subscription Agreement signed on 18 December 2009.
- (d) On 21 July 2010, 2,000,000 shares were issued to nominated recipients of Petrovis in settlement of a liability related to a fee of GBP280,000 pursuant to a Service Agreement dated 19 June 2009.
- (e) On 21 July 2010, 966,800 shares were issued to Westhouse on exercise of options with an exercise price per share of \$0.75 under an option agreement dated 25 April 2008.
- (f) On 21 September 2010, the Company concluded a placement by issuing 13,640,203 shares at a price per share of GBP1.35 arranged through its broker, Westhouse.
- (g) On 5 October 2010, the Company issued 8,843,675 shares through subscriptions at a price per share of GBP1.35.

- (h) On 12 October 2010, pursuant to the Group's Plan, 235,500 shares were awarded to directors and employees exercising options with an exercise price per share of \$0.75.
- (i) On 12 October 2010, pursuant to the Group's Plan, 255,000 shares were awarded to directors and employees exercising options with an exercise price per share GBPO.11.
- (j) On 12 October 2010, the Company issued 3,367,003 subscription shares to EBRD at a price per share of GBP1.35.
- (k) On 29 November 2010, pursuant to the Group's Plan, 18,750 shares were awarded to an employee exercising options with an exercise price per share of \$0.75.
- (l) On 25 March 2011, pursuant to the Group's Plan, 191,479 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.
- (m) On 12 April 2011, pursuant to the Group's Plan, 628,750 shares were awarded to directors and employees exercising options with an exercise price per share GBPO.11.
- (n) On 12 April 2011, pursuant to the Group's Plan, 50,000 shares were awarded to a director exercising options with an exercise price per share of \$0.75.
- (o) On 21 April 2011, pursuant to the Group's Plan, 142,447 shares were awarded to an employee exercising Performance Share Awards with an exercise price per share of \$0.01.
- (p) On 21 April 2011, pursuant to the Group's Plan, 25,000 shares were awarded to employees exercising options with an exercise price per share of GBPO.11.
- (q) On 10 June 2011, pursuant to the Group's Plan, 83,534 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.
- (r) On 10 June 2011, pursuant to the Group's Plan, 7,500 shares were awarded to an employee exercising options with an exercise price per share of GBPO.11.
- (s) On 5 August 2011, pursuant to the Group's Plan, 97,497 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.
- (t) On 5 August 2011, pursuant to the Group's Plan, 184,090 shares were awarded to employees exercising options with an exercise price per share of GBPO.4616.
- (u) On 5 August 2011, pursuant to the Group's Plan, 5,000 shares were awarded to an employee exercising options with an exercise price per share of GBPO.11.
- (v) On 21 November 2011, pursuant to the Group's Plan, 83,410 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.
- (w) On 21 November 2011, pursuant to the Group's Plan, 5,000 shares were awarded to an employee exercising options with an exercise price per share of GBPO.11.

15 Reserves

A detailed breakdown of the reserves of the Group is as follows:

	Merger reserve USD\$'000	Equity benefits reserve USD\$'000	Foreign currency translation USD\$'000	Total USD\$'000
Consolidated				
As at 1 January 2010	831	1,011	(76)	1,766
Currency translation differences	-	-	(68)	(68)
Share based payments	-	2,202	-	2,202
As at 31 December 2010	831	3,213	(144)	3,900
Currency translation differences	-	-	(609)	(609)
Share based payments	-	2,941	-	2,941
As at 31 December 2011	831	6,154	(753)	6,232
Parent				
As at 1 January 2010	-	1,011	-	1,011
Currency translation differences	-	-	-	-
Option premium on convertible notes	-	-	-	-
Share based payment	-	2,202	-	2,202
As at 31 December 2010	-	3,213	-	3,213
Currency translation differences	-	-	-	-
Share based payments	-	2,941	-	2,941
As at 31 December 2011	-	6,154	-	6,154

Nature and purpose of reserves

Merger reserve

The merger reserve arose from the Company's acquisition of Capcorp on 12 November 2007. This transaction is outside the scope of AASB 3 'Business Combinations' and as such directors have elected to use UK Accounting Standards 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, and the nominal value of the shares received in exchange are recorded as a movement on other reserves in the consolidated financial statements.

Equity benefits reserve

The equity benefits reserve is used to record the value of options and Performance Share Awards provided to employees and directors as part of their remuneration, pursuant to the Group's Plan. Refer to Note 16 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

16 Share based payments

(a) Long Term Equity Incentive Plan

The Group provides long term incentives to employees (including executive directors), non-executive directors and consultants through the Group's Plan based on the achievement of certain performance criteria. The Plan provides for share awards in the form of options and conditional Performance Share Awards. The incentives are awarded at the discretion of the Board, or in the case of executive directors, the Remuneration Committee of the Board, who 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.

Options may be exercised, subject only to continuing service, during such period as the Board may determine. Options have a term of 10 years.

Performance Share Awards shall vest subject to continuing service and appropriate and challenging performance conditions determined by the Remuneration Committee and, in the case of directors, relating to the overall performance of the Group. The awards have an estimated expiry of 30 June 2028.

The following options were granted during the year:

On 6 April 2011, pursuant to the Group's Plan, 519,100 options over shares were granted to employees with an exercise price per share of GBP1.18167, exercisable in three parts as follows:

- 33% after 6 April 2012;
- 33% after 6 April 2013;
- 34% after 6 April 2014.

On 6 April 2011, pursuant to the Group's Plan, 250,000 options over shares were granted to an employee with an exercise price per share of GBP1.18167, exercisable in three parts on the anniversaries of her employment commencement dates.

On 5 July 2011, pursuant to the Group's Plan, 563,000 options over shares were granted to employees with an exercise price per share of GBP1.17, exercisable in three parts as follows:

- 33% after 5 July 2012;
- 33% after 5 July 2013;
- 34% after 5 July 2014.

On 5 July 2011, pursuant to the Group's Plan, 60,000 options over shares were granted to an employee with an exercise price per share of GBP1.17, exercisable in three parts on the anniversaries of her employment commencement dates.

On 22 November 2011, pursuant to the Group's Plan, 215,000 options over shares were granted to employees with an exercise price per share of GBPO.225, exercisable in three parts as follows:

- 33% after 22 November 2012;
- 33% after 22 November 2013;
- 34% after 22 November 2014.

On 5 December 2011, pursuant to the Group's Plan, 100,000 options over shares were granted to employees with an exercise price per share of GBPO.1975, exercisable in three parts as follows:

- 33% after 5 December 2012;
- 33% after 5 December 2013;
- 34% after 5 December 2014.

The following awards were granted during the year:

On 6 April 2011, pursuant to the Group's Plan, 707,800 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

On 6 April 2011, pursuant to the Group's Plan, 273,180 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2012.

On 6 April 2011, pursuant to the Group's Plan, 20,176 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting on various dates commencing in 2011.

On 5 July 2011, pursuant to the Group's Plan, 583,000 Performance Share Awards over shares were granted to a director and employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

On 5 July 2011, pursuant to the Group's Plan, 94,123 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2012.

On 5 July 2011, pursuant to the Group's Plan, 54,145 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting on various dates commencing in 2011.

On 22 November 2011, pursuant to the Group's Plan, 119,000 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

On 22 November 2011, pursuant to the Group's Plan, 150,000 Performance Share Service Awards over shares were granted to an employee with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2011.

On 5 December 2011, pursuant to the Group's Plan, 100,000 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

The fair value of the options and Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which they were granted. Expected volatility is based on the historical share price volatility over the past 3.5 years.

(b) Option pricing model

Options granted on 9 July 2010

On 9 July 2010, pursuant to the Group's Plan, 3,319,000 options over shares were granted to employees and directors with an exercise price per share of GBP0.4616 (\$0.70), exercisable in three parts as follows:

- 33% after 9 July 2011;
- 33% after 9 July 2012;
- 34% after 9 July 2013.

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 2010 for this transaction:

	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	\$0.88	\$0.88	\$0.88
Expected Volatility (%)	85	85	85
Risk-free interest rates (%)	0.50	0.50	0.50
Expected life (years)	5.50	6.00	6.50
Exercise Price	\$0.70	\$0.70	\$0.70
Estimate fair value of option	\$0.6576	\$0.6743	\$0.6896

Options granted on 6 April 2011

On 6 April 2011, pursuant to the Group's Plan, 769,100 options over shares were granted to employees with an exercise price per share of GBP1.8167, exercisable in three parts as follows:

- 33% after 6 April 2012;
- 33% after 6 April 2013;
- 34% after 6 April 2014.

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 2011 for this transaction:

	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	\$3.0202	\$3.0202	\$3.0202
Expected Volatility (%)	85	85	85
Risk-free interest rates (%)	0.50	0.50	0.50
Expected life (years)	5.50	6.00	6.50
Exercise Price	\$2.9420	\$2.9420	\$2.9420
Estimate fair value of option	\$2.0842	\$2.1470	\$2.2047

Options granted on 5 July 2011

On 5 July 2011, pursuant to the Group's Plan, 623,000 options over shares were granted to a director and employees with an exercise price per share of GBP1.17, exercisable in three parts as follows:

- 33% after 5 July 2012;
- 33% after 5 July 2013;
- 34% after 5 July 2014.

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 2011 for this transaction:

	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	\$1.8819	\$1.8819	\$1.8819
Expected Volatility (%)	85	85	85
Risk-free interest rates (%)	0.50	0.50	0.50
Expected life (years)	5.50	6.00	6.50
Exercise Price	\$1.881	\$1.8819	\$1.8819
Estimate fair value of option	\$1.2947	\$1.3333	\$1.3714

Options granted on 22 November 2011

On 22 November 2011, pursuant to the Group's Plan, 215,000 options over shares were granted to employees with an exercise price per share of GBP0.225, exercisable in three parts as follows:

- 33% after 22 November 2012;
- 33% after 22 November 2013;
- 34% after 22 November 2014.

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 2011 for this transaction:

	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	\$0.3534	\$0.3534	\$0.3534
Expected Volatility (%)	85	85	85
Risk-free interest rates (%)	0.50	0.50	0.50
Expected life (years)	5.50	6.00	6.50
Exercise Price	\$0.3534	\$0.3534	\$0.3534
Estimate fair value of option	\$0.2431	\$0.2507	\$0.2576

Options granted on 5 December 2011

On 5 December 2011, pursuant to the Group's Plan, 100,000 options over shares were granted to employees with an exercise price per share of GBP0.1975, exercisable in three parts as follows:

- 33% after 5 December 2012;
- 33% after 5 December 2013;
- 34% after 5 December 2014.

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 2011 for this transaction:

	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	\$0.3081	\$0.3081	\$0.3081
Expected Volatility (%)	85	85	85
Risk-free interest rates (%)	0.50	0.50	0.50
Expected life (years)	5.50	6.00	6.50
Exercise Price	\$0.3081	\$0.3081	\$0.3081
Estimate fair value of option	\$0.2109	\$0.2174	\$0.2235

(c) Movement in share options

	Opening balance at 1 January 2010	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 December 2010	Exercisable as at 31 December 2010
Consolidated and Parent						
Grant of options on 24 April 2008	966,800	-	-	(966,800)	-	-
Grant of options on 3 June 2008	1,685,000	-	-	(254,250)	1,430,750	167,000
Grant of options on 8 April 2009	1,895,000	-	-	(273,750)	1,621,250	150,000
Grant of options on 9 July 2010	-	3,319,000	(62,000)	-	3,257,000	-
	4,546,800	3,319,000	(62,000)	(1,494,800)	6,309,000	317,000
Weighted Average Exercise Price (cents per option)	50.49	70.00	70.00	64.23	57.31	47.18

	Opening balance at 1 January 2011	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 December 2011	Exercisable as at 31 December 2011
Consolidated and Parent						
Grant of options on 24 April 2008	-	-	-	-	-	-
Grant of options on 3 June 2008	1,430,750	-	(56,250)	(50,000)	1,324,500	922,000
Grant of options on 8 April 2009	1,621,250	-	(71,250)	(671,250)	878,750	428,750
Grant of options on 9 July 2010	3,257,000	-	(265,750)	(184,090)	2,807,160	805,200
Grant of options on 6 April 2011	-	769,100	(122,100)	-	647,000	-
Grant of options on 5 July 2011	-	623,000	(124,000)	-	499,000	-
Grant of options on 22 Nov 2011	-	215,000	(48,000)	-	167,000	-
Grant of options on 5 Dec 2011	-	100,000	-	-	100,000	-
	6,309,000	1,707,100	(687,350)	(905,340)	6,423,410	2,155,950
Weighted Average Exercise Price (cents per option)	57.31	207.48	123.56	30.39	93.92	61.44

(d) Share Options Contractual Life

The weighted average remaining contractual life of outstanding share options is 8.1 years (2010: 8.7 years).

(e) Performance share awards pricing model

Performance share awards granted on 9 July 2010

On 9 July 2010, pursuant to the Group's Plan, 2,671,000 Performance Share Awards over shares were granted to employees and directors with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which they were granted. The following table lists the inputs to the model used for the year ending 31 December 2010 for this transaction:

Share price at grant date	\$0.88
Expected Volatility (%)	220
Risk-free interest rates (%)	0.50
Expected life (years)	10.5
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$0.88

Performance share awards granted on 12 November 2010

On 12 November 2010, pursuant to the Group's Plan, 846,903 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2011.

On 12 November, 2010, pursuant to the Group's Plan, 198,940 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The Performance Share Awards are available for vesting at any time after the date of award.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which the Performance Share Awards were granted. The following table lists the inputs to the model used for the year ending 31 December 2010 for this transaction:

Share price at grant date	\$1.70
Expected Volatility (%)	220
Risk-free interest rates (%)	0.50
Expected life (years)	5.7
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$1.70

Performance share awards granted on 6 April 2011

On 6 April 2011, pursuant to the Group's Plan, 707,800 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which they were granted. The following table lists the inputs to the model used for the year ending 31 December 2011 for this transaction:

Share price at grant date	\$3.0202
Expected Volatility (%)	85
Risk-free interest rates (%)	0.50
Expected life (years)	10
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$3.0202

On 6 April 2011, pursuant to the Group's Plan, 273,180 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2012.

On 6 April 2011, pursuant to the Group's Plan, 20,176 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting on various dates commencing in 2011.

These have an exercise price per share of \$0.01.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which the Performance Share Awards were granted. The following table lists the inputs to the model used for the year ending 31 December 2011 for this transaction:

Share price at grant date	\$3.0202
Expected Volatility (%)	85
Risk-free interest rates (%)	0.50
Expected life (years)	5
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$3.0202

Performance share awards granted on 5 July 2011

On 5 July 2011, pursuant to the Group's Plan, 583,000 Performance Share Awards over shares were granted to a director and employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which they were granted. The following table lists the inputs to the model used for the year ending 31 December 2011 for this transaction:

Share price at grant date	\$1.8819
Expected Volatility (%)	85
Risk-free interest rates (%)	0.50
Expected life (years)	10
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$1.8819

On 5 July 2011, pursuant to the Group's Plan, 94,123 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing

On 5 July 2011, pursuant to the Group's Plan, 54,145 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting on various dates commencing in 2011.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which the Performance Share Awards were granted. The following table lists the inputs to the model used for the year ending 31 December 2011 for this transaction:

Share price at grant date	\$1.8819
Expected Volatility (%)	85
Risk-free interest rates (%)	0.50
Expected life (years)	5
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$1.8813

Performance share awards granted on 22 November 2011

On 22 November 2011, pursuant to the Group's Plan, 119,000 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which they were granted. The following table lists the inputs to the model used for the year ending 31 December 2011 for this transaction:

Share price at grant date	\$0.3534
Expected Volatility (%)	79
Risk-free interest rates (%)	0.50
Expected life (years)	10
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$0.3495

On 22 November 2011, pursuant to the Group's Plan, 150,000 Performance Share Awards over shares were granted to an employee with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2011.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which the Performance Share Awards were granted. The following table lists the inputs to the model used for the year ending 31 December 2011 for this transaction:

Share price at grant date	\$0.3534
Expected Volatility (%)	79
Risk-free interest rates (%)	0.50
Expected life (years)	5
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$0.3466

Performance share awards granted on 5 December 2011

On 5 December 2011, pursuant to the Group's Plan, 100,000 Performance Share Awards over shares were granted to employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 June 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2014; and
- 50% vest on the Group achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

The fair value of the Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which the Performance Share Awards were granted. The following table lists the inputs to the model used for the year ending 31 December 2011 for this transaction:

Share price at grant date	\$0.3081
Expected Volatility (%)	78
Risk-free interest rates (%)	0.50
Expected life (years)	10
Exercise Price	\$0.01

The estimated fair value of each Performance Share Award at grant date is approximately \$0.3040

(f) Movement in performance share awards

Consolidated and Parent	Opening balance at 1 January 2010	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 December 2010	Exercisable as at 31 December 2010
Grant of Performance Share Awards on 3 Jun 2008	1,740,000	-	-	-	1,740,000	-
Grant of Performance Share Awards on 8 Apr 2009	155,000	-	-	-	155,000	-
Grant of Performance Share Awards on 9 Jul 2010	-	2,671,000	-	(50,000)	2,621,000	-
Grant of Performance Share Awards on 12 Nov 2010	-	1,045,843	-	-	1,045,843	-
	1,895,000	3,716,843	-	(50,000)	5,561,843	-
Weighted Average Exercise Price (cents per option)	1.00	1.00	-	1.00	1.00	-

Consolidated and Parent	Opening balance at 1 January 2011	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 December 2011	Exercisable as at 31 December 2011
Grant of Performance Share Awards on 3 Jun 2008	1,740,000	-	-	(75,000)	1,665,000	-
Grant of Performance Share Awards on 8 Apr 2009	155,000	-	-	(10,000)	145,000	-
Grant of Performance Share Awards on 9 Jul 2010	2,621,000	-	(25,000)	(179,000)	2,417,000	-
Grant of Performance Share Awards on 12 Nov 2010	1,045,843	-	(481,241)	-	564,602	-
Grant of Performance Share Awards on 6 Apr 2011	-	1,001,156	(16,481)	(190,604)	794,071	-
Grant of Performance Share Awards on 5 Jul 2011	-	731,268	(75,645)	(84,000)	571,623	-
Grant of Performance Share Awards on 22 Nov 2011	-	269,000	-	(32,000)	237,000	-
Grant of Performance Share Awards on 5 Dec 2011	-	100,000	-	-	100,000	-
	5,561,843	2,101,424	(598,367)	(570,604)	6,494,296	-
Weighted Average Exercise Price (cents per option)	1.00	1.00	1.00	1.00	1.00	-

(g) Performance Share Awards Contractual Life

The weighted average remaining contractual life of outstanding performance awards is 16.5 years (2010: 17.5 years).

17 Commitments and contingencies

(a) Operating lease commitments

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

The Group's Australian office closed and lease arrangements ceased on 30 April 2012.

The Group has committed to office and warehouse leases in Mongolia in the amounts of \$162,000 for 2012, and \$8,000 for 2013.

Note	Consolidated		Parent	
	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Operating Leases:				
Within one year	166	135	4	3
After one year but not more than five years	8	-	-	-
Greater than five years	-	-	-	-
	174	135	4	3

(b) Exploration expenditure commitments

Petromatad Invest Limited and Capcorp have minimum spending obligations, under the terms of their PSC's on Blocks IV, V and XX with the Petroleum Authority of Mongolia.

The amounts set out below do not include general and administrative expenses.

Note	Consolidated		Parent	
	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Production Sharing Contract Fees:				
Within one year	696	735	-	-
After one year but not more than five years	696	1,320	-	-
Greater than five years	-	-	-	-
	1,581	2,055	-	-
Minimum Exploration Work Obligations:				
Within one year	17,040	16,228		
After one year but not more than five years	10,680	19,364		
Greater than five years	-	-		
	27,720	35,592		

Under the PSC's, prior year expenditure over and above minimum exploration work obligations may be used to reduce the following year's obligation. As Block XX expenditure in prior years has significantly exceeded the minimum PSC work obligations, the Company has the option to reduce its spending in Block XX for the Year 7 work programme from \$22.5 million to \$1.46 million in 2012. This reduced amount has been included in the above table as commitments for Block XX. The Company's current cash resources are sufficient to meet this exploration expenditure commitment. Due to the prior focus on Block XX, cumulative expenditures on Blocks IV and V are currently somewhat below the cumulative minimum PSC commitment. This shortfall of \$1.77 million and the current year exploration work obligations for 2012 of \$13.81 million have been included in the above table for Blocks IV and V. Discussions will be held with PAM on modifications to the work programmes on these blocks.

The work programme planned for the three blocks in 2012/2013 is subject to completion of an ongoing technical review of seismic data and well results and the timing of raising additional capital.

Petromatad Invest Limited and Capcorp can voluntarily relinquish their rights under the PSC's, if the minimum work obligations are completed, namely the \$1.77 million shortfall on Blocks IV and V.

(c) Contingencies

There are no contingencies outstanding at the year end.

18 Related party disclosures

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		Investment	
		2011 %	2010 %	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Central Asian Petroleum Corporation Limited	Cayman Islands	100	100	7,493	7,493
Capcorp Mongolia LLC	Mongolia	100	100	-	-
Petromatad Invest Limited	Cayman Islands	100	100	11,670	11,670
Petro Matad LLC	Mongolia	100	100	-	-
Petro Matad Services Limited	Isle of Man	100	100	-	-
				19,163	19,163

Capcorp Mongolia LLC was acquired on the 14 August 2006, on incorporation of the Company. Capcorp holds 1,000,000 ordinary shares of MNT150 each.

Petromatad Invest Limited was acquired on 12 November 2007. Petro Matad Limited and Capcorp each hold 25,000 shares of \$1 each.

Capcorp was acquired on 12 November 2007. Petro Matad Limited holds 43,340,000 ordinary shares of \$0.01 each.

Petro Matad LLC is 100% owned by Petromatad Invest Limited. Petromatad Invest Limited holds 15,000 ordinary shares of MNT10,000 each.

Petro Matad Services Limited is 100% owned by Petro Matad Limited. Petro Matad Limited holds 1 ordinary share of \$1.

The following table provides the total amount of transactions which have been entered into with subsidiaries for the relevant financial year:

Amounts receivable from related parties:	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Petro Matad Limited		
- Central Asian Petroleum Corporation Limited	16,266	10,490
- Petromatad Invest Limited	18,712	6,439
- Petro Matad LLC	32,943	25,328
- Capcorp Mongolia LLC	707	317
- Petro Matad Services Limited	4	-
Central Asian Petroleum Corporation Limited		
- Petro Matad LLC	6,342	7,742
- Capcorp Mongolia LLC	752	1,314
- Petromatad Invest Limited	115	315
Petro Matad LLC		
- Petromatad Invest Limited	11,200	2,759
- Capcorp Mongolia LLC	2,951	1,854

Terms and conditions of transactions with subsidiaries

Outstanding balances at year-end are unsecured non-interest bearing and repayable on demand.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year:

	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Petrovis' subscription for shares in Petro Matad Limited (notes (a))	-	5,500
EBRD's subscription for shares in Petro Matad Limited (notes (b))	-	13,000

Petrovis is a major shareholder of the Company, currently holding approximately 20% of the shareholding.

EBRD is a major shareholder of the Company, currently holding approximately 17% of the shareholding.

- (a) On 5 October 2010, the Company issued 2,644,230 subscription shares to Petrovis to raise a total of \$5,499,998.
- (b) On 22 February 2010, the Company issued 13,730,103 shares to EBRD at a price of GBP0.14 per share being the first tranche of shares pursuant to the Subscription Agreement signed on 18 December 2009 between the Company and EBRD. On 11 June 2010, the Company issued 14,644,004 shares to EBRD at a price of GBP0.14 per share being the second tranche of shares pursuant to the Subscription Agreement. On 12 October 2010, the Company issued 3,367,003 subscription shares to EBRD at a price of GBP1.35 per share.

19 Key management personnel

(a) Details of Directors

The names of the Company's directors, having authority and responsibility for planning, directing and controlling the activities of the group, in office during the year and until the date of this report are as below:

The directors were in office for this entire year unless otherwise stated.

Directors

Gordon Leonard Toll	Non-executive Co-Chairperson	Resigned 27 January 2012
Janchiv Oyungerel	Non-executive Co-Chairperson	Appointed Chairperson on 27 January 2012
Douglas John McGay	Chief Executive Officer	
Clyde Robert Evans	Chief Financial Officer	
John Campbell Robertson	Non-executive Director	Resigned 12 March 2012
Davaadorj Sarangua	Non-executive Director	Resigned 12 March 2012
Mary Ellen Collins	Non-executive Director	
Davaanyam Enkhchimeg	Non-executive Director	Resigned 20 May 2011
Davaanyam Enkhmaa	Non-executive Director	Appointed 20 May 2011
David Daniel Skeels	Non-executive Director	Appointed 12 March 2012
Philip Arthur Vingoe	Non-executive Director	Appointed 12 March 2012
George Edward Watkins	Non-executive Director	Appointed 12 March 2012
Tuul Amarzul	Executive Director	Appointed 19 March 2012

On 16 April 2012, Clyde Robert Evans retired as Chief Financial Officer, while continuing on in a role as a Non-executive Director. John Rene Henriksen was appointed Chief Financial Officer on the same date.

(b) Compensation of Directors

Note	Consolidated		Parent	
	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Short term employee benefits	939	663	874	602
Post-employment benefits	-	-	-	-
Share based payment expense	1,015	944	1,015	934
	1,954	1,607	1,889	1,536

(c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2010: Nil).

20 Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and short-term deposits classified as loans and receivables financial assets.

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

The Group also 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 year 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, foreign currency risk, credit risk and liquidity risk.

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

Risk Exposures and Responses

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flow associated with the instrument will fluctuate due to changes in market interest rate. 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 of the financial instruments that are exposed to interest rate risk:

	Weighted Average Int. rate	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Financial Assets					
Cash and cash equivalents	3.74%	15,477	51,690	796	29,063
		15,477	51,690	796	29,063
Financial Liabilities					
Trade and other payables	0%	1,952	1,421	99	127
		1,952	1,421	99	127
Net exposure		13,525	50,269	697	28,936

Sensitivity Analysis

If the interest rate on cash balances at 31 December 2011 weakened/strengthened by 1%, there would be no material impact on the statement of comprehensive income. There would be no effect on the equity reserves other than those directly related to statement of comprehensive income movements.

Foreign currency risk

As a result of operations overseas, the Group's statement of financial position can be affected by movements in various exchange rates.

The functional currency of the Company is USD because majority of costs and source of capital raising are denominated in USD, while the presentational currency of the Company and the Group is deemed to be USD because the future revenue from the sale of oil will be denominated in USD, similar to other companies in the oil and gas industry and the costs of the Group are likewise predominately in USD. Some transactions are however dominated in currencies other than USD. These transactions comprise operating costs and capital expenditure in the local currencies of the countries where the Group operates. These currencies have a close relationship to the USD and management believes that changes in the exchange rates will not have a significant effect on the Group'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:

USD	Average rate		Spot rate at the balance date	
	2011	2010	2011	2010
Mongolian Tugrik ("MNT") 1	1,265.01	1,357.04	1,396.37	1,257.18
Australian Dollar ("AUD") 1	0.96890	1.09020	0.98280	0.98396
Great British Pound ("GBP") 1	0.62360	0.64760	0.64710	0.64638

Sensitivity Analysis

A 5% strengthening/weakening of the MNT against USD at 31 December 2011 would not have a material effect on profit and equity.

Price risk

The Group's exposure to price risk is minimal as the Group is currently not revenue producing other than from interest income.

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 7 and 8 which also represent 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:

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Financial Assets					
Cash and cash equivalents	7	15,477	51,690	796	29,063
Trade and other receivables	8	316	88	-	-
Net exposure		15,793	51,778	796	29,063

Impairment Losses:

None of the Group's receivables are past due at 31 December 2011 (2010: 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.

Upon discovery of commercial quantities of hydrocarbons the Group will submit a Plan of Development to the Petroleum Authority of Mongolia, with the aim of commencing development and production as soon as approvals are received. Raising funds for the development phase is not expected to be difficult due to the transition from a relatively high risk exploration stage to a low risk development stage. Specific financing alternatives will be evaluated at the time.

The remaining contractual maturities of the Group's and parent entity's financial liabilities are:

	Note	Consolidated		Parent	
		31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
6 months or less		1,952	1,421	99	127
6-12 months		-	-	-	-
1-5 years		-	-	-	-
over 5 years		-	-	-	-
		1,952	1,421	99	127

All of the Group's amounts payable and receivable are current.

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 approximate their carrying value.

21 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 Group and the Group's capital is regularly reviewed by the Board. The capital structure of the Group consists of cash and bank balances (Note 7) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in Notes 14 and 15).

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

The Group is not subject to externally imposed capital requirements.

22 Events after the reporting date

On 13 February 2012, pursuant to the Group's Plan, 206,987 shares were awarded to employees exercising Performance Share Awards with an exercise price per share of \$0.01.

On 13 February 2012, pursuant to the Group's Plan, 11,250 shares were awarded to employees exercising options with an exercise price of GBP0.11 per share.

On 5 March 2012, pursuant to the Group's Plan, 280,000 shares were awarded to a former director exercising Performance Share Awards with an exercise price per share of \$0.01.

On 25 April 2012, pursuant to the Group's Plan, 881,000 options over shares were granted to directors and employees with an exercise price per share of GBP0.225, exercisable in three parts as follows:

- 33% after 25 April 2013;
- 33% after 25 April 2014;
- 34% after 25 April 2015.

On 25 April 2012, pursuant to the Group's Plan, 100,000 options over shares were granted to an employee with an exercise price per share of GBP0.225, exercisable in three parts on the anniversaries of his employment commencement date.

On 25 April 2012, pursuant to the Group's Plan, 942,000 Performance Share Awards over shares were granted to directors and employees with an exercise price per share of \$0.01.

The Performance Share Awards will vest on achievement of the following conditions:

- 25% vest on the first discovery of oil on a commercial scale;
- 25% vest on the first production of oil on a commercial scale;
- 50% vest on the Group achieving the sale of 1 million barrels of oil.

On 25 April 2012, pursuant to the Group's Plan, 789,090 Performance Share Awards over shares were granted to an employee with an exercise price per share of \$0.01. The performance conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2013.

On 25 April 2012, pursuant to the Group's Plan, 1,638 Performance Share Awards over shares were granted to an employee with an exercise price per share of \$0.01. The Performance Share Awards are available for vesting on various dates commencing in 2012.

On 26 April 2012, pursuant to the Group's Plan, 442,500 shares were awarded to former directors and employee exercising options with an exercise price of GBP0.11 per share.

On 26 April 2012, pursuant to the Group's Plan, 505,447 shares were awarded to former directors and employee exercising Performance Share Awards with an exercise price per share of \$0.01.

23 Auditors' remuneration

The auditor of Petro Matad Limited is Deloitte Touche Tohmatsu ("Deloitte").

	Consolidated		Parent		
	Note	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000	31 Dec 2011 USD\$'000	31 Dec 2010 USD\$'000
Amounts received or due and receivable by Deloitte for:					
- an audit or review of the financial report of the entity and any other entity in the consolidated entity		99	57	99	57
- other services in relation to the entity and any other entity in the consolidated entity		-	-	-	-
		99	57	99	57
Amounts received or due and receivable by auditors other than Deloitte for:					
- an audit or review of the financial report of subsidiary entities		5	7	-	-
- other services in relation to the subsidiary entities		-	-	-	-
		5	7	-	-
		104	64	99	57

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 Group give a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its 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; and
- (b) the financial reports 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 R Evans
Director
28 June, 2012

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Petro Matad Limited

We have audited the accompanying financial report of Petro Matad Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 12 to 49.

Directors Responsibility for the Financial Report

The Directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), directors also states, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

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Deloitte

Opinion

In our opinion:

- (a) the financial report of Petro Matad Limited presents fairly, in all material respects, the company and consolidated entity's financial position as at 31 December 2011 and their financial performance for the year then ended in accordance with Australian Accounting Standards; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2(b).

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Chris Nicoloff
Chris Nicoloff
Partner
Chartered Accountants
Perth, 28 June 2012

PETRO MATAD LIMITED

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