PETROMATAD

Petro Matad Limited

ANNUAL REPORT

for the year ended 31 December 2015

Contents

Board of Directors

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Enkhmaa Davaanyam
Chairperson

Ms. Enkhmaa is the CEO of Petrovis Group, Mongolia's largest fuel supplier. Ms. Enkhmaa has over 16 years of international experience in financing and risk management of mining, infrastructure and energy projects. She serves as Deputy Chair of Board of Directors of Petrovis Group since 2011 and was appointed as the CEO in August 2013. Prior to joining Petrovis Group, Ms. Enkhmaa worked as a Managing Director at Macquarie Group for over 10 years, responsible for risk management in the energy sector in the United States.

Ridvan Karpuz
Chief Executive Officer (CEO)

Mr. Karpuz has over 25 years' experience in petroleum industry with proven oil finder skills. He joined Petro Matad as the CEO in October 2015. Previously, Mr. Karpuz was the Exploration and Operations Director for Petro Matad from 2012 to 2013. After his departure from his executive role in 2014, Mr. Karpuz stayed on the Board as a Non-Executive Director while he worked as the Exploration and Reservoir Manager for DNO International in Tunisia. Prior, Mr. Karpuz worked for Austrian listed integrated oil and gas company, OMV, where he spent 5 years as the Exploration and Reservoir Manager working in Iran, Yemen and Tunisia. He has worked for Norsk Hydro, Norway and Endeavour Energy UK & Norway in various roles from expert structural geologist to exploration team leader working in a wide spectrum of offshore and onshore basins worldwide. Mr. Karpuz has a proven track-record of establishing successful exploration and subsurface teams and working in remote and frontier regions. Mr. Karpuz has a BSc in geological engineering degree from Dokuz Eylul University, Turkey and Cand. Scient geology degree from University of Bergen, Norway.

Dr. Oyungerel Janchiv

Non-Executive Director

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 CEO of the Petroleum Import Concern of Mongolia and in 1994 became the CEO 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 CEO until January 2008 and has been Chair ever since. 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. On 15 August 2014, she was appointed as the Chairperson of Ard Financial Group.

John Rene Henriksen

Chief Financial Officer (CFO)

Mr. Henriksen has 35 years' of experience in the international oil industry and in April 2012 assumed the role of CFO for the Petro Matad Group, based in Ulaanbaatar. Prior to this he was the Country Manager for Salamander Energy's Indonesian operations. Prior to Salamander, Mr. Henriksen worked in senior financial roles for VICO, ENI, LASMO, and Hudson's Bay Oil & Gas, ultimately being responsible for all aspects of financial management, reporting and internal control. A substantial portion of Mr. Henriksen's career has been spent overseas in developing countries and as a result he has a full understanding of cultural sensitivities and working with local governments and partners. Mr. Henriksen is a qualified Accountant and holds a Bachelor of Commerce degree from the University of Alberta in Canada.

Dr. Philip Arthur Vingoe

Non-Executive Director

Dr. Vingoe has over 40 years experience in the oil and gas industry, commencing in the technical arena and progressing to both Executive and Non-Executive leadership. His formal education comprised a B.Sc. in Physics (University of Newcastle Upon Tyne), an M.Sc. and Ph. D. in Geophysics (University of Birmingham) followed by the Program for Management Development and the International Senior Management Program at Harvard Business School. His primary career foundation was with BP, where he spent nearly 20 years and became their worldwide Chief Geophysicist and General Manager, Exploration. In 1995 he decided to move into the entrepreneurial world of the Independents and has subsequently held many directorships in both Executive and Non-Executive capacities. During this period he has been deeply involved in the full spectrum of business activity ranging from the start-up of private oil and gas companies, the listing through I.P.O's of companies in Australia and Norway, and the sale of companies on London AIM and Toronto TSX. He has lived and worked in most continents of the world and has an expansive knowledge of the worldwide oil and gas industry.

Amarzul Tuul

Executive Director of the Petro Matad Mongolian subsidiaries

A Mongolian citizen, educated in Singapore Ms. Amarzul has worked in the Mongolian Government's Foreign Investment and Foreign Trade Agency (FIFTA). She then joined the resources sector in Mongolia, holding senior management positions in private sector resource companies. She is the Executive Director of the two local subsidiary companies of the Group. She played an integral role in the negotiation of the PSC terms with the Mongolian Government on Blocks IV and V. Ms. Amarzul's main responsibilities includes maintaining government relations and she represents the Group in all government liaisons with the Ministry, PAM, Customs Office and Local Administration. Ms. Amarzul represents Petro Matad on the Board of the Business Council of Mongolia, an organization that promotes increased trade and investment in Mongolia. She is also the Executive Director of the Mongolian Petroleum Exploration and Production Association, which was established in 2011 and represents PSC contractors' rights and responsibilities in Mongolia. She was awarded a Certificate of Merit in 2003 and Leading Employee of Petroleum Sector in 2011 by the Government of Mongolia.

Directors' Report

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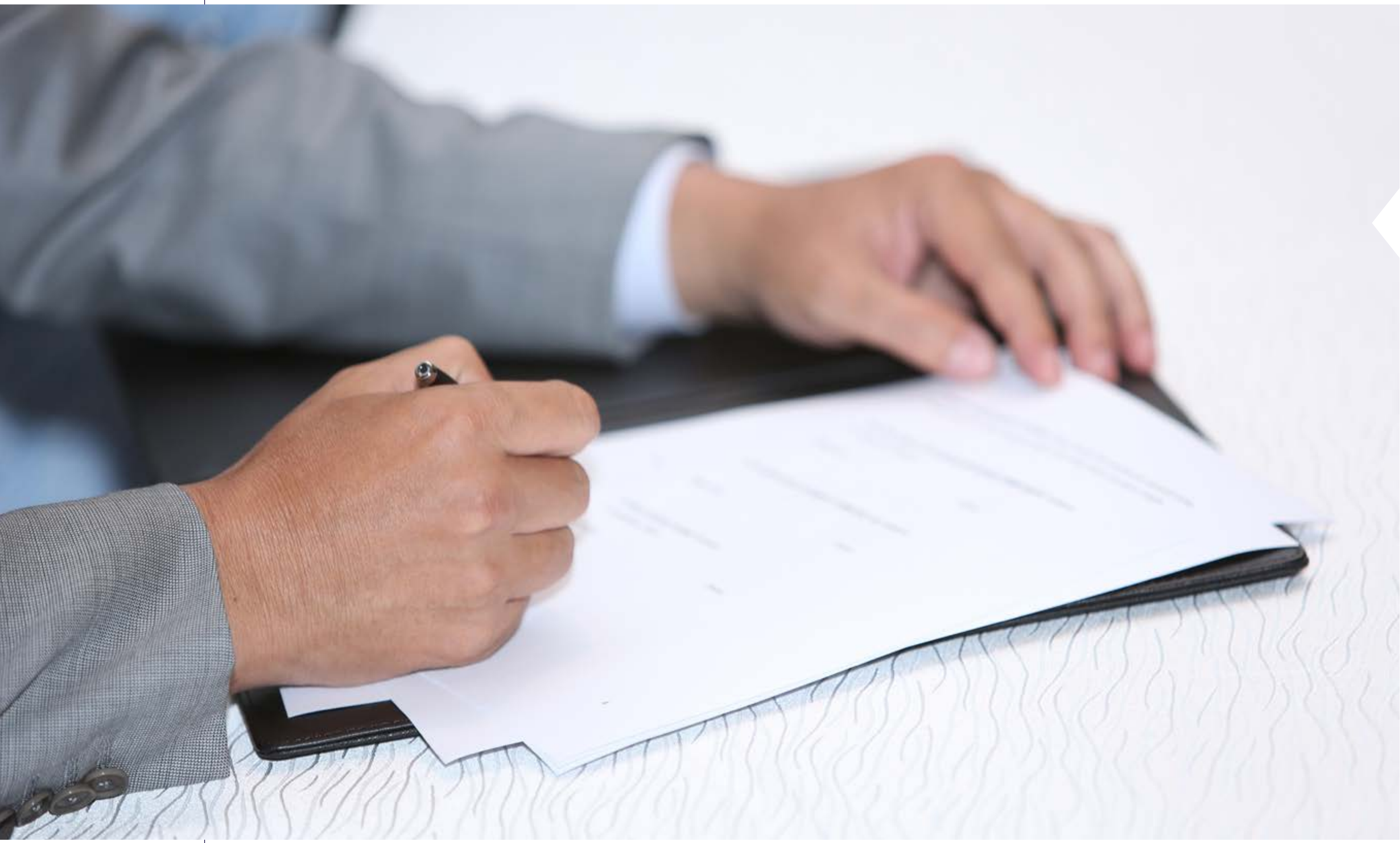

Your Directors submit their report for the year ended 31 December 2015.

Petro Matad Limited (Company) a company incorporated in the Isle of Man on 30 August 2007 has four wholly owned subsidiaries, including Capcorp Mongolia LLC and Petro Matad LLC (both incorporated in Mongolia), as well as Central Asian Petroleum Corporation Limited (Capcorp) and Petromatad Invest Limited (both incorporated in the Cayman Islands). The Company and its subsidiaries are collectively referred to as the "Group". Petro Matad Service Limited, a subsidiary of the Company was dissolved on 1 January 2016, as the company was dormant due to no longer being operationally required.

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.

- Oyungerel Janchiv
- Enkhmaa Davaanyam
- Philip Arthur Vingoe
- Amarzul Tuul
- John Rene Henriksen
- Mehmed Ridvan Karpuz

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 this activity.

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 2015 was $0.19 million (31 December 2014: Loss $3.940 million).

During the year the Group focused on exploration activities on its Production Sharing Contracts (PSCs) with the Petroleum Authority of Mongolia (PAM) on Blocks IV, V and XX in Mongolia.

Changes in State of Affairs

On 7 April 2015, the Company announced the successful completion of a farm-out agreement with BG International Limited and BG Mongolia Holdings Limited (BG Group). On 22 June 2015, all conditions to the farm-out were satisfied and unconditional status was therefore received. Under the terms of the farm-out the BG Group acquired 78% of Blocks IV and V in exchange for funding the Group's share of a mutually agreed $28 million work programme which will fulfil the minimum work obligations for both blocks within the current licence period to July 2017. The Group will also receive additional cash consideration of $4.55 million to fund ongoing operations and obligations. As of 31 December 2015, $3.35 million of the cash consideration has been received, with the remaining $1.2 million to be received in increments of $50,000 per month, through to 31 December 2017.

Prior to conclusion of the farm-out, the Directors of the Company had agreed on a number of measures to preserve cash resources. In particular, the Non-Executive Directors agreed unanimously that for the six-month period, October 2014 to March 2015, they would forgo their usual Director fees and in lieu of the cash fee, would receive Conditional Share Awards. Conditional Share Awards were issued under the Group's existing Long Term Equity Incentive Plan (Plan or Group's Plan) on 7 July 2015. The Conditional Share Awards vested immediately and participants have a maximum of one year from the vesting date to exercise these awards for an exercise price per share of $0.01. An aggregate of 1,993,520 Conditional Share Awards were awarded and the table below sets out the Conditional Share Awards that were issued to the Company's Non-Executive Directors.

Signing ceremony of farm-out agreement with BG Group

Director name	Number of Conditional Share Awards awarded in lieu of fees
Oyungerel Janchiv	498,380
Enkhmaa Davaanyam	498,380
Philip Arthur Vingoe	498,380
Mehmed Ridvan Karpuz	498,380

On 23 April 2015, pursuant to the Group's Plan, 5,750,946 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

On 27 July 2015, pursuant to the Group's Plan, 2,256,550 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

Significant Events after Reporting Date

On 1 January 2016, Petro Matad Service Limited was dissolved, as the company was dormant due to no longer being operationally required.

On 20 April 2016, PAM granted a one-year moratorium, effective 1 January 2016, for Block XX. The moratorium will enable the Company to defer expenditures towards the minimum PSC obligation by one year. The PSC term is consequently extended by one-year to July 2018.

On 28 April 2016, the Company received an Exit Notification from BG Group that advised they were triggering their option under the farm-out agreement to exit Blocks IV and V PSCs, effective immediately. Upon Mongolian Government approval, the Company's working interest in both PSCs will therefore revert to 100%.

Dividends

No dividends have been paid or are proposed in respect of the year 2015 (2014: Nil).

Future Developments

The Group will continue to pursue exploration projects within high graded exploration areas 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.

Auditors

Deloitte Touche Tohmatsu, being eligible, has indicated its willingness to continue in office.

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.

John R Henriksen
Director
29 June 2016

Directors' Statement

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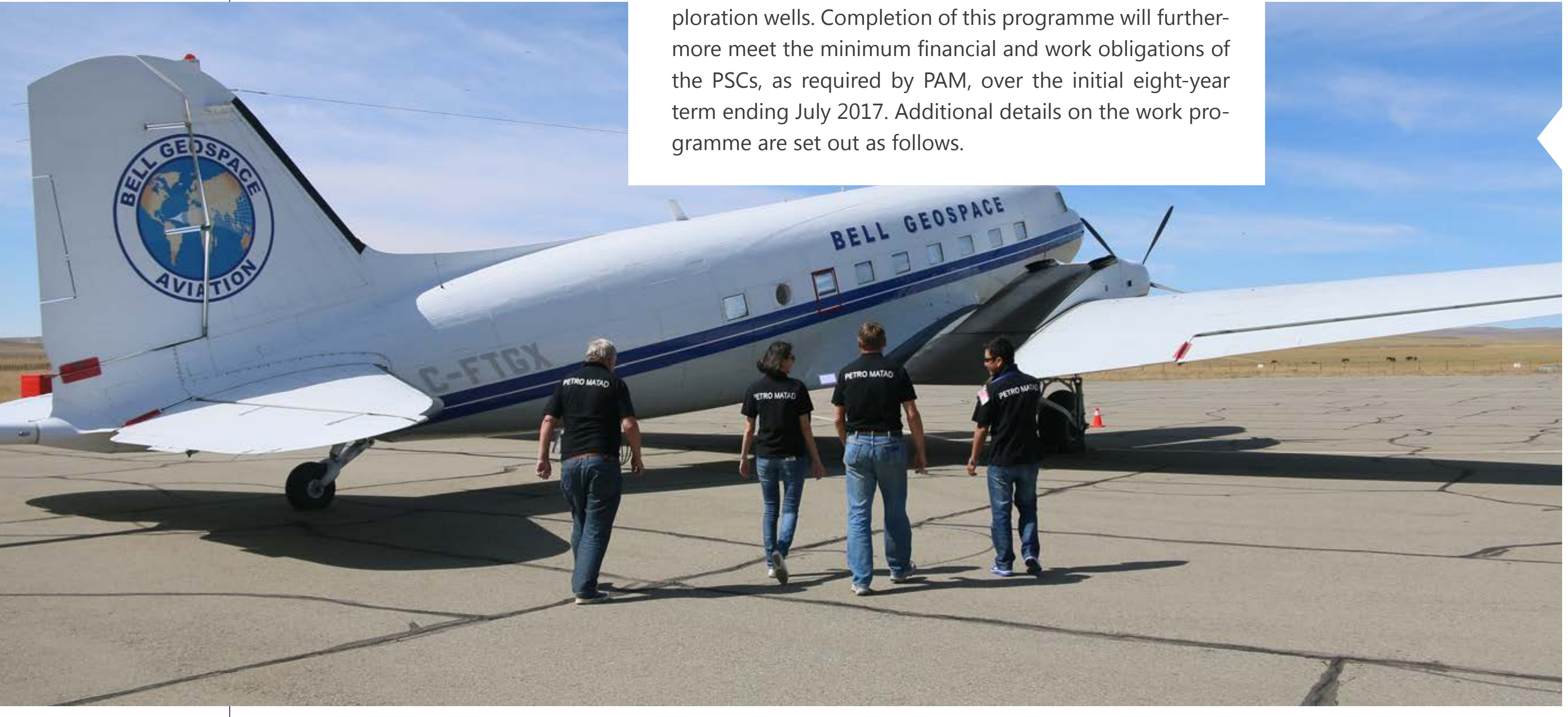
The 2015 financial year was predominantly focused on the work programme on Blocks IV and V following the Company's farm-out agreement with BG Group.

The results of work programme activities carried out in 2015 and recommenced in 2016 after a winter break, have been very encouraging. Based on preliminary processing and interpretation of data acquired, the Company is confident that a number of high quality drillable prospects will emerge from the substantial leads inventory already established. The Company is committed to continuing with the 2015-2017 three-year exploration programme approved by the PAM, which includes the drilling of two wildcat exploration wells. Completion of this programme will furthermore meet the minimum financial and work obligations of the PSCs, as required by PAM, over the initial eight-year term ending July 2017. Additional details on the work programme are set out as follows.



Exploration Work Programme Summary

The 2015 airborne Full Tensor Gradiometer (FTG) and High Resolution Aeromagnetics (HRAM) surveys were completed on time, as planned and within budget. It is the first time in Mongolia such survey was conducted to optimise exploration work in remote locations. The surveys have provided a continuous high-resolution gravity and magnetic dataset across the expansive basin areas of Block IV and western Block V. The results of the surveys fully met geological and geophysical expectations and continue to provide the Company with a powerful tool for not only optimisation of the seismic acquisition programmes, but also to test, to strengthen the subsurface interpretation and de-risk the leads and prospects.

The 2015/2016 2D seismic program was designed to: 1) improve basin-scale definition over the greater Baatsagaan trend of central Block IV, and 2) elevate data coverage to prospect-scale for drill target definition over two priority areas - the Taatsiin Basin of Block V and the high-graded Baidrag Graben of Block IV.

The first phase of the seismic programme in Block IV was completed in December 2015, with 1085 kms of high quality data being acquired. The results were encouraging and led to the discovery of the attractive Baidrag Graben trend, which was the focus area of the 2016 infill programme in Block IV. After ceasing Phase 1 operations over the winter another 174 kms of infill data was acquired in May 2016 over the Baidrag Graben. The data acquired from the two surveys are being processed and interpreted to evaluate the existing lead portfolio, with a view to defining high-graded drillable prospects for 2017.

Seismic acquisition over Block V commenced in early June 2016 and is expected to be completed in August. 402 kms of priority data acquisition is planned, with potential for additional infill lines being acquired should preliminary results warrant it.

Once the seismic acquisition and processing programs have been completed, the Company will have successfully accumulated prospect-scale seismic coverage over three of its priority basin areas of Blocks IV and V (Baidrag Graben – IV; Taatsiin Basin – V; and Tugrug Basin - V). The Company will integrate all data – FTG, HRAM, new seismic, legacy seismic, geological studies and field surveys – to generate a portfolio of drill ready prospects. The Company plans to drill the two most attractive of these in 2017. Since mid-2015, the Company has employed a Drilling Manager with relevant oil and gas exploration drilling experience in Mongolia. He and his team have been working on well design specifications assuming various depth ranges. A drilling tender has also been prepared with a number of companies participating in a pre-qualification process. This preparatory work will enable final well design and rig award to proceed quickly after the precise drilling locations are known.

Key Events

In April 2015, the Company announced completion of a farm-out of its Block IV and V PSCs to BG Group. In return for earning working interests of 78% in each block.

Unexpectedly and as previously reported, on 28 April 2016, Shell (which had since acquired BG Group), through its affiliate company issued an Exit Notice to withdraw from the Blocks IV and V PSCs Consequently, the Company's interest in Blocks IV and V will revert to 100% once all Mongolian Government approvals are in place.

Shell advised that the exit decision came after a careful and thorough evaluation of its portfolio following its combination with BG Group earlier this year. Shell stated that the decision was based on portfolio optimisation and was not related to the technical aspects of the blocks.

As part of the exit obligations, Shell is due to pay an exit fee to the Company, which will enable it to continue to fund ongoing exploration programmes. The exit fee, stipulated in the farmout agreement, will be a minimum of $10 million.

However, as PAM is requiring that the approved work programme be fulfilled, $10 million will be insufficient and the Company is therefore in discussions with Shell on receiving added compensation to meet work programme obligations. As Petro Matad is determined to fulfil the PAM required minimum work obligation, the Company is in continuous discussions with Shell to resolve the issue. The Company is also aware that PAM is in direct communication with Shell on this matter.

At the Company's request, PAM provided a one-year moratorium on Block XX, which freezes for one-year obligations that would have normally been incurred, while at the same time extending the current license period to July 2018. The moratorium enables the Company to focus on Blocks IV and V work programmes in the immediate term.

Health, Safety, Security and Environment

The Company remains demonstrably committed to best practice in health, safety, security and environmental (HSSE) management for the benefit of all stakeholders. During the past year the HSSE team has been strengthened with a HSSE Manager with relevant international experience with multinational companies, supported by specialist local staff.

As part of the Board's ongoing process of continual improvement the Company's Health, Safety, Security and Environmental Management System (HSSE MS) has been revised and is now structured according to International Association of Oil and Gas Producers (IOGP) guidelines.

All incidents are investigated, recorded and classified according to IOGP guidelines and learnings are shared through the management review process.

The Company is deeply focused on environmental protection. This was evident during Phase 1 and Phase 2 seismic planning and acquisition. To ensure both legal compliance when working near protected areas and to minimise all adverse environmental impacts, detailed environmental and cultural sensitivity field studies by specialist consultants were also commissioned. No environmental complaints were received during any of the Company's field activities.

Community Relations

The Company takes its responsibilities in community engagement and relations very seriously. In advance of any work programme activity being undertaken, the Company obtains approval from PAM and then invites them to join Company representatives on trips to local communities to present the planned activities. In addition to meeting local government officials, community relations efforts will also normally include town hall meetings where questions by local residents are answered. Company representatives will also meet with herders who may be in proximity to planned operations.

In all the various work programmes the Company has undertaken over the years, community support has always been provided and no disruption to work or serious community issues have arisen. This is a record the Company is proud of and works hard to consistently achieve.

Conclusion

With the completion of FTG and Phase 1 of the seismic acquisition programme in 2015, and the expected completion of the Phase 2 seismic acquisition programme in August 2016, the Company will be well positioned to commence a drilling program in 2017 in locations that will maximise the chances of success. There is a great deal of anticipation and optimism among staff and stakeholders on the potential growth of the Company that a successful drilling program would bring.

Finally, the Board would like to express their appreciation to our staff, both technical and non-technical, who have worked with enthusiasm and diligence throughout the year. We would also like to express our gratitude to shareholders for their continued support of the Company.

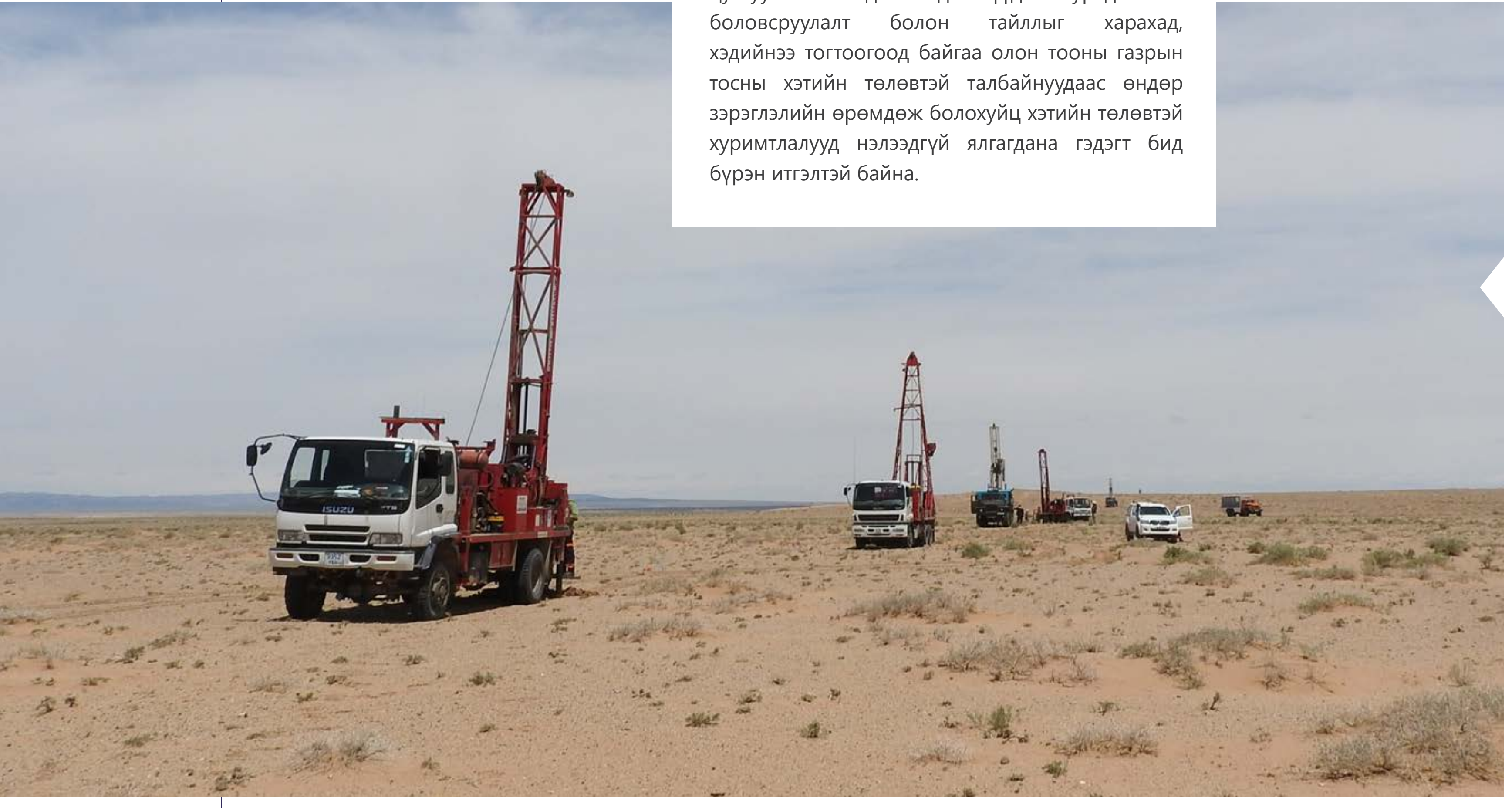
Board of Directors

/АЛБАН БУС ОРЧУУЛГА/

ТУЗ-ийн гишүүдийн мэдэгдэл

БиЖи Групптэй фарм-аут гэрээ байгуулан 2015 оны санхүүгийн жилд бид гол анхаарлаа IV, V талбайн ажлын хөтөлбөрт хандуулж ажиллалаа.

2015 онд хийгдсэн, мөн өвлийн зогсолтын дараа 2016 онд үргэлжлүүлж байгаа ажлуудын үр дүн бидэнд маш их урам өгч байна. Хэмжиж цуглуулсан өгөгдөл мэдээллүүдийн урьдчилсан боловсруулалт болон тайллыг харахад, хэдийнээ тогтоогоод байгаа олон тооны газрын тосны хэтийн төлөвтэй талбайнуудаас өндөр зэрэглэлийн өрөмдөж болохуйц хэтийн төлөвтэй хуримтлалууд нэлээдгүй илгарна гэдэгт бид бүрэн итгэлтэй байна.



Компанийн зүгээс Газрын тосны газар (ГТГ)-аар батлуулсан 2015-2017 оны 3 жилийн хайгуулын хөтөлбөрөө үргэлжлүүлэн хэрэгжүүлэхээр ажиллаж байна. Үүнд хайгуулын 2 анхдагч цооног өрөмдөх ажлыг тусгасан байгаа. Энэхүү хөтөлбөрийг хэрэгжүүлснээр 2017 оны 7 дугаар сард дуусах эхний 8 жилийн хугацаанд гүйцэтгэх Бүтээгдэхүүн хуваах гэрээнд заасан наад захын ажил болон санхүүгийн үүргээ ГТГ-аас шаардаж буйгаар биелүүлэх болно. Ажлын хөтөлбөрийн талаарх зарим мэдээллийг доор дурдлаа.

Ажлын хөтөлбөрийн тойм

2015 оны агаарын бүрэн хэмжээст градиометр (FTG) болон өндөр нарийвчлалтай агаарын соронзон (HRAM) судалгаануудыг товлосон хугацаанд, төлөвлөсний дагуу, төсөвт нь багтаан хийж дуусгалаа. Алслагдсан нутагт хайгуулын ажлыг оновчтой болгохын тулд ийм төрлийн судалгаа хийсэн нь Монгол орны хувьд анхны тохиолдол нь боллоо. Энэхүү судалгаагаар IV талбай болон V талбайн баруун хэсгийн өргөн уудам сав газарт тасралтгүй, өндөр нарийвчлалтай хүндийн хүчний болон соронзон орны мэдээллийн сан бий болгосон. Судалгааны үр дүн нь геологи, геофизикийн хувьд бидний хүлээлтэй бүрэн нийцэж байсан ба компанийн чичирхийллийн хэмжилтийн хөтөлбөрийг оновчтой болгоод зогсоогүй газрын гүний тайллын чанарыг шалгаж баталгаажуулах арга хэрэгсэл болж байна. Ингэснээр газрын тосны хэтийн төлөвтэй талбай, хуримтлалуудын эрсдлийг багасгаж буй хэрэг.

2015-2016 оны 2 хэмжээст чичирхийллийн судалгааны хөтөлбөрийг (1) IV талбайн төв хэсэгт орших Баацагааны нэлээд том тогтоцыг бассейны хэмжээнд сайжруулан тодорхойлох; (2) V талбайн Таацын бассейн болон IV талбайн Байдрагийн грабен гэх илүү сонирхож буй хоёр газарт өгөгдлийн хучилт, торлолыг газрын тосны хэтийн төлөвтэй хуримтлал илган өрөм тавих цэг тогтоох хэмжээнд хүртэл нягтаршуулах зорилготойгоор загварчилсан юм.

IV талбайн чичирхийллийн судалгааны хөтөлбөрийн эхний үе шатыг 2015 оны 12 дугаар сард дуусгасан бөгөөд 1085 км тун өндөр чанартай өгөгдлүүд хэмжиж авсан. Үр дүн нь бидэнд маш их урам өгсөн бөгөөд сонирхол татсан Байдрагийн грабен тогтоцыг олж тогтоосноор 2016 оны IV талбай дахь торлолыг нягтаршуулах хөтөлбөрийг энэ хэсэг газарт төвлөрүүлэн хэрэгжүүллээ. 1-р үе шатны ажлыг өвөл зогсоосны дараа 2016 оны 5 дугаар сард Байдрагийн грабенд нэмж 174 км өгөгдлийг нягтаршуулах хэмжилт хийсэн. Одоогоор тогтоогдоод байгаа газрын тосны хэтийн төлөвтэй талбайнуудад үнэлгээ хийж 2017 онд өрөмдөж болохуйц чанарын өндөр түвшний хэтийн төлөвтэй хуримтлалууд тодорхойлох зорилттойгоор тус хоёр хэмжилтээр цуглуулсан өгөгдлүүд дээр боловсруулалт, тайллын ажил хийгдэж байна.

2016 оны 6 дугаар сарын эхээр V талбайн чичирхийллийн судалгааг эхлүүлсэн бөгөөд 8 дугаар сард дуусгах төлөвлөгөөтэй байна.

Эхлээд 402 километрт өгөгдөл цуглуулахаар төлөвлөөд байгаа хэдий ч урьдчилсан үр дүнгээс шалтгаалан нэмэлт шугамууд тавьж нягтаршуулах хэмжилт хийх магадлал бий.

Чичирхийллийн хэмжилт болон боловсруулалт дуусмагц манай компани IV, V талбайн илүүтэйгээр сонирхолтой гэж үзэж буй бассейнуудын гурвавт нь (Байдрагийн грабен – IV; Таацын бассейн – V; Төгрөгийн бассейн – V) газрын тосны хэтийн төлөвтэй хуримтлалууд ялгах хэмжээний өгөгдлүүд цуглуулсан байх болно. Бид цаашлаад FTG, HRAM, өмнөх болон шинээр хийсэн чичирхийллийн судалгааны мэдээлэл, геологийн болон хээрийн судалгаа гэх зэрэг бүх өгөгдлүүдийг нэгтгэж өрөмдөхөд бэлэн газрын тосны хэтийн төлөвтэй хуримтлалуудыг тодорхойлно. 2017 онд эдгээрээс хамгийн их сонирхол татахуйц хоёрыг өрөмдөхөөр төлөвлөж байна.

2015 оны дундаас манай компани Монголд газрын тос, байгалийн хийн хайгуулын өрөмдлөг хийж байсан туршлагатай өрөмдлөгийн менежер ажиллуулж эхэлсэн. Энэ менежер маань багийнханыхаа хамт өөр өөр гүний хүрээг хамарсан цооногийн загварууд гарган ажиллаж байна. Түүнчлэн өрмийн ажлын тендерийн материал бэлдээд байгаа бөгөөд урьдчилсан шалгаруулалтанд нэлээд хэдэн компаниуд оролцсон. Энэ бэлтгэл ажлын үр дүнд цооногийн байршлууд тодорхой болмогц цооногийн загварыг эцэслэх, өрмийн тендерийн шийдвэрийг гаргах зэрэг ажлыг цаг алдалгүй хурдан гүйцэлдүүлэх боломжтой болно.

Голлох үйл явдал

2015 оны 4-р сард компанийн зүгээс БиЖи Групптэй IV, V талбайд фарм-аут гэрээ байгуулсныг мэдэгдсэн. Ингээд талбай тус бүрт БХГ-ний эрх үүргийн 78%-ийг шилжүүлэхээр болсон.

Өмнө нь мэдээлэлж байсанчлан, 2016 оны 4-р сарын 28-ны өдөр Шелл компани (тухайн үед БиЖи Группыг худалдаж авсан байсан) гэнэт өөрийн охин компаниараа дамжуулан IV, V талбайн Бүтээгдэхүүн хуваах гэрээнээс гарах мэдэгдэл гаргасан. Ингэснээр Монгол улсын Засгийн газрын зүгээс үүнийг зөвшөөрмөгц манай компанийн IV, V талбай дахь эрх үүрэг эргээд 100% болох юм.

Энэ оны эхээр БиЖи Групптэй хамтарснаас хойш тэд үйл ажиллагаандаа бүх талын нарийн үнэлгээ хийсний дараа гэрээнээс гарах шийдвэр гаргасан тухайгаа Шелл компани мэдээллэсэн. Энэ шийдвэрийг үйл ажиллагаагаа оновчтой болгох үүднээс гаргасан бөгөөд тухайн талбайнуудын техникийн хэмжүүрүүдтэй холбоогүй гэдгийг Шелл компани цохон тэмдэглэсэн.

Гэрээнээс гарахад хүлээх үүргийн нэг бол Шелл компани манай компанид тодорхой хэмжээний гэрээ цуцалсны төлбөр төлөх явдал. Энэ төлбөр нь одоогоор хэрэгжүүлж буй хайгуулын хөтөлбөрийн санхүүжүүлэлтийг үргэлжлүүлэх боломж олгох юм. Фарм-аутийн гэрээнд заасны дагуу гэрээ цуцалсны төлбөр нь хамгийн багадаа 10 сая ам.доллар байх болно.

Газрын тосны газар (ГТГ)-аас нэгэнт батлагдсан ажлын хөтөлбөрийг бүрэн хэрэгжүүлэх шаардлага тавьж байгаа. Харин үүнд 10 сая ам.доллар хангалтгүй учир компанийн зүгээс ажлын хөтөлбөрөөр хүлээсэн үүргийг хэрэгжүүлэхэд шаардлагатай нэмэлт нөхөн төлбөр авах талаар Шелл компанитай хэлэлцээр хийж байна. Петро Матад ГТГ-аас шаардаж буй наад захын ажил үүргийг биелүүлэх ёстой тул энэ асуудлыг шийдвэрлэхээр Шелл компанитай хэлэлцээрээ үргэлжлүүлж байгаа. Түүнчлэн ГТГ энэ асуудлаар Шелл компанитай шууд холбоотой ажиллаж байгаа болно.

Компанийн хүсэлтээр ГТГ XX талбайд 1 жилийн хугацаатай мораториум олгосон. Ингэснээр биелүүлэх ёстой байсан үүргийг 1 жилээр хойшлуулж, одоогийн тусгай зөвшөөрлийн хүчинтэй хугацааг 2018 оны 7 сар хүртэл сунгаж байгаа юм. Ийнхүү хойшлуулсан явдал нь бидэнд ойрын хугацаанд IV, V талбайн ажлын хөтөлбөрийн хэрэгжилтэнд анхаарлаа хандуулах боломж олгогдож буй хэрэг юм.

ХАБЭАБО

Манай компани бүх холбогдогч талуудын сонирхлын үүднээс Хөдөлмөрийн аюулгүй байдал, Эрүүл ахуй, Байгал орчны менежментийн шилдэг практикийг тууштай хэрэгжүүлж ирлээ. Өнгөрөгч жил ХАБЭАБО-ы асуудал хариуцсан баг олон улсын компаниудад туршлага хуримтлуулсан ХАБЭАБО-ы менежер болон Монгол мэргэжилтнүүдээр хүчээ нэмсэн.

ТУЗ-өөс компанийн үйл ажиллагааг тогтмол сайжруулах зорилгоор хэрэгжүүлдэг үйл явцын хүрээнд компанийн Хөдөлмөрийн аюулгүй байдал, Эрүүл ахуй, Байгал орчны менежментийн систем шинэчлэгдсэн бөгөөд Олон улсын газрын тос, байгалийн хийн үйлдвэрлэгчдийн холбооны (IOGP) удирдамжийн дагуу бүтцийг өөрчилсөн.

Аливаа ослыг Олон улсын газрын тос, байгалийн хийн үйлдвэрлэгчдийн холбооны удирдамжийн дагуу шалгаж, бүртгэж, ангилдаг бөгөөд энэ талаарх мэдээлэл, сургамжийг удирдлагын хяналтын ажиллагааны хүрээнд бусадтай хуваалцдаг.

Компанийн зүгээс байгаль орчныг хамгаалах асуудалд ихээхэн анхаарал хандуулдаг гэдэг нь 1 болон 2-р шатны чичирхийллийн судалгааны төлөвлөлт, хэмжилтийн үйл ажиллагааны үед нотлогдлоо. Хамгаалалттай газар нутгийн ойролцоо ажиллаж байхдаа хууль эрх зүйн хэрэгжилтийг хангах болон байгаль орчинд учруулж болзошгүй аливаа сөрөг нөлөөллийг багасгахын тулд байгаль орчин, соёлын өвийн эмзэг байдлын хээрийн судалгааг мэргэжлийн зөвлөхүүдээр хийлгэсэн. Компанийн хээрийн үйл ажиллагааны үед байгаль орчинтой холбоотой ямарваа нэгэн гомдол гараагүй болно.

Олон нийтийн харилцаа

Компани олон нийтийн оролцоо, харилцаатай холбоотой хариуцлагаа маш чухалд үздэг. Компани ямар ч ажлын хөтөлбөрийн үйл ажиллагааг хэрэгжүүлэхээсээ өмнө Газрын тосны газраас зөвшөөрөл авдаг бөгөөд тус байгууллагын төлөөлөгчдийг орон нутгийн иргэдэд төлөвлөсөн үйл ажиллагааг танилцуулах аялалд компанийн төлөөлөгчидтэй нэгдэн оролцохыг урьдаг. Орон нутгийн засаг захиргааны албан тушаалтнуудтай уулзалт хийхээс гадна нийгэмшүүлэх хөтөлбөрийн хүрээнд орон нутгийн иргэдийн асуултанд хариулах уулзалтыг тухайн суурин газрын захиргааны байранд хийдэг. Мөн компанийн төлөөлөгчид үйл ажиллагаа явуулахаар төлөвлөсөн талбайд ойролцоо амьдардаг малчидтай уулзалт хийнэ.

Компани өнгөрсөн жилүүдэд хэрэгжүүлсэн олон төрлийн үйл ажиллагаандаа олон нийтийн дэмжлэгийг үргэлж авч байсан бөгөөд ажилд саад учруулах эсхүл олон нийтийг хамарсан ноцтой асуудал үүсээгүй. Энэ нь компанийн бахархах зүйл бөгөөд үүнд хүрэхийн төлөө шаргуу ажиллаж байна.

Дүгнэлт

Агаарын бүрэн хэмжээст градиометрын судалгаа болон чичирхийллийн судалгааны 1-р үе шатыг 2015 онд дуусгалаа. Чичирхийллийн судалгааны 2-р үе шатыг 2016 оны 8 дугаар сар гэхэд дуусгах төлөвлөгөөтэй байна. Бид амжилтанд хүрэх боломжтой байршлуудыг сонгон, өрөмдлөгийн хөтөлбөрөө 2017 онд эхлүүлэхэд сайтар бэлдсэн байх болно. Өрөмдлөгийн хөтөлбөрийг амжилттай хэрэгжүүлэх нь манай ажилчид болон оролцогч талуудын өсөн дэвжих хүлээлт найдлагыг биелүүлэх том алхам юм.

Эцэст нь хэлэхэд ТУЗ-ийн зүгээс жилийн турш урам зориг, хичээл зүтгэлтэй ажиллаж ирсэн техникийн болон техникийн бус ажилтан, ажилчиддаа талархаж буйгаа илэрхийлэхийг хүсэж байна. Мөн компанийн үйл ажиллагааг дэмжсээр ирсэн хувьцаа эзэмшигчиддээ талархаж буйгаа илэрхийлье.

ТУЗ-ийн гишүүд

Management Team

1. **Bruce Barrie**
   Drilling Manager
2. **Ridvan Karpuz**
   Chief Executive Officer
3. **Amarzul Tuul**
   Executive Director of the Mongolian subsidiaries
4. **Kenneth Heap**
   HSSE Manager
5. **John Henriksen**
   Chief Financial Officer

Exploration Team

Ridvan Karpuz
Chief Executive Officer

Bruce Barrie
Drilling Manager

Kurt Constenius
Chief Geophysicist

Justin Tully
Exploration Geologist

Massimo Quarchioni
Operations Geologist

D. Buyan-Arivjikh
Exploration Geologist

E. Bolor
Exploration Geophysicist

B. Ochirbat
Reservoir Engineer

P. Elbegzaya
Intern

T. Amarzul
Executive Director

Kenneth Heap
HSSE Manager

B. Dendevchuluun
Advisor

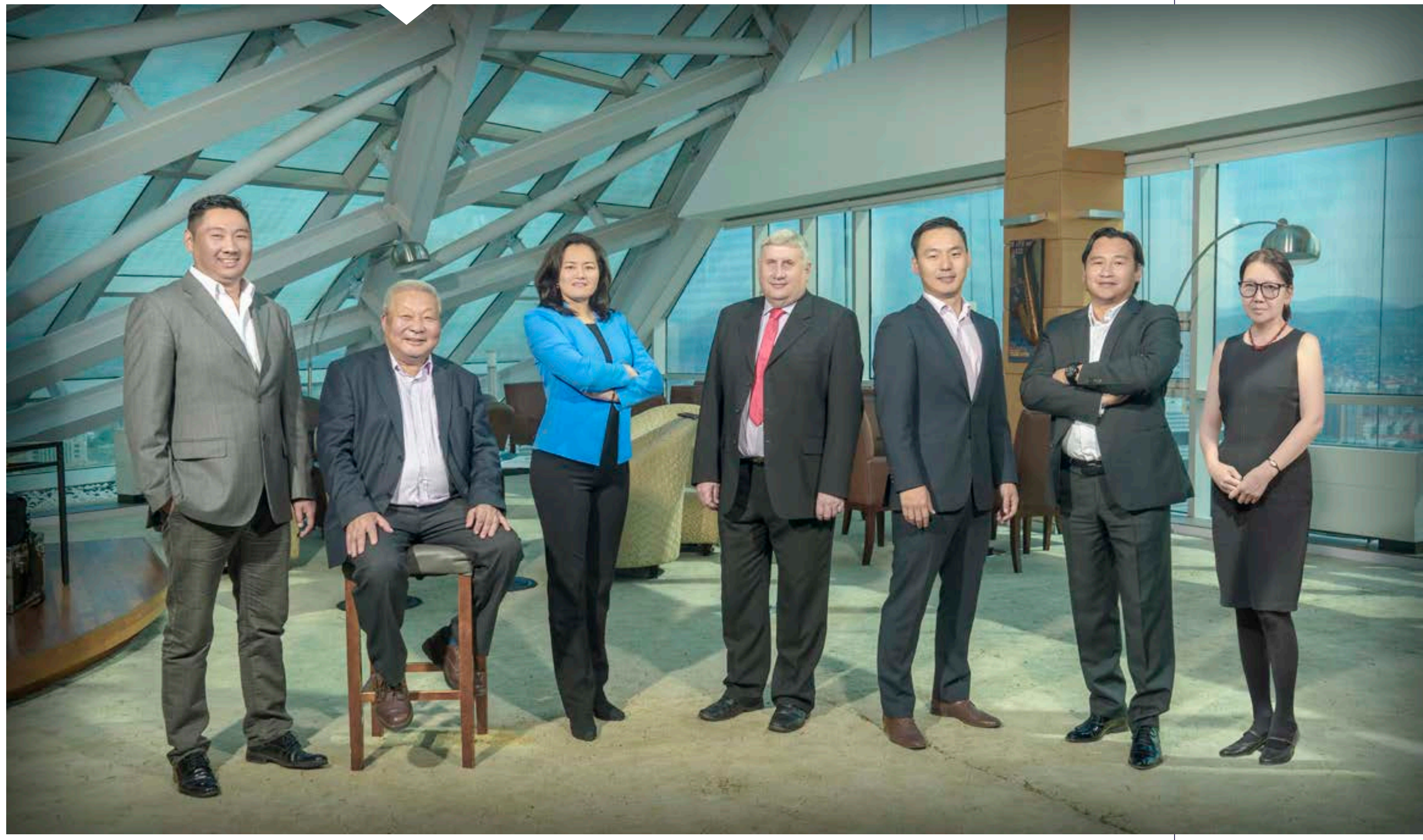
A. Buren-Erdene
Community Relations Liaison

J. Chinsanaa
Community Relations Liaison

N. Batbold
Community Relations Liaison

B. Bayarmagnai
HSSE Officer

U. Buyandelger
Specialist Environmental Officer



HSSE and CSR Team

John Henriksen
Chief Financial Officer

B. Tamir
Chief Accountant

N. Solongo
Accountant

B. Oyunchimeg
Manager, Accounting Office

O. Otgonbayar
Assistant Accountant

Finance Team

Support Functions Team

T. Khongorzul
Corporate Manager

S. Byambasuren
Journey Manager/Logistics Support

E. Gerelmaa
Procurement Officer

S. Baterel
Driver

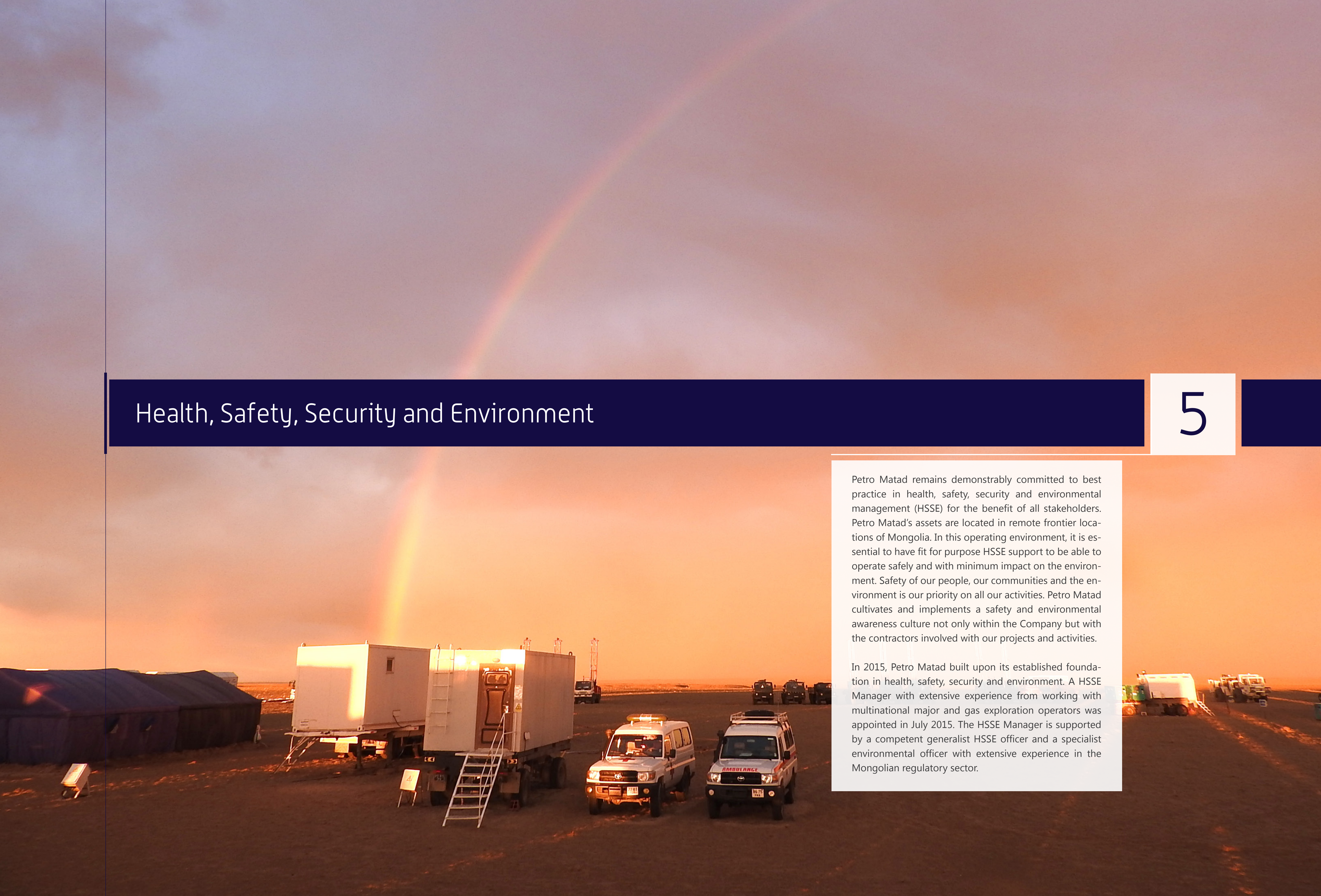
B. Purevkhuu
IT Supervisor

Ts. Yansan
Driver

A. Purevtsetseg
Legal Counsel

B. Otgonbayar
Field Driver

Z. Khishigsaikhan
Administration Officer



Health, Safety, Security and Environment

5

Petro Matad remains demonstrably committed to best practice in health, safety, security and environmental management (HSSE) for the benefit of all stakeholders. Petro Matad's assets are located in remote frontier locations of Mongolia. In this operating environment, it is essential to have fit for purpose HSSE support to be able to operate safely and with minimum impact on the environment. Safety of our people, our communities and the environment is our priority on all our activities. Petro Matad cultivates and implements a safety and environmental awareness culture not only within the Company but with the contractors involved with our projects and activities.

In 2015, Petro Matad built upon its established foundation in health, safety, security and environment. A HSSE Manager with extensive experience from working with multinational major and gas exploration operators was appointed in July 2015. The HSSE Manager is supported by a competent generalist HSSE officer and a specialist environmental officer with extensive experience in the Mongolian regulatory sector.

Health, Safety, Security and Environmental Management System (HSSE MS)

As part of our ongoing process of continual improvement, Petro Matad's Health, Safety, Security and Environment Management System (HSSE MS) has been revised and is now structured according to International Oil and Gas Producers Association's (IOGP) 511 Operational Management System Guidelines.

The HSSE MS is designed to provide practical and real time support for our operations by enabling quick and reliable access to Mongolian legislations and industry standards. The HSSE MS is explicitly aligned with ISO14001 Environmental Management System Guidelines, OHSAS 18001 Occupational Health and Safety Management System Guidelines, the International Association of Drilling Contractors (IADC) and American Petroleum Institute (API) guidance where appropriate. Clear definition of standards, competence assurance, efficient and open communication and record keeping lies at the heart of our HSSE MS. We operate a proactive HSSE observation programme not only to identify unsafe acts and conditions but also to identify best practice in all our operations. Information from the observation programmes is actively combined with monitoring and learnings from incidents. The process ensures effective quick corrective actions are taken as well as root cause preventative measures are identified. All incidents are investigated, recorded and classified according to IOGP guidelines and learnings are shared through the management review process.

Operations

Petro Matad is committed to support the building of industry capacity for oil and gas exploration in Mongolia. During the latter half of 2015, Petro Matad contracted an experienced Mongolian geophysical contractor to carry out a seismic programme in Block IV. The programme was planned and operated under the minimum requirements of IOGP's 432 Managing HSE in a Geophysical Contract. Petro Matad worked closely with the contractor to establish and maintain these standards during the field operations. The contractor management demonstrated commitment to achieve compliance and made significant additional investment in people, systems and equipment to achieve this.

The underlying HSSE performance was good with efficient and proactive HSSE reporting providing good information on both leading and lagging HSSE indicators. There was unfortunately a Lost Time Incident in which a contractor seismic driller was injured. The field emergency response and medevac worked well and we are pleased to report that the injured person was discharged from medical care with full fitness to return to work. The incident was properly reported to the statutory authorities by the contractor and also fully investigated by Petro Matad to identify both immediate and root causes. Lessons learned recommendations, which included more formal competence assurance for those in critical HSSE positions have already been fully assimilated within the HSSE MS of both Petro Matad and the contractor. No other reportable incidents occurred during the 2015 seismic survey.

Commitment to Environment

Environmental protection was addressed proactively throughout the 2015 seismic planning and acquisition. The statutory Environmental Management Plan was updated with site monitoring prior to the commencement of the field programme to implement the recommendations of the Detailed Environmental Impact Assessment. Detailed environmental and cultural sensitivity field studies by specialist consultants were commissioned along all survey lines in order ensure legal compliance when working near protected areas and also to minimise all adverse environmental impacts. The results of these studies were used to finalise the operational environmental management plan which included an interactive constraints map. In areas of potential sensitivity, the sites were revisited and surveyed to manage any potential environmental, archaeological or cultural conflicts. These visits involved environmental and cultural specialists, together with local environmental inspectors and a senior member of our seismic technical team to ensure both legal compliance and minimisation of adverse impacts when near protected areas. The process was very successful. The operational areas have all been remediated and letters of acceptance obtained from relevant local authorities. No environmental complaints were received.

PETROMATAD

Petro Matad Group HSSE Policy

Commitment
Petro Matad Group is committed to conducting its activities in a manner that incorporates safety, people's health, security and environmental protection (HSSE) as core values. To achieve this commitment, Petro Matad Group companies will be guided by the following principles:

Leadership and Integrated Management
The Board of Directors shall lead and set the overall strategy for health, safety, security and environmental programmes. The Board shall also mandate and facilitate the process where

- appropriate resources will be allocated to implement the strategy; and
- all employees are made aware of and work in accordance with the established principles on a continuing basis.

Line Management shall integrate health, safety, security and environmental protection principles into the business and shall be responsible for their implementation and for the achievement of goals and objectives.

Inclusion of Health, Safety, Security and Environmental Criteria in the Complete Business Cycle
Petro Matad Group shall do everything 'reasonably practicable' to demonstrate legal "due diligence" in onsite health, safety, security and environmental criteria in its strategy and in all aspects and throughout the life cycle of its business activities. The objective is to prevent personal injuries, asset damage and minimise any detrimental effects on the environment and on climate change while respecting local bio-diversity and local communities.

Compliance with Standards & HSSE Management System
Petro Matad Group shall be proactive in seeking to identify, understand and comply with all local applicable regulatory requirements.

This shall be achieved through a fit for purpose documented Health, Safety, Security, and Environmental Management System (HSSE MS). The HSSE MS will also seek to incorporate current industry best practice and will be updated through a process of continual improvement.

These standards and practices covering health, safety, security and the environment shall be common across all geographic areas, no matter where the Group's activities are being carried out. In non-operated joint ventures, the Group will seek to influence the designated Operator to comply with equivalent standards and principles and apply duty of care to verify minimum standards of performance are met. Petro Matad Group will also seek to design and plan its strategies taking into account relevant trends in legislation and international standards.

Continual Improvement
Petro Matad Group shall systematically establish goals and objectives for continual improvement in health, safety, security and environmental protection. Performance against these objectives shall be evaluated and the necessary corrective measures shall be applied in order to achieve the established goals. Petro Matad Group shall actively research new technical solutions and approaches concerning health, safety, security and environmental issues.

Communication and Community Relations
Petro Matad Group shall maintain regular communication with interest groups and shall work with the community, sharing its knowledge and reporting its performance and the effect of its activities and products upon people and the environment, in a trustworthy and transparent manner.

Contractor and Worker Competency
Petro Matad Group considers demonstrable "competence" an essential prerequisite for all persons holding HSSE or operational critical positions. The scope of this requirement includes both staff and consultants and Contractors carrying out work on behalf of the Group. All personnel in critical positions shall be demonstrably task competent through training, and experience to safely perform the work assigned without supervision. All personnel shall also demonstrate site competence through successful induction.

All Petro Matad Group staff and consultants, no matter what their position or geographic location, are responsible for their own safety and shall contribute as an individual and collectively, to health, safety, security and environmental performance.

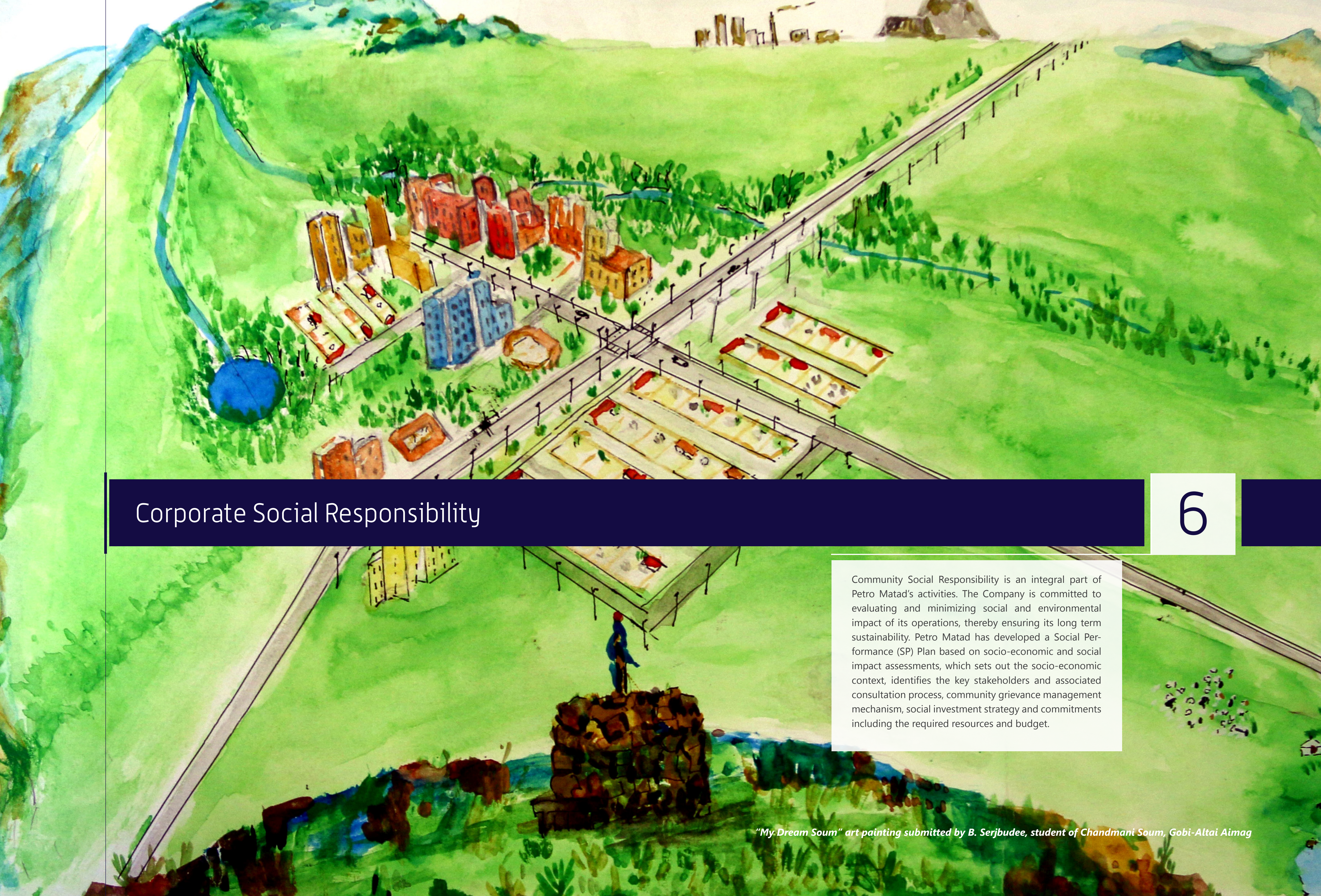
Implementation, Including Rights and Duties of Workers
Petro Matad Group considers that complying with and ensuring the fulfilment of this policy is the responsibility of everyone who takes part in its activities. This includes the right and duty to refuse work which might reasonably be considered to be outside this policy subject to formal review.

Working Safely – One Day at a Time

Corporate Social Responsibility

6

Community Social Responsibility is an integral part of Petro Matad's activities. The Company is committed to evaluating and minimizing social and environmental impact of its operations, thereby ensuring its long term sustainability. Petro Matad has developed a Social Performance (SP) Plan based on socio-economic and social impact assessments, which sets out the socio-economic context, identifies the key stakeholders and associated consultation process, community grievance management mechanism, social investment strategy and commitments including the required resources and budget.



"My Dream Soum" art painting submitted by B. Serjbudee, student of Chandmani Soum, Gobi-Altai Aimag

Social Performance Objectives

Petro Matad's strategic SP objective is to support the business needs primarily through managing social risks and building broad based stakeholder support for the project to enable on-time and within budget project delivery. The strategic SP objectives are to:

- Manage on the ground social impacts and engage closely with local communities on the management of these risks
- Ensure community access to timely and accurate information on the projects;
- Maintain an effective community grievance mechanism to resolve complaints promptly and appropriately;
- Support contractors to avoid, minimise or mitigate adverse social and cultural impacts on surrounding communities; and
- Support contractors to optimise local participation in the project through direct employment or procurement of goods/services.

Summary of 2015 Social Performance Plan Implementation

In 2015, Petro Matad made excellent progress in defining and implementing an SP Plan that supported the needs of the business, reduced exposure to risk, built stakeholder relationships and laid the groundwork for effective future SP management. Key completed SP activities were:

- Engaged the Mongolian Academy of Science, Institute of Palaeontology and Geology to conduct desktop and field based work and research to identify paleontological objects in Blocks IV and V;
- Engaged the Mongolian Academy of Science, Institute of History and Archaeology to conduct desktop and field based archaeological investigation and research to identify archaeological objects in Blocks IV and V;
- Commissioned a socio-economic and environment baseline and assessment (based on primary and secondary research) relevant to the exploration programme in Blocks IV and V;
- Compiled a GIS database and developed a spatial constraints map identifying social, archaeology, palaeontology, environment and biodiversity constraints;
- Developed a Cultural Heritage Management Plan and Chance Finds Procedure;
- Developed a Code of Field and Camp Conduct and rolled out to field based operations;
- Developed SP (including cultural heritage) induction training material and delivered to staff/contractors in the field;
- Invested expenditures of USD72,500 in social investment activities through the Social Development Policy and Social Action Plan; and
- Planned and undertook significant community and stakeholder engagement in Block IV ahead of the 2015 exploration work programme, and initial engagement in Block V.

Stakeholder Engagement

The core objective of Petro Matad's SP stakeholder engagement strategy is to build relationships, strengthen trust, gain broad-based support and broaden understanding of the communities in which Petro Matad is operating, in so doing providing for effective social risk management. In 2015, Petro Matad conducted community and stakeholder engagement ahead of the exploration programme with the objectives of:

- Introducing the project, its background and status, current and planned activities to community members in the areas where seismic work is being conducted;
- Gaining the support of herders and other stakeholders for the exploration programme;
- Building trust between the project and affected community members;
- Building a constructive working relationship with local authorities;
- Obtaining a better understanding of community concerns about the seismic acquisition programme and other issues; and
- Managing stakeholders' expectations related to the project and its benefits.

Petro Matad maintains an effective community grievance mechanism to resolve complaints promptly and appropriately. The grievance mechanism was established ahead of commencing seismic programme in Block IV in 2015 and no significant grievances were recorded in 2015.

Social Investment Activities

Petro Matad has developed and adopted a Social Development Policy to contribute to the social developments of communities located near and impacted by our exploration and drilling activities in Blocks IV, V and XX. Through meaningful engagement with communities and stakeholders, we identify opportunities to make contributions that have wide reaching benefits to all local residents. We emphasize on the delivery of accessible and meaningful assistance to the community. Our social development policies are focused on the quality and comfort of local community life through supporting developments in local regions and provinces, rather than providing temporary reliefs.

Under the Company's Social Development Policy and Social Action Plans, we have implemented the following projects in 2015 and the first half of 2016, after consultation with Community Reference Groups formed in each Soum.

In Baatsagaan Soum, Bayankhongor Aimag:

- Drilling of 2 properly engineered water wells which will serve as valuable water source to grazing animals and nearby herders
- Donation of medical equipment to the Soum's hospital
- Purchase and planting of 500 Aspen trees

In Guchin-us Soum, Uvurkhangai Aimag:

- Donation of medical and physiotherapy equipment to the Soum's hospital

In Baruun-Bayan Ulaan Soum, Uvurkhangai Aimag:

- Donation of medical equipment to the Soum's hospital
- Donation of 8 gers to 8 low-income families

Biger Soum, Gobi-Altai Aimag:

- Donation of a van to the Soum's hospital as the Soum lacked a vehicle to transport doctors and/or patients when necessary.

Chandmani Soum, Gobi-Altai Aimag:

- Contributions towards the instalment of G-mobile telecommunications antenna

Petro Matad also held talks at Soum schools to provide insight to the children and local residents on oil and gas operations. Thereafter essay and art contests amongst school children were announced in 6 Soums where the Company operated in 2015. The essay and painting contests were themed "My Dream Soum" to highlight the benefits that could be derived from oil and gas exploration and production and how it could further contribute to their Soum's development. The contests were also aimed at contributing towards the development of creative abilities of the children. The essay competition was announced amongst 2 age categories with 2 winners in each, while the art contest was announced amongst 3 age categories with 3 winners in each. Cash prizes were given to the winners. The contests were well received and many entries were received. In addition, a total of 8 computers and 2 printers were donated to Soums' schools, administration department, environmental department and weather agency.

7 Corporate Governance Statement

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 (QCA Code), 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.

Board of Directors and Composition

The Board is currently comprised of 2 Non-Executive Directors (who are shareholder representatives), 1 Independent Non-Executive Director and 3 Executive Directors.

Due consideration is given to the composition of the Board to ensure:

- The principle of having an Independent Director on the Board to oversee the interests of the Company and all shareholders. In this regard, there are plans to appoint another independent director to the Board in the future.
- Ensuring that the Board has appropriate skills, experience and expertise
- Maintaining appropriate representation for the Company's major shareholder Petrovis Matad Inc. (Petrovis)
- Ensuring appropriate executive representation on the Board

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

- Enkhmaa Davaanyam, Chairperson (Petrovis appointee)
- Oyungerel Janchiv, Non-executive Director (Petrovis appointee)
- Philip Vingoe, Non-Executive Director (Independent)
- Ridvan Karpuz, Executive Director (Chief Executive Officer)
- Amarzul Tuul, Executive Director (Director of the Company's Mongolian subsidiaries)
- John Henriksen, Executive Director (Chief Financial Officer)

Brief biographies of the Directors are set out on pages 4 to 9. Directors are re-elected at the Annual General Meetings on a rotational basis as per the Company's Articles of Associations.

Whilst the Independent Non-Executive Director has been granted Options and Conditional Share Awards to acquire shares in the Company, the amount of Options and Conditional Share Awards granted are not significant so as to affect his independence. In the opinion of the Board, this aligns his objectives with those of shareholders and the Board considers that the Independent Non-Executive Director can be classified as being independent.

Whilst the Chairperson of the Board may not qualify under the definitions of an Independent Chairperson, with her experience, skill sets, and independence, the Company is confident of her leadership in fostering an effective corporate governance regime.

The Board has not formally adopted performance evaluation procedures. However, 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 Chairperson of the Board and the Executive Directors.

Mrs D. Enkhmaa ensures the efficient and effective functioning of the Board and, together with the Board as a whole, are 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 Executive Directors are charged by the Board with the day to day operations of the Company and are 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 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.

In 2015, although the Board did not have any face-to-face meetings, the Board had 4 ad hoc quarterly Board meetings and discussions via teleconference, which were attended by majority of the Directors, and kept in regular contact via e-mail communications. The Board and its Committees are provided with detailed Board papers in advance of each Board meeting and receive regular management and financial reports.

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 Nomination Committee was disbanded on 30 May 2016, as the Board deemed the Committee unnecessary for the size of the current Board. 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 2015 and up to the date of this report are as follows:

Chair
Enkhmaa Davaanyam

Members
Philip Vingoe
J. Oyungerel (appointed 30 May 2016)

The Audit Committee met once and with the Group's auditors, Deloitte Touche Tohmatsu in 2015. The Audit Committee meetings are normally 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 2015 and up to the date of this report are as follows:

Chair
Philip Vingoe

Members
Oyungerel Janchiv
D. Enkhmaa (appointed 30 May 2016)

The Remuneration Committee evaluates the scale and structure of remuneration for Executive Directors, reviews the 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 Chairman 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 42 to 47.

Corporate Governance, Social Action and Environmental (CGSAE) Committee

The members of the CGSAE Committee at the date of this report are as follows:

Chair
J. Oyungerel (appointed 30 May 2016)

Members
D. Enkhmaa (appointed 30 May 2016)
Philip Vingoe (appointed 30 May 2016)

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.

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. In 2015, management continued to enhance procedures for procurement, budgeting and expenditure approvals, which are in line with standard industry practices. Whilst the Board is aware that no system can provide absolute assurance against material misstatement or loss, regular review of internal controls are undertaken to ensure that they are appropriate and effective. It is the opinion of the Board that the system of internal controls operating throughout the year were adequate and effective.

Risk Management

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. 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 time of review, 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 has undertaken to review risks annually per a designed risk matrix. Risks identified are ranked in relation to the probability of occurrence and impact on operations. Each identified risk is delegated to a senior member of the management team to monitor and propose intervening action, should circumstances warrant it.

Financial Risks
- Bank Default
- Lack of funding leading to temporary slowdown
- Lack of funding leading to insolvency
- Financial risks – inflation, exchange rates etc.

Government/Statutory Risks
- Expropriation of PSC
- Sanctity of contract – Detrimental change of PSC terms
- Statutory environment: FDI, Petroleum Law, Tax etc.
- Government ineffectiveness/Institutional failure
- Loss of listed status
- External statutory risks (Anti-bribery, FCA)

Operational Risks
- Lack of sufficient success in next exploration programme
- Contractual risk – quality of work or value for money not achieved
- Work programme risk – improper well design and others
- Contractor risk – equipment failure

Health, Safety and Environmental Risks
- Natural disasters/health epidemics
- Environmental damage
- Accidents in workplace
- Security concern: Civil unrest, terrorism, sabotage

Management Risks
- Management effectiveness
- Project management/operational efficiency
- Loss of key staff

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.

Remuneration Report (Unaudited)

8

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.

Philip Arthur Vingoe (Chairperson)
Oyungerel Janchiv
Enkhmaa Davaanyam

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 (Plan or Group's 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 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.

Conditional Share Awards shall vest subject to continuing service and appropriate and challenging service and 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 2014 and 2015, are as below:

The Directors were in office until the date of this report and for this entire year unless otherwise stated.

George Edward Watkins	Non-Executive Chairperson	Resigned 24 November 2014
Oyungerel Janchiv	Non-Executive Director	Resigned as Chairperson 1 August 2015
Mary Ellen Collins	Non-Executive Director	Not re-appointed 21 November 2014
Enkhmaa Davaanyam	Non-Executive Chairperson	Appointed as Chairperson 1 August 2015
David Daniel Skeels	Non-Executive Director	Not re-appointed 21 November 2014
Philip Arthur Vingoe	Non-Executive Director	
Amarzul Tuul	Executive Director	
John Rene Henriksen	Chief Financial Officer	
Mehmed Ridvan Karpuz	Chief Executive Officer	Appointed as CEO 1 October 2015

(b) Compensation of Directors

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 31 Dec 2014 $'000
Short-term employee benefits		864	646
Post-employment benefits		-	-
Share based payment expense		143	499
		1,007	1,145

Directors	Consolidated 31 Dec 2015 $'000	Consolidated 31 Dec 2014 $'000
Oyungerel Janchiv	45	45
Mary Ellen Collins*	-	-
Enkhmaa Davaanyam	47	47
David Daniel Skeels*	-	-
Philip Arthur Vingoe	35	35
George Edward Watkins*	-	-
Amarzul Tuul	196	196
John Rene Henriksen	330	330
Mehmed Ridvan Karpuz	211	211
Total	864	646

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

Directors are not entitled to termination or retirement benefits.

*Resigned Directors' information in Notes (b), (c), (d), and (e) are accurate up to their dates of resignation or none re-appointment in 2014.

Mary Ellen Collins (not re-appointed 21 November 2014)
David Daniel Skeels (not re-appointed 21 November 2014)
George Edward Watkins (resigned 24 November 2014)

(c) Shareholdings of Directors and their related parties

Balance at 31 December 2014 or if applicable at the date of resignation	Balance as at 01-Jan-14	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-14
Directors				
Oyungerel Janchiv	18,308,686	-	-	18,308,686
Mary Ellen Collins*	-	-	-	-
Enkhmaa Davaanyam	3,891,640	-	-	3,891,640
David Daniel Skeels*	-	-	-	-
Philip Arthur Vingoe	500,000	-	-	500,000
George Edward Watkins*	200,000	-	-	200,000
Amarzul Tuul	472,500	-	-	472,500
John Rene Henriksen	263,030	-	-	263,030
Mehmed Ridvan Karpuz	620,788	-	-	620,788
Total	24,256,644	-	-	24,256,644

Balance at 31 December 2015 or if applicable at the date of resignation	Balance as at 01-Jan-15	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-15
Directors				
Oyungerel Janchiv	18,308,686	-	996,760	19,305,446
Enkhmaa Davaanyam	3,891,640	-	996,760	4,888,400
Philip Arthur Vingoe	500,000	-	996,760	1,496,760
Amarzul Tuul	472,500	-	58,834	531,334
John Rene Henriksen	263,030	-	820,228	1,083,258
Mehmed Ridvan Karpuz	620,788	70,000	1,255,421	1,946,209
Total	24,056,644	70,000	5,124,763	29,251,407

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 Oyungerel Janchiv and Petrovis are aggregated on account of Oyungerel Janchiv's shareholding of over 20% in Petrovis. The holdings as set out above are the direct interests of Oyungerel Janchiv. However, when applying AIM Rules for Companies, the holdings of Petrovis and Oyungerel Janchiv 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 2014	Balance as at 01-Jan-14	Granted as Remu-neration	Options Exercised	Options Lapsed	Balance as at 31-Dec-14	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	-	-	-	475,000	-	475,000
Mary Ellen Collins	125,000	-	-	-	125,000	-	125,000
Enkhmaa Davaanyam	150,000	-	-	-	150,000	51,000	99,000
David Daniel Skeels	150,000	-	-	-	150,000	100,500	49,500
Philip Arthur Vingoe	150,000	-	-	-	150,000	100,500	49,500
George Edward Watkins	150,000	-	-	-	150,000	100,500	49,500
Amarzul Tuul	608,500	-	-	-	608,500	203,380	405,120
John Rene Henriksen	100,000	-	-	-	100,000	67,000	33,000
Mehmed Ridvan Karpuz	75,000	-	-	-	75,000	50,250	24,750
Total	1,983,500	-	-	-	1,983,500	314,500	1,669,000

For the year ended 31 December 2015	Balance as at 01-Jan-15	Granted as Remu-neration	Options Exercised	Options Lapsed	Balance as at 31-Dec-15	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	-	-	-	475,000	-	475,000
Enkhmaa Davaanyam	150,000	-	-	-	150,000	-	150,000
Philip Arthur Vingoe	150,000	-	-	-	150,000	-	150,000
Amarzul Tuul	608,500	-	-	-	608,500	-	608,500
John Rene Henriksen	100,000	-	-	-	100,000	-	100,000
Mehmed Ridvan Karpuz	75,000	-	-	-	75,000	-	75,000
Total	1,558,500	-	-	-	1,558,500	-	1,558,500

(e) Conditional Share Awards holdings of Directors

For the year ended 31 December 2014	Balance as at 01-Jan-14	Granted as Remu-neration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-14	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	498,380	-	-	973,380	475,000	498,380
Mary Ellen Collins*	125,000	-	-	-	125,000	125,000	-
Enkhmaa Davaanyam	150,000	498,380	-	-	648,380	150,000	498,380
David Daniel Skeels*	150,000	498,380	-	-	648,380	150,000	498,380
Philip Arthur Vingoe	150,000	498,380	-	-	648,380	150,000	498,380
George Edward Watkins*	150,000	830,634	-	-	980,634	150,000	830,634
Amarzul Tuul	503,000	58,834	-	-	561,834	503,000	58,834
John Rene Henriksen	626,060	294,168	-	-	920,228	363,030	557,198
Mehmed Ridvan Karpuz	408,661	498,380	-	-	907,041	150,000	757,041
Total	2,737,721	3,675,536	-	-	2,737,721	2,216,030	4,197,227

For the year ended 31 December 2015	Balance as at 01-Jan-15	Granted as Remu-neration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-15	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	973,380	498,380	996,760	-	475,000	475,000	-
Enkhmaa Davaanyam	648,380	498,380	996,760	-	150,000	150,000	-
Philip Arthur Vingoe	648,380	498,380	996,760	-	150,000	150,000	-
Amarzul Tuul	561,834	-	58,834	-	503,000	503,000	-
John Rene Henriksen	920,228	-	820,228	-	100,000	100,000	-
Mehmed Ridvan Karpuz	907,041	498,380	1,255,421	-	150,000	150,000	-
Total	4,659,243	1,993,520	5,124,763	-	1,528,000	1,528,000	-

Consolidated Financial Statements

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 31 Dec 2014 $'000
Continuing operations			
Revenue			
Interest income	4(a)	22	72
Other income	4(a)	11,722	5
		11,744	77
Expenditure			
Consultancy fees		(476)	(147)
Depreciation and amortisation		(97)	(131)
Employee benefits expense	4(b)	(2,438)	(1,941)
Exploration and evaluation expenditure	4(c)	(7,236)	(266)
Other expenses	4(d)	(1,687)	(1,532)
Loss from continuing operations before income tax		(190)	(3,940)
Income tax expense	5	-	-
Loss from continuing operations after income tax		(190)	(3,940)
Net loss for the year		(190)	(3,940)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations, net of income tax of $Nil (2014: $Nil)		(41)	(115)
Other comprehensive loss for the year, net of income tax		(41)	(115)
Total comprehensive loss for the year		(231)	(4,055)
Loss attributable to owners of the parent		(190)	(3,940)
Total comprehensive loss attributable to owners of the parent		(231)	(4,055)
Loss per share (cents per share)			
Basic and diluted loss per share	6	0.1	1.4

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

For the year ended 31 December 2015

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 31 Dec 2014 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	5,339	895
Trade and other receivables	8	822	241
Prepayments and other assets	9	812	364
Total Current Assets		6,973	1,500
Non-Current Assets			
Trade and other receivables	8	536	-
Exploration and evaluation assets	10	15,275	15,275
Property, plant and equipment	11	502	439
Total Non-Current Assets		16,313	15,714
TOTAL ASSETS		23,286	17,214
LIABILITIES			
Current Liabilities			
Trade and other payables	12	7,436	1,353
Total Current Liabilities		7,436	1,353
TOTAL LIABILITIES		7,436	1,353
NET ASSETS		15,850	15,861
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	106,150	105,278
Reserves	14	4,010	4,896
Accumulated losses		(94,310)	(94,313)
TOTAL EQUITY		15,850	15,861

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 31 Dec 2014 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(9,359)	(2,363)
Interest received		22	72
Farm-out proceeds		13,921	-
Net cash flows provided by/(used in) operating activities	7	4,584	(2,291)
Cash flows from investing activities			
Purchase of property, plant and equipment		(183)	(20)
Proceeds from the sale of property, plant and equipment		3	15
Net cash flows used in investing activities		(180)	(5)
Cash flows from financing activities			
Proceeds from issue of shares		81	1
Net cash flows from financing activities		81	1
Net increase/(decrease) in cash and cash equivalents		4,485	(2,295)
Cash and cash equivalents at beginning of the year		895	3,308
Net foreign exchange differences		(41)	(118)
Cash and cash equivalents at the end of the year	7	5,339	895

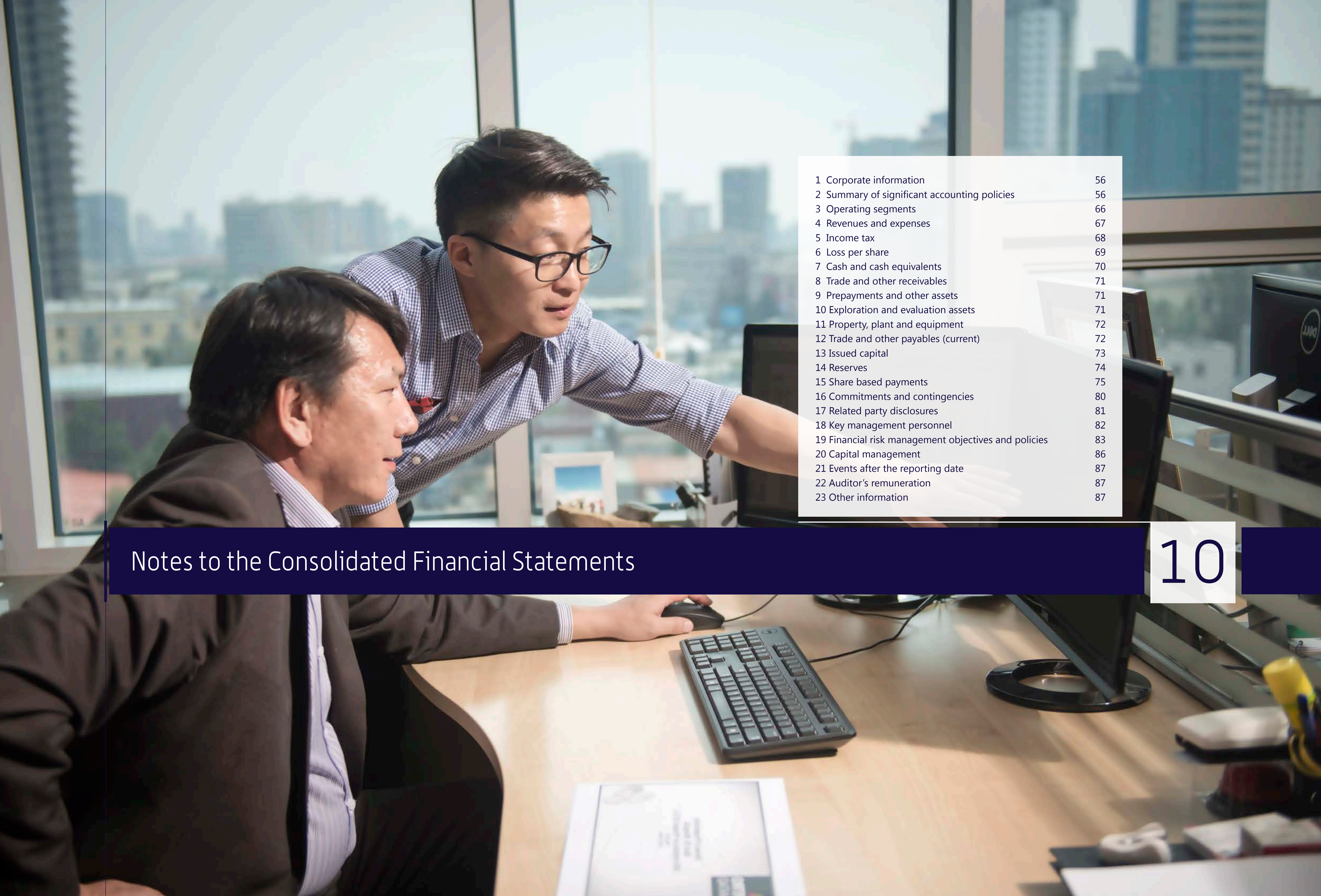
The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

		Consolidated			
		Attributable to equity holders of the parent			
	Note	Issued capital $'000	Accumulated Losses $'000	Other Reserves Note 14 $'000	Total $'000
As at 1 January 2014		105,097	(90,556)	4,736	19,277
Net loss for the year		-	(3,940)	-	(3,940)
Other comprehensive income		-	-	(115)	(115)
Total comprehensive loss for the year		-	(3,940)	(115)	(4,055)
Issue of share capital	13	1	-	-	1
Cost of capital raising	13	-	-	-	-
Share-based payments	13, 14 & 15	180	183	275	638
As at 31 December 2014		105,278	(94,313)	4,896	15,861
Net loss for the year		-	(190)	-	(190)
Other comprehensive income		-	-	(41)	(41)
Total comprehensive loss for the year		-	(190)	(41)	(231)
Issue of share capital	13	81	-	-	81
Cost of capital raising	13	-	-	-	-
Share-based payments	13, 14 & 15	791	193	(845)	139
As at 31 December 2015		106,150	(94,310)	4,010	15,850

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



Notes to the Consolidated Financial Statements

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1 CORPORATE INFORMATION

The financial report of Petro Matad Limited (Company) for the year ended 31 December 2015 was authorised for issue in accordance with a resolution of the Directors on 27 June 2016.

This financial report presents the consolidated results and financial position of Petro Matad Limited and its subsidiaries (together, the Group). The Group's principal activity in the course of the financial year consisted of oil exploration in Mongolia.

Petro Matad Limited (Company) a company incorporated in the Isle of Man on 30 August 2007 has four wholly owned subsidiaries, including Capcorp Mongolia LLC and Petro Matad LLC (both incorporated in Mongolia), as well as Central Asian Petroleum Corporation Limited (Capcorp) and Petromatad Invest Limited (both incorporated in the Cayman Islands). The Company and its subsidiaries are collectively referred to as the "Group". Petro Matad Service Limited, a subsidiary of the Company was dissolved on 1 January 2016, as the company was dormant due to no longer being operationally required.

Petrovis Matad Inc. is a major shareholder of the Company, currently holding approximately 32.06% of the shareholding.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

This financial report complies with International Financial Reporting Standards (IFRS) as adopted by the European Union.

This financial report has been prepared on a historical cost basis, except where otherwise stated. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity.

(b) Statement of compliance

This general purpose financial report has been prepared in accordance with the requirements of all applicable IFRS as adopted by the European Union and related Interpretations and other authoritative pronouncements.

(c) Going concern note

The Consolidated Entity has incurred a net loss after income tax of $0.19 million (2014: $3.94 million) and experienced net cash inflows from operating activities of $4.58 million (2014: net cash outflow of $2.29 million) for the year ended 31 December 2015.

In addition, and as outlined in Note 16(b) the Consolidated Entity is required to meet minimum exploration commitments in the next 12 months on its PSCs of approximately $19.37 million with further commitments of $15.58 million thereafter as disclosed in Note 16(b).

These conditions indicate a material uncertainty that may cast significant doubt over the Company and the Consolidated Entity's ability to continue as going concerns.

The ability of the Company and the Consolidated Entity to continue as going concerns is principally dependent upon the following:

- Receiving compensation of at least $10 million in respect of the exit notice received from BG Group; and
- Raising additional equity; and/or
- Further varying and/or deferring PSC commitment expenditures; and/or
- Securing farm-out agreements to fund minimum exploration commitments.

On 20 April 2016, PAM granted a one-year moratorium for Block XX, commencing 1 January 2016. As a result of the moratorium, the licence period for the PSC for Block XX has been extended by one year from July 2017 to July 2018. In addition, the moratorium approval allows the cumulative expenditure shortfall as at 31 December 2015 of $4.3 million to be spent after the moratorium has ended. Prior to the moratorium ending the Company will have to arrange for alternative sources of funding to fund the future exploration expenditure commitments of $21.3 million currently due by July 2018.

On 28 April 2016, the Company received an exit notice from BG Group advising they were triggering the exit option under the farm-out agreement. Consequently, the Company's working interests in Blocks IV and V will revert to 100%. As required by the farm-out and other related agreements, compensation of at least $10 million is required to be paid to the Company by a related entity of BG Group, which will partially enable the Company to satisfy minimum spend obligations in relation to Blocks IV and V.

At the date of this report the Company has not received the exit payment as the amount due is in dispute. While BG Group has advised they are prepared to pay the minimum amount due of $10 million immediately, the Company believes additional compensation is due under the farm-out and other related agreements. Consequently, BG Group has withheld payment pending agreement on the total amount due. In the absence of other mitigating factors, a delay in the receipt of funds from BG of more than a few months would significantly compromise the ability of the Company and Consolidated Entity to continue as going concerns. The Company is currently in negotiation with BG Group and expects to resolve the dispute and receive the minimum amount of $10 million over the next few months from the date of this report.

The Company intends to explore opportunities for raising further investment funds later in the 2016 calendar year, once drillable prospects on Blocks IV and V have been defined from the ongoing seismic acquisition program. The opportunities to be considered include equity raise, direct investment and farm-out.

The Directors have prepared a cash flow forecast which indicates that the consolidated entity will be required to raise additional funds to meet their working capital requirements (including minimum exploration commitments) for the twelve month period from the date of signing the financial report.

The Directors are satisfied that they will achieve successful outcomes in relation to the matters set out above and therefore the going concern basis of preparation is appropriate. The financial report has therefore been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Should the Company and the Consolidated Entity be unable to achieve the matters referred to above, there is a material uncertainty whether the Company and the Consolidated Entity will be able to continue as going concerns and, therefore, whether they will realise their assets and discharge their liabilities in the normal course of business and at amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Company and the Consolidated Entity not continue as going concerns.

(d) Application of new and revised Accounting Standards

Standards and Interpretations adopted in the current year

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period beginning 1 January 2015.

The following new and revised Standards and Interpretations have been adopted in the current period:

- *Annual Improvements to IFRSs 2010- 2012 Cycle and 2011-2013 Cycle*

The impact of the adoption of the above standards and interpretations did not have a material impact for the Group.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the following International Financial Reporting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the year ended 31 December 2015:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 9 'Financial Instruments'	1 January 2018	31 December 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018	31 December 2018
IFRS 16 'Leases'	1 January 2019	31 December 2019
Amendments to IFRS 11 – 'Accounting for Acquisition of Interest in Joint Operations'	1 January 2016	31 December 2016
Amendments to IAS1 - Disclosure initiative	1 January 2016	31 December 2016
Amendments to IAS 27 'Equity Method in Separate Financial Statements'	1 January 2016	31 December 2016
Amendments to IAS 36 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	31 December 2016
Amendments to IFRS 10 and IAS 28 – 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016	31 December 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016	31 December 2016

The impact of these recently issued or amended standards and interpretations are currently being assessed by the consolidated entity and impact is not expected to be material.

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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.

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.

(f) 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 subsidiaries functional currency is USD. The Mongolian subsidiaries' functional currency is Mongolian Tugrugs (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.

(g) 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.

(h) 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.

(i) 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 6.0 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.

(j) 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.

(k) 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.

(l) 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 asset 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 assets (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 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, which each project representing a 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; or
- Variations in the currency of operation.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. After initial recognition, 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.

(n) 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 when the liabilities are derecognised.

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. The remainder of the proceeds is allocated to the conversion option. If the conversion option meets the definition of an equity instrument, this amount is recognised and included in shareholders' equity and is not subsequently remeasured.

(o) 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.

(p) 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 to profit and loss.

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 profit or loss on a straight-line basis over the lease term.

(q) 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.

(r) 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:

Interest revenue

Revenue is recognised on an accrual basis using the effective interest method.

(s) 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, vesting conditions that are not market conditions are not taken into account.

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.

(t) 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 profit or loss, except when it relates to items credited or debited directly to equity/other comprehensive income, in which case the deferred tax is also recognised directly in equity/other comprehensive income, 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.

(u) 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 conversion of dilutive potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(v) Significant accounting judgments, estimates and assumptions

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint operator recognises the following in its financial statements in respect to the joint operation:
- its assets including its share of any jointly held assets;
- its liabilities, including its share of any jointly incurred liabilities;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly

The group accounts for the assets, liabilities, revenues and expenses relating to its interest in a Joint operation in accordance with IFRSs applicable to the particular asset, liabilities, revenues and expenses.

(w) 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 4.5 year history of the share price and has been estimated in a range from 10% to 120% depending on the date of the grant.

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.

Going Concern

The Group assesses the going concern of the Group on a regular basis, reviewing their cash flow requirements, commitments and status of PSC requirements and funding arrangements. Refer to Note 2 (c) for further details.

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. Based on the information provided to the Board of Directors, the Group has one operating segment and geographical segment, being Mongolia; as such no separate disclosure has been provided.

4 REVENUES AND EXPENSES

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
(a) Revenue			
Interest Income		22	72
Other income:			
Consideration for the BG Group farm-out agreement*		4,486	-
Cash calls received from BG Group*		7,234	-
Other income*		2	5
Foreign exchange gains		-	-
		11,744	77

*On 7 April 2015, the Company announced the successful completion of a farm-out agreement with BG International Limited and BG Mongolia Holdings Limited (BG Group). On 22 June 2015, all conditions to the farm-out were satisfied and unconditional status was therefore received. Under the terms of the farm-out, BG Group acquired 78% of Blocks IV and V in exchange for funding the Group's share of a mutually agreed $28 million work programme which will fulfil the minimum work obligations for both blocks within the current licence period to July 2017. The Group will also receive additional cash consideration of $4.55 million to fund ongoing operations and obligations. Also refer to Note 21 - Events after the reporting date.

(b) Employee benefits expense			
Included in employee benefits expense are the following:			
Wages and salaries		1,601	610
Directors' fees (including Directors of affiliates)		175	104
Consultancy fees		557	589
Share-based payments		105	638
		2,438	1,941
(c) Exploration and evaluation expenditure			
Exploration and evaluation expenditure relates to the following PSCs:			
Block XX		1	30
Blocks IV and V		7,235	236
		7,236	266
(d) Other expenses			
Included in other expenses are the following:			
Administration costs		903	623
PSC administration costs		533	732
Audit fees		114	99
Travel expenses		137	78
		1,687	1,532

5 INCOME TAX

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Income tax recognised in the statement of profit or loss:			
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 profit or loss		-	-

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

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Net loss for the year		(190)	(3,940)
Income tax benefit calculated at 10%	(i)	19	394
Effect of different tax rates on entities in different jurisdictions	(ii)	650	(220)
Change in unrecognised deferred tax assets		(669)	(174)
		-	-

(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 PSCs once production commences 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 loss and share data used in the total operations basic and diluted loss per share computations:

	Consolidated	
	31 Dec 2015 cents per share	31 Dec 2014 cents per share
Basic loss per share	0.1	1.4
Diluted loss per share	0.1	1.4
	$'000's	$'000's
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 owners of the parent	190	3,940
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share (in thousands)	284,450	279,377

Share Options and Conditional 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.

7 CASH AND CASH EQUIVALENTS

		Consolidated	
		31 Dec 2015	31 Dec 2014
	Note	$'000	$'000
Cash at bank and in hand		5,339	895
		5,339	895

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 $5,339,000 (2014: $895,000) due to the short-term nature of the instruments.

Reconciliation from the net loss after tax to the net cash flows from operations:

		Consolidated	
		31 Dec 2015	31 Dec 2014
	Note	$'000	$'000
Net loss after tax		(190)	(3,940)
Adjustments for:			
Depreciation and amortisation		97	131
Net (profit)/loss on disposal of property, plant and equipment		9	6
Share based payments		140	638
Unrealised foreign exchange (gains)/ losses		10	50
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		(1,117)	69
(Increase)/decrease in prepayments and other assets		(448)	120
Increase/(decrease) in trade and other payables		6,083	635
Net cash flows used in operating activities		4,584	(2,291)

Non-cash investing and financing activities

There were no non-cash investing or financing activities undertaken in the financial year or prior year, other than the exercise of Options and Conditional Share Awards of $0.79 million (2014: $0.180 million).

8 TRADE AND OTHER RECEIVABLES

		Consolidated	
		31 Dec 2015	31 Dec 2014
	Note	$'000	$'000
Current			
Receivable from BG Group		600	-
Other debtors		222	241
Non-Current			
Receivable from BG Group		536	-
		1,358	241

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

9 PREPAYMENTS AND OTHER ASSETS

		Consolidated	
		31 Dec 2015	31 Dec 2014
	Note	$'000	$'000
Prepayments		505	55
Other assets		307	309
		812	364

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

10 EXPLORATION AND EVALUATION ASSETS

		Consolidated	
		31 Dec 2015	31 Dec 2014
	Note	$'000	$'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. This relates to the exploration and evaluation of PSC Block XX.

The ultimate recoupment of exploration and evaluation expenditure 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.

Management have reviewed for impairment indicators on Block XX and no impairment has been noted.

11 PROPERTY, PLANT AND EQUIPMENT

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Plant and equipment at cost		1,050	936
Accumulated depreciation and impairment		(548)	(497)
		502	439

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

	Plant and equipment Total $'000
As at 1 January 2014 (net of accumulated depreciation)	618
Additions	20
Disposals	(21)
Depreciation charge for the year	(47)
	(131)
As at 31 December 2014 (net of accumulated depreciation)	439
Additions	183
Disposals	(9)
Foreign exchange	(14)
Depreciation charge for the year	(97)
As at 31 December 2015 (net of accumulated depreciation)	502

12 TRADE AND OTHER PAYABLES (CURRENT)

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Trade payables		4,097	1,351
Funding received in advance from BG Group		3,337	-
Other payables		2	2
		7,436	1,353

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

13 ISSUED CAPITAL

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Ordinary Shares			
287,494,775 shares issued and fully paid (2014: 279,489,279)		106,150	105,278
		106,150	105,278

Movements in ordinary shares on issue:

	Number of Shares	Issue Price $	$'000
As at 1 January 2014	279,340,879		105,097
Exercise of Conditional Share Awards on 3 October 2014 (note (a))	146,400	0.010	1
			1
Share based payment	-	-	180
As at 31 December 2014	279,487,279		105,278
Exercise of Conditional Share Awards on 23 April 2015 (note (b))	5,750,946	0.010	58
Exercise of Conditional Share Awards on 27 July 2015 (note (c))	2,256,550	0.010	23
			81
Share based payment	-	-	180
As at 31 December 2015	287,494,775		106,150

(a) On 3 October 2014, pursuant to the Group's Plan, 146,400 shares were awarded to former employees exercising Conditional Share Awards with an exercise price per share of $0.01.

(b) On 23 April 2015, pursuant to the Group's Plan, 5,750,946 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

(c) On 27 July 2015, pursuant to the Group's Plan, 2,256,550 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

14 RESERVES

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

Consolidated	Merger reserve $'000	Equity benefits reserve $'000	Foreign currency translation $'000	Total $'000
As at 1 January 2014	831	4,801	(896)	4,736
Currency translation differences	-	-	(115)	(115)
Share based payments	-	275	-	275
As at 31 December 2014	831	5,076	(1,011)	4,896
Currency translation differences	-	-	(41)	(41)
Share based payments	-	(845)	-	(845)
As at 31 December 2015	831	4,231	(1,052)	4,010

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 IFRS 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 Conditional Share Awards provided to employees and Directors as part of their remuneration, pursuant to the Group's Long Term Equity Incentive Plan (referred to as Plan or Group's Plan). Refer to Note 15 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.

15 SHARE BASED PAYMENTS

(a) Long Term Equity Incentive Plan (Plan or Group's 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 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.

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

Conditional Share Awards based on performance conditions will vest on achievement of the following performance conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 September 2017;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 September 2019; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 September 2020.

Other Conditional Share Awards have service conditions tied to employment continuity and are available for vesting in three equal annual instalments on various dates.

(b) Option pricing model

The fair value of Options granted is estimated as at the date of grant using the Black Scholes model, taking into account the terms and conditions upon which the Options were granted.

No options have been issued during 2014 and 2015.

(c) Movement in share Options

Consolidated	Opening balance at 1 Jan 2014	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2014	Exercisable as at 31 Dec 2014
Grant of Options on 3 June 2008	399,500	-	(19,500)	-	380,000	380,000
Grant of Options on 8 April 2009	268,750	-	(52,500)	-	216,250	216,250
Grant of Options on 9 July 2010	899,500	-	(154,100)	-	745,400	745,400
Grant of Options on 6 April 2011	75,000	-	-	-	75,000	75,000
Grant of Options on 5 July 2011	150,000	-	-	-	150,000	150,000
Grant of Options on 22 Nov 2011	120,000	-	-	-	120,000	120,000
Grant of Options on 5 Dec 2011	79,914	-	(36,486)	-	43,428	43,428
Grant of Options on 25 Apr 2012	928,300	-	(66,360)	-	861,940	570,900
Grant of Options on 16 Jul 2012	516,860	-	(306,020)	-	210,840	200,640
Grant of Options on 5 Oct 2012	98,300	-	(23,300)	-	75,000	49,500
Grant of Options on 4 Dec 2012	6,000	-	-	-	6,000	3,960
Grant of options on 9 July 2013	112,000	-	(12,000)	-	100,000	33,000
	3,654,124	-	(670,266)	-	2,983,858	2,588,078
Weighted Average Exercise Price (cents per option)	53.96	-	31.68	-	58.96	63.54

Consolidated	Opening balance at 1 Jan 2015	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2015	Exercisable as at 31 Dec 2015
Grant of Options on 3 June 2008	380,000	-	-	-	380,000	380,000
Grant of Options on 8 April 2009	216,250	-	-	-	216,250	216,250
Grant of Options on 9 July 2010	745,400	-	(125,000)	-	620,400	620,400
Grant of Options on 6 April 2011	75,000	-	-	-	75,000	75,000
Grant of Options on 5 July 2011	150,000	-	-	-	150,000	150,000
Grant of Options on 22 Nov 2011	120,000	-	-	-	120,000	120,000
Grant of Options on 5 Dec 2011	43,428	-	(3,828)	-	39,600	39,600
Grant of Options on 25 Apr 2012	861,940	-	(311,940)	-	550,000	550,000
Grant of Options on 16 Jul 2012	210,840	-	(45,840)	-	165,000	165,000
Grant of Options on 5 Oct 2012	75,000	-	-	-	75,000	75,000
Grant of Options on 4 Dec 2012	6,000	-	-	-	6,000	6,000
Grant of options on 9 July 2013	100,000	-	(50,000)	-	50,000	33,000
	2,983,858	-	(536,608)	-	2,447,250	2,430,250
Weighted Average Exercise Price (cents per option)	58.96	-	39.40	-	63.25	63.64

(d) Share Options Contractual Life

The weighted average remaining contractual life of outstanding share Options is 5.7 years (2014: 6.3 years).

(e) Conditional Share Awards pricing model

The fair value of Conditional Share Awards granted is estimated as at the date of grant using the Black Scholes model, taking into account the terms and conditions upon which the Awards were granted.

The following Table summarizes Conditional Share Awards granted during 2014 and 2015, along with relevant details in relation to each grant.

	(1) 23 April 2014	(2) 7 July 2015
Conditional Share Awards granted	5,229,255	1,993,520
Share price at grant date	$0.0923	$0.0621
Expected Volatility (%)	10	28
Risk-free interest rates (%)	0.50	0.50
Expected life (years)	10	10
Exercise Price	$0.01	$0.01
Estimated fair value of each Conditional Share Award at the grant date	$0.0827	$0.0527

Items (1): Conditional Share Awards vested on 1 October 2014.

Items (2): Conditional Share Awards vested immediately.

(f) Movement in Conditional Share Awards

Consolidated	Opening balance at 1 Jan 2014	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 Dec 2014	Exercisable as at 31 Dec 2014
Grant of Conditional Share Awards on 3 Jun 2008	535,000	-	-	(20,000)	515,000	-
Grant of Conditional Share Awards on 8 Apr 2009	145,000	-	-	(50,000)	95,000	-
Grant of Conditional Share Awards on 9 Jul 2010	1,061,000	-	(87,000)	(102,000)	872,000	-
Grant of Conditional Share Awards on 6 Apr 2011	325,000	-	(24,000)	(157,000)	144,000	-
Grant of Conditional Share Awards on 5 Jul 2011	230,000	-	(12,000)	(38,000)	180,000	-
Grant of Conditional Share Awards on 22 Nov 2011	50,000	-	-	-	50,000	-
Grant of Conditional Share Awards on 5 Dec 2011	78,000	-	(3,400)	(35,000)	39,600	-
Grant of Conditional Share Awards on 25 Apr 2012	1,440,060	-	(20,000)	(41,000)	1,379,060	263,030
Grant of Conditional Share Awards on 5 Oct 2012	165,000	-	-	(15,000)	150,000	-
Grant of Conditional Share Awards on 4 Dec 2012	261,661	-	-	-	261,661	258,661
Grant of Conditional Share Awards on 9 Jul 2013	176,000	-	-	(6,000)	170,000	-
Grant of Conditional Share Awards on 23 Apr 2014	-	5,229,255	-	-	5,229,255	5,229,255
	4,466,721	5,229,255	(146,400)	(464,000)	9,085,576	5,750,946
Weighted Average Exercise Price (cents per award)	1.00	1.00	1.00	1.00	1.00	1.00

Consolidated	Opening balance at 1 Jan 2015	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 Dec 2015	Exercisable as at 31 Dec 2015
Grant of Conditional Share Awards on 3 Jun 2008	515,000	-	-	-	515,000	-
Grant of Conditional Share Awards on 8 Apr 2009	95,000	-	-	-	95,000	-
Grant of Conditional Share Awards on 9 Jul 2010	872,000	-	-	(125,000)	747,000	-
Grant of Conditional Share Awards on 6 Apr 2011	144,000	-	-	-	144,000	-
Grant of Conditional Share Awards on 5 Jul 2011	180,000	-	-	-	180,000	-
Grant of Conditional Share Awards on 22 Nov 2011	50,000	-	-	-	50,000	-
Grant of Conditional Share Awards on 5 Dec 2011	39,600	-	-	-	39,600	-
Grant of Conditional Share Awards on 25 Apr 2012	1,379,060	-	(526,060)	(3,000)	850,000	-
Grant of Conditional Share Awards on 5 Oct 2012	150,000	-	-	-	150,000	-
Grant of Conditional Share Awards on 4 Dec 2012	261,661	-	(258,661)	-	3,000	-
Grant of Conditional Share Awards on 9 Jul 2013	170,000	-	-	(50,000)	120,000	-
Grant of Conditional Share Awards on 23 Apr 2014	5,229,255	-	(5,229,255)	-	-	-
Grant of Conditional Share Awards on 7 Jul 2015	-	1,993,520	(1,993,520)	-	-	-
	9,085,576	1,993,520	(8,007,496)	(178,000)	2,893,600	-
Weighted Average Exercise Price (cents per award)	1.00	1.00	1.00	1.00	1.00	1.00

(g) Conditional Share Awards Contractual Life

The weighted average remaining contractual life of outstanding Conditional awards is 12.5 years (2014: 13.5 years).

16 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 has committed to office lease in Mongolia in the amounts of $149,000 as at 31 December 2015.

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Operating Leases:			
Within one year		45	27
After one year but not more than five years		104	-
Greater than five years		-	-
		149	27

(b) Exploration expenditure commitments

Petromatad Invest Limited and Capcorp have minimum spending obligations, under the terms of their PSCs on Blocks IV, V and XX with PAM.

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

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Production Sharing Contract Fees:			
Within one year		898	1,677
After one year but not more than five years		40	835
Greater than five years		-	-
		2,512	1,115
Minimum Exploration Work Obligations:			
Within one year		19,374	7,515
Greater than one year but no more than two years		15,580	18,815
Greater than two years but no more than three years		-	18,056
Greater than three years but no more than four years		-	-
Greater than five years		-	-
		34,954	44,386

Prior year expenditure over and above minimum exploration work obligations may be used to reduce the following year's obligation.

Due to the prior focus on Block XX and despite substantial work programme activities occurring in 2015, Blocks IV and V are below the minimum PSC commitment at the end of 31 December 2015 by $13.7 million.

On 28 April 2016, the company received an exit notice from BG Group advising they were triggering the exit option under the farm-out agreement. Consequently, the Company's working interests in Blocks IV and V will revert to 100%. As required by the agreements, compensation of a minimum of $10 million will be paid to the Company by BG Group, which will partially enable the Company to satisfy minimum spend obligations in relation to Blocks IV and V.

Petromatad Invest Limited and Capcorp can voluntarily relinquish their rights under the PSCs, if the minimum work obligations are completed.

The Company intends to undertake a fund raising effort later in the 2016 once drillable prospects on Blocks IV and V have been defined from the ongoing seismic acquisition program. This will ensure that the cumulative expenditures shortfall for Blocks IV and V will be met by end of for the remainder exploration term ending on 29 July 2017.

In relation to Block XX, cumulative expenditure shortfall is $4.3 million at the end of 2015. PAM has agreed to a one-year moratorium which will enable the Company to defer expenditures towards the minimum PSC obligation by one-year and extends the exploration term to July 2018. In addition, the moratorium approval allows the cumulative expenditure shortfall as at 31 December 2015 of $4.3 million to be spent after the moratorium has ended. Prior to the moratorium ending, the Company will have to arrange for alternative sources of funding to fund the future exploration expenditure commitments of $21.3 million for Block XX due by July 2018. The Company is actively pursuing farm-out options to raise the necessary funds to assist in meeting the obligation.

(c) Contingencies

There are no contingencies outstanding at the year end.

17 RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling party of the consolidated entity is Petro Matad Limited.

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

		Equity Interest	
	Country of Incorporation	2015 %	2014 %
Central Asian Petroleum Corporation Limited	Cayman Islands	100	100
Capcorp Mongolia LLC	Mongolia	100	100
Petromatad Invest Limited	Cayman Islands	100	100
Petro Matad LLC	Mongolia	100	100
Petro Matad Services Limited	Isle of Man	100	100

Subsidiary Details

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.

Central Asian Petroleum Corporation Limited 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. Petro Matad Services Limited was dissolved on 1 January 2016.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

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

	31 Dec 2015 $'000	31 Dec 2014 $'000
Petrovis' subscription for shares in Petro Matad Limited	-	-

Petrovis Matad Inc. is a major shareholder of the Company, currently holding approximately 32.06% of the shareholding.

18 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 2014 and 2015, are as below:

The Directors were in office until the date of this report and for this entire year unless otherwise stated.

George Edward Watkins	Non-Executive Chairperson	Resigned 24 November 2014
Oyungerel Janchiv	Non-Executive Director	Resigned as Chairperson 1 August 2015
Mary Ellen Collins	Non-Executive Director	Not re-appointed 21 November 2014
Enkhmaa Davaanyam	Non-Executive Chairperson	Appointed as Chairperson 1 August 2015
David Daniel Skeels	Non-Executive Director	Not re-appointed 21 November 2014
Philip Arthur Vingoe	Non-Executive Director	
Amarzul Tuul	Executive Director	
John Rene Henriksen	Chief Financial Officer	
Mehmed Ridvan Karpuz	Chief Executive Officer	Appointed as CEO 1 October 2015

(b) Compensation of Directors

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Short-term employee benefits		864	646
Post-employment benefits		-	-
Share based payment expense		143	499
		1,007	1,145

(c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2014: Nil).

19 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:

		Consolidated	
	Weighted Average Int. rate	31 Dec 2015 $'000	31 Dec 2014 $'000
Cash and cash equivalents	1.10%	5,339	895
Trade and other receivables	0%	1,358	241
		6,697	1,136
Financial Liabilities			
Trade and other payables	0%	7,436	1,353
		7,436	1,353
Net exposure		(739)	(217)

Sensitivity Analysis
If the interest rate on cash balances at 31 December 2014 and 2015 weakened/strengthened by 1%, there would be no material impact on profit or loss. There would be no effect on the equity reserves other than those directly related to other 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 Petro Matad Limited and presentational currency of the Group is deemed to be USD because the future revenue from the sale of oil will be denominated in USD 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:

	Average rate		Spot rate at the balance date	
USD	2015	2014	2015	2014
Mongolian Tugrug (MNT) 1	1,969.88	1,817.27	1,995.98	1,888.44
Australian Dollar (AUD) 1	1.37978	1.10970	1.37003	1.22600
Great British Pound (GBP) 1	0.66662	0.60730	0.67553	0.64380

Sensitivity Analysis
A 5% strengthening/weakening of the MNT against USD at 31 December 2014 and 2015 would not have a material effect on profit and loss or on 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:

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Financial Assets			
Trade and other receivables	8	1,358	241
Net exposure		1,358	241

Impairment Losses
None of the Group's receivables are past due at 31 December 2015 (2014: 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.

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

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
6 months or less		6,938	1,318
6-12 months		498	35
1-5 years		-	-
over 5 years		-	-
		7,436	1,353

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

Further, the Group has exploration expenditure commitments on its PSCs as disclosed in Note 16(b).

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 due to their short term duration.

	Fair Value Hierarchy as at 31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Trade and other receivables	-	1,358	-	1,358
Total	-	1,358	-	1,358
Financial Liabilities				
Trade and other payables	-	7,436	-	7,436
Total	-	7,436	-	7,436

	Fair Value Hierarchy as at 31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Trade and other receivables	-	241	-	241
Total	-	241	-	241
Financial Liabilities				
Trade and other payables	-	1,353	-	1,353
Total	-	1,353	-	1,353

The fair values of the financial assets and financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

20 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 13 and 14). This is reviewed by the Board of Directors as part of their regular Directors meetings.

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

The Group is not subject to externally imposed capital requirements.

21 EVENTS AFTER THE REPORTING DATE

On 1 January 2016, Petro Matad Service Limited was dissolved, as the company was dormant due to no longer being operationally required.

On 20 April 2016, PAM granted a one-year moratorium, effective 1 January 2016, for Block XX. The moratorium will enable the Company to defer expenditures towards the minimum PSC obligation by one year. The PSC term is consequently extended by one-year to July 2018.

On 28 April 2016, the Company received an Exit Notification from BG Group that advised they were triggering their option under the farm-out agreement to exit Blocks IV and V PSCs, effective immediately. Upon Mongolian Government approval, the Company's working interest in both PSCs will therefore revert to 100%.

22 AUDITORS' REMUNERATION

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

		Consolidated	
	Note	31 Dec 2015 $'000	31 Dec 2014 $'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		75	57
- other services in relation to the entity and any other entity in the consolidated entity		-	-
Amounts received or due and receivable by auditors other than Deloitte for:		75	57
- an audit or review of the financial report of subsidiary entities		39	42
- other services in relation to the subsidiary entities		-	-
		39	2426
		114	99

23 OTHER INFORMATION

Registered Office:

Victory House
Douglas
Isle of Man
IM1 1EQ

Directors' Declaration

11

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 2015 and of its performance and cash flows for the year ended on that date in accordance with International Financial Reporting Standards as adopted by the European Union and

(b) 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

John R Henriksen
Director
29 June 2016

Deloitte.

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

We have audited the accompanying annual financial report of Petro Matad Limited which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the 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.

This report is made solely to the company's members, as a body, in accordance with Section 80C of the Isle of Man Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Report

The Directors are responsible for the preparation of the financial report that gives a true and fair view of the consolidated financial report in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the consolidated financial report that is free from material misstatement, whether due to fraud or error.

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 International 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 consolidated financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial report.

Deloitte.

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

Opinion

In our opinion, the consolidated financial report gives a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Isle of Man Companies Act 2006.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 2(c) in the financial report, which indicates that the consolidated entity has incurred a net loss after income tax of \$0.19 million (2014: \$3.940 million) and experienced net cash inflows from operating activities of \$4.58 million (2014: net cash outflows of \$2.29 million) for the year ended 31 December 2015. These conditions, along with other matters as set forth in Note 2(c), indicate the existence of a material uncertainty that may cast significant doubt about the ability of the company and the consolidated entity to continue as going concerns and therefore, whether they will realise their assets and extinguish their liabilities in the ordinary course of business.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants
Perth, 30 June 2016

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