Petro Matad Limited

Annual Report

for the year ended 31 December 2007

PETRO MATAD

Contents

Chairman's Statement

Herewith, I present to you the first annual report as a public company for Petro Matad Limited ("Petro Matad" or the "Company"). This follows our successful admission on 1 May 2008 to the AIM Market of the London Stock Exchange plc ("AIM Admission").

The AIM Admission followed the successful raising of US$10 million, before expenses, through the issue of 20,000,000 new shares. The board was pleased with the response to the fundraising, which was undertaken in adverse market conditions, and we welcome the new shareholders and thank them and existing shareholders for their faith in the Company and its plans. The fundraising enabled the Company to finance the AIM Admission and provides it with sufficient cash resources to fund the 2008 and 2009 exploration programmes on Block XX in Mongolia, as well as reserves for Minimum Work Commitments on any other blocks the Group (being Petro Matad and its direct and indirect subsidiaries) acquires.

The AIM Admission was an important step for Petro Matad and its shareholders. Petro Matad has become the first company with a significant Mongolian shareholder base to be quoted on an international stock exchange and the board is hopeful that the AIM quotation will provide a platform for the growth of the Company.

Petro Matad was incorporated on 30 August 2007 and acquired the direct and indirect trading subsidiaries of the group on 12 November 2007. The Group's operating subsidiaries (Petro Matad LLC and Capcorp Mongolia LLC) have been in operation since December 2004 and August 2005 respectively. Merger accounting principles have been used for the consolidation of the financial statements resulting in the current and previous years' information being presented as if the operational companies had been owned throughout the current and comparative accounting periods.

The Board of Directors maintains audit and remuneration committees which assist in the governance of the Company. Public and investor relations management are being developed coincident with the move into the public arena.

The AIM Admission required significant work by our employees and advisers alike and I would like to take this opportunity to thank them all for their dedication and efforts. The support and efforts of our Mongolian staff, advisors and shareholders has been particularly noteworthy and we are all proud to be a small part of the development of the country of Mongolia.

Gordon Toll
Chairman
23 June 2008

Chief Executive Officer's Report

This report covers the period to 31 December 2007 and any significant subsequent events to this date.

Petro Matad's principal asset is the 100% ownership of a Production Sharing Contract ("PSC") over Block XX, a petroleum block with an area of 18,956 km^2 in the far eastern part of Mongolia. During the period of the review, Petro Matad has been focussed upon further exploration and appraisal of Block XX.

As part of its assessment and evaluation of Block XX, the directors engaged ISIS Petroleum Consultants Pty Ltd ("ISIS"), a geoscience-consulting group based in Perth, Western Australia, to conduct an independent assessment evaluation of Petro Matad's sub-surface hydrocarbon assets in Mongolia.

This assessment commenced in the fourth quarter of 2006 and formed the basis of the Competent Person's Report included within the Company's admission document on its AIM Admission.

The initial work undertaken in the period was an assessment of all the historic 2D seismic data available to Petro Matad. Through the integration of the historic data, a portfolio of leads was interpreted, mapped and evaluated. During the second quarter of 2007, key existing seismic lines were reprocessed using modern data processing techniques and an additional 423km of 2D seismic data was acquired, processed and interpreted. Petro Matad also acquired a land based gravity and magnetics survey over an area in the central and eastern part of Block XX. The objective of the survey was to mature the most prospective leads to prospect status.

The 2007 seismic interpretation defined two prospects, four strong leads plus five leads. The Group has commenced its 2008 exploration programme, primarily on prospect 8Ts and strong lead 6Ts. The programme comprises of 2D and 3D seismic surveys which will be analysed with the objective of identifying drill targets. The 2D acquisition programme was recently completed and analysis of this data has commenced.

The 130km^2 3D seismic survey has been awarded to BGP Inc (BGP), as announced by the Company on 9 June, 2008. The survey and associated teams are currently being mobilised.

As reported in the Chairman's Statement, the Company issued 20,000,000 new shares in February 2008. These were issued at a price of 50 cents and each had a warrant attached, expiring on 30 September 2008 and bearing an exercise price of $1.00.

Chief Executive Officer's Report

In addition, Citadel Equity Fund Ltd ("Citadel") and the Group's subsidiary Central Asian Petroleum Corporation Limited entered into a convertible note issue, whereby Citadel agreed to subscribe for up to $6,000,000 convertible unsecured loan notes. Following conversion on 1 May 2008 and pursuant to various agreements between the Group Companies and Citadel entities, Citadel acquired 20,000,000 shares in Petro Matad.

The Company's local Mongolian partner and shareholder, Petrovis LLC, has been pivotal in the success of the Group to date. We also expect Petrovis to play a substantial role in assisting the future development of the Group. As a result, Petrovis were awarded 10,000,000 shares, issued on 1 May 2008.

The PSC over Block XX enjoys sound legal status. The Company's Minimum Work Commitments have been exceeded.

Petro Matad is currently pursuing other opportunities in the petroleum sector in Mongolia and the market and shareholders will be advised in a timely manner as these develop.

With the achievement of our AIM quotation, Petro Matad has joined modern petroleum exploration in Mongolia in a unique and responsible manner. The Company is looking forward to developing value for the country and its shareholders.

Douglas McGay
Chief Executive Officer
23 June 2008

PETRO MATAD

Directors' Report

Your directors submit their financial report for the period ended 31 December 2007. The report covers the consolidated entity of Petro Matad Limited and its controlled entities.

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

DIRECTORS

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

- Gordon Toll
- Janchiv Oyungerel (appointed on 8 November 2007)
- Douglas McGay
- Clyde Evans
- Gregory Meldrum
- John Robertson (appointed on 8 November 2007)
- Sarangua Davaadorj (appointed on 8 November 2007)

PRINCIPAL ACTIVITIES

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

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

REVIEW AND RESULTS OF OPERATIONS

The Group commenced its business on 26 July 2005. The profit / (loss) after tax for the Group for the period ended 31 December 2007 was ($4,430,442) (31 December 2006: Loss $1,063,037).

CHANGES IN STATE OF AFFAIRS

In February 2007, Capcorp acquired a 50% interest in Petromatad Invest Limited (a Cayman Island incorporated company) which through its 100% ownership of Petro Matad LLC (a Mongolian incorporated company) possessed the PSC of Block XX in Mongolia.

On 12 November 2007, Petro Matad Limited acquired from Petrovis LLC the remaining 50% interest in Petromatad Invest Limited not owned by Capcorp, in consideration for the issue of 23,340,000 ordinary shares.

On 12 November 2007, Petro Matad Limited acquired the entire issued share capital of Capcorp (which in turn holds 50% interest in Petromatad Invest Limited and a 100% interest in Capcorp Mongolia LLC) in consideration for the issue of 23,340,000 ordinary shares of US$0.01 each.

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

Directors' report

continued

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

Between 25 January 2008 and 23 April 2008, Petro Matad Limited conducted a private placement comprising of one ordinary share and one warrant at a price of US$0.50 per unit. One warrant entitles the holder to subscribe for one new ordinary share at an exercise price of US$1.00 per warrant at any time prior to 30 September 2008. The company raised a total of US$10,000,000 with the issue of 20,000,000 ordinary shares and 20,000,000 warrants. The proceeds raised from the private placement will be used primarily to fund exploration operations of the Block XX in Mongolia.

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

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

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

On 1 May 2008, Petro Matad was successfully admitted to the AIM Market of the London Stock Exchange plc.

On 3 June 2008, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 1.93 million options over ordinary shares to employees and directors at US$0.75 per ordinary share, exercisable in three parts; 25 % after 1 May 2010, 50 % after 1 May 2011 and 25 % after 1 May 2012.

Also on 3 June 2008, the Company issued 2.055 million performance share awards of ordinary shares were issued to employees. These have an acquisition price per ordinary share equal to the nominal value of an ordinary share of vesting. The performance share awards will vest on achievement of the following conditions:

(i) 25 % vest on the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled;

(ii) 25 % vest on the first production of oil on a commercial scale in accordance with the PSC is fulfilled; and

(iii) 50 % vest on the Company achieving the sale of 1 million barrels of oil.

Directors' report

continued

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

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

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

INDEMNIFICATION OF OFFICERS AND AUDITORS
The Group has not, during or since the financial period, indemnified or agreed to indemnify an officer or auditor of the company against a liability incurred as such by an officer or auditor.

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

PROCEEDINGS ON BEHALF OF THE COMPANY
No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

Signed in accordance with a resolution of the directors.

Clyde Evans
Finance Director
23 June 2008

PETRO MATAD

Consolidated Income Statement

for the year ended 31 December 2007

	Notes	Consolidated 31 December 2007 US$000	 31 December 2006 US$000	Parent 31 December 2007 US$000
Continuing operations				
Revenue				
Finance revenue		**12**	–	–
		12	–	–
Expenses				
Exploration and evaluation expenditure	5(a)	**(270)**	(48)	–
Finance costs	5(b)	**(720)**	(300)	–
Audit		**(61)**	–	–
Accountancy		**(238)**	(13)	–
Depreciation		**(7)**	(1)	–
Directors fees		**(102)**	(60)	–
Employee benefits	5(d)	**(594)**	(497)	–
Other	5(c)	**(1,874)**	(144)	–
Share of loss of an associate	6	**(577)**	–	–
Loss before income tax		**(4,431)**	(1,063)	–
Income tax expense	7(a)	–	–	–
Loss after tax from continuing operations		**(4,431)**	(1,063)	–
Loss attributable to members of the company		**(4,431)**	(1,063)	–
Loss per share (cents per share)				
– basic and diluted loss per share	20	**(16.7)**	(7.5)	

PETRO MATAD

Consolidated Balance Sheet

as at 31 December 2007

	Notes	Consolidated 31 December 2007 US$000	Consolidated 31 December 2006 US$000	Company 31 December 2007 US$000
ASSETS				
Current assets				
Cash and cash equivalents	9	**170**	5,917	–
Trade and other receivables	10	**7**	421	–
Other current assets	11	**25**	3	–
Total current assets		**202**	6,341	–
Non-current assets				
Exploration and evaluation	12	**15,275**	–	–
Property, plant and equipment	13	**49**	20	–
Investment in subsidiaries	21	**–**	–	**11,903**
Total non-current assets		**15,324**	20	**11,903**
TOTAL ASSETS		**15,526**	6,361	**11,903**
LIABILITIES				
Current liabilities				
Trade and other payables	14	**1,266**	60	–
Total current liabilities		**1,266**	60	–
Non-Current liabilities				
Interest bearing loans and borrowings	15	**6,022**	5,066	–
Total non-current liabilities		**6,022**	5,066	–
TOTAL LIABILITIES		**7,288**	5,126	–
NET ASSETS		**8,238**	1,235	**11,903**
EQUITY				
Equity attributable to equity holders of the parent				
Issued capital	16	**11,903**	233	**11,903**
Reserves	17	**1,829**	2,065	–
Retained earnings/(Accumulated losses)		**(5,494)**	(1,063)	–
TOTAL EQUITY		**8,238**	1,235	**11,903**

Cash Flow Statement

for the year ended 31 December 2007

	Notes	Consolidated 31 December 2007 US$000	Consolidated 31 December 2006 US$000	Parent 31 December 2007 US$000
Cash flows from operating activities				
Payments to suppliers and employees	9	**(1,582)**	(705)	–
Interest received		**12**	–	–
Borrowing costs		–	–	–
Net cash flows from/(used in) operating activities		**(1,570)**	(705)	–
Cash flows from investing activities				
Purchase of property, plant and equipment	13	**(35)**	(20)	–
Purchase of other financial assets		**(20)**	–	–
Acquisition of subsidiary (net of cash acquired)	4(b)	**(2,999)**	–	–
Net cash flows from/(used in) investing activities		**(3,054)**	(20)	–
Cash flows from financing activities				
Proceeds from issue of shares		–	703	–
Payments made to related party		**(1,123)**	(61)	–
Proceeds from convertible notes		–	6,000	–
Other		–	–	–
Net cash flows from/(used in) financing activities		**(1,123)**	6,642	–
Net increase/(decrease) in cash and cash equivalents		**(5,747)**	5,917	–
Cash and cash equivalents at beginning of period		**5,917**	–	–
Cash and cash equivalents at end of period	9	**170**	5,917	–

Statement of Changes in Equity

for the year ended 31 December 2007

Consolidated

	Notes	Issued Capital US$000	Merger Reserve US$000	Option Premium on Convertible Notes US$000	Retained Earnings/ (Accumulated Losses) US$000	Total US$000
At 25 July 2005		–	–	–	–	–
Loss for the period		–	–	–	(1,063)	(1,063)
Total income/expense for the period		–	–	–	(1,063)	(1,063)
Issue of convertible notes		–	–	1,431	–	1,431
Unwinding of convertible note		–	–	(197)	–	(197)
Creation of merger reserve		–	831	–	–	831
Issue of share capital		233	–	–	–	233
Balance as at 31 December 2006		233	831	1,234	(1,063)	1,235
At 1 January 2007		233	831	1,234	(1,063)	1,235
Loss for the period		–	–	–	(4,431)	(4,431)
Total income/expense for the period		–	–	–	(4,431)	(4,431)
Unwinding of convertible note	17	–	–	(236)	–	(236)
Issue of share capital	16	11,670	–	–	–	11,670
At 31 December 2007		11,903	831	998	(5,494)	8,238

Company

	Notes	Issued Capital US$000	Option Premium on Convertible Notes US$000	Retained Earnings (Accumulated Losses) US$000	Total US$000
At 1 January 2007		–	–	–	–
Loss for the period		–	–	–	–
Issue of share capital	21	11,903	–	–	11,903
At 31 December 2007		11,903	–	–	11,903

Notes to the Financial Statements

for the year ended 31 December 2007

1. Corporate Information

The financial report of Petro Matad Limited for the year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors.

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

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

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

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

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

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

This transaction has been accounted for as a combination of entities under common control and as such is outside the scope of AASB 3 'Business Combinations'. Australian Accounting Standards currently do not provide guidance in relation to common control transactions therefore in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' other international pronouncements have been applied to account for the business combination. The transaction has been accounted for using merger accounting where two or more companies are combined to form one group on terms such that the equity shareholders in each company become the equity shareholders in the combined entity. The accounts therefore represent a continuation of the financial statements of Capcorp, the legal subsidiary acquired. Refer to note 4 for further details.

The financial report covers the financial period 1 January 2007 to 31 December 2007. The comparison figures are from the incorporation of Capcorp on 26 July 2005 to 31 December 2006.

Petro Matad Limited's acquisition from Petrovis LLC of the remaining 50% interest in Petromatad Invest Limited has been accounted for using the purchase method in accordance with AASB 3 'Business Combinations'.

Notes to the Financial Statements

for the year ended 31 December 2007

2. Summary of Significant Accounting Policies (continued)

As at 31 December 2007 Petro Matad Limited did not enter into any transactions other than acquiring Capcorp and Petromatad Invest Limited and as such no information has been reflected in the notes other than investments and issued capital.

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

(b) Going Concern

At 31 December 2007, the consolidated entity had net assets of $8,238,191 and incurred a loss for the period of $4,430,442.

Between 25 January 2008 and 23 April 2008, Petro Matad Limited (the ultimate parent entity) conducted a private placement comprising of one ordinary share and one warrant at a price of US$0.50 per unit. One warrant entitles the holder to subscribe for one new ordinary share at an exercise price of US$1.00 per warrant at any time prior to 30 September 2008. The Company raised a total of US$10,000,000 with the issue of 20,000,000 ordinary shares and 20,000,000 warrants. The proceeds raised from the private placement will be primarily used to fund exploration operations of the Block XX in Mongolia.

Based on the additional funding obtained subsequent to the year end date, the directors are satisfied that, the going concern basis of preparation is appropriate. Therefore, the financial report has been prepared on the basis of going concern, which contemplates continuity of normal business activities and the realisation of asset and settlement of liabilities in the ordinary course of business.

No allowance for such circumstances has been made in the Financial Report.

(c) Statement of Compliance

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

The consolidated entity has adopted AASB 7 'Financial Instruments: Disclosures' and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

Certain Australian Accounting Standards and UIG interpretations have recently been issued or amended but are not yet effective. These standards have not been adopted by the company for the period ended 31 December 2007 and would not have a material effect on the company's current accounting policies.

Notes to the Financial Statements

for the year ended 31 December 2007

2. Summary of Significant Accounting Policies (continued)

(d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Petro Matad Limited and its subsidiaries as at 31 December 2007 each period ('the Group').

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

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

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

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

(e) Foreign Currency Translation

Both the functional and presentation currency of the consolidated entity is United States Dollars.

The assets and liabilities of foreign operations are translated to United States Dollars at exchange rates at the reporting date. The income and expense of foreign operations are translated to United States Dollars at exchanges rates at the approximate date of the transactions. Foreign currency differences are recognised directly in a foreign currency translation reserve (FCTR). When the foreign operation is disposed of, the relevant amount in the FCTR is transferred to the income statement. For the year ended 31 December 2007, the foreign currency translation movements were immaterial and charged to the income statement.

(f) Property, Plant and Equipment

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The useful life of the assets is currently estimated to be an average of 6.2 years.

(g) Exploration and evaluation Expenditure

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

Notes to the Financial Statements

for the year ended 31 December 2007

2. Summary of Significant Accounting Policies (continued)

(h) Exploration and evaluation Assets

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

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

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

(i) Cash and cash equivalents

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

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

(j) Borrowing Costs

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

(k) Investment in associate

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

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

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

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

(l) Investments

Investments in subsidiary undertakings are stated at cost less impairment losses.

Notes to the Financial Statements

for the year ended 31 December 2007

2. Summary of Significant Accounting Policies (continued)

(m) Interest bearing loans and borrowings

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

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

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

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

(n) Share-based payment transactions

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2007

2. Summary of Significant Accounting Policies (continued)

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.

(o) Taxation

(i) *Current tax*

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

(ii) *Deferred tax*

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

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2007

2. Summary of Significant Accounting Policies (continued)

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

(p) Significant accounting judgments, estimates and assumptions

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

3. Segment Information

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

4. Business Combinations

(a) On 12 November 2007, pursuant to agreements entered into with all shareholders of Central Asian Petroleum Corporation Limited ('Capcorp"), Petro Matad Limited (the ultimate parent company) acquired the entire issued share capital of Capcorp (which in turn holds 50% interest in Petromatad Invest Limited and a 100% interest in Capcorp Magnolia LLC) in consideration for the issue of 23,340,000 ordinary shares of US$0.01 each. As detailed in note 2(a), this transaction is outside the scope of AASB 3 "Business Combinations'.

As such the requirements of AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' apply; in that the accounting treatment applied to each transaction should result in information that is relevant to the users of the entity's financial statements and is reliable. The directors have elected to use merger accounting for this transaction under the UK Accounting Standard FRS 6 'Acquisition and Mergers'.

The concept of merger accounting requires carrying values of the assets and liabilities of the parties to the combination not to be adjusted to fair value on consolidation, although appropriate adjustments are made to achieve uniformity of accounting policies in the combining entities. The difference, if any, between the nominal value of the shares issued plus the fair value of any other consideration given, and the nominal value of the shares received in exchange are recorded as a movement on other reserves in the consolidated financial statements.

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

PETRO MATAD

Notes to the Financial Statements

for the year ended 31 December 2007

4. Business Combinations (continued)

	US$000
Nominal value of shares issued by Petro Matad Limited	233
Nominal value of shares acquired by Capcorp	1,064
Merger reserve arising on consolidation	**831**

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

Petromatad Invest Limited is a Cayman Island Company, which has a 100% ownership in Petro Matad LLC, a Mongolian Company. Petromatad Invest Limited possess the rights in the Production Sharing Contract on Block XX in Mongolia.

The calculation book and fair value of the assets and liabilities acquired was:

	Consolidated	
	Recognised on acquisition US$000	Carrying value US$000
Property, plant and equipment	1	1
Exploration and evaluation assets	15,275	–
Cash and cash equivalents	1	1
Other assets	19	19
	15,296	21
Loan from parent companies	(1,203)	(1,203)
	(1,203)	(1,203)
Fair value of net assets	14,093	(1,182)
Goodwill arising on acquisition	–	
	14,093	
Consideration:		
Shares issued, at fair value	11,670	
Transfer of carrying value of associate – see note (iii) below	2,423	
Total consideration	14,093	
The cash inflow on acquisition is as follows:		
Net cash acquired with subsidiary	1	
Cash paid	(3,000)	
Net cash inflow	(2,999)	

Notes to the Financial Statements

for the year ended 31 December 2007

4. Business Combinations (continued)

(i) From the date of acquisition, Petromatad Invest Limited and its subsidiary Petro Matad LLC have contributed a loss of $296,036 to the net loss of the Group.

(ii) If the combination had taken place at the beginning of the year, the loss for the Group would have been $1,449,635 and revenue from continuing operations would have been $Nil.

(iii) Transfer of the carrying value of associate relates to Capcorp's 50% interest in Petromatad Invest Limited which was acquired in February 2007. Purchase consideration for the acquisition was a payment of $3,000,000. This investment was accounted for as an investment in associate in accordance with accounting policy note 2(k).

The Group's share of loss to 12 November 2007 is disclosed in note 6.

Transfer of carrying value of associate comprises of:

	US$000
Consideration	3,000
Share of loss in associate	(577)
	2,423

5. Revenues and Expenses

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
(a) Exploration and evaluation expenditure		
Exploration (Capcorp Cayman)	**270**	48
Total exploration and evaluation expenditure	**270**	48
(b) Finance costs		
Interest on convertible notes	**720**	300
Total finance costs	**720**	300
(c) Other expenses		
Included in other expenses are the following:		
Consultancy fees	**372**	–
Legal fees	**880**	54
Travel expenses	**251**	55
	1,503	109
(d) Employee benefits		
Comprises the following:		
Consultancy fees to directors	**534**	477
Wages	**60**	20
Total employee benefits	**594**	497

Notes to the Financial Statements

for the year ended 31 December 2007

6. Investment in Associates

In February 2007 Capcorp acquired a 50% interest in Petromatad Invest Limited for consideration of $3,000,000. On 12 November 2007 the Group acquired the remaining 50% (see note 4 (b)). The Group's share of Petromatad Invest Limited's loss to 12 November 2007 is as follows:

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

7. Income Tax

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Income tax recognised in the income statement		
Tax expense/(income) comprises:		
Current tax expense/(income)	**–**	–
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	**–**	–
Total tax expense/(income)	**–**	–
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Net Loss for the period	**(4,431)**	(1,063)
Income tax expense calculated at 20%	**886**	213
(Profit)/Losses incurred which are not subject to income tax	**(768)**	(202)
Tax losses not brought at account	**(118)**	(11)
Timing differences not brought to account	**–**	–
	–	–

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

Notes to the Financial Statements

for the year ended 31 December 2007

8. Auditors' Remuneration

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Amounts received or due and receivable by PKF Australia for:		
– An audit or review of the financial report of the entity and any other entity in the consolidated entity	**22**	–
– Other services in relation to the entity and any other entity in the consolidated entity	**9**	–
	31	
Amounts received or due and receivable by auditors other than PKF Australia for:		
– An audit or review of the financial report of parent entity	**29**	–
– An audit or review of the financial report of subsidiary entities	**1**	–
Total	**61**	–

9. Cash and Cash Equivalents

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Cash at bank and in hand	**170**	5,916
Short term deposits	**–**	1
Total cash and cash equivalents	**170**	5,917

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

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

The fair value of cash and cash equivalents is $170,000 (2006: $5,917,000).

Reconciliation of cash

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

Cash at bank and in hand	**170**	5,916
Short-term deposits	**–**	1
	170	5,917

Notes to the Financial Statements

for the year ended 31 December 2007

9. Cash and Cash Equivalents (continued)

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Reconciliation from the net profit after tax to the net cash flows from operations		
Net Loss	**(4,431)**	(1,063)
Adjustments for:		
Depreciation	**7**	1
Interest expense on convertible notes	**720**	300
Share of associates' net losses	**577**	–
Consultancy fees	**360**	–
Changes in assets and liabilities		
(increase)/decrease in trade and other receivables	**(9)**	(3)
(decrease)/increase in trade and other payables	**1,206**	60
Net cash from operating activities	**(1,570)**	(705)

10. Trade and Other Receivables (Current)

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Other debtor	**7**	–
Loan to external party	**–**	61
Related party receivables:		
– loan to related parties	**–**	360
Total trade and other receivables (current)	**7**	421

For terms and conditions of related party receivables, refer to Note 21 and 22.

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Notes to the Financial Statements

for the year ended 31 December 2007

11. Other Current Assets

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Other current assets	**20**	–
Prepayments	**5**	3
Total other current assets	**25**	3

Other current assets of $20,000 represents mining fees of 2 x $10,000 government fees involved with the applications for PSCs for Blocks IV and V which is refundable if applications are not approved.

12. Exploration and Evaluation Assets

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

The exploration and evaluation asset arose on the acquisition of the 50% of Petromatad Invest Limited not already held by the Group on 12 November 2007. The consideration was 23,340,000 ordinary shares credited as fully paid up and with an estimated fair value of $0.50 per share. Refer to note 4(b) for further details.

PETRO MATAD

Notes to the Financial Statements

for the year ended 31 December 2007

13. Property, Plant and Equipment

	Consolidated Plant and Equipment US$000	Total US$000
Period ended 31 December 2006		
At 25 July 2005, net of accumulated depreciation	–	
Additions	21	21
Disposals	–	–
Impairment	–	–
Depreciation charge for the period	(1)	(1)
At 31 December 2006, net of accumulated depreciation	**20**	**20**
Period ended 31 December 2007		
At 1 January 2007, net of accumulated depreciation	20	20
Additions	36	36
Disposals	–	–
Impairment	–	–
Depreciation charge for the period	(7)	(7)
At 31 December 2007, net of accumulated depreciation	**49**	**49**

	Consolidated Plant and Equipment US$000	Total US$000
At 31 December 2006		
Cost or fair value	21	21
Accumulated depreciation and impairment	(1)	(1)
Net carrying amount	**20**	**20**
At 31 December 2007		
Cost or fair value	57	57
Accumulated depreciation and impairment	(8)	(8)
Net carrying amount	**49**	**49**

Notes to the Financial Statements

for the year ended 31 December 2007

14. Trade and Other Payables

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Trade payables	**1,263**	22
Other payables	**3**	38
Total trade and other payables	**1,266**	60

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

15. Interest Bearing Loans and Borrowings

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Unsecured		
Convertible notes	**6,022**	5,066
Total interest bearing loans and borrowings	**6,022**	5,066

Central Asian Petroleum Corporation Limited has issued $6,000,000 convertible, unsecured loan notes due on 2 August 2009. Interest accrues at a rate of 12% per annum and is capitalised to the principal. The notes are convertible to shares at a conversion price of 33.6 cents on the first anniversary date, 37.6 cents on the second anniversary date and 40.8 cents on the maturity date.

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

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for the year ended 31 December 2007

15. Interest Bearing Loans and Borrowings (continued)

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

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
	6,000	6,000
Equity portion – value of conversion right	**(998)**	(1,234)
	5,002	4,766
Accredited Interest Capitalised	**1,020**	300
Total convertible note – Liability Portion	**6,022**	5,066

Subsequent to the year end, the convertible notes were converted into ordinary shares in Petro Matad Limited. Refer to note 23 for further details.

16. Issued Capital

	Consolidated		Parent
	31 December 2007 US$000	31 December 2006 US$000	**31 December 2007 US$000**
Ordinary Shares 46,680,004 share paid up (2006: 23,340,000)	**11,903**	233	**11,903**
Total	**11,903**	233	**11,903**

Movement in ordinary shares: *CONSOLIDATED ENTITY:*			
	No. of Shares	**Issue Price**	**US$**
At 25 July 2005 (at incorporation of Capcorp):	–	–	–
Share issue on 23 May 2006	7,440,000	0.10	744,000
Issue of shares to directors for services performed on 23 May 2006	15,900,000	0.0201	320,000
Creation of merger reserve on acquisition of Capcorp (see note 4 (a))	–	–	(830,600)
At 31 December 2006	23,340,000		233,400
Issue of founder shares 30 August 2007	4	0.01	–
Share issue on 12 November 2007 to acquire Petromatad Invest Limited	23,340,000	0.50	11,670,000
At 31 December 2007	46,680,004		11,903,400

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for the year ended 31 December 2007

16. Issued Capital (continued)

PARENT ENTITY:	**No. of Shares**	**Issue Price**	**US$**
Issue of founder shares 30 August 2007	4	0.01	–
Share issue on 12 November 2007 to acquire Capcorp	23,340,000	0.01	233,400
Share issue on 12 November 2007 to acquire Petromatad Invest Limited	23,340,000	0.50	11,670,000
At 31 December 2007	46,680,004		11,903,400

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

On 12 November 2007, the Company issued 23,340,000 ordinary shares at nominal value in the share for share exchange with Capcorp. See note 4(a) for details.

On 12 November 2007, the Company issued 23,340,000 ordinary shares at US$0.50 per share for the purchase of 50% interest in Petromatad Invest Limited. See note 4(b) for details.

17. Reserves

	Consolidated	
	31 December 2007 US$000	31 December 2006 US$000
Merger reserve	**831**	831
Option Premium on convertible notes	**998**	1,234
Total reserves	**1,829**	2,065
Option premium on convertible notes		
Opening balance at the beginning of the financial period	**1,234**	–
Issue of convertible notes	**–**	1,431
Unwinding of convertible notes	**(236)**	(197)
Closing balance at the end of the financial period	**998**	1,234

The option premium on convertible notes represents the equity component (conversion rights) of the $6,000,000 12% convertible notes issued on 2 August 2006. Details are shown in Note 15.

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Notes to the Financial Statements

for the year ended 31 December 2007

17. Reserves (continued)

Merger reserve		
Opening balance at the beginning of the financial period	**831**	–
Arising on the acquisition of Capcorp	**–**	831
Closing balance at the end of the financial period	**831**	831

The merger reserve arose from the Company's acquisition of Capcorp on 12 November 2007. Refer to note 4(a).

18. Financial Risk Management Objectives and Policies

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

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

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

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

Interest rate risk

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

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

The Group's policy is to manage its interest cost using fixed rate debt.

Notes to the Financial Statements

for the year ended 31 December 2007

18. Financial Risk Management Objectives And Policies (continued)

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

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

Consolidated 31 December 2006	**Floating interest rate US$000**	**Fixed interest rate maturing in 1 Year or less US$000**	**Over 1 to 5 years US$000**	**Non-interest bearing US$000**	**Total US$000**
Financial assets:					
Cash and cash equivalents	5,916	1	–	–	5,917
Trade and other receivables	–	–	–	421	421
	5,916	1	–	421	6,338
Weighted average interest rate	7%	1.97%			
Financial liabilities:					
Trade and other payables	–	–	–	60	60
Convertible notes	–	–	5,066	–	5,066
	–	–	5,066	60	5,126
Weighted average interest rate			12%		

Notes to the Financial Statements

for the year ended 31 December 2007

18. Financial Risk Management Objectives And Policies (continued)

Sensitivity analysis

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

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

Foreign currency risk

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

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

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

The following significant exchange rates applied during the year:

	Average Rate		Spot Rate at Reporting date	
US$	2007	2006	2007	2006
MNT 1	1,169.73	1,134.99	1,169.97	1,165.0
AUD 1	1.19540	1.32851	1.14190	1.2685

Sensitivity Analysis

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

Commodity price risk

The Group's exposure to price risk is minimal.

Credit risk

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

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

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

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for the year ended 31 December 2007

18. Financial Risk Management Objectives And Policies (continued)

The Group's maximum exposure to credit risk at reporting date:

	31 December 2007 US$000	31 December 2006 US$000
Cash and cash equivalents	**170**	5,917
Trade & other receivables	**7**	421
	177	6,338

Impairment Losses

None of the company's receivables are past due at 31 December 2007 (2006: Nil).

Liquidity risk

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

The Group's objective is to ensure that sufficient funds are available to allow it to continue its exploration activities. Up to 31 December 2007 the Group funded its activities predominately through the use of convertible notes. Subsequent to the year end, the company has raised a substantial amount of equity finance.

The following are the contractual maturities of financial liabilities:

Year ended 31 December 2007:

Year ended 31 December 2007:	**Carrying Amount**	**Under 6 months**	**6-12 months**	**1-2 Years**
Non derivative financial liabilities:				
Trade and other payables	1,266	1,266	–	–
Convertible note	6,022	–	–	6,022
	7,288	1,266	–	6,022
Year ended 31 December 2006:	**Carrying Amount**	**Under 6 months**	**6-12 months**	**1-2 Years**
Non derivative financial liabilities:				
Trade and other payables	60	60	–	–
Convertible note	5,066	–	–	5,066
	5,126	60	–	5,066

Notes to the Financial Statements

for the year ended 31 December 2007

18. Financial Risk Management Objectives And Policies (continued)

All of the Group's amounts payable and receivable are current except for the convertible loan which was converted on 1 May 2008. See note 23 for details.

Fair Value of Financial Assets and Liabilities

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

Capital Management

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

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

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

19. Commitments

Operating Leases

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

	31 December 2007 US$000
Non-cancellable operating leases (includes lease on premises) with a term of more than one year	
Not longer than 1 year	**36**
Longer than 1 year but not longer than 5 years	**3**
	39

Commitments for Expenditure

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

Notes to the Financial Statements

for the year ended 31 December 2007

19. Commitments (continued)

Exploration Phase	Years	Exploration Operations	Cost US$
2	2008	Geological and geophysical study and 2D Seismic Survey	615,000
	2009	3D Seismic Survey and drilling 1 well	1,200,000
3	2010	3D Seismic Survey and drilling 1 well	1,275,000
		Total	**3,090,000**

Capcorp can voluntary relinquish their rights on the contract area under the PSC, if the minimum work obligations for that year are accomplished.

20. Earnings Per Share

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

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

	Consolidated	
	31 December 2007 cents per share	31 December 2006 cents per share
Basic earnings per share		
Total basic earnings per share (note a)	**(16.7)**	(7.5)
Diluted earnings per share		
Total diluted earnings per share (note b)	**(16.7)**	(7.5)
(a) Basic earnings per share	**$000's**	**$000's**
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Net loss attributable to ordinary shareholders	**(4,431)**	(1,063)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**26,537**	14,260

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20. Earnings Per Share (continued)

	Consolidated	
	31 December 2007 cents per share	31 December 2006 cents per share
(b) Diluted earnings per share The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows: Net loss attributable to ordinary shareholders	**(4,431)**	(1,063)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**26,537**	14,260

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

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

21. Related Party Disclosures

(a) Subsidiaries

Investments in subsidiary:	**Company 31 December 2007 US$000**
Cost	
Balance at 1 January 2007	–
Additions	**11,903**
Balance at 31 December 2007	**11,903**
Amortisation and impairment losses	
Balance at 1 January and 31 December 2007	–
Carrying amounts	
At 1 January 2007	–
At 31 December 2007	**11,903**

Notes to the Financial Statements

for the year ended 31 December 2007

21. Related Party Disclosures (continued)

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

	Country of incorporation	% Equity interest 31 December 2007	 31 December 2006
Central Asian Petroleum Corporation Limited	Cayman Islands	100%	100%
Capcorp Mongolia LLC	Mongolia	100%	100%
Petromatad Invest Limited	Cayman Islands	100%	0%
Petro Matad LLC	Mongolia	100%	0%
Central Asian Petroleum Corporation (HK) Limited	Hong Kong	0%	100%

Central Asian Petroleum Corporation (HK) was acquired on the 2 August 2006, on incorporation of the company. It was disposed of on 29 August 2007 to two of the company's directors for a consideration of HK$100.

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

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

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

(b) Key management personnel

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

- Gordon Toll
- Clyde Evans
- Gregory Meldrum
- Douglas McGay
- Janchiv Oyungerel (appointed on 8 November 2007)
- Sarangua Davaadorj (appointed on 8 November 2007)
- John Robertson (appointed on 8 November 2007)

Information on remuneration of directors is disclosed in Note 22.

Notes to the Financial Statements

for the year ended 31 December 2007

21. Related Party Disclosures (continued)

(c) Transactions with related parties

Amounts receivable from related parties:	**31 December 2007 US$**	31 December 2006 US$
Capcorp		
– Capcorp Mongolia LLC	1,278,199	110,000
Capcorp Mongolia LLC		
– Petro Matad LLC	846,324	61,059

Terms and conditions:

Outstanding balances at year-end are unsecured and settlement will occur in cash.

22. Key Management Personnel

(a) Compensation of key management personnel

	Consolidated	
	31 December 2007 US$	31 December 2006 US$
Key management personnel comprise directors and other persons having authority and responsibility for planning, directing and controlling the activities of the Capcorp and its controlled entities:		
Summary:		
Short-term employee benefits	636,250	529,250
Post-employment benefits	–	–
	636,250	529,250

No options were granted to the directors during the year ended 31 December 2007 (31 December 2006: Nil).

Subsequent to the year end on 3 June 2008, 1.93 million options on ordinary shares and 2.055 million awards of ordinary shares were issued to employees.

Directors are not entitled to any retirement benefits.

The short term employment benefits were paid to associated entities of each director.

Notes to the Financial Statements

for the year ended 31 December 2007

22. Key Management Personnel (continued)

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

Period ended 31 December 2007	Opening Balance 1 January 2007	Acquired and (Disposed) off during the period	Transferred during the period	Closing Balance 31 December 2007
Gordon Toll	5,602,500	1	(500,000)	5,102,501
Clyde Evans	4,250,000	1	–	4,250,001
Gregory Meldrum	3,675,000	–	–	3,675,000
Douglas McGay	7,550,000	–	(1,950,000)	5,600,000
Janchiv Oyungerel	–	5,835,000	500,000	6,335,000
	21,077,500	5,835,002	(1,950,000)	24,962,502

Period ended 31 December 2006	Opening Balance 25 July 2005	Acquired and (Disposed)off during the period	Transferred during the period	Closing Balance 31 December 2006
Gordon Toll	–	5,602,500	–	5,602,500
Clyde Evans	–	4,250,000	–	4,250,000
Gregory Meldrum	–	3,675,000	–	3,675,000
Douglas McGay	–	7,550,000	–	7,550,000
	–	21,077,500	–	21,077,500

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

Included as a current receivable is an amount of $Nil (2006: $360,250) owing from a company of which one of the directors, is the sole beneficiary. The interest free loan was repaid during the year, $180,250 of which was settled in equity for services in relation to fees connected with assisting the Company with the raising of finance.

Included within other payables at 31 December 2007 is an amount of $100,000 (2006: $Nil) owing to a company associated with one of the directors, in reimbursement of expenditure incurred on behalf of Capcorp.

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

Notes to the Financial Statements

for the year ended 31 December 2007

23. Events after the Balance Sheet Date

Between 25 January 2008 and 23 April 2008, Petro Matad Limited conducted a private placement comprising of one ordinary share and one warrant at a price of US$0.50 per unit. One warrant entitles the holder to subscribe for one new ordinary share at an exercise price of US$1.00 per warrant at any time prior to 30 September 2008. The company raised a total of US$10,000,000 with the issue of 20,000,000 ordinary shares and 20,000,000 warrants. The proceeds raised from the private placement will be used primarily to fund exploration operations of the block XX in Mongolia.

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

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

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

On 1 May 2008, Petro Matad was successfully admitted to the AIM Market of the London Stock Exchange plc.

On 3 June 2008, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 1.93 million options on ordinary shares to employees and directors at US$0.75 per ordinary share, exercisable in three parts; 25 % after 1 May 2010, 50 % after 1 May 2011 and 25 % after 1 May 2012.

On the same day, the Company issued 2.055 million performance share awards of ordinary shares were issued to employees. These have an acquisition price per ordinary share equal to the nominal value of an ordinary share of vesting. The performance share awards will vest on achievement of the following conditions:

(i) 25% vest on the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled;

(ii) 25% vest on the first production of oil on a commercial scale in accordance with the PSC is fulfilled; and

(iii) 50% vest on the Company achieving the sale of 1 million barrels of oil.

Other than the events noted above, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely in the opinion of the directors of the Company to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Notes to the Financial Statements

for the year ended 31 December 2007

24. Other Information

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

Directors' Declaration

for the year ended 31 December 2007

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

In the opinion of the directors:

(a) the financial statements and notes of the company gives a true and fair view of the company's financial position as at 31 December 2007 and of their performance for the year ended on that date in accordance with Australian Accounting Standards, mandatory professional reporting requirements and other authoritative pronouncements of the Australian Accounting Standards Board; 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

Clyde Evans
Finance Director
23 June 2008

Independent Auditor's Report

PKF

Chartered Accountants
& Business Advisers

TO THE MEMBERS OF PETRO MATAD LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Petro Matad Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of both the company and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

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PETRO MATAD

Independent Auditor's Report

PKF

Chartered Accountants
& Business Advisers

Independence

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

Audit Opinion

In our opinion, the financial report of Petro Matad Limited:

(a) gives a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of its performance for the year ended on that date; and

(b) complies with Australian Accounting Standards (including the Australian Accounting Interpretations).

PKF
Chartered Accountants

Chris Nicoloff
Partner

Dated in Perth, Western Australia on this 23rd day of June 2008

PETRO MATAD

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