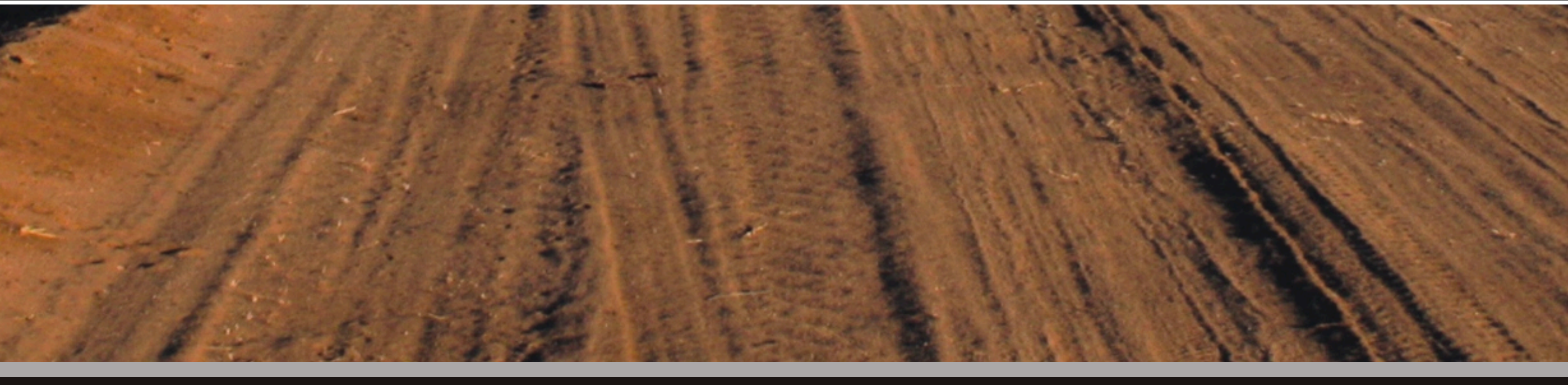
PETRO MATAD LIMITED
ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009



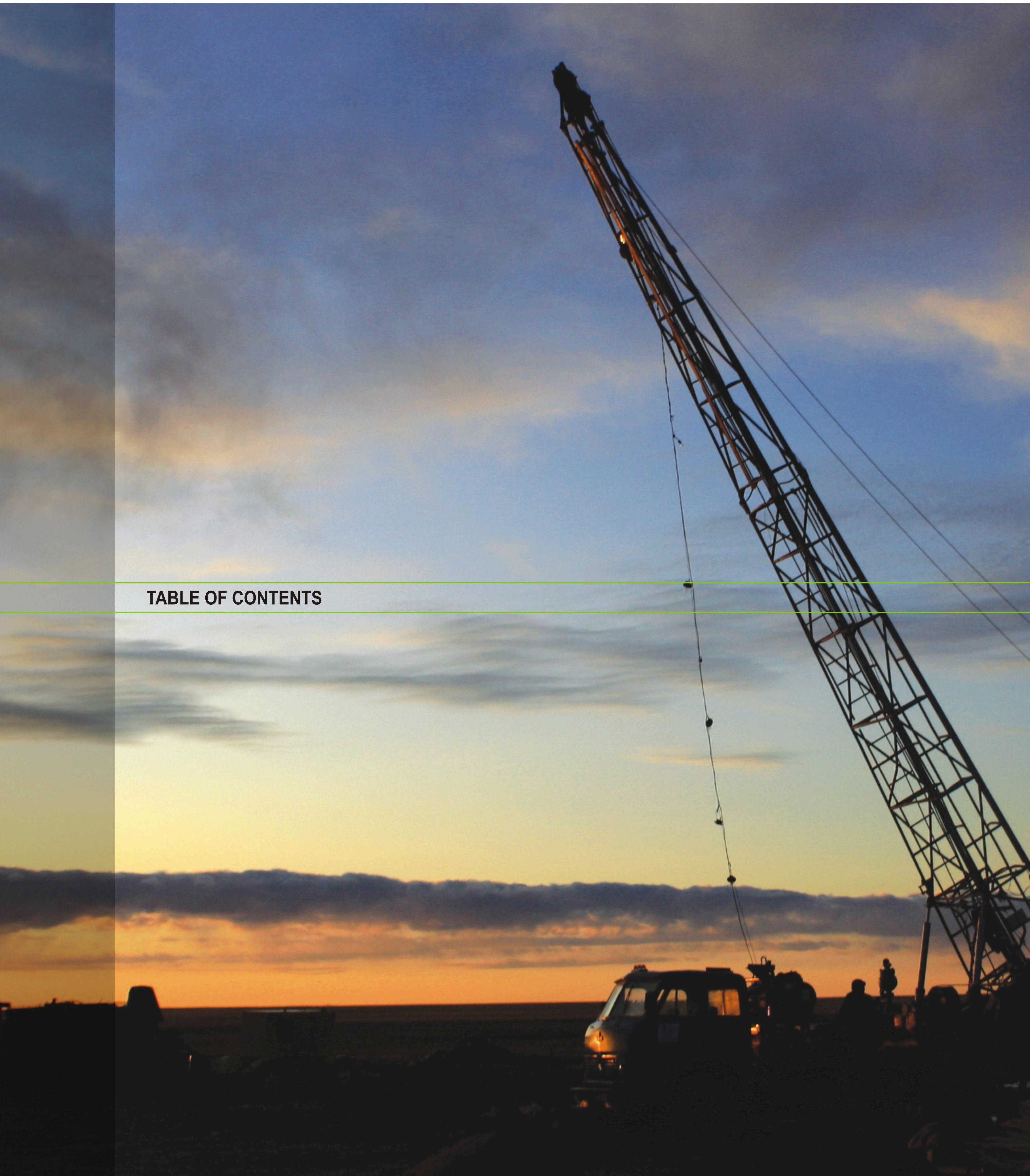
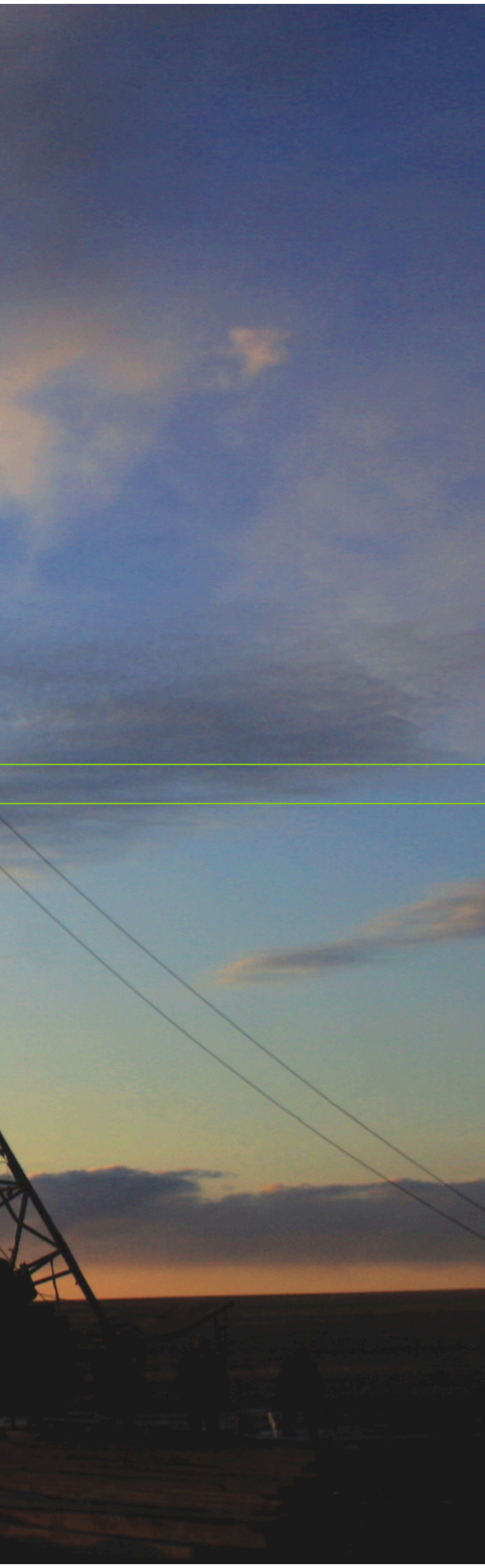


TABLE OF CONTENTS



CHAIRMAN / CEO STATEMENT

It is our pleasure, as Chairman and Chief Executive Officer, to present this Annual Report for the financial year ended 31 December 2009 and to reflect upon an important year for Petro Matad, a period in which the Company has made significant progress.

At the time of publishing this report the Company is in the process of drilling the first well of a planned three well programme that will be completed during the 2010 drill season. Whilst we have suffered frustrating and unavoidable delays in the commencement of drilling, we are confident that there will be no material impact upon our operations and that the scheduled programme will be completed during the Mongolian summer.

It is with pride that we reflect upon the work that has been undertaken to enable Petro Matad to be in position to spud its first well. The Company has accomplished a great deal to get to this point and the corporate and technical platforms are now in place to progress our drilling exploration activities in Block XX, and to advance the exploration work on Blocks IV and V.

In the last annual report we reflected upon a period of economic turmoil that had global ramifications in its impact upon the world economy, the volatility of oil prices and general market sentiment. Fortunately Petro Matad was able to capitalise on the improvement in market sentiment in the second half of 2009. We returned to the equity markets with our compelling narrative, and successfully funded the advancement of our Company.

The Company is grateful for the support of its largest shareholder, Petrovis LLC, who acted as the important cornerstone investor for the Company's 2009 fund raising which was closed in September 2009. Petrovis's contribution to the birth and growth of our Company has been invaluable, and it is providing a model for modern Mongolian private corporations to emulate as they expand into the modern free market. We recently appointed the Chief Executive Officer of Petrovis, Ms D Enkhchimeg to our Board as a non-executive director. We anticipate that her contribution will add value to the development of Petro Matad, and look forward to working with her.

The Board was delighted to welcome yet another important shareholder in December when, following a lengthy period of negotiation and due diligence, the European Bank for Reconstruction and Development

("EBRD") agreed to invest US$6 million. Its recently completed subscription involved the appointment of Ms Mary Ellen Collins to the Petro Matad Board, whose experience will be valuable to the Company as we move forward. Another beneficial by-product of the EBRD subscription has been an enhanced corporate governance regime, along with an increase in our commitment to environmental, health and safety and social action matters. These matters have always been a priority of the Company and we have always carried out our responsibilities in an appropriate and responsible manner but, to further enhance our commitment, the Board has established a Committee, chaired by Ms Collins, specifically to overview those matters.

The aggregate c.$12.5 million raised during 2009 is sufficient funding for Petro Matad to proceed with its exploration programme and to take advantage of the opportunities presented by the Company's three exploration blocks, Block XX, Block IV and Block V.

Block XX and the Davsan Tolgoi Prospect

The seismic surveys carried out on Block XX during 2008 showed a prospect inventory of 15 prospects with the mean unrisked prospective resources totalling 638 million barrels and the mean risked prospective resources being 112 million barrels. Of this, Davson Tolgoi is the largest feature with mean unrisked prospective resources of 122 million barrels, established after the 3D seismic survey over the area. The Company has concentrated its drilling efforts on Block XX and specifically DT-1 as part of a multi-well drilling programme.

Drilling and evaluation of DT-1 is planned to be followed by wells DT-2 and DT-3 during the 2010 drilling campaign. Together with DT-1, the wells are sited to target separate local structural closures with independent geological risk components. DT-2 will test a deeper feature, west of DT-1, lying up-dip from recent deep basin discoveries by Daqing near the southern boundary of their Block XIX. DT-3 will test a discrete local closure along the crest of the Greater Davsan Tolgoi area.

All wells will be tested with modern methods and qualified personnel. In this way, maximum benefit will be obtained from the drilling programme, aiding planning for future exploration and development.

The current drilling and most of the past exploration of Block XX has focused on the Davsan Tolgoi area near the northern boundary of the

CHAIRMAN / CEO STATEMENT

Block. Exploration efforts in 2010-11 will focus on the acquisition of 200 km of additional 2D seismic data and infill gravity data in the South Sharabog, Asgat, Erdenetsagaan and East Erdenetsagaangraben areas of the southern and western part of the Block.

Blocks IV and V

On 8 July 2009, the Company announced that its 100% owned subsidiary, Central Asian Petroleum Corporation Limited had been awarded two new Production Sharing Contracts ("PSC") by the Petroleum Authority of Mongolia. The PSCs are for two petroleum blocks in the southern, central part of Mongolia. The petroleum blocks Bogd Block IV ("Block IV") and Ongi Block V ("Block V") adjoin each other and jointly cover an area of approximately 71,000 km (approximately 27,400 square miles).

Whilst Petro Matad's main focus has been on exploration of Block XX, the PSCs for Blocks IV and V add a further dimension to the Company's portfolio of opportunities, and preliminary evaluation work has already commenced.

Petro Matad has compiled a database of geological and gravity data collected in previous studies by the Mongolian government that is being augmented with acquisition of an additional 4,500 infill gravity stations undertaken by Mongolian geological services company, Geosan LLC.

An initial 400 km 2D seismic acquisition programme by the Mongolian contractor, Khet Company Ltd, will commence in mid July 2010 to image both regional and prospect scale features that have been highlighted by surface geology and gravity. At the time of this report, Petro Matad is commencing a major field geological study, led by our in-house technical team and augmented by Mongolian and international professional personnel. They will be carrying out geological mapping and sampling for source rock geochemistry, isotopic dating, reservoir petrography and generally ground-truthing the data sourced and collated in the preceding 6 months and referred to above.

Published activity on adjoining non Group blocks

Daqing Oilfields Limited (the parent company of the operator of the Production Sharing Contracts immediately to the north of the Company's Block XX) continued its large exploration and evaluation programmes to the end of 2009. Like our own programme on Davsan Tolgoi, Daqing's exploration activities were curtailed by the early onset of an exceptionally harsh winter. However, approximately 80 of their production test wells continued to operate throughout the winter months.

In February 2010, the Chairman of the Petroleum Authority of Mongolia announced that Daqing had defined,"119.02 million tons of proven oil reserve, being an estimated 13.67 million tons of extractable proven oil reserve, together with 2.589billion cubic metres of proven dissolved gas reserve, estimated to be 296 million cubic metres of extractable proven dissolved gas reserve". This has been translated/converted by Petro Matad to be approximately 900MMBO and 99.1BCF gas in situ; and 100MMBO and 10.5BCF recoverable reserves, and the publicly available data has enabled Petro Matad to add to its understanding of the basin that we share with Daqing.

It is understood that negotiations are now being held by the parties involved in order to further develop this significant find, and to update the resources outlined in Daqing's 2009 drilling campaign.

In-house exploration team

During 2009 the Board decided it was time to expand the in-house technical capabilities of the Company. In September 2009, Rodney Graham agreed to join Petro Matad as Head of Operations. Rod has accumulated an unparalleled knowledge of Mongolian geology and general operations, having been living and working in Mongolia for the last decade. Since joining the Company in October, Rod has worked tirelessly and with outstanding effect in identifying and securing the services of a dedicated oil industry professional exploration team for Petro Matad. This resulted in the appointment of an exceptional team leader in the person of Dr James Coogan, as Exploration Manager. Dr Coogan has been joined by Dr Kurt Constenius as Chief Geophysicist and Justin Tully as Geologist. In another first for the petroleum sector of Mongolia, this in-house team of scientists is based in Mongolia.

These new additions to the professional capacity of the Company join the existing Petro Matad Mongolian geoscientists, led by General Manager and geophysicist, Mr Dendevchuluun. Mr Dendevchuluun was honoured by the President of Mongolia during the year when he was awarded one of the highest Mongolian State awards for his services to the petroleum industry, the "Order of the Red Banner of Labour".

The synergy and information exchange that has resulted from the Company's expansion has been significant in the short time that Dr Coogan's team has been active. The in-house team has been supplemented by consultation with geo-scientists such as Dr W Dickson Cunningham of Leicester University and Dr Brian Horton of the University of Texas.

Looking forward, there are two key elements in our exploration strategy. First, we will focus on our exploration activities on Block XX. This will involve the undertaking of the 2010 three well programme, plus further exploration works. Second, we intend to deploy resources to the further exploration on Blocks IV and V.

We gratefully acknowledge our partner in our PSCs, the Government of Mongolia. The Ministry of Resources and Energy and its implementing agency the Petroleum Authority of Mongolia have been helpful, courteous and consistent in their advice and their sensible supervision of the exploration activities which our Company has carried out.

We would like to thank you for your continued support of the Company. We also acknowledge the cohesive and pro-active Board of which we are pleased to be a part. In addition, both the Mongolian and international consultants and contractors who worked for our Company during the period of this report deserve our thanks for their valuable input. Importantly, we wish to recognise the efforts of our employees, staff and management who continue to work hard to make your Company a success. The achievements of 2009 and the positive outlook for Blocks XX, IV and V is due to their hard work and we sincerely appreciate their contributions.

We look forward with significant optimism, energy and enthusiasm.

Gordon L Toll
Chairman

Douglas J McGay
Chief Executive Officer

ДАРГА / ЕРӨНХИЙ ГҮЙЦЭТГЭХ ЗАХИРЛЫН МЭДЭГДЭЛ

ТУЗ-ын дарга, Ерөнхий гүйцэтгэх захирал бидний хувьд 2009 оны 12-р сарын 31-ний өдрөөр тасалбар болгон гаргасан энэхүү Жилийн эцсийн санхүүгийн тайланг танилцуулж Петро Матадын хувьд үлэмж амжилтанд хүрч урагшилсан чухал жилийн талаар өөрсдийн бодлоо хүргүүлэхэд таатай байна.

Энэ тайланг гаргах үед тус компани нь 2010 оны өрөмдлөгийн улиралд дуусгах 3 цооногийн хөтөлбөрийн, анхны цооногоо өрөмдөж эхэллээ. Өрөмдлөгийн ажил саатаж, зайлшгүй буюу биднээс шалтгаалахгүй сул зогсолтууд нилээдгүй гарсан боловч компаний үйл ажиллагаанд материаллаг сөрөг нөлөө үзүүлэхгүй байж төлөвлөсөн хуваарьт хөтөлбөр маань зуны улиралд бүрэн дуусна гэдэгт бид итгэлтэй байна.

Петро Матадын хувьд анхны цооног өрөмдөх бэлтгэл ажлуудаа гүйцэтгэж дууссандаа бид баяртай байна. Үүнд хүрэхийн тулд тус компани нь маш их ажил гүйцэтгэж одоо бид бизнес болон техникийн чадавхийн хувьд XX талбай дээр хайгуулын өрөмдлөг өрөмдөх цаашлаад IV ба V талбайд хайгуулаа өргөжүүлэх боломжтой боллоо.

Хамгийн сүүлд гаргасан жилийн тайландаа дэлхийн эдийн засагт нилээд хүнд үр дагавар авчирсан эдийн засгийн хямрал, газрын тосны үнийн хэлбэлзэл, хах зээлийн ерөнхий төлөв байдлын талаар бид дүгнэлтээ гаргасан билээ. Азаар 2009 оны 2-р хагаст илэрсэн зах зээлийн ерөнхий төлөв байдлыг Петро Матад өөрт ашигтайгаар амжилттай эргүүлж чадсан юм. Хөрөнгийн зах зээл дээр бид сонирхол татсан хэвээр байж түүнийхээ үр дүнд компаниа хөгжүүлэх санхүүжилтийг амжилттай олж чадсан.

2009 оны 9-р сар хүртэл явагдсан тус компаний фандрайзинг буюу хөрөнгө оруулалт хуримтлуулах ажилд чухал тулгын чулуу болсон өөрийн хамгийн том хувьцаа эзэмшигч болох Петровис ХХК-д бид талархаж байна. Манай компаний хөгжилд Петровис ХХК-ий оруулсан хувь нэмэр үнэлшгүй бөгөөд энэ нь орчин үеийн чөлөөт зах зээлд гарч буй монголын бусад хувийн компаниудад үлгэр жишээ болж байна. Петровис ХХК-ий Ерөнхий гүйцэтгэх захирал Д.Энхчимэгийг бид саяхан компанийнхаа ТУЗ-ийн гишүүнээр сонгосон билээ. Петроматад компанид үнэтэй хувь нэмэр оруулна гэдэгт итгэж Энхчимэг захиралтай бид хамтран ажиллахад бэлэн байна.

Удаан хугацааны хичээл зүтгэл, хэлэлцээрийн үр дүнд 6 сая ам.долларын хөрөнгө оруулалт хийх шийдвэр гаргасан Европын сэргээн босголт, хөгжлийн банк (ЕСБХБ)-ийг бас нэг чухал хувь нийлүүлэгч болгон хүндэтгэлтэйгээр тус компаний ТУЗ угтан авч байна. Энэхүү хөрөнгө оруулалтын үр дүнд ЭСБХБ нь хатагтай Мэри Эллен Коллинс-ыг Петроматад компаний ТУЗ-ийн гишүүнээр мөн томилсон байгаа. Хатагтай Коллинс-ыг найрсагаар угтаж компани цаашид хөгжих тусам түүний арвин туршлага үнэлшгүй байх болно гэдэгт эргэлзэхгүй байна. ЕСБХБ хувьцаа эзэмшигч болсны бас нэг ач тус нь компаний зүгээс экологи, байгаль орчин, эрүүл мэнд, аюулгүй ажиллагаа болон бусад нийгмийн асуудлаар хүлээх үүргээ нэмэгдүүлэхийн зэрэгцээ цаашид компанийн засаглалын тогтолцоог улам хөгжүүлэхэд оршино. Мэдээж хэрэг эдгээр асуудлууд тус компаний хувьд ямагт нэн тэргүүнд тавигддаг бөгөөд бид өөрсдийн үүрэгт хариуцлагатай хандаж зохих ёсоор биелүүлсээр ирсэн. Хэдийгээр тийм боловч, өөрийн хариуцлагын түвшинг өндөржүүлэх үүднээс эдгээр асуудлуудыг зориуд хянан ажиллах үүрэг бүхий Хороог тус компаний ТУЗ-өөс байгуулж хатагтай Коллинс-ыг даргаар нь томиллоо.

2009 онд босгосон нийт 12.5 сая ам.доллар нь хайгуулын хөтөлбөрөө үргэлжлүүлэн хэрэгжүүлэх, тус компаний хайгуулын 3 талбай буюу XX, IV болон V талбайн боломжийг илрүүлэхэд хангалттай хөрөнгө юм.

Матад-XX талбай ба хэтийн төлөв бүхий Давсан Толгой

2008 онд Матад-XX талбай дээр гүйцэтгэсэн чичирхийллийн хайгуулын судалгаануудын үр дүнд эрсдэл тооцоогүй нийт 638 сая баррелийн дундаж нөөцтэй ба эрсдэл тооцсон нийт 112 сая баррелийн дундаж нөөцтэй хэтийн төлөв бүхий 15 талбайг ялгасан. Үүнээс Давсан Толгой нь хамгийн том хэмжээтэй нь бөгөөд энэхүү талбай дээр хийгдсэн 3D чичирхийллийн судалгаагаар эрсдэл тооцоогүй 122 сая баррелийн дундаж нөөцтэйг тогтоосон. Тиймээс өрөмдлөгийн хөтөлбөрийн хүрээнд компани нь өрөмдлөгийн ажлаа Матад-XX талбай, ялангуяа ДТ-1 цооногт төвлөрүүлсэн.

ДТ-1 цооногийг өрөмдөж үнэлгээ хийсний дараа залгуулаад 2010 оны өрөмдлөгийн ажлаа ДТ-2, ДТ-3 цооногуудаар үргэлжлүүлэх болно. Эдгээр цооногууд нь ДТ-1 цооногийн адил Давсан Толгойн хэмжээнд биеэ даасан геологийн эрсдлийн хүчин зүйлүүдтэй салангид бүтцүүд дээр байрлаж байгаа юм. ДТ-1 өрөмдлөгийн цэгээс баруун зүгт байрлах ДТ-2 өрөмдлөгийн цэг нь Дачингийн Тосон Уул-XIX талбайн урд хилд ойрхон байрлах тэдний саяхан нээсэн гүн сав газрын дээгүүр түвшинд байрлах илүү гүн бүтцийг шалгах болно. Харин ДТ-3 нь Их Давсан Толгойн бэлд байрлах салангид бүтцийг шалгах юм.

Чадварлаг боловсон хүчин ажиллуулж орчин үеийн аргуудыг ашиглан бүх цооногуудыг аль болох бүрэн төгс шалгаж судлах болно. Ингэснээр өрөмдлөгийн хөтөлбөрөөс үр өгөөжийг дээд хэмжээнд авч цаашдын хайгуул олборлолтоо төлөвлөхөд дөхөм болно.

Одоо хийгдэж буй өрөмдлөгийн ажил ба Матад-XX талбайд өмнө нь явуулсан хайгуулын ажлууд нь тус талбайн хойд хилийн ойролцоох Давсан Толгой дээр төвлөрсөн байсан. 2010-2011 онд хийгдэх хайгуулын ажил нь тус талбайн урд ба баруун хэсэгт орших өвөр Шорвог, Асгат, Эрдэнэцагаан болон Зүүн Эрдэнэцагааны хотгоруудад 200км чичирхийллийн судалгаа ба хүндийн хүчний судалгааны дутуу хэсгүүдийг гүйцээхэд чиглэгдэх болно.

Богд-IV ба Онги-V талбайнууд

2009 оны 7 дугаар сарын 8-нд манай компани 100% эзэмшлийнхээ охин компани Сентрал Азиан Петролеум Корпорейшнийг Монголын Газрын Тосны Газартай хоёр шинэ Бүтээгдэхүүн Хуваах Гэрээ (БХГ) байгуулсан тухай мэдэгдсэн билээ. Энэхүү хоёр БХГ нь Монгол улсын урд ба төв хэсэгт байрлах хоёр талбай дээр хийгдсэн. Газрын тосны хайгуулын Богд-IV ба Онги-V талбайнууд нь хоорондоо хиллэдэг бөгөөд нийлээд ойролцоогоор 71,000 км^2 (ойролцоогоор 27,400 хавтгай дөрвөлжин миль) талбайг хамарна.

Компанийн үйл ажиллагаа Матад-XX талбайн хайгуулд төвлөрсөн байх үед Богд-IV ба Онги-V талбайнуудад БХГ байгуулсан нь манай компанийн боломжийг ихэсгэсэн бөгөөд урьдчилсан үнэлгээний ажил аль хэдийн эхлээд байна.

Петро Матад нь Монголын Засгийн Газрын урьд нь хийсэн судалгаан дээр нэмж Монголын хайгуулын компани болох Геосан ХХК-иар хүндийн хүчний судалгааны 4,500 станцаар дутуу хэсгүүдийг гүйцээн хийж геологи ба хүндийн хүчний мэдээллийн баазыг бүрдүүлээд байна.

Гадаргуун геологийн ажил ба хүндийн хүчний судалгаагаар тогтоогдсон бүсийн ба хэтийн

ДАРГА / ЕРӨНХИЙ ГҮЙЦЭТГЭХ ЗАХИРЛЫН МЭДЭГДЭЛ

төлөв бүхий талбайнуудын хэмжээнд 400км газарт 2D чичирхийллийн судалгаа хийх анхны ажлыг Монголын туслан гүйцэтгэгч ХЭТ ХХК 2010 оны 7 дугаар сарын дундуур хийнэ.

Энэ тайланг гаргах үед Петро Матад нь Монголын мэргэжилтэнүүд болон олон улсын салбарын мэргэжилтнүүдээр бэхжүүлсэн өөрийн мэргэжлийн техникийн багаар хээрийн геологийн томоохон судалгааг эхлүүлээд байна. Тэд геологийн зураглал ба үүсгэгч чулуулагийн геохимийн дээжлэлт, изотопын нас тогтоох, хураагуурын петрографи болон дээр дурьдсан өмнөх 6 сард авч ангилсан мэдээллүүдийг газрын зураг дээр ерөнхийд нь буулгах зэрэг ажлуудыг гүйцэтгэнэ.

Дачин компанийн үйл ажиллагаа
Дачин Ойлфийлд Лимитед (манай компанийн Матад-XX талбайн яг хойно байрладаг Бүтээгдэхүүн Хуваах Гэрээт талбайн Гэрээлэгчийн эх компани) нь хайгуулын үнэлгээний томоохон хөтөлбөрөө 2009 оны сүүл хүртэл үргэлжлүүлсэн. Манай компанийн Давсан Толгой дахь хөтөлбөрийн адилаар Дачингийн хайгуулын үйл ажиллагаа нь энэ жилийн эрс хүйтэн өвөл эхлэнгүүт зогсоход хүрсэн. Гэвч тэдний туршилтын олборлолтын 80 орчим цооног өвлийн улиралд ажлаа үргэлжлүүлсэн байна.

2010 оны 2 дугаар сард Монголын Газрын Тосны Газрын дарга "Дачин компани 119.02 сая тонн газрын тосны батлагдсан нөөц, үүнээс 13.67 сая тонн олборлож болохуйц нөөц, мөн 2.589 тэрбум шоо метр ууссан байгалийн хийн нөөц, үүнээс 296 сая шоо метр олборлож болохуйц нөөцтэй гэж тогтоосон байна" гэж мэдэгдэл хийсэн. Үүнийг бид ойролцоогоор 900 сая баррель газрын тос болон 99.1 тэрбум шоо фут хий агуулагдаж байгаа бөгөөд 100 сая баррель газрын тос болон 10.5 тэрбум шоо фут хий олборлох боломжтой гэж хөрвүүлсэн.

Энэхүү том нээлтийг цаашид хэрхэн олборлох ба Дачингийн 2009 оны өрөмдлөгийн ажлын дараа энэ нөөц хэрхэн өөрчлөгдөх талаар талууд хэлэлцээрт орсон гэж бид ойлгож байна.

Компаний хайгуулын баг
2009 онд ТУЗ нь компанийхаа өөрийн техникийн хүчин чадварыг нэмэгдүүлэх цаг болсон гэх дүгнэлтэд хүрсэн. Юуны түрүүнд н. Родни Грэйм Техникийн Хэлтсийн Дарга-аар Петроматад компанид ажиллахаар болсон нь маш чухал үйл явдал юм. Ноён Грэйм нь сүүлийн арваад жил Монголд ажиллаж амьдарсан бөгөөд Монгол орны геологи, уул уурхайн салбарын талаар хосгүй их мэдлэг хуримтлуулсан нэгэн. Өнгөрсөн 10-р сард тус компанид ажилд орсноос хойш н. Грэйм Петро Матад компаний газрын тосны салбарын мэргэжлийн баг бүрдүүлэхэд чиглэсэн ажилд цуцалтгүй зүтгэж гарамгай үр дүнд хүрч чадсан. Үүний үр дүнд жинхэнэ туршлагатай ахлагч гэдгээ харуулсан доктор Жеймс Куген-ыг Хайгуулын Менежерээр томилсон. Доктор Куген нь араасаа ахлах геофизикч доктор Курт Констениус болон геологич Жастин Талли нарыг дагуулсан. Монгол улсын газрын тосны салбарын хувьд бас нэг шинэлэг зүйл гэвэл эдгээр эрдэмтдийн баг нь Монголд байрлан ажилладгаараа онцлог юм.

Дээр дурьдсан мэргэжилтнүүд тус компанид ажиллаж байгаа ерөнхий менежер ба геофизикч Дэндэвчулуунаар ахлуулсан газрын тухай шинжлэх ухааны монголын эрдэмтдийн баг дээр мэргэжлийн чадамжийг нь нэмэгдүүлэн ирж байгаа юм. Дэндэвчулууныг газрын тосны салбарт олон жил үр бүтээлтэй ажилласныг үнэлж өнгөрсөн жил Монгол улсын Ерөнхийлөгч Хөдөлмөрийн гавъяаны улаан тугийн одонгоор шагнасан.

Компани үйл ажиллагаагаа тэлж богино хугацаанд хамтын хүч чармайлтаа нэгтгэн, мэдээлэл солилцоог хийж чадсан нь доктор Кугены багийн идэвхтэй ажилтай холбоотой. Өөрийн багаас гадна мөн Лестерийн их сургуулийн доктор Диксон Каннинхэм, Техасын их сургуулийн доктор Брайан Хортон зэрэг геологийн эрдэмтэдтэй хамтран санал солилцон ажиллаж байна.

Цаашид бидний хайгуулын стратегид хоёр үндсэн зүйл бий. Нэгдүгээрт, XX талбайн хайгуулын үйл ажиллагаан дээр төвлөрөн ажиллах. Энэ нь 2010 оны 3 цооногийн хөтөлбөрийг хэрэгжүүлж дуусгахаас гадна хайгуулын ажлыг талбайн бусад хэсгээр үргэлжлүүлэх. Хоёрдугаарт, IV болон V талбайн хайгуулын ажилд хөрөнгө мөнгө хүн хүчээ төвлөрүүлэн ажиллахыг бид зорьж байна.

Бүтээгдэхүүн хуваах гэрээний нөгөө тал болох Монгол улсын засгийн газарт бид бас талархаж байна. Эрдэс Баялаг Эрчим Хүчний Яам болон түүний хэрэгжүүлэгч агентлаг Газрын тосны газрын зүгээс ямагт тусч, эелдэг, тууштай зөвлөмж өгч, тус компаний гүйцэтгэсэн хайгуулын ажилд ухаалаг зөв зохистой хяналт тавьсаар ирсэн.

Компанийг ямагт дэмжиж ирсэнд Танд бид талархсанаа илэрхийлэхэд таатай байна. Мөн асуудлыг урьдаас харж чаддаг нэгдмэл ТУЗ-ийн гишүүд байгаадаа бид баяртай байна. Үүнээс гадна, бидэнтэй хамтран ажиллаж ирсэн монголын болон гадаадын зөвлөх, гүйцэтгэгч нартаа үнэтэй хувь нэмэр оруулсанд нь талархах ёстой гэж бодож байна. Өөрийн компанийг амжилтанд хүргэхийн тулд шаргуу хөдөлмөрлөж буй компаний ажилчид болон Удирдах ажилтнуудын хичээл зүтгэлийг зориуд цохон тэмдэглэх нь нэн чухал. 2009 онд олсон амжилт бүтээл болон XX, IV ба V талбайн зэрэг хэтийн төлөв бол тэдний нөр их хөдөлмөрийн үр дүнд бий болсон бөгөөд бид тэдний хувь нэмрийг үнэлж чин сэтгэлээсээ үүгээр дамжуулан талархалаа илэрхийлж байна.

Бид цаашид өөдрөг, эрчтэй, урам зоригтой ажиллах болно.

Гордон Л Толл
Дарга

Даглас Ж МакГэй
Ерөнхий Гүйцэтгэх Захирал

DIRECTORS' REPORT

Your directors submit their report for the year ended 31 December 2009.

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

- Gordon Leonard Toll
- Janchiv Oyungerel
- Douglas John McGay
- Clyde Robert Evans
- John Campbell Robertson
- Sarangua Davaadorj
- Mary Ellen Collins (appointed 14 May 2010)
- Davaanyam Enkhchimeg (appointed 14 May 2010)

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

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

Review and Results of Operations
The net loss after tax for the Group for the 12 months ended 31 December 2009 was $5.080 million (31 December 2008: Loss $6.277 million).

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

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

On 8 April 2009, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 1,715,000 new options at an exercise price of 11 pence per share. The vesting terms of the options are that 25% will vest on the first anniversary of the date of grant, 50% on the second anniversary of that date of grant and 25% on the third anniversary of grant. The options will expire on the 8 April 2019.

On 8 April 2009, pursuant to the Group's Long Term Equity Incentive Plan, the Company issued 200,000 new options at an exercise price of 11 pence per share. The vesting terms of the options are that 25% will vest on the second anniversary of the date of grant, 50% on the third anniversary of that date of grant and 25% on the fourth anniversary of grant. The options will expire on the 8 April 2019.

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

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

On 25 June 2009, the Company issued 5,000,000 shares to Petrovis LLC ("Petrovis"), being the first of two tranches of shares pursuant to a Subscription Agreement signed on 19 June 2009 between the Company and Petrovis, and on 17 September 2009, the Company issued a further 5,000,000 shares being the second tranche of shares to Petrovis, to raise a total of $2,200,610 (before capital raising costs).

On 29 July 2009, Capcorp was awarded two new PSC's by the Petroleum Authority of Mongolia for Blocks IV and V. These two PSCs are petroleum blocks in the southern, central part of Mongolia, approximately 500kms south west of the capital Ulaanbaatar and jointly cover an area of approximately 71,000m^2.

On 28 August 2009, the Company issued 14,706,609 shares through its broker, Hanson Westhouse Limited, to raise $3,338,400.

On 17 September 2009, the Company issued 3,930,176 shares through direct subscriptions, to raise $892,150.

On 22 October 2009, Petromatad Invest Limited executed a drilling agreement with Ansai Yuehua Oil Tech Company Ltd (Menggu Yuehua Company) which will enable drilling to commence on a multi-well drilling programme on Block XX.

On 18 December 2009, the Company executed a conditional subscription agreement with the European Bank for Reconstruction and Development (the "EBRD"), to raise $6m.

Significant Events after Balance Date

On 22 February 2010, pursuant to the first tranche of the conditional subscription agreement with the ERBD, the Company issued 13,730,103 shares raising $3m. On 11 June 2010, a further 14,644,004 shares were issued following receipt of the second tranche payment of $3m.

On 24 March 2010, the Company appointed Dr James Coogan to its senior management team in the position of Exploration Manager.

On 14 May 2010, the Company appointed Ms Mary Ellen Collins and Ms Davaanyam Enkhchimeg as non-executive directors of the Company.

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 year.

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 year, 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.

Rounding

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

Signed in accordance with a resolution of the directors.

Clyde Evans
Director
23rd June 2010

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Continuing operations					
Revenue					
Interest income	4(a)	**73**	190	**-**	-
		73	190	**-**	-
Expenditure					
Consultancy fees		**562**	1,174	**552**	599
Depreciation and amortisation		**22**	16	**4**	1
Employee benefits expense	4(b)	**1,594**	930	**1,189**	363
Exploration expenditure		**1,567**	2,828	**23**	-
Finance expenses		**-**	240	**-**	-
Other expenses	4(c)	**1,408**	1,279	**468**	352
Profit/(loss) from continuing operations before income tax		**(5,080)**	(6,277)	**(2,236)**	(1,315)
Income tax expense/(benefit)	5	**-**	-	**-**	-
Profit/(loss) from continuing operations after income tax		**(5,080)**	(6,277)	**(2,236)**	(1,315)
Net Profit/(loss) for the year		**(5,080)**	(6,277)	**(2,236)**	(1,315)
Other comprehensive income					
Exchange rate differences on translating foreign operations		**(76)**	-	**-**	-
Other comprehensive income for the year, net of income tax		**(76)**	-	**-**	-
Total comprehensive income for the year		**(5,156)**	(6,277)	**(2,236)**	(1,315)
Profit/(loss) attributable to owners of the parent	6	**(5,080)**	(6,277)	**(2,236)**	(1,315)
Total comprehensive income attributable to owners of the parent	6	**(5,156)**	(6,277)	**(2,236)**	(1,315)
Earnings/(loss) per share (cents per share)					
Basic and diluted earnings/(loss) per share	6	**(4,7)**	(7,6)	**-**	-

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
ASSETS					
Current Assets					
Cash and cash equivalents	7	**5,215**	3,248	**1,198**	15
Trade and other receivables	8	**34**	1	**12,976**	10,005
Prepayments and other assets	9	**103**	20	**81**	-
Total Current Assets		**5,352**	3,269	**14,255**	10,020
Non-Current Assets					
Exploration and evaluation	10	15,275	15,275	**-**	-
Property, plant and equipment	11	199	98	**13**	13
Investment in subsidiaries	12	-	-	**19,163**	19,163
Total Non-current assets		**15,474**	15,373	**19,176**	19,176
TOTAL ASSETS		**20,826**	18,642	**33,431**	29,196
LIABILITIES					
Current Liabilities					
Trade and other payables	13	**796**	245	**663**	981
Total Current Liabilities		**796**	245	**663**	981
TOTAL LIABILITIES		**796**	245	**663**	981
NET ASSETS		**20,030**	18,397	**32,768**	28,215
EQUITY					
Equity attributable to owners of the parent					
Issued capital	14	**35,115**	28,928	**35,308**	29,121
Reserves	15	**1,766**	1,240	**1,011**	409
Accumulated losses		**(16,851)**	(11,771)	**(3,551)**	(1,315)
TOTAL EQUITY		**20,030**	18,397	**32,768**	28,215

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Cash flows from operating activities					
Payments to suppliers and employees		**(4,079)**	(6,817)	**(1,184)**	(803)
Interest received		**73**	190	**-**	-
Net cash flows from/(used in) operating activities	7	**(4,006)**	(6,627)	**(1,184)**	(803)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(124)**	(81)	**(4)**	(14)
Proceeds from the disposal of plant and equipment		**-**	21	**-**	-
Net cash flows from/(used in) investing activities		**(124)**	(60)	**(4)**	(14)
Cash flows from financing activities					
Proceeds from issue of shares	14	**6,431**	10,000	**6,431**	10,000
Capital raising costs		**(258)**	(235)	**(258)**	(42)
Loans to related parties		**-**	-	**(4,302)**	(10,005)
Proceeds from loans to related parties		**-**	-	**500**	879
Net cash flows from/(used in) financing activities		**6,173**	9,765	**2,371**	832
Net increase/(decrease) in cash and cash equivalents		**2,043**	3,078	**1,183**	15
Cash and cash equivalents at beginning of the year		**3,248**	170	**15**	-
Net foreign exchange differences		**(76)**	-	**-**	-
Cash and cash equivalents at the end of the year	7	**5,215**	3,248	**1,198**	15

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

		Consolidated Attributable to equity holders of the parent			
	Note	Issued capital USD$'000	Accumulated Losses USD$'000	Other reserves Note 15 USD$'000	Total USD$'000
As at 1 January 2008		**11,903**	**(5,494)**	**1,829**	**8,238**
Net loss for the year		-	(6,277)	-	(6,277)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**-**	**(6,277)**	**-**	**(6,277)**
Transactions with owners in their capacity as owners					
Issue of share capital	14	15,000	-	-	15,000
Issue of shares on conversion of convertible note	14	7,260	-	(998)	6,262
Cost of capital raising	14	(5,235)	-	-	(5,235)
Share-based payments	15	-	-	409	409
As at 31 December 2008		**28,928**	**(11,771)**	**1,240**	**18,397**
Net loss for the year		-	(5,080)	-	(5,080)
Other comprehensive income		-	-	(76)	(76)
Total comprehensive income for the year		**-**	**(5,080)**	**(76)**	**(5,156)**
Transactions with owners in their capacity as owners					
Issue of share capital	14	6,431	-	-	6,431
Cost of capital raising	14	(244)			(244)
Share-based payments	15	-	-	602	602
As at 31 December 2009		**35,115**	**(16,851)**	**1,766**	**20,030**

		Parent Attributable to equity holders of the parent			
	Note	Issued capital USD$'000	Accumulated Losses USD$'000	Other reserves Note 15 USD$'000	Total USD$'000
As at 1 January 2008		**11,903**	**-**	**-**	**11,903**
Net loss for the year		-	(1,315)	-	(1,315)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**-**	**(1,315)**	**-**	**(1,315)**
Transactions with owners in their capacity as owners					
Issue of share capital	14	15,000	-	-	15,000
Issue of shares on conversion of convertible note	14	7,260	-	-	7,260
Cost of capital raising	14	(5,042)	-	-	(5,042)
Share-based payments	15	-	-	409	409
As at 31 December 2008		**29,121**	**(1,315)**	**409**	**28,215**
Net loss for the year		-	(2,236)	-	(2,236)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**-**	**(2,236)**	**-**	**(2,236)**
Transactions with owners in their capacity as owners					
Issue of share capital	14	6,431	-	-	6,431
Cost of capital raising	14	(244)	-	-	(244)
Share-based payments	15	-	-	602	602
As at 31 December 2009		**35,308**	**(3,551)**	**1,011**	**32,768**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1 Corporate information

The financial report of Petro Matad Limited for the year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 21 June 2010.

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 ("Capcorp") and Petromatad Invest Limited, incorporated in the Cayman Islands.

2 Summary of significant accounting policies

(a) Basis of Preparation

The financial report is a general purpose financial report, which complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

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

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

(b) Statement of Compliance

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

Certain Australian Accounting Standards and Australian Accounting interpretations have recently been issued or amended but are not yet effective. These standards have not been adopted by the Company for the year ended 31 December 2009 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 2009

2 Summary of significant accounting policies (continued)

(c) Basis of consolidation

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

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

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Petro Matad Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

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

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

(d) Foreign currency translation

Functional and presentation currency
Both the functional and presentation currency of Petro Matad Limited is United States Dollars ("USD"). The Mongolian subsidiaries' functional currency is Mongolian Tugrik ("MNT") which is 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 Summary of significant accounting policies (continued)

Translation of Subsidiaries functional currency to presentation currency

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

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in Mongolian subsidiaries and of the borrowings designated as hedges of the net investment are taken to the foreign currency translation reserve. If a Mongolian subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the statement of comprehensive income.

(e) Cash and cash equivalents

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

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

(f) Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Property, 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 is currently estimated to be an average of 6.5 years.

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

Derecognition

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 Summary of significant accounting policies (continued)

(h) 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.

(i) Exploration and evaluation Assets

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

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.

(j) Recoverable amount of assets

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

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

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

(k) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 Summary of significant accounting policies (continued)

(l) Interest–bearing loans and borrowings

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

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

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

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

(m) Provisions

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

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

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

(n) Leases

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 Summary of significant accounting policies (continued)

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

(o) Contributed equity

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

(p) Revenue

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

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

Interest revenue
Revenue is recognised on an accrual basis.

(q) Share-based payment transactions

The Group provides to certain key management personnel share-based payments, whereby 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 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 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 the grant date.

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 2009

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.

(r) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(s) Income tax

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2 Summary of significant accounting policies (continued)

(t) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share 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 members of the parent, adjusted for:

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

(u) Comparatives Figures

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

(v) Significant accounting judgments, estimates and assumptions

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

Judgments made by management that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, these relate to share based payment and exploration and evaluation expenditure.

The criteria used by management in determining the impairment is as follows:

- The group measures the cost of equity settled transactions with directors and employees by reference to 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 option valuation model is volatility of the underlying share price which is estimated on the one year history of the share price and has been estimated at approximately 100%; and
- The ultimate recoupment of 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.

3 Operating segments

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

4 Revenues and expenses

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
(a) Revenue					
Interest Income		**73**	190	**-**	-
		73	190	**-**	-
(b) Employee benefits expense					
Included in employee benefits expense are the following:					
Wages and Salaries		**492**	419	**111**	60
Consultancy fees to directors		**327**	358	**327**	150
Directors fees		**173**	-	**149**	-
Expense of share-based payments		**602**	153	**602**	153
		1,594	930	**1,189**	363
(c) Other Expenses					
Included in other expenses are the following:					
Administration costs		**1,178**	1,048	**364**	299
Finance costs		**-**	240	**-**	-
Travel expenses		**248**	192	**123**	53
Foreign exchange difference		**(18)**	39	**(19)**	-
		1,408	1,519	**468**	352
(d) Exploration and Evaluation Expenditure					
Exploration and Evaluation Expenditure relates to the following PSCs:					
Block XX		**1,500**	930	**-**	-
Blocks IV and V		**67**	-	**23**	-
		1,567	930	**23**	-
(e) Finance Costs					
Interest on convertible notes		**-**	240	**-**	-
		-	240	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

5 Income tax

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Income tax recognised in the statement of comprehensive income:					
Tax expense/(benefit) comprises:					
Current tax expense/(benefit)		**-**	-	**-**	-
Deferred tax expense/(benefit)relating to the origination and reversal of temporary differences		**-**	-	**-**	-
Total tax expense/(benefit) reported in the statement of comprehensive income		**-**	-	**-**	-

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

Net profit/(loss) for the year	**(5,080)**	(6,277)	**(2,236)**	(1,315)
Income tax expense calculated at 20%	**1,016**	1,255	**447**	263
(Profit)/Losses incurred which are not subject to:				
Income tax	**(636)**	(1,039)	**(447)**	(263)
Tax losses not brought at account	**(380)**	(216)	**-**	-
Timing differences not brought to account	**-**	-	**-**	-
	0	-	**-**	-

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.

6 Earnings per share

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

	Consolidated	
	31 Dec 2009 cents per share	31 Dec 2008 cents per share
Basic earnings per share	**(4.7)**	(7.6)
Diluted earnings per share	**(4.7)**	(7.6)
	USD$'000	USD$'000
The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:		
Net loss attributable to ordinary shareholders	**(5,080)**	(6,277)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**106,975**	82,311

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

6 Earnings per share (continued)

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

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

7 Cash and cash equivalents

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Cash at bank and in hand		**5,215**	3,248	**1,198**	15
Short term deposits		**-**	-	**-**	-
		5,215	3,248	**1,198**	15

Cash at bank and in hand earns interest at floating rates based on daily bank rates, and the fair value of the above cash and cash equivalents is $5,215,000 (2008: $3,248,000).

Reconciliation from the net profit/ (loss) after tax to the net cash flows from operations:				
Net profit/(loss) after tax	**(5,080)**	(6,277)	**(2,236)**	(1,315)
Adjustments for:				
Depreciation and amortisation	**22**	16	**4**	1
Interest expense on convertible note	**-**	240	**-**	-
(Profit)/loss on sale of plant and equipment	**1**	(5)	**-**	-
Consultancy fees	**-**	256	**-**	256
Share based payment	**602**	153	**602**	153
Unrealised foreign exchange differences	**(18)**	-	**(19)**	-
Changes in assets and liabilities				
(increase)/decrease in trade and other receivables	**(33)**	11	**831**	-
(increase)/decrease in prepayments and other assets	**(2)**	-	**-**	-
(decrease)/increase in trade and other payables	**502**	(1,021)	**(366)**	102
Net cash flows from/(used in) operating activities	**(4,006)**	(6,627)	**(1,184)**	(803)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

8 Trade and other receivables (Current)

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Other debtors		**34**	1	**32**	-
Related party receivables:					
- loan to subsidiaries		**-**	-	**12,944**	10,005
		34	1	**12,976**	10,005

All amounts are recoverable in United States Dollars and are not considered past due or impaired.
For terms and conditions of related party receivables, refer to Note 18.

9 Prepayments and other assets

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Prepayments		**81**	-	**81**	-
Other assets		**22**	20	**-**	-
		103	20	**81**	-

Prepayments relate to costs incurred in relation to capital raising activities that have occurred subsequent to the balance date. Refer Note 22.

Other current assets are mainly comprised of 2 x $10,000 government fees involved with the applications for PSCs for Blocks IV and V.

10 Exploration and evaluation assets

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Exploration and evaluation assets		**15,275**	15,275	**-**	-
		15,275	15,275	**-**	-

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

11 Property, plant and equipment

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Plant and equipment at cost		**237**	117	**14**	14
Accumulated depreciation and impairment		**(38)**	(19)	**(1)**	(1)
		199	98	**13**	13

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

11 Property, plant and equipment (continued)

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

	Consolidated		Parent	
	Plant and Equipment USD$'000	Total USD$'000	Plant and Equipment USD$'000	Total USD$'000
As at 1 January 2008 (net of accumulated depreciation)	49	49	-	-
Additions	81	81	14	14
Disposals	(16)	(16)	-	-
Depreciation charge for the year	(16)	(16)	(1)	(1)
As at 31 December 2008 (net of accumulated depreciation)	**98**	**98**	**13**	**13**
Additions	124	124	4	4
Disposals	(1)	(1)	-	-
Depreciation charge for the year	(22)	(22)	(4)	(4)
As at 31 December 2009 (net of accumulated depreciation)	**199**	**199**	**13**	**13**

12 Investment in subsidiaries

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Investments in controlled entities at cost		**-**	-	**19,163**	19,163
		-	-	**19,163**	19,163

For details of investments in controlled entities, refer to Note 18.

13 Trade and other payables (Current)

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Trade payables		**793**	242	**663**	102
Other payables		**3**	3	**-**	-
		796	245	**663**	102
Related party payables:					
- Loans from subsidiaries		**-**	-	**-**	879
		796	245	**663**	981

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

Trade payables include a fee of $445,984 (GBP280,000 payable to Petrovis).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

13 Trade and other payables (Current) (continued)

On 19 June 2009, the Company entered into a Service Agreement with Petrovis, whereby Petrovis agreed to provide services to the Company, including assistance with fund raising and expansion activities, for a fee of $445,984 (GBP280,000) which by agreement will be applied towards the subscription for 2,000,000 Petro Matad Limited ordinary shares at a price of 14 pence per share. Conditions pursuant to the Service Agreement have been satisfied and the Company is currently awaiting Petrovis' instruction to issue the subscription shares.

For terms and conditions relating to related party payables refer to Note 18.

14 Issued capital

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Ordinary Shares 125,341,789 shares issued and fully paid (2008: 96,680,004)		**35,115**	28,928	**35,308**	29,121
		35,115	28,928	**35,308**	29,121

Movements in ordinary shares on issue:

	Number of shares	Issue price USD$	USD$'000
Consolidated			
As at 1 January 2008	46,680,004	-	11,903
Issue of shares from private placement on 17 March and 24 April 2008 (note (a))	20,000,000	0.500	10,000
Issue of shares to Petrovis on 1 May 2008 (note (b))	10,000,000	0.500	5,000
Issue of shares on conversion of convertible note on 1 May 2008 (note (c))	20,000,000	0.363	7,260
Capital raising costs	-	-	(5,235)
As at 31 December 2008	**96,680,004**		**28,928**
Vesting of performance share award (note (d))	25,000	0.010	-
Issue of subscription shares to Petrovis on 25 June 2009 (note (e))	5,000,000	0.213	1,065
Placement shares on 28 August 2009 (note (f))	14,706,609	0.227	3,339
Direct subscription shares on 17 September 2009 (note (g))	3,930,176	0.227	892
Issue of subscription shares to Petrovis on 17 September 2009 (note (h))	5,000,000	0.227	1,135
Capital raising costs	-	-	(244)
As at 31 December 2009	**125,341,789**		**35,115**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

14 Issued capital (continued)

	Number of shares	Issue price USD$	USD$'000
Parent			
As at 1 January 2008	46,680,004	-	11,903
Issue of shares from private placement on 17 March and 24 April 2008 (note (a))	20,000,000	0.500	10,000
Issue of shares to Petrovis on 1 May 2008 (note (b))	10,000,000	0.500	5,000
Issue of shares on conversion of convertible note on 1 May 2008 (note (c))	20,000,000	0.363	7,260
Capital raising costs	-	-	(5,042)
As at 31 December 2008	**96,680,004**		**29,121**
Vesting of performance share award (note (d))	25,000	0.010	-
Issue of subscription shares to Petrovis on 25 June 2009 (note (e))	5,000,000	0.213	1,065
Placement shares on 28 August 2009 (note (f))	14,706,609	0.227	3,339
Direct subscription shares on 17 September 2009 (note (g))	3,930,176	0.227	892
Issue of subscription shares to Petrovis on 17 September 2009 (note (h))	5,000,000	0.227	1,135
Capital raising costs	-	-	(244)
As at 31 December 2009	**125,341,789**		**35,308**

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

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

(c) On 1 May 2008, the convertible note held by Citadel Equity Fund Ltd was converted through the issue of 20,000,000 shares in Capcorp. On the same day, pursuant to the share exchange agreement entered into with Citadel, the shares were exchanged for 20,000,000 shares into Petro Matad Limited.

(d) On 27 January 2009, pursuant to the Group's Long Term Equity Incentive Plan, 25,000 shares were vested to an employee.

(e) On 25 June 2009, the Company issued 5,000,000 shares to Petrovis at a price of 13 pence per share being the first tranche of shares pursuant to the Subscription Agreement signed on 19 June 2009 between the Company and Petrovis.

(f) On 28 August 2009, the Company concluded a placement by issuing 14,706,609 shares at a price of 14 pence per share through its broker, Hanson Westhouse Limited.

(g) On 17 September 2009, the Company issued 3,930,176 shares through subscriptions at a price of $0.227 per share.

(h) On 17 September 2009, the Company issued 5,000,000 shares to Petrovis at a price of 14 pence per share pursuant to the second tranche of the Subscription Agreement signed on 19 June 2009 between the Company and Petrovis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Warrants

Movements in warrants:

	No of warrants	Exercise price
Issue of warrants from private placement on 17 March 2008 and 24 April 2008	20,000,000	US$1.00
At 31 December 2008	**20,000,000**	
Expiry of warrants on 30 January 2009	(20,000,000)	
At 31 December 2009	-	

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

15 Reserves

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

	Merger reserve USD$'000	Option premium on convertible notes USD$'000	Equity benefits reserve USD$'000	Foreign currency translation USD$'000	Total USD$'000
Consolidated					
As at 1 January	831	998	-	-	1,829
Currency translation differences	-	-	-	-	-
Option premium on convertible notes		(998)			(998)
Share based payments	-	-	409	-	409
As at 31 December 2008	**831**	**-**	**409**	**-**	**1,240**
Currency translation differences	-	-	-	(76)	(76)
Share based payments	-	-	602	-	602
As at 31 December 2009	**831**	**-**	**1,011**	**(76)**	**1,766**
Parent					
As at 1 January 2008	-	-	-	-	-
Currency translation differences	-	-	-	-	-
Option premium on convertible notes	-	-	-	-	-
Share based payment	-	-	409	-	409
As at 31 December 2008	**-**	**-**	**409**	**-**	**409**
Currency translation differences	-	-	-	-	-
Share based payments	-	-	602	-	602
As at 31 December 2009	**-**	**-**	**1,011**	**-**	**1,011**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

15 Reserves (continued)

Nature and purpose of reserves

Merger reserve

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

Equity benefits reserve

The equity benefits reserve is used to record the value of options and performance awards provided to employees and directors as part of their remuneration, pursuant to the Company's long term incentive plan. Refer to Note 16 for further details of these plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the net investment hedged in these subsidiaries.

16 Share based payments

(a) Long Term Incentive Plan

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

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

200,000 options issued on 8 April 2009 are exercisable in three parts:
- 25% on the second anniversary of the date of grant;
- 50% on the third anniversary of the date of grant; and
- 25% on the fourth anniversary of the date of grant.

1,715,000 options issued on 8 April 2009 are exercisable in three parts:
- 25% on the first anniversary of the date of grant;
- 50% on the second anniversary of the date of grant; and
- 25% on the third anniversary of the date of grant.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

16 Share based payments (continued)

The performance share awards granted on 3 June 2008 and 8 April 2009 will vest on achievement of the following conditions:

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

(b) Option pricing model

Options issued on 24 April 2008

On 24 April 2008, the Group entered into an option agreement with Hanson Westhouse granting them an option to acquire 966,800 ordinary shares at $0.75 per ordinary share, expiring 1 May 2013. These options may not be exercised for a period of one year from Admission on AIM (i.e. 1 May 2009).

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

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

The estimate fair value of each option at grant date is approximately 25.77 cents.

Options issued on 3 June 2008

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

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

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

	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	US$0.415	US$0.415	US$0.415
Expected Volatility (%)	106	106	106
Risk-free interest rates (%)	7.25	7.25	7.25
Contractual life (years)	6.00	6.50	7.00
Exercise Price	US$0.75	US$0.75	US$0.75
Estimate fair value of option	**US 23.69 cents**	**US 28.92 cents**	**US 30.08 cents**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

16 Share based payments (continued)

Options issued on 8 April 2009

On 8 April 2009, pursuant to the Group's Long Term Equity Incentive Plan, the Group issued 1,715,000 options on ordinary shares to employees and directors at GBP0.11 ($0.16) per ordinary share, exercisable in three parts:

- 25% after 8 April 2010;
- 50% after 8 April 2011;
- 25% after 8 April 2012.

On 8 April 2009, pursuant to the Group's Long Term Equity Incentive Plan, the Group issued 200,000 options on ordinary shares to employees and directors at GBP0.11 ($0.16) per ordinary share, exercisable in three parts:

- 25% after 8 April 2011;
- 50% after 8 April 2012;
- 25% after 8 April 2013.

The fair value of the 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. The following table lists the inputs to the model used for the year ending 31 December 2009 for this transaction:

	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	US$0.157	US$0.157	US$0.157
Expected Volatility (%)	100	100	100
Risk-free interest rates (%)	2.60	2.60	2.60
Contractual life (years)	5.00	5.50	6.00
Exercise Price	US$0.162	US$0.162	US$0.162
Estimate fair value of option	**US 11.72 cents**	**US 12.08 cents**	**US 12.41 cents**

(c) Movement in share options

Consolidated and Parent	Opening balance at 1 January 2008	Granted during the year	Forfeited during the year	Closing balance as at 31 December 2008	Exercisable at year end
Grant of options on 24 April 2008	-	966,800	-	966,800	-
Grant of options on 3 June 2008	-	1,930,000	(185,000)	1,745,000	-
	-	**2,896,800**	**(185,000)**	**2,711,800**	**-**
Weighted Average Exercise Price (cents per option)	-	27.87	28.92	27.80	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

16 Share based payments (continued)

Consolidated and Parent	Opening balance at 1 January 2009	Granted during the year	Forfeited during the year	Closing balance as at 31 December 2009	Exercisable at year end
Grant of options on 24 April 2008	966,800	-	-	966,800	966,800
Grant of options on 3 June 2008	1,745,000	-	(60,000)	1,685,000	-
Grant of options on 8 April 2009	-	1,915,000	(20,000)	1,895,000	-
	2,711,800	**1,915,000**	**(80,000)**	**4,546,800**	**966,800**
Weighted Average Exercise Price (cents per option)	27.80	12.08	24.71	21.23	25.77

(d) Performance awards pricing model

Performance awards issued on 3 June 2008

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

The performance share awards will vest on achievement of the following conditions:

- 25% vest when the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled, estimated by management being 30 June 2013;
- 25% vest when the first production of oil on a commercial scale in accordance with the PSC is fulfilled estimated by management being 30 June 2013; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil estimated by management being 30 June 2016.

The fair value of the performance 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 performance awards were granted. The following table lists the inputs to the model used for the year ending 31 December 2009 for this transaction:

Share price at grant date	US$0.816
Expected Volatility (%)	100
Risk-free interest rates (%)	5.08
Contractual life (years)	20
Exercise Price	US$0.01

The estimate fair value of each performance award at grant date is approximately US 81.54 cents.

Performance awards issued on 8 April 2009

On 8 April 2009, pursuant to the Group's Long Term Equity Incentive Plan, the Group issued 155,000 performance share awards on ordinary shares to employees and directors. These have an acquisition price per ordinary share equal to the nominal value of an ordinary share after vesting.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

16 Share based payments (continued)

The performance share awards will vest on achievement of the following conditions:

- 25% vest when the first discovery of oil on a commercial scale in accordance with the PSC is fulfilled, estimated by management being 30 June 2013;
- 25% vest when the first production of oil on a commercial scale in accordance with the PSC is fulfilled estimated by management being 30 June 2013; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil estimated by management being 30 June 2016.

The fair value of the performance wards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which the performance awards were granted. The following table lists the inputs to the model used for the year ending 31 December 2009 for this transaction:

Share price at grant date	US$0.157
Expected Volatility (%)	100
Risk-free interest rates (%)	3.47
Contractual life (years)	19
Exercise Price	US$0.01

The estimate fair value of each performance award at grant date is approximately US 16.08 cents.

(e) Movement in performance awards

Consolidated and Parent	Opening balance at 1 January 2008	Granted during the year	Forfeited during the year	Closing balance as at 31 December 2008	Exercisable at year end
Grant of performance awards on 3 June 2008	-	2,055,000	(235,000)	1,820,000	-
	-	**2,055,000**	**(235,000)**	**1,820,000**	**-**
Weighted Average Exercise Price (cents per award)	-	81.54	81.54	81.54	-

Consolidated and Parent	Opening balance at 1 January 2009	Granted during the year	Forfeited during the year	Closing balance as at 31 December 2009	Exercisable at year end
Grant of performance awards on 3 June 2008	1,820,000	-	(80,000)	1,740,000	-
Grant of performance awards on 8 April 2009	-	155,000	-	155,000	-
	1,820,000	**155,000**	**(80,000)**	**1,895,000**	-
Weighted Average Exercise Price (cents per award)	81.54	16.08	81.54	76.14	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

17 Commitments and contingencies

(a) Operating lease commitments

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

The Company has committed to an office lease in Australia of $34,682 per annum expiring 31 January 2011.

The Company has also committed to an office lease in Mongolia of $66,821 per annum expiring 31 December 2010.

Operating Leases:

	Note	Consolidated		Parent	
		31 Dec 2009 USD$'000	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Within one year		**99**	75	**32**	29
After one year but not more than five years		**3**	2	**3**	2
Greater than five years		**-**	-	**-**	-
		102	77	**35**	31

(b) Exploration expenditure commitments

Petromatad Invest Limited and Capcorp have minimum spending obligations, under the terms of their Production Sharing Contracts ("PSC") on Blocks IV, V and XX with the Petroleum Authority of Mongolia.

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

Production Sharing Contract Fees:

	Note	Consolidated		Parent	
		31 Dec 2009 USD$'000	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Within one year		**291**	63	**-**	-
After one year but not more than five years		**2,369**	81	**-**	-
Greater than five years		**-**	-	**-**	-
		2,660	144	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

17 Commitments and contingencies (continued)

Minimum Exploration Work Obligations:

	Note	Consolidated		Parent	
		31 Dec 2009 USD$'000	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Within one year		**2,555**	1,200	**-**	-
After one year but not more than five years		**35,870**	1,275	**-**	-
Greater than five years		**-**	-	**-**	-
		38,425	2,475	**-**	-

Note: In terms of the PSCs, any expenditure over and above the annual minimum exploration work obligation may be used to reduce the next year's obligation, and in light of this allowance, the Group may reduce spending to $1.28 million in 2010/11. However, this will not occur as $2.79 million expenditure is planned in respect to the drilling contract alone during the period May to September 2010 for the three well drilling program.

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

(c) Contingencies

There are no contingencies outstanding at the year end.

18 Related party disclosures

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

	Country of Incorporation	Equity Interest		Investment	
		2009 %	2008 %	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Central Asian Petroleum Corporation Limited	Cayman Island	**100**	100	**7,493**	7,493
Capcorp Mongolia LLC	Mongolia	**100**	100	**-**	-
Petromatad Invest Limited	Cayman Island	**100**	100	**11,670**	11,670
Petro Matad LLC	Mongolia	**100**	100	**-**	-
				19,163	19,163

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 and Capcorp each hold 25,000 shares of $1 each.

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

18 Related party disclosures (continued)

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

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

Amounts receivable from related parties:	31 Dec 2009 USD$'000	31 Dec 2008 USD$'000
Petro Matad Limited		
- Central Asian Petroleum Corporation Limited	**10,031**	10,000
- Petromatad Invest Limited	**590**	5
- Petro Matad LLC	**2,630**	-
Central Asian Petroleum Corporation Limited		
- Petro Matad LLC	**7,742**	7,767
- Capcorp Mongolia LLC	**1,409**	1,434
- Petromatad Invest Limited	**319**	322
Capcorp Mongolia LLC		
- Petro Matad Limited	**308**	8
Petro Matad LLC		
- Petro Matad Limited	**-**	871
- Petromatad Invest Limited	**2,426**	2,326
- Capcorp Mongolia LLC	**121**	1,127

Terms and conditions of transactions with related parties
Outstanding balances at year-end are unsecured non-interest bearing and repayable on demand.

19 Key management personnel

(a) Details of Specified Directors and Specified Executives

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

Key management personnel were in office for this entire year unless otherwise stated.

Specified directors	
Gordon Leonard Toll	Chairman (non-executive)
Janchiv Oyungerel	Deputy Chair (non-executive)
Douglas John McGay	Chief Executive Officer
Clyde Robert Evans	Finance Director
John Campbell Robertson	Director (non-executive)
Sarangua Davaadorj	Director (non-executive)
Mary Ellen Collins	Director (non-executive) (appointed 14 May 2010)
Davaanyam Enkhchimeg	Director (non-executive) (appointed 14 May 2010)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

19 Key management personnel (continued)

Specified executives

Amarzul Tuul	Executive Director of Petro Matad LLC and Capcorp Mongolia LLC
Rodney William Graham	Head of Operations (appointed 17 September 2009)
Bolormaa Tumendemberel	Director of Central Asian Petroleum Corporation Limited

(b) Compensation of key management personnel

Key management personnel compensation summary:

	Note	Consolidated		Parent	
		31 Dec 2009 USD$'000	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Short term employee benefits		**737**	694	**574**	291
Post-employment benefits		**-**	-	**-**	-
Share based payment expense		**585**	107	**585**	107
		1,322	801	**1,159**	398

Directors are not entitled to any termination/retirement benefits.

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

(c) Shareholdings of Specified Directors and Specified Executives and their related parties

Ordinary Shares held in Petro Matad Limited:

For the year ended 31 December 2008	Balance as at 01-Jan-08	Acquired and (Disposed)	Options Exercised	Balance as at 31-Dec-08
Specified Directors				
Gordon Leonard Toll	5,102,501	-	-	5,102,501
Janchiv Oyungerel	6,335,000	400,000	-	6,735,000
Douglas John McGay	5,600,000	-	-	5,600,000
Clyde Robert Evans	4,048,751	-	-	4,048,751
John Campbell Robertson	-	-	-	-
Davaadorj Sarangua	-	-	-	-
Specified Executives				
Amarzul Tuul	300,000	-	-	300,000
Rodney William Graham	-	-	-	-
Bolormaa Tumendemberel	-	155,644	-	155,644
Total	21,386,252	555,644	-	21,941,896

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

19 Key management personnel (continued)

For the year ended 31 December 2009	Balance as at 01-Jan-09	Acquired and (Disposed)	Options Exercised	Balance as at 31-Dec-09
Specified Directors				
Gordon Leonard Toll	5,102,501	-	-	5,102,501
Janchiv Oyungerel	6,735,000	-	-	6,735,000
Douglas John McGay	5,600,000	150,000	-	5,750,000
Clyde Robert Evans	4,048,751	107,376	-	4,156,127
John Campbell Robertson	-	150,000	-	150,000
Davaadorj Sarangua	-	-	-	-
Specified Executives				
Amarzul Tuul	300,000	-	-	300,000
Rodney William Graham	-	-	-	-
Bolormaa Tumendemberel	155,644	430,000	-	585,644
Total	21,941,896	837,376	-	22,779,272

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration 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.

(d) Option holdings of Specified Directors and Specified Executivesand their related parties

For the year ended 31 December 2008	Balance as at 01-Jan-08	Granted as Remuneration	Options Exercised	Balance as at 31-Dec-08	Not Vested & Not Exercisable	Vested & Exercisable
Specified Directors						
Gordon Leonard Toll	-	250,000	-	250,000	250,000	-
Janchiv Oyungerel	-	250,000	-	250,000	250,000	-
Douglas John McGay	-	425,000	-	425,000	425,000	-
Clyde Robert Evans	-	200,000	-	200,000	200,000	-
John Campbell Robertson	-	150,000	-	150,000	150,000	-
Davaadorj Sarangua	-	150,000	-	150,000	150,000	-
Specified Executives						
Amarzul Tuul	-	150,000	-	150,000	150,000	-
Rodney William Graham	-	-	-	-	-	-
Bolormaa Tumendemberel	-	-	-	-	-	-
Total	-	1,575,000	-	1,575,000	1,575,000	-

PETRO MATAD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

19 Key management personnel (continued)

For the year ended 31 December 2009	Balance as at 01-Jan-09	Granted as Remuneration	Options Exercised	Balance as at 31-Dec-09	Not Vested & Not Exercisable	Vested & Exercisable
Specified Directors						
Gordon Leonard Toll	250,000	250,000	-	500,000	500,000	-
Janchiv Oyungerel	250,000	250,000	-	500,000	500,000	-
Douglas John McGay	425,000	425,000	-	850,000	850,000	-
Clyde Robert Evans	200,000	200,000	-	400,000	400,000	-
John Campbell Robertson	150,000	150,000	-	300,000	300,000	-
Davaadorj Sarangua	150,000	150,000	-	300,000	300,000	-
Specified Executives						
Amarzul Tuul	150,000	160,000	-	310,000	310,000	-
Rodney William Graham	-	-	-	-	-	-
Bolormaa Tumendemberel	-	25,000	-	25,000	25,000	-
Total	1,575,000	1,610,000	-	3,185,000	3,185,000	-

(e) Performance Awards holdings of Specified Directors and Specified Executivesand their related parties

For the year ended 31 December 2008	Balance as at 01-Jan-08	Granted as Remuneration	Awards Exercised	Balance as at 31-Dec-08	Not Vested & Not Exercisable	Vested & Exercisable
Specified Directors						
Gordon Leonard Toll	-	250,000	-	250,000	250,000	-
Janchiv Oyungerel	-	250,000	-	250,000	250,000	-
Douglas John McGay	-	425,000	-	425,000	425,000	-
Clyde Robert Evans	-	200,000	-	200,000	200,000	-
John Campbell Robertson	-	150,000	-	150,000	150,000	-
Davaadorj Sarangua	-	150,000	-	150,000	150,000	-
Specified Executives						
Amarzul Tuul	-	100,000	-	100,000	100,000	-
Rodney William Graham	-	-	-	-	-	-
Bolormaa Tumendemberel	-	-	-	-	-	-
Total	-	1,525,000	-	1,525,000	1,525,000	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

19 Key management personnel (continued)

For the year ended 31 December 2009	Balance as at 01-Jan-09	Granted as Remuneration	Awards Exercised	Balance as at 31-Dec-09	Not Vested & Not Exercisable	Vested & Exercisable
Specified Directors						
Gordon Leonard Toll	250,000	-	-	250,000	250,000	-
Janchiv Oyungerel	250,000	-	-	250,000	250,000	-
Douglas John McGay	425,000	-	-	425,000	425,000	-
Clyde Robert Evans	200,000	-	-	200,000	200,000	-
John Campbell Robertson	150,000	-	-	150,000	150,000	-
Davaadorj Sarangua	150,000	-	-	150,000	150,000	-
Specified Executives						
Amarzul Tuul	100,000	-	-	100,000	100,000	-
Rodney William Graham	-	-	-	-	-	-
Bolormaa Tumendemberel	-	15,000	-	15,000	15,000	-
Total	1,525,000	15,000	-	1,540,000	1,540,000	-

(f) Other transactions and balances with Specified Directors and Specified Executives

Included within other payables at 31 December 2009 is an amount of $69,630 (2008: $130,000) owing to a company associated with one of the directors, in reimbursement of expenditure incurred on behalf of the Group. Reimbursement has subsequently been settled.

20 Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and short-term deposits.

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 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 asset comprise cash and cash equivalents which are considered to be short-term liquid assets. It is the Group's policy to settle

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

20 Financial risk management objectives and policies (continued)

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		Parent	
	Weighted Average Int. rate	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Financial Assets					
Cash and cash equivalents	3.25%	**5,215**	3,248	**1,198**	15
		5,215	3,248	**1,198**	15
Financial Liabilities					
Trade and other payables	0%	**796**	245	**663**	102
		796	245	**663**	102
Net exposure		**4,419**	3,003	**535**	(87)

Sensitivity Analysis

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

The group doesn't account for any fixed rate 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 statement of financial position can be affected significantly by movements in various exchange rates.

The functional currency of the Company is deemed to be US$ because the future revenue from the sale of oil will be denominated in USD and the costs of the Company 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 which the Company operates. These currencies have a close relationship to the USD 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

20 Financial risk management objectives and policies (continued)

Following significant exchange rates applies during the year:

USD	Average Rate 2009	2008	Spot rate at the balance date 2009	2008
Mongolian Tugrik ("MNT") 1	**1,437.22**	1,165.92	**1,442.84**	1,267.51
Australian Dollar ("AUD") 1	**1.28045**	1.19700	**1.11967**	1.44871
Great British Pound ("GBP") 1	**0.64092**	-	**0.62783**	-

Sensitivity Analysis

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

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 7 and 8 which also represent the minimum exposure to credit risk. The group only deposits surplus cash with well established financial institution of high quality credit standing.

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

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

Maximum exposure to credit risk at reporting date:

	Note	Consolidated 31 Dec 2009 USD$'000	Consolidated 31 Dec 2008 USD$'000	Parent 31 Dec 2009 USD$'000	Parent 31 Dec 2008 USD$'000
Financial Assets					
Cash and cash equivalents		**5,215**	3,248	**1,198**	15
Trade and other receivables		**34**	1	**32**	-
Net exposure		**5,249**	3,249	**1,230**	15

Impairment Losses:

None of the Company's receivables are past due at 31 December 2009 (2008: 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

20 Financial risk management objectives and policies (continued)

The Group's objective is to ensure that sufficient funds are available to allow it to continue its exploration activities. Subsequent to the year end, the Company has raised a substantial amount of equity finance.

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

	Note	Consolidated		Parent	
		31 Dec 2009 USD$'000	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
6 months or less		**796**	245	**663**	102
6-12 months		**-**	-	**-**	-
1-5 years		**-**	-	**-**	-
over 5 years		**-**	-	**-**	-
		796	245	**663**	102

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

Fair Value of Financial Assets and Liabilities

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

21 Capital management

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

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

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

22 Events after the balance sheet date

On 22 February 2010, pursuant to the first tranche of the conditional subscription agreement with the ERBD, the Company issued 13,730,103 shares raising $3m. On 11 June 2010, a further 14,644,004 shares were issued following receipt of the second tranche payment of $3m.

On 24 March 2010, the Company appointed Dr James Coogan to its senior management team in the position of Exploration Manager.

On 14 May 2010, the Company appointed Ms Mary Ellen Collins and Ms Davaanyam Enkhchimeg as non-executive directors of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

22 Events after the balance sheet date (continued)

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.

23 Auditors' remuneration

The auditor of Petro Matad Limited is PKF Chartered Accountants and Business Advisers ("PKF").

		Consolidated		Parent	
	Note	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000	**31 Dec 2009 USD$'000**	31 Dec 2008 USD$'000
Amounts received or due and receivable by PKF for:					
- an audit or review of the financial report of the entity and any other entity in the consolidated entity		**62**	54	**62**	39
- other services in relation to the entity and any other entity in the consolidated entity		**-**	-	**-**	-
		62	54	**62**	39
Amounts received or due and receivable by auditors other than PKF for:					
- an audit or review of the financial report of subsidiary entities		**6**	3	**-**	-
- other services in relation to the subsidiary entities		**-**	-	**-**	-
		6	3	**-**	-
		68	57	**62**	39

24 Other Information

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

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of the Company gives a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations);

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

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

On behalf of the Board

Clyde Evans
Director
23rd June 2010

INDEPENDENT AUDITOR'S REPORT

PKF
Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PETRO MATAD LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Petro Matad Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Petro Matad Limited ("the company") and of the consolidated entity. The consolidated entity comprises the entity 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. In Note 2 (b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

PKF
Chartered Accountants
& Business Advisers

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Petro Matad Limited:

  (i) gives a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and of its performance for the year ended on that date; and

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

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

PKF

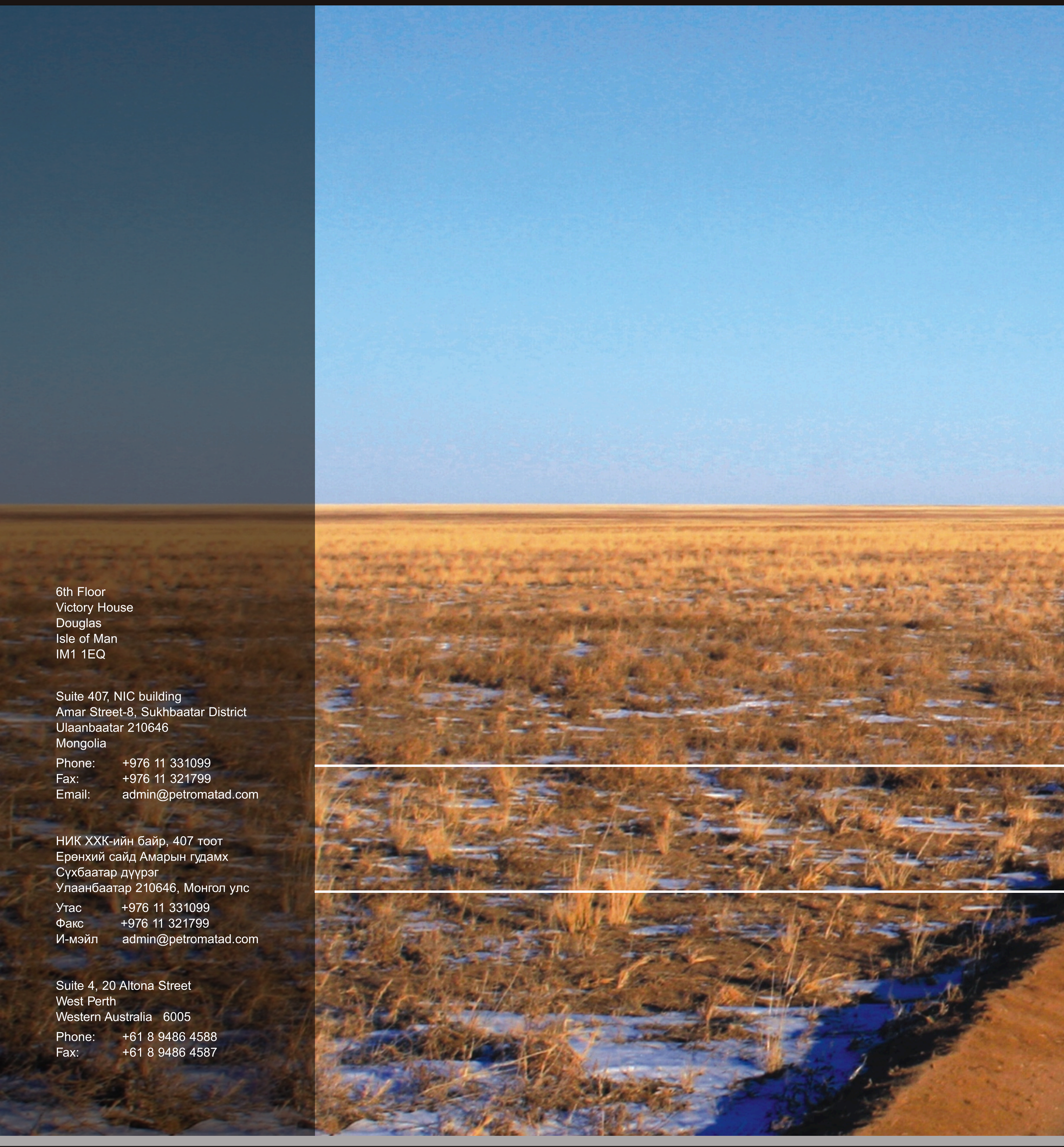
PKF
Chartered Accountants

Chris Nicoloff

Chris Nicoloff
Partner

Dated in Perth, Western Australia on this 23rd day of June 2010.

PETRO MATAD



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

Suite 407, NIC building
Amar Street-8, Sukhbaatar District
Ulaanbaatar 210646
Mongolia

Phone: +976 11 331099
Fax: +976 11 321799
Email: admin@petromatad.com

НИК ХХК-ийн байр, 407 тоот
Ерөнхий сайд Амарын гудамх
Сүхбаатар дүүрэг
Улаанбаатар 210646, Монгол улс

Утас +976 11 331099
Факс +976 11 321799
И-мэйл admin@petromatad.com

Suite 4, 20 Altona Street
West Perth
Western Australia 6005

Phone: +61 8 9486 4588
Fax: +61 8 9486 4587