2010

PETRO MATAD LIMITED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

PETRO MATAD

Contents

The Power of Oil for the Land of Eternal Sky

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Douglas J McGay
Chief Executive Officer

Chief Executive Officer's Statement

I wish to thank our Co-Chairs, Mme Oyungerel and Mr Gordon Toll for granting me the privilege of presenting the Company's Annual Report for the financial year ended 31 December 2010. This occasion provides a valuable opportunity to reflect upon an important period in Petro Matad's development on behalf of our Co-Chairs and the Board, and to communicate current developments and plans.

Petro Matad has had an eventful year since the publication of its last Annual Report.

The Company welcomed the European Bank for Reconstruction and Development ("EBRD") to its share register in February 2010. A further, larger placing in September 2010 broadened the Company's share register and has provided the funding to enable an acceleration of our exploration efforts. It was pleasing to note that all significant shareholders participated, and some prestigious institutions also joined our share register.

In conjunction with the aforementioned EBRD subscription, in May 2010 Petro Matad welcomed the appointment of Mary Ellen Collins as a non-executive Director. At the same time major shareholder Petrovis LLC ("Petrovis") nominated Ms Davaanyam Enkhchimeg to the Board. Ms Enkhchimeg resigned in May 2011, to be replaced by another Petrovis nominee Ms Davaanyam Enkhmaa. These non-executive directors' appointments were focussed towards ensuring effective liaison between Petro Matad and its two largest shareholders. Ms Collins has skills and extensive experience gained from working with companies in emerging markets. Ms Enkhmaa's appointment has ensured that we continue to enjoy a strong relationship with our largest shareholder and can also benefit from her expertise in high level international commerce.

It is worthy of note that Petro Matad has one of the few gender-balanced Board of Directors in the international corporate world. It is also truly representative of our shareholding base with Mongolian, Australian and British board members.

The most significant event for the Company was the discovery of oil in our first exploration well in Davsan Tolgoi, on Block XX in July 2010. The Company completed a further two wells in 2010 and made significant progress on a fourth. Each of the three wells encountered hydrocarbons. In 2011 we have continued drilling and to the date of this report have completed a further two wells, (DT-4 and DT-5) that also encountered hydrocarbons. Drilling continues on the Davsan Tolgoi Prospect with a full programme ahead of us. Results to-date have greatly improved Petro Matad's understanding of the geology of the Davsan Tolgoi Prospect, with the February 2011 announcement of new "plays" and an increased resource estimate.

Well testing is scheduled to commence shortly on the five wells drilled to date. The workover rig and testing equipment have been contracted to the end of calendar year 2011, and testing will continue on successive wells through the year. The logistics of importing and operating the workover rig are well advanced.

In addition to the on-going drilling programme in the north-eastern part of Block XX, the company has made big advances in the earlier-stage exploration of the rest of the block. We have recently completed a major 2D seismic acquisition programme focusing mainly on the five unexplored basins located in the central and southern portions of the block. Some of that 2D survey also acquired fill-in lines over the other known leads and prospects in the northern part of the Block, and should provide us with new insights into those plays.

In 2010 we mounted a very aggressive exploration programme on the frontier Blocks IV and V. These blocks had never before been seriously explored for oil and gas, and there was no subsurface information of any description. We now have gravity coverage, surface geological studies, seismic profiles and a 1,600m drill hole for stratigraphic and correlation purposes. The results from these endeavours are highly encouraging. We consider we now have conclusive documentation that the basins have good to excellent source rocks, high quality reservoir rocks and numerous trap styles.

A second seismic programme has already started, with contracts let to both Mongolian and international contractors for a total of over 1,750km. One of the primary goals is to confirm a four-way

closure in Tsagaantsav-equivalent rocks in an area with great thicknesses of rift-related strata at depths to as much as 5,000m. The remainder of the seismic profiles will be more reconnaissance in nature, and will enhance our knowledge of the vast area covered by these basins in central Mongolia.

Operationally the Company made great strides with the recruitment of its exploration and engineering teams. We now have an in-house capability that would be the envy of oil exploration companies many times our size, with longer history and operating in more developed countries. This team has delivered significant results to date and no doubt will continue to add value to our operations and assets as time progresses.

Petro Matad's prime focus since inception has been to progress the Company's assets towards petroleum discovery, so as to add real value to the Company. To that end we have maintained our main office in Ulaanbaatar and recruited the aforementioned technical team to live and operate in country alongside their Mongolian colleagues.

Dr James Coogan has been previously reported upon as heading up our Exploration Department. In early 2011 Messrs Mark Zebrowitz and Earl Edmonds joined us to create our drilling management team. All of these energetic and experienced gentlemen have succeeded in recruiting, placing and training their teams of co-professionals. They head teams containing a variety of international personnel as well as the cream of Mongolian petroleum industry talent.

During the period upon which we are reporting, we have also paid attention to the corporate and community aspects of our company.

In 2010 we established a "Corporate Governance, Social Action and Environmental Committee" at Board level, chaired by non-executive Director Mary Ellen Collins. At the same time we created a Legal and Corporate Governance Division adding to the existing Divisions of Technical, Corporate and Administration.

In January 2011 Pierre Montpeyroux, a highly experienced international corporate lawyer was charged with the creation and supervision of the new Legal and Corporate Governance Division, and is bringing an even higher level of corporate governance and compliance to our Company.

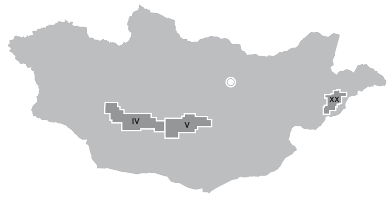
The Corporate Division has also been strengthened with the addition of three appropriately qualified Mongolian personnel.

An international-standard environmental team has been established, with a Mongolian manager. An international Health and Safety Manager has also been employed, and heads a team dedicated to international best practices. A Community Relations Manager supervises a very active and meaningful Social Action Programme, ensuring that Petro Matad interacts positively with our local communities.

At the same time the Company has recruited the best Mongolian talent for the Administration Division under Administration Manager Ms T Amarzul. They are expertly managing what is an increasingly complex enterprise.

It is with pleasure that I report that our relationship with our partner, the Government of Mongolia is flourishing through the good offices of both the Ministry of Energy and Resources and the Petroleum Authority of Mongolia. The Government has mooted amendments to the current 1992 Petroleum Law at some time in 2011.

TOTAL AREA OF ASSETS:
85,244.90km^2
about the size of Austria



We welcome this initiative and are hopeful that the new amendments will improve the industry and attract more investment and development.

Petro Matad has grown from 26 employees one year ago to 80 as of the time of this report. As we have grown, we have maintained our corporate philosophy of involving our management and staff in share purchase schemes. Both our international staff and, importantly, our Mongolian nationals are all sharing in the Company's success. This is creating a corporate culture that is unique in Mongolia.

In the coming year Petro Matad will continue an aggressive programme of drilling, completion and testing of Davsan Tolgoi, on Block XX. This may lead to adding one additional drilling rig and an expansion in the engineering and supervisory staff. We have already seen a dramatic improvement in drilling performance with the change to our current drilling contractor DQE International, from about three weeks per well in 2010 to about two weeks per well so far this year.

We have a commitment from the drill contractor to fully winterise at least one rig so that we will be able to maintain drilling operations year-round, and thus avoid the long shutdowns we have experienced over the past two winters. In addition, the Company is currently at an advanced stage of negotiations to import a state of the art winterised western drilling rig staffed by personnel with year-round western operational experience. If this eventuates, the Company hopes to dramatically increase the rate of drilling wells, which will be ideal as exploration gives way to appraisal.

At the same time we will advance our knowledge of the nearby leads and prospects as well as other grabens in Block XX. That may lead to non-Davsan Tolgoi drilling later in the year, depending on seismic results. We will also continue an aggressive exploration programme on Blocks IV and V.

Even with the above full schedule, your Company will continue to evaluate other opportunities in the petroleum sector of Mongolia. This all reflects the Company's intended shift from being a grass roots explorer to an exploration and production company.

We recently celebrated the third anniversary of Petro Matad's admission to AIM. Whilst the Company remains loyal to its genesis with a significant Mongolian shareholding and a steadfast commitment to share its successes with the citizens of Mongolia, we are delighted with the growth that has been achieved and the broadening of our shareholder register from its original Mongolian/Australian base. Petro Matad is now truly a global company in terms of both its share registry and its management.

As you would imagine, the above-related activity is intense and non-relenting. It would not be achievable if not for the efforts of our dedicated management and loyal, hardworking staff, whom I herewith sincerely thank on behalf of the Board of Directors and all of our stakeholders.

Our efforts and achievements would not have been possible without the support of you, our shareholders. Thus, on behalf of the Board of Directors and the management, I thank you all.

Douglas J McGay
Chief Executive Officer

Ерөнхий Гүйцэтгэх Захирлын мэдэгдэл

2010 оны 12-р сарын 31-ний өдрөөр тасалбар болгон гаргаж буй компанийн жилийн тайланг танилцуулах эрхэм үүргийг надад олгосон ТУЗ-ын Хамтарсан дарга Хатагтай Ж.Оюунгэрэл болон ноён Гордон Толл нарт талархал илэрхийлье. Компанийн Төлөөлөн Удирдах Зөвлөл (ТУЗ) болон Хамтарсан дарга нарын нэрийн өмнөөс, Петро Матадын хөгжлийн чухал үеийн болон өнөөгийн хөгжил, ойрын төлөвлөгөөний талаар танилцуулах үнэтэй завшаан олгож буй хэрэг юм.

Хамгийн сүүлийн жилийн тайлан гарснаас хойшхи хугацаа нь компанийн хувьд үйл явдлаар дүүрэн байлаа.

2010 оны 2-р сард Европын Сэргээн Босголт Хөгжлийн Банк (ЕСБХБ)-манай хувьцаа эзэмшигчдийн нэг болсон. 2010 оны 9-р сард босгосон хөрөнгө хайгуулын үйл ажиллагааг эрчимжүүлэх боломжийг олгосон юм. Энэхүү хөрөнгийг манай чухал болон томоохон хувьцаа эзэмшигчдээс гадна, нэр хүнд бүхий шинэ байгууллагуудын оролцоотойгоор босгосон юм.

Өмнө дурдсанчлан, ЕСБХБ 2010 онд манай хувьцаа эзэмшигчийн нэг болсонтой холбогдуулан, тус банкнаас хатагтай Мэри Коллинзийг Петро Матадын ТУЗ-д Гүйцэтгэх бус захирлаар томилохыг бид дуртайяа хүлээн авсан билээ. Манай гол хувьцаа эзэмшигч Петровис ХХК (Петровис), хатагтай Даваанямын Энхчимэгийг ТУЗ-д оруулах санал гаргасан юм. Хатагтай Д. Энхчимэг 2011 оны 5-р сард өөрийн хүсэлтээр чөлөөлөгдөж, түүний оронд хататгай Даваанямын Энхмааг томилохоор Петровис нэр дэвшүүлсэн билээ. Эдгээр Гүйцэтгэх бус захирлуудын томилгоо нь Петро Матад болон түүний хамгийн том хоёр хувьцаа эзэмшигчийн хоорондын үр дүнтэй харилцааг баталгаажуулахад чиглэгдсэн юм. Хатагтай Коллинз нь хөгжиж буй зах зээл дэх компаниудтай ажиллаж байсан туршлагатай, өндөр ур чадвартай нэгэн билээ. Хатагтай Энхмаагийн томилгоо нь биднийг хамгийн том хувьцаа эзэмшигчтэйгээ бат бөх харилцаатай байх баталгааг улам нэмэгдүүлж, түүний өндөр түвшний олон улсын худалдааны мэдлэг туршлага нь бас нэг томоохон хөшүүрэг болсон гэж болно.

Олон улсын корпорацийн хүрээнд, Петро Матадын ТУЗ-ийн бүрэлдэхүүн жендерийн хувьд тэнцвэртэй цөөн хэдэн компанийн нэг гэдгийг дурдах нь зүйтэй. Энэхүү Монгол, Австрали, Англи ТУЗ-ийн гишүүд нь манай хувьцаа эзэмшигчдийн бүрэлдэхүүнийг илэрхийлж буй нэг онцлог юм.

Хамгийн чухал үйл явдал бол 2010 оны 7-р сард XX Талбай дахь Давсан Толгойн анхны хайгуулын цооногоос тос илэрсэн явдал юм. Манай компани 2010 онд дахин хоёр цооног өрөмдсөн ба дөрөв дэх цооногийг өрөмдөхөд томоохон дэвшил гаргасан билээ. Тус гурван цооногийн гурвууланд нүүрсустөрөгч илэрсэн юм. 2011 онд бид өрөмдлөгөө үргэлжлүүлж, энэхүү жилийн тайлан гарах мөчид нүүрсустөрөгч илэрсэн дараагийн 2 цооног (ДТ-4, ДТ-5)-ийг өрөмдөж дуусгасан болно. Давсан Толгой дахь өрөмдлөгийн хөтөлбөр үргэлжилсээр байна. Давсан Толгойн хэтийн төлөв бүхий талбайн геологийн талаарх ойлголтоо улам сайжруулж, 2011 оны 02 дугаар сард нүүрсустөрөгч хуримтлуулах системийг шинээр тогтоож, таамаг нөөцийн хэмжээг нэмэгдүүлсэн тухай шинэ мэдээллийг гаргасан билээ.

Өнөөдрийн байдлаар өрөмдөөд байгаа таван цооногт туршилт хийх ажлыг удахгүй эхлүүлэхээр хуваарь гаргаад байна. Өрмийн үйлчилгээний цамхаг болон туршилтад ашиглах тоног төхөөрөмжийг 2011 оны хуанлийн жилийн эцэс хүртэл ашиглахаар гэрээ байгуулаад байгаа ба цооногуудын туршилтийг энэ жилийн турш үргэлжлүүлэн хийх болно. Өрмийн үйлчилгээний цамхагийг оруулж ирэх, ажиллуулах зэрэг зохион байгуулалтын бэлтгэл ажил нэлээд ахицтай явагдаж байна.

XX Талбайн зүүн хойд хэсэгт хийгдэж буй өрөмдлөгийн хөтөлбөрөөс гадна, компаний бусад талбайнууд дахь эхний үе шатны хайгуулын ажилдаа томоохон ахиц гаргаад байна. Талбайн төв болон өмнөд хэсэгт буй судлагдаагүй таван сав газрыг хамарсан 2 хэмжээст сейсмийн хөтөлбөрийг саяхан дуусгалаа. Уг 2 хэмжээст судалгаа нь тус Талбайн хойд хэсэг дэх урьд нь тогтоогдсон байсан хэтийн төлөвтэй болон хэтийн төлөв сайтай бусад газруудад нэмэлт сейсмийн ажлуудыг нөхөж хийсэн ба тэдгээр системүүдийн талаар шинэ ойлголтыг бидэнд өгөх юм.

2010 онд бид IV болон V Талбайд маш эрчимтэй хайгуулын хөтөлбөр хэрэгжүүллээ. Эдгээр талбайд өмнө нь газрын тосны болон байгалийн хийн дорвитой хайгуулыг бараг хийж байгаагүй ба хөрсөн доорохыг тодорхойлсон ямар нэг мэдээлэл байгаагүй гэж болно. Одоо бид хүндийн хүчний мэдээлэл, хөрсний гадаргын геологийн судалгаа, сейсмийн зүсэлт, давхарга зүйн болон харилцан хамаарлын зорилгоор 1,600 метр гүнд стратеграфийн цооног өрөмдөөд байгаа бөгөөд эдгээр ажлын эхний үр дүнгүүд сайн гарч байна.

Бид тус сав газарт сайнаас онцсайн чанарын үүсгэгч чулуулаг, сайн чанарын агуулагч чулуулагч болон хэд хэдэн нүүрсустөрөгчийн хураагуурын төрлүүд байгааг нотлон баримтжуулж чадсан хэмээн үзэж байна.

Бид сейсмийн хоёрдахь хөтөлбөрийг хэрэгжүүлж эхэлсэн бөгөөд дотоодын болон олон улсын тусгай гүйцэтгэгч нараар нийтдээ 1,750км талбайд хийлгэж байна. Судалгаагаар 5,000 метр хүртэлхи гүнд суналтай холбоотойгоор үүссэн маш зузаан хурдсаар дүүргэгдсэн Цагаанцавын насны чулуулаг дахь дөрвөн талаасаа хаагдсан гүдэн бүтцийг судалж, баталгаажуулах юм. Сейсмийн бусад зүсэлтээр бид талбайг ерөнхийд нь судлах ба тус судалгаагаар бид Монгол орны төв хэсгийн өргөн уудам нутаг дэвсгэрийг эзлэн оршдог эдгээр сав газруудын талаархи мэдлэгээ бататгана.

Үйл ажиллагааны хувьд манай компани өөрийн хайгуулын болон инженерийн баг бүрэлдэхүүнээ нэлээд өргөжүүлж, чадавхижуулаа. Биднээс хэд дахин том, олон жилийн түүхтэй, илүү хөгжилтэй оронд үйл ажиллагаа явуулж буй газрын тосны хайгуулын компаниудыг ч бишрүүлэхээр өөрийн гэсэн чадварлагийг багийг бий болгоод байна. Энэ баг өнөөдрийн байдлаар томоохон үр дүн гаргаад байгаа ба цаг хугацаа өнгөрөх тусам, манай үйл ажиллагаа, хөрөнгөнд улам их үнэ цэнэ нэмнэ гэдэгт эргэлзэхгүй байна.

Үүсгэн байгуулагдсан цагаасаа хойш Петро Матадын өмнөө тавьсан гол зорилго бол газрын тосыг илрүүлж, компанийн бодит үнэ цэнийг нэмэгдүүлэхэд хөрөнгө хүчээ чиглүүлэх явдал байсаар ирсэн. Энэхүү зорилгоо биелүүлэхийн тулд бид төв оффисоо Улаанбаатарт байгуулж, Монголчуудтай хамт Монголд ажиллаж, амьдрах гадаадын техникийн багийг бүрдүүлж, нэгтгэсэн билээ.

Доктор Жеймс Күүганыг компанийн Хайгуулын Тасгийг удирдаж буйг өмнө нь бид мэдээлж байсан. 2011 оны эхээр өөрийн гэсэн өрөмдлөгийн менежментийн багийг байгуулахын тулд Марк Зэбровиц, Еэрл Эдмондс нар тус компанид ажиллаж эхэлсэн. Эрч хүчтэй, туршлага, дадлагатай эдгээр хүмүүс өөрсөдтэйгөө гар нийлэн ажиллах мэргэжилтнүүдийн багаа бүрдүүлж, сургаж дадлагажуулах талаар амжилттай ажиллаж байна. Тэд янз бүрийн улсаас ирсэн боловсон хүчнүүд болон, Монголын газрын тосны салбарын шилдэгүүдээс бүрдсэн багийг удирдан ажиллаж байна.

Бид энэхүү тайлангийн хугацааны туршид компанийнхаа дотоод болон нийгмийн харилцаанд анхаарсаар ирлээ.

2010 онд бид ТУЗ-ийн түвшинд, Гүйцэтгэх бус захирал Мэри Эллен Коллинзоор удирдуулсан "Компанийн Засаглал, Нийгмийн Хөгжил болон Байгаль Орчны Хороо"-г байгуулсан билээ. Мөн одоогийн Техникийн хэлтэс, Корпорацийн болон Захиргааны хэлтсээс гадна Хуульзүйн болон Компанийн Засаглалын Хэлтсийг нэмж байгуулсан юм.

Өндөр мэдлэг туршлагатай олон улсын компанийн хуульч Пьер Монперу энэхүү шинэ хэлтсийг үүсгэн байгуулж, удирдах үүргийг хүлээн, илүү өндөр түвшний компанийн засаглал болон хууль журмын хэрэгжилтийг манай компанид бүрдүүлэн ажиллаж байна.

Зохих түвшний мэдлэг чадвартай гурван монгол ажилтныг нэмж ажиллуулан, Корпорацийн хэлтэст хүч нэмэгдүүллээ.

Олон улсын стандартад нийцэхүйц, байгаль орчны багийг бүрдүүлж, менежерээр нь монгол мэргэжилтнийг томилон ажиллуулж байна. Түүнчлэн, Эрүүл Ахуй, Аюулгүй Байдлын Менежерээр гадаад мэргэжилтнийг томилсон ба тэрээр олон улсын шилдэг туршлагыг нэвтрүүлэн хэрэгжүүлэхээр энэхүү багийг удирдаж байна. Орон нутагтай харилцах менежер маш идэвхтэй, оновчтой Нийгмийн Хөгжлийн Хөтөлбөрийг удирдан хянаж, Петро Матад болон орон нутгийн иргэд хоорондын найрсаг харилцааг ханган ажиллаж байна.

Үүний зэрэгцээ, Гүйцэтгэх Захирал Т.Амарзулаар удирдуулсан хамгийн шилдэг монгол ажилтнууд Захиргааны Хэлтэст ажиллаж байна. Тэд нарийн төвөгтэй асуудлуудыг мэргэжлийн түвшинд зохицуулан шийдсээр ирлээ.

Манай түнш болсон, Эрдэс Баялаг, Эрчим Хүчний Яам болон Монголын Засгийн газрын агентлаг- Газрын Тосны Газартай идэвхтэй хамтран ажиллаж, зөвлөгөө, дэмжлэгийг нь авсаар байна. 2011 онд Засгийн газар 1992 оны Газрын Тосны Хуулийн нэмэлт өөрчлөлтийн асуудлыг хэлэлцэж эхэлсэн билээ. Бид энэхүү санаачилгыг дэмжиж, шинэ нэмэлт өөрчлөлтүүд нь салбарын үйл ажиллагааг сайжруулж, хөрөнгө оруулалтыг илүү ихээр татан, хөгжилд хөтөлнө гэдэгт итгэж байна.

Петро Матад нэг жилийн өмнө 26 ажилтантай байсан бол энэхүү тайлан бэлтгэх үед 80 ажилтантай болтлоо өргөжин тэлжээ. Компани өргөжих явцад, бид удирдлага болон ажилтнуудаа компанийн хувьцааг худалдан авах эрхийг олгох компанийн бодлогыг хэрэгжүүлсээр ирлээ. Компанийн гадаад ажилтнууд болон ялангуяа монгол ажилтнууд бүгдээрээ Компанийн амжилтаас хуваалцдаг билээ. Энэ нь Монголын хувьд онцгой гэхээр компанийн соёлыг бүрдүүлж байна.

Ирэх жил бид XX Талбай дахь Давсан Толгой дээрх эрчимтэй өрөмдлөг туршилтыг үргэлжлүүлэн хийх болно.

Энэ нь нэг шинэ өрмийн цамхагийг нэмж авах, инженерийн болон хяналтын ажилтнуудыг нэмж бүрдүүлэх хэрэгцээг бий болгож магадгүй байна. Одоогийн гэрээлэгч "Ди Кью И"-гээр өрөмдлөгөө хийлгэх болсноор 2010 онд нэг цооногийг гурван долоо хоногт өрөмддөг байсан бол энэ жил хоёр долоо хоногт өрөмддөг болж, манай өрөмдлөгийн үйл ажиллагааны гүйцэтгэлд мэдэгдэхүйц ахиц гарсныг бид хэдийнэ анзаарсан. Өрөмдлөг хийх компанийг гэрээгээр авч ажиллуулдаг байсан бол бүтэн жилийн турш өрөмдлөгийн үйл ажиллагаа явуулж, өнгөрсөн хоёр өвлийнх шиг зогсолт хийхээс зайлсхийж, наанадаж нэг өрмийг өвөлжүүлэхийн төлөө бид ажиллаж байна. Үүнээс гадна, өвөл ажиллах боломжтой, барууны өрмийн цамхагийг оруулж ирэн, жилийн турш өрмийн үйл ажиллагаа явуулах барууны туршлага бүхий боловсон хүчнээр удирдуулах ажлыг компани судалж байна. Хэрэв энэ нь биеллээ олбол, хайгуулын шат үнэлгээний түвшинд хүрсэн нөхцөлд компанийн цооног өрөмдөх хэмжээ мэдэгдэхүйц нэмэгдэх нь туйлын сайн хэрэг юм.

Үүний зэрэгцээ бид, XX Талбай дээрх бусад ойр орчмын хэтийн төлөв бүхий талбай болон хэтийн төлөв сайтай талбайн талаарх мэдлэгээ гүнзгийрүүлэх болно. Энэ жилийн сүүлээр сейсмийн судалгааны үр дүнгээс хамаараад Давсан Толгойгоос гадна, өөр газар өрөмдлөгийн ажил хийх магадлалтай байна. Мөн бид IV, V Талбайнууд дээр идэвхтэй хайгуулын хөтөлбөрийг үргэлжлүүлэн хийнэ. Дээр дурдсан олон ажлыг амжуулахын зэрэгцээ бид Монгол Улсын газрын тосны салбар дахь бусад боломжуудыг үргэлжлүүлэн судалж, үнэлэх болно. Энэ бүхэн биднийг зөвхөн хайгуул хийдэг компаниас хайгуул, олборлолтын компани болтлоо өргөжин хөгжих зорилтот өөрчлөлтийг тусган харуулж байна.

Бид саяхан АИМ-д (AIM) бүртгүүлснийхээ 3 жилийн ойг тэмдэглэн өнгөрүүлсэн билээ. Манай компани Монголчууд давамгайлсан хувьцаа эзэмшилтэйгээр анх байгуулагдсан онцлог чанараа хадгалан, Монголын иргэдтэй амжилтаа хуваалцах тууштай амлалтдаа үнэнч үлдэхийн зэрэгцээ, ололт амжилтдаа сэтгэл хангалуун байж, анхны Монгол/Австрали гэсэн үндсэн хувьцаа эзэмшигчдээс хүрээгээ тэлж, хувьцаа эзэмшигчдийнхээ бүрэлдэхүүнийг улам нэмэгдүүлж, өргөжүүлсээр байна. Петро Матад одоо хувьцаа эзэмшигчдийн бүрэлдэхүүн болон менежментийнхээ хувьд жинхэнэ дэлхийн хэмжээний компани болж чаджээ.

Та бүхний төсөөлж байгаачлан, энэ бүх үйл ажиллагаа эрч хүч, хөлс хөдөлмөр шаардсан нөр их хичээл зүтгэл юм. Манай чадварлаг удирдлага, шударга, хөдөлмөрч ажилтнуудын хичээл зүтгэл байгаагүй бол бид ийм амжилтад хүрч чадахгүй байсан. Би тэдэнд өөрийн зүгээс болон, ТУЗ-ийн болон хувьцаа эзэмшигчийн нэрийн өмнөөс чин сэтгэлийн талархал илэрхийлье!

Та бүхний, хувьцаа эзэмшигчдийн маань дэмжлэггүйгээр бидний бүх хүчин чармайлт талаар өнгөрч, амжилт ололт ч гарахгүй байх байсан. Тиймээс компанийн ТУЗ болон удирдлагын нэрийн өмнөөс та бүхэнд гүн талархал илэрхийлье!

Дуглас МакГэй
Ерөнхий Гүйцэтгэх Захирал

Directors' Report

Your directors submit their report for the year ended 31 December 2010.

Petro Matad Limited is a company incorporated in the Isle of Man on 30 August 2007, which has four wholly owned subsidiaries, Capcorp Mongolia LLC and Petro Matad LLC (both incorporated in Mongolia), and Central Asian Petroleum Corporation Limited ("Capcorp") and Petromatad Invest Limited (both incorporated in the Cayman Islands). Together collectively referred to as the "Group".

Directors

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

- Gordon Leonard Toll (appointed Co-Chairperson 4 August 2010)
- Janchiv Oyungerel (appointed Co-Chairperson 4 August 2010)
- Douglas John McGay
- Clyde Robert Evans
- John Campbell Robertson
- Davaadorj Sarangua
- Mary Ellen Collins (appointed 14 May 2010)
- Davaanyam Enkhchimeg (appointed 14 May 2010 and resigned on 20 May 2011)
- Davaanyam Enkhmaa (appointed 20 May 2011)

Principal Activities

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

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

Review and Results of Operations

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

The net loss after tax for the Group for the 12 months ended 31 December 2010 was $16.079 million (31 December 2009: Loss $5.080 million).

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

Changes in State of Affairs

On 22 February 2010, the Company issued 13,730,103 shares to European Bank for Reconstruction and Development ("EBRD") at a price of GBP0.14 per share being the first tranche of shares pursuant to a Subscription Agreement signed on 18 December 2009 between the Company and EBRD.

On 11 June 2010, pursuant to the Group's Long Term Equity Incentive Plan ("Plan"), 18,750 shares were issued on exercise of options by an employee with an exercise price of GBP0.11 per share.

On 11 June 2010, the Company issued 14,644,004 shares to EBRD at a price of GBP0.14 per share being the second tranche of shares pursuant to the Subscription Agreement signed on 18 December 2009.

On 9 July 2010, pursuant to the Group's Plan, 3,319,000 options over shares were issued to directors and employees at an exercise price of GBP0.4616 per share, exercisable in three parts:

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

On 9 July 2010, pursuant to the Group's Plan, 2,671,000 Performance Share Awards were issued to directors and employees. These have an exercise price per share of $0.01.

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

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

On 21 July 2010, the Company issued 2,000,000 shares to nominated recipients of Petrovis LLC ("Petrovis") in settlement of a liability related to a fee of GBP280,000 pursuant to a Service Agreement dated 19 June 2009.

On 21 July 2010, 966,800 shares were issued on exercise of options by Westhouse Securities Limited ("Westhouse") at a price of $0.75 per share under an option agreement dated 25 April 2008.

On 21 September 2010, the Company concluded a placement by issuing 13,640,203 shares at a price of GBP1.35 per share arranged through its broker, Westhouse.

On 5 October 2010, the Company issued 8,843,675 shares through direct subscriptions at a price of GBP1.35 per share.

On 12 October 2010, pursuant to the Group's Plan, 235,500 shares were issued to directors and employees on the exercise of options with an exercise price of $0.75 per share.

On 12 October 2010, pursuant to the Group's Plan, 255,000 shares were issued to directors and employees on the exercise of options with an exercise price of GBP0.11 per share.

On 12 October 2010, the Company issued 3,367,003 shares to EBRD at a price of GBP1.35 per share.

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

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

On 29 November 2010, pursuant to the Group's Plan, 18,750 shares were issued on exercise of options by an employee with an exercise price of $0.75 per share.

Significant Events after Reporting Date

On 25 March 2011, the Company issued 191,479 shares to employees exercising Performance Share Awards pursuant to the Group's Plan at an exercise price per share of $0.01.

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

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

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

On 6 April 2011, pursuant to the Group's Plan, 707,800 Performance Share Awards on ordinary shares were issued to employees. These have an exercise price per share of $0.01.

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

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

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

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

On 12 April 2011, pursuant to the Group's Plan, 50,000 shares were issued on exercise of options by a director, with an exercise price of $0.75 per share.

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

On 21 April 2011, the Company issued 142,447 shares to employees exercising Performance Share Awards pursuant to the Group's Plan at an exercise price per share of $0.01.

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

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

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

Dividends

No dividends have been paid or are proposed in respect of the 2010 year.

Future Developments

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

Indemnification of Officers and Auditors

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

Environmental Regulation

The Group is required to carry out its activities in accordance with the petroleum laws and regulations in the areas in which it undertakes its exploration activities. The 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 R Evans
Director
20 June 2011

Remuneration Report (Unaudited)

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

The Remuneration Committee is comprised of Janchiv Oyungerel (Chairperson), Gordon Leonard Toll and John Campbell Robertson. Its objective is to meet at least twice a year and at as such other times as the Committee Chairperson shall require in accordance with the formal "Terms of Reference for the Remuneration Committee" approved by the Board of Directors on 24 April 2008.

Remuneration Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Long Term Equity Incentive Plan

The Group provides long term incentives to employees (including executive directors), non-executive directors and consultants through the Group's Plan based on the achievement of certain performance criteria. The Plan provides for share awards in the form of options and conditional Performance Share Awards. The incentives are awarded at the discretion of the Board, or in the case of executive directors, the Remuneration Committee of the Board, who determine the level of award and appropriate vesting, service and performance conditions taking into account market practice and the need to recruit and retain the best people.

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

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

(a) Details of Directors

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

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

Directors		
Gordon Leonard Toll	Non-executive Co-Chairperson	
Janchiv Oyungerel	Non-executive Co-Chairperson	
Douglas John McGay	Chief Executive Officer	
Clyde Robert Evans	Chief Financial Officer	
John Campbell Robertson	Non-executive Director	
Davaadorj Sarangua	Non-executive Director	
Mary Ellen Collins	Non-executive Director	Appointed 14 May 2010
Davaanyam Enkhchimeg	Non-executive Director	Appointed 14 May 2010 and resigned 20 May 2011
Davaanyam Enkhmaa	Non-executive Director	Appointed 20 May 2011

(b) Compensation of Directors

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Short term employee benefits		**663**	737	**602**	574
Post-employment benefits		**-**	-	**-**	-
Share based payment expense		**944**	585	**934**	585
		1,607	1,322	**1,536**	1,159

Compensation to employees other than directors has been excluded from the 2010 table, as they are no longer classified as Key Management Personnel.

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Directors					
Gordon Leonard Toll		**52**	50	**52**	50
Janchiv Oyungerel		**47**	42	**47**	42
Douglas John McGay		**263**	216	**202**	158
Clyde Robert Evans		**214**	189	**214**	189
John Campbell Robertson		**32**	28	**32**	28
Davaadorj Sarangua		**32**	28	**32**	28
Mary Ellen Collins		**-**	-	**-**	-
Davaanyam Enkhchimeg		**23**	-	**23**	-
Total		**663**	553	**602**	495

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

Directors' compensation includes consultancy service payments of $202,278 (2009: $158,396) paid to a company associated with Douglas John McGay and consultancy service payments of $91,605 (2009: $81,000) paid to a company associated with Clyde Robert Evans.

Mary Ellen Collins, who serves as a non-executive director to the Company under the nomination of EBRD, did not receive any remuneration from the Company during 2010. Ms Collins is paid a fee for her role by EBRD. Under these arrangements the Company has not reimbursed EBRD for Ms Collins' services during 2010.

Directors are not entitled to any termination/retirement benefits.

(c) Shareholdings of Directors and their related parties

For the year ended 31 December 2009	Balance as at 01-Jan-09	Acquired and (Disposed)	Options Exercised	Balance as at 31-Dec-09
Directors				
Gordon Leonard Toll	5,102,501	-	-	5,102,501
Janchiv Oyungerel	6,335,000	-	-	6,335,000
Douglas John McGay	5,600,000	150,000	-	5,750,000
Clyde Robert Evans	3,675,001	107,376	-	3,782,377
John Campbell Robertson	-	150,000	-	150,000
Davaadorj Sarangua	-	-	-	-
Total	**20,712,502**	**407,376**	**-**	**21,119,878**

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

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

An adjustment has been made to previously reported directors' shareholdings to exclude holdings of parties no longer considered related.

Davaanyam Enkhchimeg's shareholding of 200,000 at the beginning of 2010 was acquired prior to her appointment as a director on 14 May 2010.

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

(d) Options holdings of Directors

For the year ended 31 December 2009	Balance as at 01-Jan-09	Granted as Remuneration	Options Exercised	Balance as at 31-Dec-09	Not Vested & Not Exercisable	Vested & Exercisable
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	350,000	350,000	-	700,000	700,000	-
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	-
Total	**1,350,000**	**1,350,000**	**-**	**2,700,000**	**2,700,000**	**-**

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

An adjustment has been made to previously reported directors' option holdings to exclude holdings of parties no longer considered related.

(e) Performance Share Awards holdings of Directors

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
Directors						
Gordon Leonard Toll	250,000	-	-	250,000	250,000	-
Janchiv Oyungerel	250,000	-	-	250,000	250,000	-
Douglas John McGay	350,000	-	-	350,000	350,000	-
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	-
Total	**1,350,000**	**-**	**-**	**1,350,000**	**1,350,000**	**-**

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

An adjustment has been made to previously reported directors' award holdings to exclude holdings of parties no longer considered related.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated		Parent	
		31 Dec 2010 USD$'000	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Continuing operations					
Revenue					
Interest income	4(a)	**48**	73	**1**	-
		48	73	**1**	-
Expenditure					
Consultancy fees		**104**	562	**86**	552
Depreciation and amortisation		**56**	22	**13**	4
Employee benefits expense	4(b)	**4,110**	1,594	**3,578**	1,189
Exploration and evaluation expenditure	4(c)	**9,579**	1,567	**4**	23
Other expenses	4(d)	**2,278**	1,408	**895**	468
Loss from continuing operations before income tax		**(16,079)**	(5,080)	**(4,575)**	(2,236)
Income tax expense/(benefit)	5	**-**	-	**-**	-
Loss from continuing operations after income tax		**(16,079)**	(5,080)	**(4,575)**	(2,236)
Net (loss) for the year		**(16,079)**	(5,080)	**(4,575)**	(2,236)
Other comprehensive income					
Exchange rate differences on translating foreign operations		**(68)**	(76)	**-**	-
Other comprehensive loss for the year, net of income tax		**(68)**	(76)	**-**	-
Total comprehensive loss for the year		**(16,147)**	(5,156)	**(4,575)**	(2,236)
Loss attributable to owners of the parent		**(16,079)**	(5,080)	**(4,575)**	(2,236)
Total comprehensive loss attributable to owners of the parent		**(16,147)**	(5,156)	**(4,575)**	(2,236)
Loss per share (cents per share)					
Basic and diluted (loss) per share	6	**(10.5)**	(4.7)	**-**	-

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

Statement of Financial Position

AS AT 31 DECEMBER 2010

	Note	Consolidated		Parent	
		31 Dec 2010 USD$'000	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
ASSETS					
Current Assets					
Cash and cash equivalents	7	**51,690**	5,215	**29,063**	1,198
Trade and other receivables	8	**88**	34	**-**	-
Prepayments and other assets	9	**354**	103	**6**	81
Total Current Assets		**52,132**	5,352	**29,069**	1,311
Non-Current Assets					
Trade and other receivables	8	**-**	-	**42,574**	12,944
Exploration and evaluation assets	10	**15,275**	15,275	**-**	-
Property, plant and equipment	11	**450**	199	**67**	13
Investment in subsidiaries	12	**-**	-	**19,163**	19,163
Total Non-current assets		**15,725**	15,474	**61,804**	32,120
TOTAL ASSETS		**67,857**	20,826	**90,873**	33,431
LIABILITIES					
Current Liabilities					
Trade and other payables	13	**14,21**	796	**127**	663
Total Current Liabilities		**14,21**	796	**127**	663
TOTAL LIABILITIES		**1,421**	796	**127**	663
NET ASSETS		**66,436**	20,030	**90,746**	32,768
EQUITY					
Equity attributable to owners of the parent					
Issued capital	14	**95,466**	35,115	**95,659**	35,308
Reserves	15	**3,900**	1,766	**3,213**	1,011
Accumulated losses		**(32,930)**	(16,851)	**(8,126)**	(3,551)
TOTAL EQUITY		**66,436**	20,030	**90,746**	32,768

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 2010

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Cash flows from operating activities					
Payments to suppliers and employees		**(13,390)**	(4,079)	**(2,881)**	(1,184)
Interest received		**48**	73	**1**	-
Net cash flows from/(used in) operating activities	7	**(13,342)**	(4,006)	**(2,880)**	(1,184)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(307)**	(124)	**(67)**	(4)
Proceeds from the disposal of plant and equipment		**-**	-	**-**	-
Net cash flows from/(used in) investing activities		**(307)**	(124)	**(67)**	(4)
Cash flows from financing activities					
Proceeds from issue of shares	14	**61,960**	6,431	**61,960**	6,431
Capital raising costs		**(1,518)**	(258)	**(1,518)**	(258)
Loans to related parties		**-**	-	**(32,972)**	(4,302)
Proceeds from loans to related parties		**-**	-	**3,342**	500
Net cash flows from/(used in) financing activities		**60,442**	6,173	**30,812**	2,371
Net increase/(decrease) in cash and cash equivalents		**46,793**	2,043	**27,865**	1,183
Cash and cash equivalents at beginning of the year		**5,215**	3,248	**1,198**	15
Net foreign exchange differences		**(318)**	(76)	**-**	-
Cash and cash equivalents at the end of the year	7	**51,690**	5,215	**29,063**	1,198

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 2010

	Note	Issued capital USD$'000	Accumulated Losses USD$'000	Other reserves Note 15 USD$'000	Total USD$'000
		Consolidated Attributable to equity holders of the parent			
As at 1 January 2009		**28,928**	**(11,771)**	**1,240**	**18,397**
Net loss for the year		-	(5,080)	-	(5,080)
Other comprehensive income		-	-	(76)	(76)
Total comprehensive loss 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 & 16	-	-	602	602
As at 31 December 2009		**35,115**	**(16,851)**	**1,766**	**20,030**
Net loss for the year		-	(16,079)	-	(16,079)
Other comprehensive income		-	-	(68)	(68)
Total comprehensive loss for the year		**-**	**(16,079)**	**(68)**	**(16,147)**
Transactions with owners in their capacity as owners					
Issue of share capital	14	61,960	-	-	61,960
Cost of capital raising	14	(1,609)			(1,609)
Share-based payments	15 & 16	-	-	2,202	2,202
As at 31 December 2010		**95,466**	**(32,930)**	**3,900**	**66,436**

	Note	Issued capital USD$'000	Accumulated Losses USD$'000	Other reserves Note 15 USD$'000	Total USD$'000
		Parent Attributable to equity holders of the parent			
As at 1 January 2009		**29,121**	**(1,315)**	**409**	**28,215**
Net loss for the year		-	(2,236)	-	(2,236)
Other comprehensive income		-	-	-	-
Total comprehensive loss 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 & 16	-	-	602	602
As at 31 December 2009		**35,308**	**(3,551)**	**1,011**	**32,768**
Net loss for the year		-	(4,575)	-	(4,575)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		**-**	**(4,575)**		**(4,575)**
Transactions with owners in their capacity as owners					
Issue of share capital	14	61,960	-	-	61,960
Cost of capital raising	14	(1,609)	-	-	(1,609)
Share-based payments	15 & 16	-	-	2,202	2,202
As at 31 December 2010		**95,659**	**(8,126)**	**3,213**	**90,746**

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

1 Corporate information

The financial report of Petro Matad Limited for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 17 June 2011.

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 four wholly owned subsidiaries, Capcorp Mongolia LLC (both incorporated in Mongolia), and Central Asian Petroleum Corporation Limited ("Capcorp") and Petromatad Invest Limited (both incorporated in the Cayman Islands). Together collectively referred to as the "Group".

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 ("AAS") as issued by the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

(b) Statement of compliance

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

Certain AAS and Australian Accounting interpretations have recently been issued or amended but are not yet effective. These standards have not been adopted by the Group for the year ended 31 December 2010 and would not have a material effect on the Group's current accounting policies.

(c) Basis of consolidation

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

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

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

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

Summary of significant accounting policies (continued)

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.

Translation of subsidiaries' functional currency to presentation currency
The results of the Mongolian subsidiaries are translated into USD (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at 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 was sold, the proportionate share of exchange difference 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 six 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.

Summary of significant accounting policies (continued)

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 and is currently estimated to be an average of 6.5 years.

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

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

(h) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by the Company is expensed 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 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.

Summary of significant accounting policies (continued)

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.

(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 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 reminder 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.

Summary of significant accounting policies (continued)

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

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

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

(o) Contributed equity

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

(p) Revenue

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

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

Interest revenue
Revenue is recognised on an accrual basis.

(q) Share-based payment transactions

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

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

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

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- 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 balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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.

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 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 reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the year

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

(t) Earnings per share

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

Summary of significant accounting policies (continued)

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

- Costs of servicing equity (other than dividends)
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses.
- 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

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

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

4 Revenues and expenses

	Note	Consolidated 31 Dec 2010 USD$'000	Consolidated 31 Dec 2009 USD$'000	Parent 31 Dec 2010 USD$'000	Parent 31 Dec 2009 USD$'000
(a) Revenue					
Interest Income		**48**	73	**1**	-
		48	73	**1**	-
(b) Employee benefits expense					
Included in employee benefits expense are the following:					
Wages and Salaries		**750**	492	**244**	111
Consultancy fees		**946**	327	**946**	327
Directors' fees (including directors of affiliates)		**212**	173	**186**	149
Expense of share-based payments		**2,202**	602	**2,202**	602
		4,110	1,594	**3,578**	1,189
(c) Exploration and evaluation expenditure					
Exploration and evaluation expenditure relates to the following PSCs:					
Block XX		**7,593**	1,500	**-**	-
Blocks IV and V		**1,982**	67	**-**	23
Other		**4**	-	**4**	-
		9,579	1,567	**4**	23
(d) Other Expenses					
Included in other expenses are the following:					
Administration costs		**1,625**	1,178	**418**	364
Travel expenses		**406**	248	**227**	123
Foreign exchange difference		**247**	(18)	**250**	(19)
		2,278	1,408	**895**	468

5 Income tax

	Note	Consolidated 31 Dec 2010 USD$'000	Consolidated 31 Dec 2009 USD$'000	Parent 31 Dec 2010 USD$'000	Parent 31 Dec 2009 USD$'000
Income tax recognised in the statement of comprehensive income:					
Tax expense/(benefit) comprises:					
Current tax expense/(benefit)		**-**	-	**-**	-
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences		**-**	-	**-**	-
Total tax expense/(benefit) reported in the statement of comprehensive income		**-**	-	**-**	-

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

	Note	Consolidated 31 Dec 2010	Consolidated 31 Dec 2009	Parent 31 Dec 2010	Parent 31 Dec 2009
Net loss for the year		**16,079**	5,080	**4,575**	2,236
Income tax expense calculated at 10%	(i)	**1,608**	508	**457**	223
Effect of different tax rates on entities in different jurisdictions	(ii)	**(1,168)**	(318)	**(457)**	(223)
Timing differences not brought to account		**(440)**	(190)	**-**	-
		-	-	**-**	-

(i) The tax rate used in the above reconciliation is the corporate tax rate of 10% payable by Mongolian corporate entities on taxable profits up to 3 billion MNT under Mongolian tax law.

(ii) Petromatad Invest Limited and Capcorp are exempt of Mongolian corporate tax on profits derived from the sale of oil under their PSCs and are subject to Cayman Islands Income Tax at a rate of 0%. As a consequence, no provision for Mongolian corporate tax or Cayman Islands current tax or deferred tax has been made in the company's accounts in relation to them.

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

6 Loss per share

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

	Consolidated 31 Dec 2010 cents per share	Consolidated 31 Dec 2009 cents per share
Basic loss per share	**10.5**	4.7
Diluted loss per share	**10.5**	4.7
	USD$'000	USD$'000
The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:		
Net loss attributable to ordinary shareholders	**16,079**	5,080
Weighted average number of ordinary shares for the purposes of basic loss per share	**153,558**	106,975

Loss per share (continued)

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

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

7 Cash and cash equivalents

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Cash at bank and in hand		**51,690**	5,215	**29,063**	1,198
Short term deposits		**-**	-	**-**	-
		51,690	5,215	**29,063**	1,198

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 $51,690,000 (2009: $5,215,000).

Reconciliation from the net profit/ (loss) after tax to the net cash flows from operations:				
Net (loss) after tax	**(16,079)**	(5,080)	**(4,575)**	(2,236)
Adjustments for:				
Depreciation and amortisation	**56**	22	**13**	4
(Profit)/loss on sale of plant and equipment	**-**	1	**-**	-
Share based payments	**2,202**	602	**2,202**	602
Unrealised foreign exchange differences	**-250**	(18)	**-**	(19)
Changes in assets and liabilities				
(increase)/decrease in trade and other receivables	**(54)**	(33)	**32**	831
(increase)/decrease in prepayments and other assets	**(332)**	(2)	**(6)**	-
(decrease)/increase in trade and other payables	**615**	502	**(546)**	(366)
Net cash flows from/(used in) operating activities	**(13,342)**	(4,006)	**(2,880)**	(1,184)

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

8 Trade and other receivables

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Current					
Other debtors		**88**	34	**-**	32
		88	34	**-**	32
Non-current					
Related party receivables:					
- loan to subsidiaries		**-**	-	**42,574**	12,944
		-	-	**42,574**	12,976

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

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

9 Prepayments and other assets

	Note	Consolidated 31 Dec 2010 USD$'000	Consolidated 31 Dec 2009 USD$'000	Parent 31 Dec 2010 USD$'000	Parent 31 Dec 2009 USD$'000
Prepayments		**41**	81	**6**	81
Other assets		**313**	22	**-**	-
		354	103	**6**	81

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

10 Exploration and evaluation assets

	Note	Consolidated 31 Dec 2010 USD$'000	Consolidated 31 Dec 2009 USD$'000	Parent 31 Dec 2010 USD$'000	Parent 31 Dec 2009 USD$'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

	Note	Consolidated 31 Dec 2010 USD$'000	Consolidated 31 Dec 2009 USD$'000	Parent 31 Dec 2010 USD$'000	Parent 31 Dec 2009 USD$'000
Plant and equipment at cost		**540**	237	**76**	14
Accumulated depreciation and impairment		**(90)**	(38)	**(9)**	(1)
		450	199	**67**	13

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

	Consolidated Plant and Equipment USD$'000	Consolidated Total USD$'000	Parent Plant and Equipment USD$'000	Parent Total USD$'000
As at 1 January 2009 (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**
Additions	307	307	67	67
Disposals	-	-	-	-
Depreciation charge for the year	(56)	(56)	(13)	(13)
As at 31 December 2010 (net of accumulated depreciation)	**450**	**450**	**67**	**67**

12 Investment in subsidiaries

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Investments in subsidiaries at cost		**-**	-	**19,163**	19,163
		-	-	**19,163**	19,163

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

13 Trade and other payables (current)

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Trade payables		**1,418**	793	**127**	663
Other payables		**3**	3	**-**	-
		1,421	796	**127**	663
Related party payables:					
- Loans from subsidiaries		**-**	-	**-**	-
		1,421	796	**127**	663

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

14 Issued capital

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Ordinary Shares 183,061,577 shares issued and fully paid (2009: 125,341,789)		**95,466**	35,115	**95,659**	35,308
		95,466	35,115	**95,659**	35,308

Issued capital (continued)

Movements in ordinary shares on issue:

	Number of shares	Issue price USD$	USD$'000
Consolidated			
As at 1 January 2009	96,680,004		28,928
Vesting of Performance Share Award (note (a))	25,000	0.010	-
Issue of subscription shares to Petrovis on 25 June 2009 (note (b))	5,000,000	0.213	1,065
Placement shares on 28 August 2009 (note (c))	14,706,609	0.227	3,339
Direct subscription shares on 17 September 2009 (note (d))	3,930,176	0.227	892
Issue of subscription shares to Petrovis on 17 September 2009 (note (e))	5,000,000	0.227	1,135
Capital raising costs	-	-	(244)
As at 31 December 2009	**125,341,789**		**35,115**
Issue of EBRD first tranche shares on 22 February 2010 (note (f))	13,730,10	0.218	3,000
Issue of shares to employee on 11 June 2010 on exercise of options (note (g))	318,750	0.163	3
Issue of EBRD second tranche shares on 11 June 2010 (note (h))	14,644,004	0.205	3,000
Issue of Petrovis service shares on 21 July 2010(note (i))	2,000,000	0.210	420
Issue of shares to Westhouse on 21 July 2010 on exercise of options (note (j))	966,800	0.750	725
Placement shares on 21 September 2010 (note (k))	13,640,203	2.080	29,154
Direct subscription shares on 5 October 2010 (note (l))	8,843,675	2.080	18,423
Issue of shares to directors and employees on 12 October 2010 on exercise of options (note (m))	235,500	0.750	177
Issue of shares to directors and employees on 12 October 2010 on exercise of options (note (n))	255,000	0.175	45
Issue of EBRD subscription shares on 12 October 2010 (note (o))	3,367,003	2.079	7,000
Issue of shares to employee on 29 November 2010 on exercise of options (note (p))	18,750	0.750	13
Capital raising costs	-	-	(1,609)
As at 31 December 2010	**183,061,577**		**95,466**
Parent			
As at 1 January 2009	96,680,004		29,121
Vesting of Performance Share Award (note (a))	25,000	0.010	-
Issue of subscription shares to Petrovis on 25 June 2009 (note (b))	5,000,000	0.213	1,065
Placement shares on 28 August 2009 (note (c))	14,706,609	0.227	3,339
Direct subscription shares on 17 September 2009 (note (d))	3,930,176	0.227	892
Issue of subscription shares to Petrovis on 17 September 2009 (note (e))	5,000,000	0.227	1,135
Capital raising costs	-	-	(244)
As at 31 December 2009	**125,341,789**		**35,308**
Issue of EBRD first tranche shares on 22 February 2010 (note (f))	13,730,103	0.218	3,000
Issue of shares to employee on 11 June 2010 on exercise of options (note (g))	18,750	0.163	3
Issue of EBRD second tranche shares on 11 June 2010 (note (h))	14,644,004	0.205	3,000
Issue of Petrovis service shares on 21 July 2010(note (i))	2,000,000	0.210	420
Issue of shares to Westhouse on 21 July 2010 on exercise of options (note (j))	966,800	0.750	725
Placement shares on 21 September 2010 (note (k))	13,640,203	2.080	29,154
Direct subscription shares on 5 October 2010 (note (l))	8,843,675	2.080	18,423
Issue of shares to directors and employees on 12 October 2010 on exercise of options (note (m))	235,500	0.750	177
Issue of shares to directors and employees on 12 October 2010 on exercise of options (note (n))	255,000	0.175	45
Issue of EBRD subscription shares on 12 October 2010 (note (o))	3,367,003	2.079	7,000
Issue of shares to employee on 29 November 2010 on exercise of options (note (p))	18,750	0.750	13
Capital raising costs	-	-	(1,609)
As at 31 December 2010	**183,061,577**		**95,659**

Issued capital (continued)

(a) On 27 January 2009, pursuant to the Group's Plan, 25,000 shares were vested to an employee.

(b) On 25 June 2009, the Company issued 5,000,000 shares to Petrovis at a price of GBP0.13 per share being the first tranche of shares pursuant to the Subscription Agreement signed on 19 June 2009 between the Company and Petrovis.

(c) On 28 August 2009, the Company concluded a placement by issuing 14,706,609 shares at a price of GBP0.14 per share through its broker, Westhouse.

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

(e) On 17 September 2009, the Company issued 5,000,000 shares to Petrovis at a price of GBP0.14 per share pursuant to the second tranche of the Subscription Agreement signed on the 19 June 2009.

(f) On 22 February 2010, the Company issued 13,730,103 shares to EBRD at a price of GBP0.14 per share being the first tranche of shares pursuant to the Subscription Agreement signed on 18 December 2009 between the Company and EBRD.

(g) On 11 June 2010, pursuant to the Group's Plan, 18,750 shares were issued on exercise of options by an employee with an exercise price of GBP0.11 per share.

(h) On 11 June 2010, the Company issued 14,644,004 shares to EBRD at a price of GBP0.14 per share being the second tranche of shares pursuant to the Subscription Agreement signed on 18 December 2009.

(i) On 21 July 2010, the Company issued 2,000,000 shares to nominated recipients of Petrovis in settlement of a liability related to a fee of GBP280,000 pursuant to a Service Agreement dated 19 June 2009.

(j) On 21 July 2010, 966,800 shares were issued to Westhouse on exercise of options with an exercise price of $0.75 per share under an option agreement dated 25 April 2008.

(k) On 21 September 2010, the Company concluded a placement by issuing 13,640,203 shares at a price of GBP1.35 per share arranged through its broker, Westhouse.

(l) On 5 October 2010, the Company issued 8,843,675 shares through subscriptions at a price of GBP1.35 per share.

(m) On 12 October 2010, pursuant to the Group's Plan, 235,500 shares were issued on exercise of options by directors and employees with an exercise price of $0.75 per share.

(n) On 12 October 2010, pursuant to the Group's Plan, 255,000 shares were issued on exercise of options by directors and employees with an exercise price of GBP0.11 per share.

(o) On 12 October 2010, the Company issued 3,367,003 subscription shares to EBRD at a price of GBP1.35 per share

(p) On 29 November 2010, pursuant to the Group's Plan, 18,750 shares were issued on exercise of options by an employee with an exercise price of $0.75 per share.

15 Reserves

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

	Merger reserve USD$'000	Equity benefits reserve USD$'000	Foreign currency translation USD$'000	Total USD$'000
Consolidated				
As at 1 January 2009	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**
Currency translation differences	-	-	(68)	(68)
Share based payments	-	2,202	-	2,202
As at 31 December 2010	**831**	**3,213**	**(144)**	**3,900**
Parent				
As at 1 January 2009	-	409	-	409
Currency translation differences	-	-	-	-
Option premium on convertible notes	-	-	-	-
Share based payment	-	602	-	602
As at 31 December 2009	**-**	1,011	-	1,011
Currency translation differences	-	-	-	-
Share based payments	-	2,202	-	2,202
As at 31 December 2010	**-**	**3,213**	**-**	**3,213**

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 Share Awards provided to employees and directors as part of their remuneration, pursuant to the Group's Plan. Refer to Note 16 for further details of these plans.

Foreign currency translation reserve

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

16 Share based payments

(a) Long Term Equity Incentive Plan

The Group provides long term incentives to employees (including executive directors), non-executive directors and consultants through the Group's Plan based on the achievement of certain performance criteria. The Plan provides for share awards in the form of options and conditional Performance Share Awards. The incentives are awarded at the discretion of the Board, or in the case of executive directors, the Remuneration Committee of the Board, who determine the level of award and appropriate vesting, service and performance conditions taking into account market practice and the need to recruit and retain the best people.

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

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

The following options were granted during the year:

On 9 July 2010, pursuant to the Group's Plan, 3,319,000 options over ordinary shares were issued to directors and employees at an exercise price of GBP0.4616 per share, exercisable in three parts as follows:

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

The following awards were granted during the year:

On 9 July 2010, pursuant to the Group's Plan, 2,671,000 Performance Share Awards were issued to directors and employees. These have an exercise price per share of $0.01.

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

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

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

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

The fair value of the options and Performance Share Awards granted is estimated as at the date of grant using Black Scholes model, taking into account the terms and conditions upon which they were granted. Expected volatility is based on the historical share price volatility over the past 2.5 years.

Share based payments (continued)

(b) Option pricing model

Options issued on 8 April 2009

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

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

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

- 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 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	$0.157	$0.157	$0.157
Expected Volatility (%)	100	100	100
Risk-free interest rates (%)	2.60	2.60	2.60
Expected life (years)	5.00	5.50	6.00
Exercise Price	$0.162	$0.162	$0.162
Estimate fair value of option	**$0.1172**	**$0.1208**	**$0.1241**

Options issued on 9 July 2010

On 9 July 2010, pursuant to the Group's Plan, 3,319,000 options over ordinary shares were issued to employees and directors at GBP0.4616 ($0.70) per share, exercisable in three parts as follows:

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

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

	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	$0.88	$0.88	$0.88
Expected Volatility (%)	220	220	220
Risk-free interest rates (%)	0.50	0.50	0.50
Expected life (years)	5.00	5.50	6.00
Exercise Price	$0.70	$0.70	$0.70
Estimate fair value of option	**$0.8772**	**$0.8783**	**$0.8789**

Share based payments (continued)

(c) Movement in share options

Consolidated and Parent	Opening balance at 1 January 2009	Granted during the year	Forfeited during the year	Exercised 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)	75.00	16.20	60.30		50.49	75.00

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

(d) Performance awards pricing model

Performance awards issued on 8 April 2009

On 8 April 2009, pursuant to the Group's Plan, 155,000 Performance Share Awards over ordinary shares were issued to employees and directors. These have an exercise price per share of $0.01.

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

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

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

Share price at grant date	$0.157
Expected Volatility (%)	100
Risk-free interest rates (%)	3.47
Expected life (years)	11
Exercise Price	$0.01

The estimate fair value of each Performance Share Award at grant date is approximately $0.1608
Performance awards issued on 9 July 2010

Performance awards issued on 9 July 2010

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

Share based payments (continued)

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

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

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

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

The estimate fair value of each Performance Share Award at grant date is approximately $0.88
Performance awards issued on 12 November 2010.

On 12 November 2010, pursuant to the Group's Plan, 846,903 Performance Share Awards were awarded to three employees. The performance conditions of the awards are tied to employment continuity & are available for vesting in three equal annual instalments on various dates commencing in 2011.

On 12 November, 2010, pursuant to the Group's Plan, 198,940 Performance Share Awards were awarded to four employees. The Performance Share Awards are available for vesting at any time after the date of award.

These have an exercise price per share of $0.01.

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

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

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

(e) Movement in performance awards

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 Share Awards on 3 June 2008	1,820,000	-	(80,000)	1,740,000	-
Grant of Performance Share 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)	1.00	1.00	1.00	1.00	-

Share based payments (continued)

Consolidated and Parent	Opening balance at 1 January 2010	Granted during the year	Forfeited during the year	Closing balance as at 31 December 2010	Exercisable at year end
Grant of Performance Share Awards on 3 June 2008	1,740,000	-	-	1,740,000	-
Grant of Performance Share Awards on 8 April 2009	155,000	-	-	155,000	-
Grant of Performance Share Awards on 9 July 2010	-	2,671,000	(50,000)	2,621,000	-
Grant of Performance Share Awards on 12 November 2010	-	1,045,843	-	1,045,843	198,940
	1,895,000	**3,716,843**	**(50,000)**	**5,561,843**	**198,940**
Weighted Average Exercise Price (cents per award)	1.00	1.00	1.00	1.00	1.00

17 Commitments and contingencies

(a) Operating lease commitments

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

The Group has committed to an office lease in Australia of $34,682 per annum expiring 31 January 2011. The Group has also committed to an office lease in Mongolia of $132,000 per annum expiring 31 December 2011.

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Operating Leases:					
Within one year		**135**	99	**3**	32
After one year but not more than five years		**-**	3	**-**	3
Greater than five years		**-**	-	**-**	-
		135	102	**3**	35

(b) Exploration expenditure commitments

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

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

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Production Sharing Contract Fees:					
Within one year		**735**	291	**-**	-
After one year but not more than five years		**1,320**	2,369	**-**	-
Greater than five years		**-**	-	**-**	-
		2,055	2,660	**-**	-
Minimum Exploration Work Obligations:					
Within one year		**16,228**	2,555		
After one year but not more than five years		**19,364**	35,870		
Greater than five years		**-**	-		
		35,592	38,425		

Commitments and contingencies (continued)

In terms of the three PSC's, 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 $11.5 million in 2011/12. However, this will not occur as $9.4 million expenditure is planned in respect to the Block IV and V exploration works and $30.3 million expenditure is planned in respect to Block XX drilling and exploration works during the period January to December 2011.

Petromatad Invest Limited and Capcorp can voluntarily relinquish their rights on the contract areas under the PSC's, 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:

		Equity Interest		Investment	
	Country of Incorporation	**2010 %**	2009 %	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'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 1,000,000 ordinary shares of MNT 150 each.

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

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

Petro Matad LLC is 100% owned by Petromatad Invest Limited. Petromatad Invest Limited holds 15,000 ordinary shares at 10,000MNT each.

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

Related party disclosures (continued)

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

Amounts receivable from related parties:	31 Dec 2010 USD$'000	31 Dec 2009 USD$'000
Petro Matad Limited		
- Central Asian Petroleum Corporation Limited	**10,490**	10,031
- Petromatad Invest Limited	**6,439**	590
- Petro Matad LLC	**25,328**	2,630
- Capcorp Mongolia LLC	**317**	
Central Asian Petroleum Corporation Limited		
- Petro Matad LLC	**7,742**	7,742
- Capcorp Mongolia LLC	**1,314**	1,409
- Petromatad Invest Limited	**315**	319
Capcorp Mongolia LLC		
- Petro Matad Limited	**-**	308
Petro Matad LLC		
- Petromatad Invest Limited	**2,759**	2,426
- Capcorp Mongolia LLC	**1,854**	121

Terms and conditions of transactions with subsidiaries

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

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

	31 Dec 2010 USD$'000	31 Dec 2009 USD$'000
Petrovis' subscription for shares in Petro Matad Limited (notes (a) and (b))	**5,500**	2,201
EBRD's subscription for shares in Petro Matad Limited (notes (c))	**13,000**	-

Petrovis is a major shareholder of the Company, holding approximately 20% of the shareholdings in Petro Matad Limited.

EBRD is a major shareholder of the Company, holding approximately 17% of the shareholdings in Petro Matad Limited currently.

(a) On 25 June 2009, the Company issued 5,000,000 shares to 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.

(b) On 5 October 2010, the Company issued 2,644,230 subscription shares to Petrovis to raise a total of $5,499,998.

(c) On 22 February 2010, the Company issued 13,730,103 shares to EBRD at a price of GBP0.14 per share being the first tranche of shares pursuant to the Subscription Agreement signed on 18 December 2009 between the Company and EBRD. On 11 June 2010, the Company issued 14,644,004 shares to EBRD at a price of GBP0.14 per share being the second tranche of shares pursuant to the Subscription Agreement. On 12 October 2010, the Company issued 3,367,003 subscription shares to EBRD at a price of GBP1.35 per share.

19 Key Management Personnel

(a) Details of Directors

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

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

Directors		
Gordon Leonard Toll	Non-executive Co-Chairperson	
Janchiv Oyungerel	Non-executive Co-Chairperson	
Douglas John McGay	Chief Executive Officer	
Clyde Robert Evans	Chief Financial Officer	
John Campbell Robertson	Non-executive Director	
Davaadorj Sarangua	Non-executive Director	
Mary Ellen Collins	Non-executive Director	Appointed 14 May 2010
Davaanyam Enkhchimeg	Non-executive Director	Appointed 14 May 2010 and resigned 20 May 2011
Davaanyam Enkhmaa	Non-executive Director	Appointed 20 May 2011

(b) Compensation of Directors

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Short term employee benefits		**663**	737	**602**	574
Post-employment benefits		**-**	-	**-**	-
Share based payment expense		**944**	585	**934**	585
		1,607	1,322	**1,536**	1,159

Compensation to employees other than directors has been excluded from the 2010 table, as they are no longer classified as Key Management Personnel.

(c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2009: Nil).

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.

Financial risk management objectives and policies (continued)

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 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 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Financial Assets					
Cash and cash equivalents	3.25%	**51,690**	5,215	**29,063**	1,198
		51,690	5,215	**29,063**	1,198
Financial Liabilities					
Trade and other payables	0%	**1,421**	796	**126**	663
		1,421	796	**126**	663
Net exposure		**50,269**	4,419	**28,937**	535

Sensitivity Analysis

If the interest rates on cash balances at 31 December 2010 weakened/strengthened by 1%, there would be no material impact on the statement of comprehensive income. There would be no effect on the equity reserves other than those directly related to statement of comprehensive income movements.

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 Group is deemed to be USD because the future revenue from the sale of oil will be denominated in USD and the costs of the Group are likewise predominately in USD. Some transactions are however dominated in currencies other than USD. These transactions comprise operating costs and capital expenditure in the local currencies of the countries where the Group operates. These currencies have a close relationship to the USD and the management believes that changes in the exchange rates will not have a significant effect on the Group's financial statements.

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

Following significant exchange rates applies during the year:

	Average Rate		Spot rate at the balance date	
USD	**2010**	2009	**2010**	2009
Mongolian Tugrik ("MNT") 1	**1,357.04**	1,437.22	**1,257.18**	1,442.84
Australian Dollar ("AUD") 1	**1.09020**	1.28045	**0.98396**	1.11967
Great British Pound ("GBP") 1	**0.64760**	0.64092	**0.64638**	0.62783

Financial risk management objectives and policies (continued)

Sensitivity Analysis

A 5% strengthening/weakening of the MNT against USD at 31 December 2010 would not have a material effect on profit and equity.

Price risk

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk on its cash and cash equivalents and other receivables as set out in Notes 7 and 8 which also represent the 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:

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Financial Assets					
Cash and cash equivalents		**51,690**	5,215	**29,063**	1,198
Trade and other receivables		**88**	34	**-**	32
Net exposure		**51,778**	5,249	**29,063**	1,230

Impairment Losses:

None of the Group's receivables are past due at 31 December 2010 (2009: Nil)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
6 months or less		**1,421**	796	**126**	663
6-12 months		**-**	-	**-**	-
1-5 years		**-**	-	**-**	-
over 5 years		**-**	-	**-**	-
		1,421	796	**126**	663

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

Financial risk management objectives and policies (continued)

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 a n optimal capital structure to reduce the cost of capital. The management of the Group and the Group's capital is regularly reviewed by the Board.

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

The Group is not subject to externally imposed capital requirements.

22 Events after the reporting date

On 25 March 2011, the Company issued 191,479 shares to employees exercising Performance Share Awards pursuant to the Group's Plan at an exercise price per ordinary share of $0.01.

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

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

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

On 6 April 2011, pursuant to the Group's Plan, 707,800 Performance Share Awards on ordinary shares were issued to employees. These have an exercise price per share equal of $0.01.

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

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

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

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

On 12 April 2011, pursuant to the Group's Plan, 50,000 shares were issued on exercise of options by a director with exercise price of $0.75 per share.

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

Events after the reporting date (continued)

On 21 April 2011, the Company issued 142,447 shares to employees exercising Performance Share Awards pursuant to the Group's Plan at an exercise price per share of $0.01.

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

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

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

23 Auditors' remuneration

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

		Consolidated		Parent	
	Note	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000	**31 Dec 2010 USD$'000**	31 Dec 2009 USD$'000
Amounts received or due and receivable by Deloitte for:					
- an audit or review of the financial report of the entity and any other entity in the consolidated entity		**57**	62	**57**	62
- other services in relation to the entity and any other entity in the consolidated entity		**-**	-	**-**	-
		57	62	**57**	62
Amounts received or due and receivable by auditors other than Deloitte for:					
- an audit or review of the financial report of subsidiary entities		**7**	6	**-**	-
- other services in relation to the subsidiary entities		**-**	-	**-**	-
		7	6	**-**	-
		64	68	**57**	62

24 Other Information

Registered Office:

Victory House
Douglas
Isle of Man
IM1 1EQ

Directors' Declaration

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

In the opinion of the directors:

(a) the financial statements and notes of the Group give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date in accordance with Australian Accounting Standards mandatory professional reporting requirements and other authoritative pronouncements of the Australian Accounting Standards Board;

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

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

On behalf of the Board

Clyde R Evans
Director
20 June 2011

Deloitte.

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

We have audited the accompanying financial report of Petro Matad Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 11 to 42.

Directors' Responsibility for the Financial Report

The Directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Deloitte

Auditor's Opinion

In our opinion:

(a) the financial report of Petro Matad Limited presents fairly, in all material respects, the company's and consolidated entity's financial position as at 31 December 2010 and their financial performance for the year then ended in accordance with Australian Accounting Standards; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Nicoloff

Chris Nicoloff
Partner
Chartered Accountants
Perth, 20 June 2011

Corporate and Legal Divisions

Administration and Accounting Divisions

Corporate

Douglas McGay
Chief Executive Officer

T.Khongorzul
Board Executive

Ts.Odontuya
CEO Office Manager

B.Batbayar
Board Service and Communications Officer

B.Batsukh
Driver

Legal

Pierre Montpeyroux
Legal Consultant

S.Odbaatar
Legal Administrator

S.Oyunchimeg
Legal Assistant

B.Temuulen
Legal Translator

Administration

T.Amarzul
Executive Director of Petro Matad LLC

B.Naranzul
Community Relations Manager

A.Buren-Erdene
Community Relations Officer

J.Chinsanaa
Permit Officer

Ts.Borhul
Travel Officer

A.Jargalan
Office Manager

G.Nasanjargal
Administration Assistant

E.Erdenetuya
Administration Translator

B.Batbaatar
Driver

Ch.Oyuntsetseg
Office Cleaner

Accounting

Clyde Evans
Chief Financial Officer

B.Tamir
Chief Accountant

B.Oyunchimeg
Senior Accountant

N.Solongo
Accountant

B.Anudari
Assistant Accountant

PETRO MATAD TEAM


Exploration Division


Operations and Drilling Divisions

Operations

Rodney Graham
Chief Operating Officer

Lasha Nodia
Health and Safety Manager

O.Ariun-Orgil
Health and Safety Officer

B.Enkhbayar
Environmental Supervisor

N.Nansalmaa
Environmental Specialist

B.Purevkhuu
Network Supervisor

D.Itgelmaa
Dispatcher

J.Tsogtbayar
Field Driver

T.Batjargal
Field Driver

Ch.Bat-Erdene
Field Driver

Z.Ulziijargal
Field Driver

T.Jargalsaikhan
Field Driver

N.Oyunbold
Field Driver

Exploration

James Coogan
Exploration Manager

B.Dendevchuluun
General Manager

Kurt Constenius
Chief Geophysicist

Evgeniy Prygov
Geophysical Field Supervisor

D.Buyan - Arvijikh
Exploration Geologist

Justin Tully
Exploration Geologist

Andrew Payton
Exploration Geologist

E.Bolor
Exploration Geophysicist

P.Saruul
Geologist

S.Gandul
Wellsite Geologist

T.Sainzaya
Core Processing Facility Manager

B.Batbold
Geologist

E.Urangoo
Geological Technician

Ya.Munkhtungalag
Geological Technician

L.Byambasuren
GIS Manager

E.Odbayar
Technical Translator

M. Zul
Technical Translator

Drilling

Mark Zebrowitz
Drilling Manager

Earl Edmonds
Operations Geology Manager

Craig Skubleny
Technical Drilling Advisor

Elnur Ismayilov
Drilling Engineer

Volodymyr Magasevich
Reservoir Engineer

Paul Makey
Completion Engineer

Che Renxia
Drilling Logistics Manager

S.Dorjderem
Junior Drilling Engineer

Z.Solongoo
Junior Drilling Engineer

E.Tuvshinbayar
Junior Drilling Engineer

S.Byambasuren
Junior Drilling Engineer

James McCaughan
Field Services Manager

J.Batsaikhan
Camp Manager

D.Davaadolgor
Procurement Officer

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