PETRO MATAD LIMITED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

PETRO MATAD

Contents

Board of Directors

Dr. George Edward Watkins CBE

Chairman

Dr. Watkins holds a BSc in Mining, a PhD in Geophysics and an MSc in Management as well as an honorary degree of Doctor of Engineering DEng from Heriot Watt University. He has 45 years' experience in the oil and gas industry. Dr. Watkins began his career with Shell as a geophysicist in the Netherlands and Australia before moving to Conoco. He worked for Conoco for the next 30 years, starting as a geophysicist in the UK and then as Vice President Exploration and Production, North America. From 1993 until 2002 he was Chairman and Managing Director of Conoco UK Ltd. For the last 10 years, he has held a number of non-executive directorships at companies including, Paladin Resources plc, Abbot Group plc, Panoro Energy ASA, Production Services Network (PSN) Ltd and the Defence Procurement Agency. He was a governor of the Robert Gordon University in Aberdeen from 2005 through 2012.

Dr. Oyungerel Janchiv
Deputy Chair

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

Mary Ellen Collins
Non-Executive Director

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

Dr. Philip Arthur Vingoe

Non-Executive Director

Dr. Vingoe has nearly 40 years' experience of the oil and gas industry, commencing in the technical arena and progressing to executive leadership. He began his career with BP, where he spent nearly 20 years and was Chief Geophysicist and General Manager for worldwide exploration. In 1995, he moved to Australia to co-lead the IPO of an Australian independent, Novus Petroleum. Over the ensuing five years, the Company acquired a portfolio of assets across Asia, Africa and the Middle East. In 2000, he took up the role of Managing Director of Sasol Petroleum International (SPI) based initially in Johannesburg. In 2005, he joined Energy Equity Resources where he directed all the exploration and appraisal activity as well as communicating with investors and raising investment capital. During 2005 and 2006, he was also a Non-Executive Director of the Canadian-listed company Pan-Ocean Energy Corporation Ltd. Pan-Ocean was sold to Addax for C$1.5 billion in September 2006. He left EER in November 2007 in order to establish Pan-Petroleum as its Chief Executive Officer and was instrumental in the subsequent merger and creation of Panoro Energy in mid 2010 - at which time he assumed his position of Non-Executive Chairman of the Board. Panoro Energy is listed on the Oslo stock exchange and is focused on Brazil and West Africa.

Enkhmaa Davaanyam

Non-Executive Director

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

David Daniel Skeels

Non-Executive Director

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

Amarzul Tuul

Executive Director of the Mongolian subsidiaries

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

Ridvan Karpuz
Director of Exploration

Mr. Karpuz has over 20 years' experience in petroleum industry with proven oil finder skills. Prior to joining Petro Matad, Mr. Karpuz worked for Austrian listed integrated oil and gas company, OMV, where he has spent the last 5 years as an exploration and reservoir manager working in Iran, Yemen and more recently Tunisia. He has worked for Norsk Hydro, Norway and Endeavour Energy UK & Norway in various roles from expert structural geologist to exploration team leader working in a wide spectrum of offshore and onshore basins worldwide. Mr. Karpuz has a proven track-record of establishing successful exploration and subsurface teams and working in remote and frontier regions. Mr. Karpuz has a BSc in geological engineering degree from Dokuz Eylul University, Turkey and Cand. Scient geology degree from University of Bergen, Norway.

John Rene Henriksen
Chief Financial Officer

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

Directors' Report

Your Directors submit their report for the year ended 31 December 2012.

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

Directors

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

- Gordon Leonard Toll (resigned 27 January 2012)
- Oyungerel Janchiv
- Douglas John McGay (resigned 30 November 2012)
- Clyde Robert Evans (resigned 20 December 2012)
- John Campbell Robertson (resigned 12 March 2012)
- Sarangua Davaadorj (resigned 12 March 2012)
- Mary Ellen Collins
- Enkhmaa Davaanyam
- David Daniel Skeels (appointed 12 March 2012)

- Philip Arthur Vingoe (appointed 12 March 2012)
- George Edward Watkins (appointed 12 March 2012)
- Amarzul Tuul (appointed 19 March 2012)
- John Rene Henriksen (appointed 20 December 2012)
- Mehmed Ridvan Karpuz (appointed 20 December 2012)

Principal Activities

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

Review and Results of Operations

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

The net loss after tax for the Group for the 12 months ended 31 December 2012 was $12.155 million (31 December 2011: Loss $39.599 million).

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

Changes in State of Affairs

On 13 February 2012, pursuant to the Group's Long Term Equity Incentive Plan ("Plan"), 206,987 shares were awarded to employees exercising Conditional Share Awards with an exercise price per share of $0.01.

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

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

On 25 April 2012, pursuant to the Group's Plan, 981,000 Options over shares were granted to Directors and employees with an exercise price per share of GBP0.225, exercisable in three parts as follows:
- 33% after 25 April 2013;
- 33% after 25 April 2014;
- 34% after 25 April 2015.

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

The Conditional Share Awards will vest on achievement of the following performance conditions:
- 25% vest on the first discovery of oil on a commercial scale;
- 25% vest on the first production of oil on a commercial scale;
- 50% vest on the Group achieving the sale of 1 million barrels of oil.

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

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

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

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

On 9 July 2012, pursuant to the Group's Plan, 164,553 shares were awarded to employees exercising Conditional Share Awards with an exercise price per share of $0.01.

On 16 July 2012, pursuant to the Group's Plan, 1,198,080 Options over shares were granted to employees with an exercise price per share of GBP0.0888, exercisable in three equal parts on various dates.

On 16 July 2012, pursuant to the Group's Plan, 660,000 Conditional Share Awards over shares were granted to an employee with an exercise price per share of $0.01. The service conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2012.

On 5 October 2012, pursuant to the Group's Plan, 135,000 Options over shares were granted to employees with an exercise price per share of GBP0.0788, exercisable in three parts as follows:

- 33% after 5 Oct 2013;
- 33% after 5 Oct 2014;
- 34% after 5 Oct 2015.

On 5 October 2012, pursuant to the Group's Plan, 190,000 Conditional Share Awards over shares were granted to employees with an exercise price per share of $0.01.

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

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

On 4 December 2012, pursuant to the Group's Plan, 12,000 Options over shares were granted to employees with an exercise price per share of GBP0.08, exercisable in three parts as follows:

- 33% after 4 Dec 2013;
- 33% after 4 Dec 2014;
- 34% after 4 Dec 2015.

On 4 December 2012, pursuant to the Group's Plan, 6,000 Conditional Share Awards over shares were granted employees with an exercise price per share of $0.01.

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

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

On 4 December 2012, pursuant to the Group's Plan, 1,862,364 Conditional Share Awards over shares were granted to an employee with an exercise price per share of $0.01. The service conditions of the awards are tied to employment continuity and are available for vesting in three equal annual instalments on various dates commencing in 2013.

Significant Events after Reporting Date

On 25 January 2013, pursuant to the Group's Plan, 500,000 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

In recognition of the need to enhance portfolio management, accelerate work program activities, and to diversify exploration risk, the Company has embarked on a farm-out process and to this end opened a data-room in February 2013. A significant number of parties visited the data-room with several expressing technical interest in the exploration potential of the Company's three PSCs. As of the date of this report discussions with interested parties continue.

In April 2013 the Company commenced a fund raising effort and in conjunction with its joint brokers conducted an institutional roadshow. While the roadshow was well received and successful in outlining the potential of the Company's exploration holdings, market sentiment remains bearish and institutional investors' appetite for junior exploration companies continues to be subdued. Although the Company received investment offers they cumulatively were insufficient to meet minimum targets and alternative means of funding the Company were explored.

On 12 June 2013, Petrovis Matad Inc. (Petrovis) signed an Equity Subscription Agreement with the Company that will result the in issuance of 90,612,540 ordinary shares to members of the Petrovis Group at a Subscription price of GBP0.0356 per share. The proceeds have been received by the Company and will be used to fund the Company's ongoing operations which is planned to include work program activities in the second half of 2013. The following table summarizes the pre and post Equity Subscription Agreement shareholdings.

	Pre Equity Subscription		Post Equity Subscription	
	Percent	Shares	Percent	Shares
Petrovis Group	27.56%	51,444,262	51.23%	142,056,802
EBRD	17.00%	31,741,110	11.45%	31,741,110
Others	55.44%	103,490,629	37.32%	103,490,629
Total	100.00%	186,676,001	100.00%	277,288,541

Dividends

No dividends have been paid or are proposed in respect of the year 2012.

Future Developments

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

Indemnification of Officers and Auditors

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

Environmental Regulation

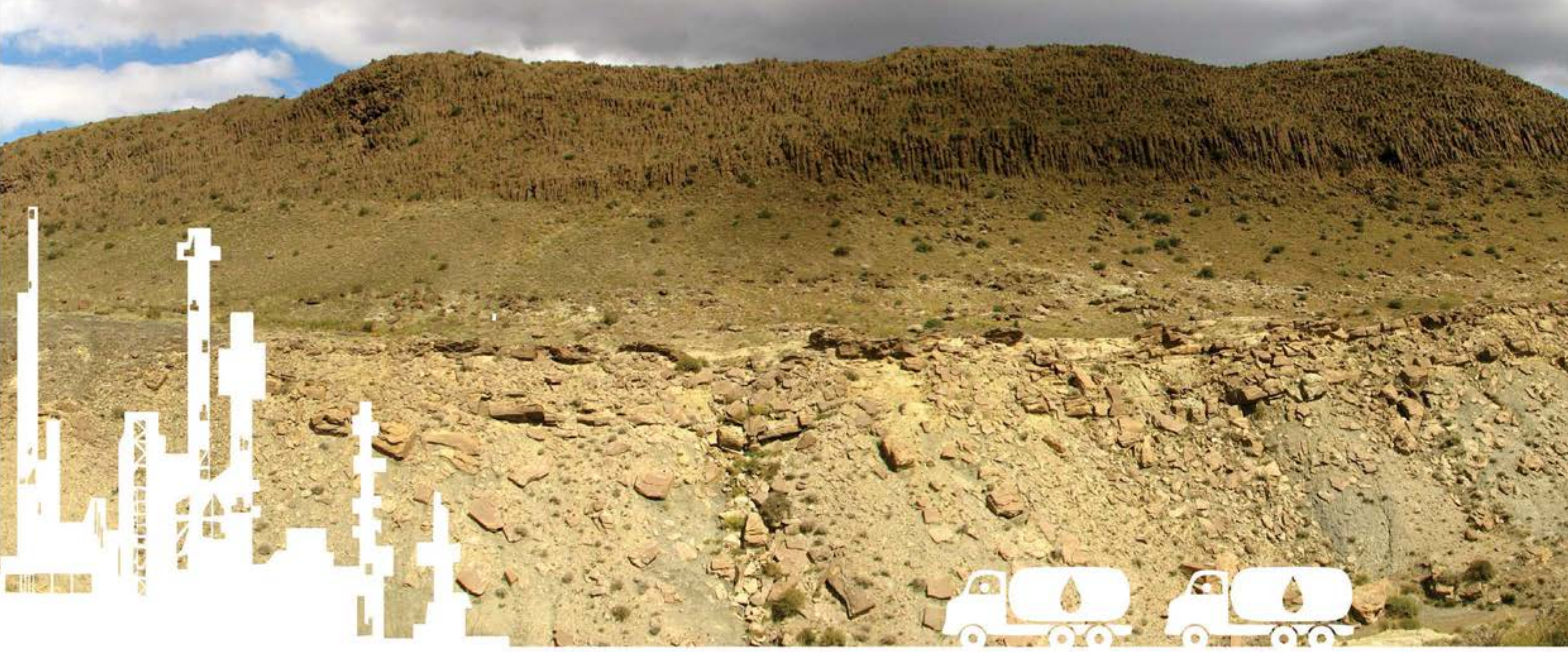
The Group is required to carry out its activities in accordance with the petroleum laws and regulations in the areas in which it undertakes its exploration activities. The Group is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of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

Rounding

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

Signed in accordance with a resolution of the Directors.

John R Henriksen
Director
27 June 2013

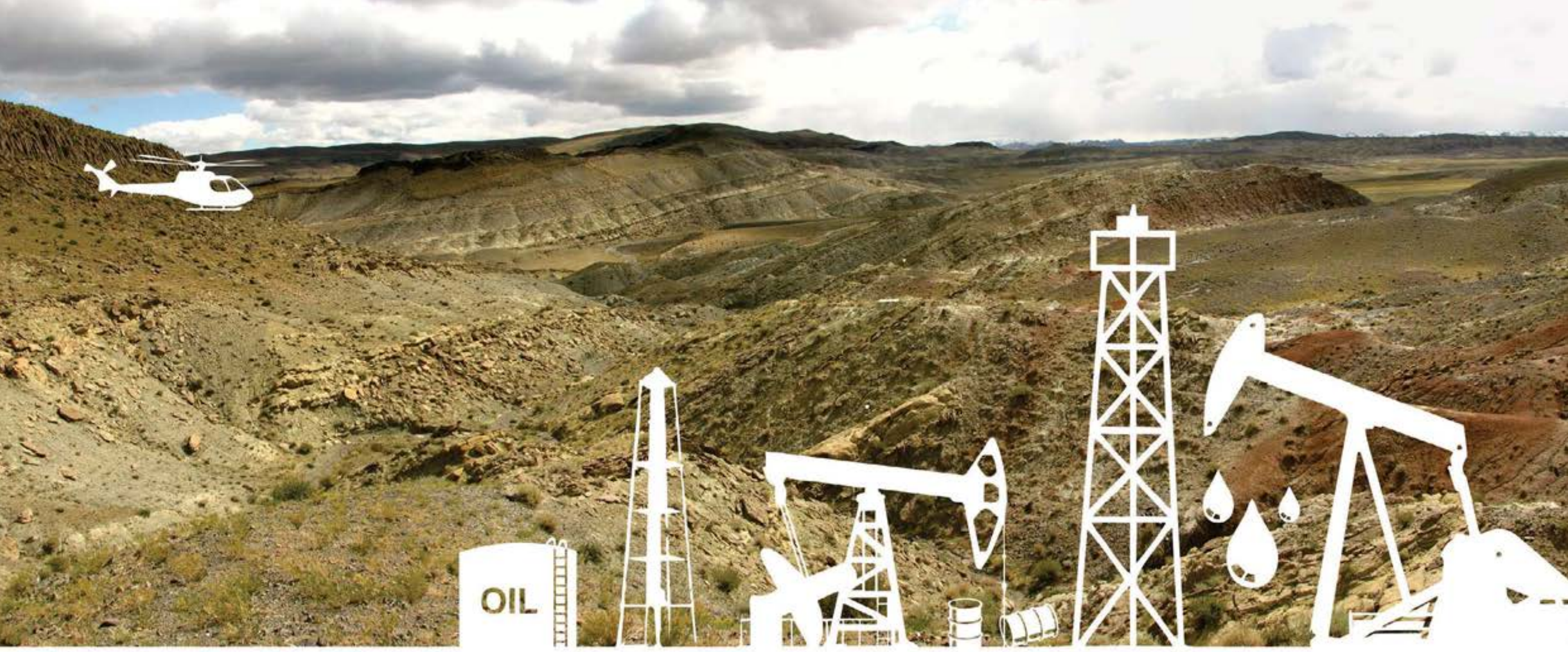


Directors' Statement

2012 was a year of dramatic change for Petro Matad. As the year began, it became clear that the early hope of an oil discovery in North Block XX had proved illusory and that the 2010 and 2011 drilling campaign had failed to discover oil. As a consequence, the Company suffered a loss of credibility in the market and a fall in share price. The failure of the drilling campaign was compounded by the fact that all eleven unsuccessful wells had been drilled within a very small and confined portion of the extensive acreage that Petro Matad has under licence in Mongolia. By being drilled in such a small area in Block XX, the wells provided only limited new and meaningful data that might help direct future exploration across the majority of the acreage.

The year ended with a strengthened Board and a new management team in place, the management personnel responsible for the previous drilling campaign having left the Company. Most positively, the interpretation and evaluation of the total acreage, as opposed to one small corner of that acreage, has shown that the Company's three blocks have significant untapped exploration potential. This has not yet led to restoring full credibility in the Company and, in truth, we recognise that that may take some time and be dependent on the current Board and management demonstrating that we are worthy of that trust. However, we hope that when you read the account of what has been done, both in this statement and in the Technical Review, you will agree that we are on the right track.

The major personnel changes that took place during the year began in March 2012 with the appointment of three new Board members with considerable knowledge and experience in the global oil and gas industry. Dr. Philip Vingoe has nearly 40 years' experience of the oil and gas industry, including 20 years with BP where he was Chief Geophysicist and General Manager for worldwide exploration. Since leaving BP, he has been involved with the start-ups and IPOs of Novus Petroleum and Panoro Energy, among others. David Skeels is a geologist with over 40 years' experience working in the oil and gas industry, including 20 years at Conoco focusing on upstream development and 10 years at BG Group where he was General Manager in Kazakhstan. Dr. George Watkins has over 40 years' experience in the oil and gas industry including 30 years with Conoco where he was Vice President, Exploration and Production in both North America and the UK. Since retiring from Conoco, he has held non-executive directorships at companies such as Paladin Resources plc and Abbot Group plc.



Mr. John Henriksen was appointed CFO to the Company on 17 April 2012. Mr. Henriksen is a Qualified Accountant (Canada) with 36 years' experience in the oil and gas industry. For the previous five years, he was Country Manager (Indonesia) for Salamander Energy Plc. Prior to that, he had managerial positions in the finance departments of Vico, ENI and Lasmo plc.

Then in August 2012, Mr. Ridvan Karpuz joined Petro Matad as Exploration Director from Austrian listed integrated oil and gas company OMV where he spent the last five years as an Exploration and Reservoir Manager working in Iran, Yemen and Tunisia. Mr. Karpuz has 23 years' experience in oil and gas exploration and production and a proven track record of significant oil discoveries. Most significantly, Mr. Karpuz has substantial experience establishing and building strong subsurface exploration teams and leading them to deliver successful 'fast-track' exploration programmes.

Both Mr. Henriksen and Mr. Karpuz reside in Mongolia, operating from the Company's operating office in Ulaanbaatar, along with the other executive management team and technical personnel. Messrs Henriksen and Karpuz were appointed as Board Directors of the Company in December 2012.

Two other decisions flowed from the personnel changes. Petro Matad closed its representative office in Perth, Western Australia, from where certain functions of the group had been supported since the Company's inception. These functions are now supported by the Ulaanbaatar operational office. In May 2012, the Company also announced that the Board had determined that further drilling or testing on Block XX should not be pursued before conducting a thorough re-appraisal of the exploration potential of that block plus Blocks IV and V.

This re-appraisal began in August 2012 under the guidance of the Company's new Director of Exploration, Mr. Ridvan Karpuz. In order to accomplish this task in the shortest possible time, Petro Matad's internal exploration team of 12 explorationists and geoscientists was supplemented at various stages by appropriate international technical consultants working in our offices in Ulaanbaatar and abroad.

This programme of work has included basin modelling and play fairway analysis across all three PSC Blocks IV, V and XX. The available seismic and geological data has been re-interpreted to provide a structural and depositional history of the individual basins. Geological field work has also been undertaken in Blocks IV and V in central Mongolia. The data from this field work, when integrated with the geologic section observed in the two stratigraphic holes drilled along the basins' margin in those blocks, has also contributed to a better definition of basin evolution and hydrocarbon generation potential in the region. Most importantly, it has confirmed that the geologic section present in these basins matches that encountered in the prolific oil producing basins to the immediate south in China. As you will see described in the Technical Review, this analogy with the basins in China is very significant.

Review of all the data in Block XX threw up another interesting observation. The failure of the 2010 and 2011 drilling programme in Block XX has obscured the fact that the Competent Person's Report ("CPR"), prepared by ISIS Petroleum Consultants Pty Limited ("ISIS") in 2008 in connection with the Company's admission to AIM, identified three graben areas that lie on trend or en-echelon with the producing fields in the Tolson Uul Graben in Block XIX to the north. The ISIS CPR noted that "one or more of the grabens could contain the equivalent or a greater sedimentary section than has been defined in the Tolson Uul Graben". None of these grabens was tested by the drilling programme. Additionally, the interpretation work over the last six months has also identified a number of similar basins in the southern part of Block XX. Block XX has enormous unexplored potential and it was therefore a significant achievement for the Company when PAM granted a five year extension to July 2017 for the PSC on the block.

More information and discussion on the analogy with the basins in China and the potential of the PSCs for Blocks IV, V and XX is given in the Technical Review section.

Alongside the major effort being applied to a technical re-appraisal, the Board also initiated an administrative review. Corporate governance has been strengthened by the introduction of a procurement policy document that sets out the process to be followed as well as authority limits for management and the Board. A procurement committee has been established.

Ongoing costs for steady state management of the business, as opposed to costs associated with work programmes for seismic acquisition, processing and interpretation, etc. have also been reduced by one third, from $600,000 per month in the first half of 2012 to about $400,000 today. This has been achieved by looking carefully at all expenditures and not replacing many of the people who have left the group. While some of these positions may need to be filled when Petro Matad commences field operations again, it is likely that many of these roles can be undertaken by contractors and so avoid creating a higher base line cost for the longer term.

However, even though a number of good things were happening within the Company, there can be no disguising that, by the end of 2012, the Company needed additional funding in order to execute the sort of programme that the next phase of exploration demands.

In February 2013, with this in mind, the Company's Exploration Director, Ridvan Karpuz, gave a presentation at the 57th Oil Barrel conference in London to provide an update on the Company's portfolio of exploration assets in Mongolia and to advertise Petro Matad's strategy to seek farm-out partners in order to accelerate the exploration of the Company's acreage.

At the same time, Petro Matad announced that it had engaged Macquarie Capital (Europe) Limited ("Macquarie") to find a strategic partner to progress exploration activities. The three blocks comprise over 60,000 square kilometres and it is felt that the optimal means of exploring this vast acreage is through farm-outs and joint venture agreements.

Following the conference, a copy of the Company's presentation to delegates at Oil Barrel was made available on the investors' section of the Company's website. A link was also added to the website to allow access to information regarding the farm-out.

A virtual data room was opened in mid February 2013 for interested parties and a physical data room was opened in Macquarie's London office from early March. Access to the data rooms was restricted to industry participants on the basis of a signed confidentiality agreement.

In parallel, during April 2013, Petro Matad embarked on a round of institutional visits to inform shareholders and potential investors of the positive results of the recent interpretation work. Also, with one or two exceptions, Petro Matad had not met with any UK institutions for nearly 24 months and this roadshow round corrected this. While it was soon clear that the current market was not conducive to raising funds for small cap oil and gas companies, we nevertheless believe that this was a useful exercise. We are cognisant that market sentiment can change quickly and believe that these discussions will provide a useful background when considering possible fundraising in the future.

For the moment, we are fortunate to have a supportive shareholder in the Petrovis Group who has agreed to an equity injection of $5 million into the Company which will allow the Company to commence preliminary field operations during the 2013 field season. As previously noted, the Company is also in the process of conducting a farm-out. The Company has had a number of international companies visit the data room. The data room is now closed and the Company is in discussions with those companies that have expressed an interest in pursuing the opportunity further. While there can be no guarantee that these discussions will result in a concluded transaction, the level of interest shown encourages the Petro Matad Board in our technical evaluation of the merits of the acreage that we have under licence.

In concluding, the Board would like to express their great appreciation for our staff, both technical and non-technical, who have worked with enthusiasm and diligence through what has been, and in some sense continues to be, an uncertain time for the Company. There is no doubt that, without their efforts, the Company would not have been able to make the progress that it has over the last year.

Board of Directors

ТУЗ-ИЙН ГИШҮҮДИЙН МЭДЭГДЭЛ

Петро Матад компанийн хувьд 2012 он нь их өөрчлөлтийн жил байлаа. Тос олох магадлалтай хэмээн найдаж байсан Матад -XX талбайн хойд хэсгээс тос илрэхгүй болох нь жилийн эхэнд тодорхой болсон ба 2010 болон 2011 онд хийгдсэн өрөмдлөгийн хөтөлбөрүүд иймхүү амжилтгүй болсон юм. Улмаар энэ нь зах зээл дэх компанийн нэр хүндэд нөлөөлж, хувьцааны ханш унахад хүргэсэн билээ. Өрөмдлөгийн хөтөлбөрийг амжилтгүй хэрэгжихэд нөлөөлсөн зүйлс нь Петро Матад компанийн эзэмшлийн хайгуулын өргөн уудам талбайн зөвхөн хэт жижиг, хязгаарлагдмал нэг хэсэг газар 11 цооногийг өрөмдсөн явдал юм. Энэ хэмжээний жижиг газарт өрөмдсөн тухайн цооногууд нь цаашдын нийт талбайн хайгуулын ажилд тус болох ач холбогдол бүхий мэдээллийг зөвхөн хязгаарлагдмал хэмжээнд өгсөн.

Жилийн эцэс гэхэд компанийн төлөөлөн удирдах зөвлөл болон удирдлагын багт өөрчлөлт орж өмнөх өрөмдлөгийн хөтөлбөрийг хариуцаж байсан удирдлагын бие бүрэлдэхүүн нь Компанийг орхисон юм. Иймхүү тус онд хийсэн мэдээллийн тайлал, үнэлгээг талбайн нэг өчүүхэн хэсэгт хийлгүйгээр нийт талбайн хэмжээнд хийсэн нь Компанийн гурван талбайд ач холбогдол бүхий өрөмдөх боломж бүхий хайгуулын нөөц бололцоо байгааг харуулж байгаа нь маш эерэг үр дүнтэй сайхан мэдээ болж байна. Хэдийгээр энэ нь эерэг мэдээ боловч үр дүн нь компанид итгэх итгэлийг бүрэн эргүүлж авчирч хараахан чадахгүй үүнд цаг хугацаа шаардлагатайн дээр, шинэ Төлөөлөн Удирдах Зөвлөл ("ТУЗ") болон удирдлагын баг энэ итгэлийг эргүүлж авчрах эсэхээ харуулах хэрэгтэй гэдгийг бид хүлээн зөвшөөрч байна. Гэсэн хэдий ч, энэхүү мэдэгдэл болон Техникийн Дүгнэлт дахь бидний хийсэн ажлын тоймыг үзээд биднийг зөв замаар явж эхэлснийг хүлээн зөвшөөрнө гэдэгт бид найдаж байна.

Дэлхийн газрын тос, хийн салбарт мэдлэг, туршлага хуримтлуулсан гурван шинэ гишүүнийг 2012 оны 3-р сард ТУЗ -д томилсон нь удирдлагын үндсэн бүрэлдэхүүнийг өөрчлөх ажлын эхлэл болсон. Доктор Филип Винго нь Газрын тос, хийн салбарт 40 орчим жил ажилласан туршлагатай төдийгүй "Би Пи" (BP) компанид Ахлах Геофизикч болон Ерөнхий Захирлаар 20 жил ажилласан хүн юм. "Би Пи" компанийн дараагаар тэрээр "Новус Петролеум" ба "Панoро Энержи" зэрэг компаниудыг үүсгэн байгуулах, IPO хийх ажилд оролцон ажиллаж байна. Дэвид Скилс нь Газрын тос, хийн салбарт 40 жил туршлага хуримтлуулсан Геологич бөгөөд Коноко (Conoco) компанид дээд урсгалын чиглэлээр 20 жил ажилласан туршлагатай.Түүнчлэн Казахстан Улсын "Би Жи" Групп компанийн Ерөнхий Захирлын албан тушаалыг 10 жил хашсан. Доктор Жорж Уоткинс нь газрын

тос, хийн салбарт 40 гаруй жил ажилласан бөгөөд Хойд Америк болон Их Британи дахь Коноко компанийн салбаруудад Хайгуул, Олборлолт хариуцсан Дэд Ерөнхийлөгчөөр ажиллаж байсан 30 жилийн туршлагатай. Коноко компани дахь үүрэгт ажлаа хүлээлгэн өгснөөс хойш "Паладин Ресурс", "Аббот Групп" гэх мэт компаниудад гүйцэтгэх бус захирлын албан тушаалыг хашиж байна.

Ноён Жон Хенриксэн нь 2012 оны 4-р сарын 17-ны өдөр Компанийн Санхүү Хариуцсан Захирлаар томилогдсон. Тэрээр газрын тос, хийн салбарт 36 жил ажилласан туршлагатай Мэргэжлийн Нягтлан Бодогч (Канад) юм. Өнгөрсөн таван жилийн хугацаанд тэрээр Саламандер Энержи компанид Захирал / Индонези/ хийж байсан. Түүнээс өмнө Вико, И Эн Ай болон Ласмо (VICO, ENI Lasmo plc) компаниудын санхүүгийн хэлтэст удирдах албан тушаал эрхэлж байсан.

2013 оны 8-р сараас ноён Ридван Карпуз нь Петро Матад компанид Хайгуулын Хэлтсийн Захирлаар ажиллаж эхэлсэн ба сүүлийн дөрвөн жилд Австрийн хөрөнгийн биржид бүртгэлтэй газрын тос, хийн компани болох Өү Эм Ви (OMV) Компанийн Хайгуул, Агуулагч давхаргын Судалгаа хариуцсан захирлаар Иран, Йемен, Тунист ажиллаж байсан. Тэрээр газрын тос, хийн хайгуул болон олборлолтын салбарт ажиллаж байсан 23 жилийн туршлагатай төдийгүй томоохон хэмжээний тосны нээлтүүдийг хийж байсан. Хамгийн чухал нь ноён Карпуз нь давхаргын судалгааны хайгуулын багийг бүрдүүлэх, удирдах мөн хайгуулын ажлыг амжилттайгаар эрчимжүүлэх талаар ихээхэн туршлагатай хүн юм.

Ноён Хенриксэн болон Карпуз нар нь Монголд оршин суун удирдлагын баг болон техникийн бие бүрэлдэхүүний хамтаар Улаанбаатар дахь Компанийн үйл ажиллагаа эрхэлсэн оффисоос ажиллаж байна. 2012 оны 12-р сард Ноён Хенриксэн болон Карпуз нар нь Компанийн төлөөлөн удирдах зөвлөлд мөн томилогдсон. Удирдлагын түвшний хүмүүс ийнхүү солигдсонтой уялдуулан Петро Матад Компани нь анх байгуулагдсан цагаас эхлэн тодорхой асуудлыг хариуцан ажиллаж байсан Баруун Австралийн Перт дэх төлөөлөгчийн газраа хаасан. Одоо энэхүү үйл ажиллагааг Улаанбаатар дахь үйл ажиллагаа эрхэлсэн оффисоос явуулж байна. 2012 оны 5-р сард Матад-XX талбай болон Богд-IV ба Онги-V талбайн хайгуулын нөөц бололцоог дахин нарийвчлан үнэлэхээс нааш Матад XX талбайд өрөмдлөг болон судалгааны ажил хийхгүй хэмээн ТУЗ шийдвэрлэснийг компанийн зүгээс мэдэгдсэн.

Техникийн мэдээллийн дахин үнэлгээний ажил нь 2012 оны 8-р сард Компанийн шинэ

Хайгуулын Захирал ноён Ридван Карпузын удирдлаган дор эхэлсэн. Энэхүү ажлыг хамгийн боломжит богино хугацаанд биелүүлэхийн тулд 12 хүний бүрэлдэхүүнтэй хайгуулч, геофизикчдийн Петро Матад компанийн хайгуулын багаас гадна шаардлагатай үе шатуудад Улаанбаатарт болон гадаадад байрлах техникийн зөвлөхүүд бүхий л түвшинд туслан ажиллалаа.

Энэхүү ажилд сав газрын загварчлал, хураагуурын ашигт бусийн шинжилгээг нийт БХГ-т 3 талбайн хэмжээнд хийлээ. Сав газар тус бүрийн бүтцийн болон хурдас хуримтлалын түүхийг тогтоох үүднээс одоогийн сейсмийн болон геологийн мэдээлэлд дахин тайлал хийж, Монгол орны төв хэсэгт байрлах IV болон V талбайд геологийн хээрийн ажлыг мөн гүйцэтгэсэн. Түүнчлэн эдгээр талбайн сав газрын захаар өрөмдсөн давхаргазүйн хоёр цооногоос авсан геологийн зүсэлттэй нэгтгэхэд энэхүү хээрийн ажлаас олсон мэдээлэл нь тухайн бүс нутаг дахь нүүрстөрөгч үүсгэх боломж болон сав газрын хувьсал өөрчлөлт зэргийг илүү сайн тодорхойлоход тусалсан. Хамгийн чухал нь эдгээр сав газрууд дахь геологийн зүсэлт нь Хятадын өмнөд хэсэгдэх тос олборлож буй сав газруудын зүсэлттэй таарч байгааг үүгээр баталсан. Техникийн Дүгнэлтэнд мэдээлснээр Хятад дах сав газруудтай ижил төсөөтэй байгаа нь ихээхэн ач холбогдолтой зүйл болохыг та бүхэн харах болно.

Матад-XX талбайн бүх мэдээллийг дахин шинжлэхэд өөр нэг зүйл ажиглагдсан явдал нь Петро Матад Компани Лондонгийн хөрөнгийн биржийн хоёрдогч зах зээлд бүртгэгдэх үед ISIS Petroleum Consultants Pty Limited ("ISIS") нь 2008 онд Мэргэжлийн Хүний Тайланг (МХТ) бэлтгэн гаргасан бөгөөд үүнд XIX талбайн Тосон-Уул Грабены тос олборлож буй талбайтай зэрэгцэж буюу цуварч байрласан гурван грабен байгаа талаар тодорхойлжээ. Гэвч 2010 болон 2011 оны Матад-XX талбай дээр хийгдсэн өрөмдлөгийн хөтөлбөр үүнийг судлахыг орхигдуулсан байлаа. Энэхүү дээр дурдсан Тайланд "тухайн грабенуудаас нэг буюу түүнээс олон тооны грабенууд нь Тосон-Уул грабен дээр тодорхойлсонтой ижил эсвэл түүнээс их хэмжээний хурдас агуулж байх магадлалтай" хэмээн тэмдэглэсэн байх боловч эдгээр грабенуудын алийг нь ч өрөмдлөгийн ажлаар шалгаагүй юм. Үүнээс гадна сүүлийн 6 сар хийсэн ажлын тайлал нь дээрхтэй төсөөтэй хэд хэдэн сав газрууд Матад-XX талбайн урд хэсэгт байгааг тогтоосон. Матад-XX талбайн хэмжээнд судлагдаагүй асар их нөөц бололцоо байгаа учраас Газрын Тосны Газрын зүгээс Матад-XX талбай дээр байгуулсан Бүтээгдэхүүн Хуваах Гэрээний хугацааг 2012 оны 7 дугаар сард дахин 5 жилээр сунгасан явдал нь компанийн хувьд томоохон амжилт юм.

Хятад дахь сав газруудтай төсөөтэй байгаа талаар илүү дэлгэрэнгүй мэдээлэл болон Богд-IV, Онги-V, Матад-XX талбайдын нөөц бололцооны талаар Техникийн Дүгнэлтийн хэсэгт илүү дэлгэрэнгүй дурдсан болно.

ТУЗ нь техникийн дахин үнэлгээ хийх ажлыг санаачлахаас гадна үйл ажиллагааны хяналтыг сайжруулах санаачлагыг мөн хэрэгжүүллээ. Компанийн удирдлага нь худалдан авалтын үед дагаж мөрдөх үйл явц, удирдлага болон төлөөлөн удирдах зөвлөлийн эрх мэдлийн хязгаарыг тусгасан худалдан авалтын бодлогыг нэвтрүүлж, худалдан авалтын Хороог байгуулаад байна. Сейсмийн хэмжилт, боловсруулалт, тайлал зэрэг хайгуулын ажлын хөтөлбөртэй холбоотой зардалтай харьцуулахад компанийн тогтвортой үйл ажиллагааны зардал 2012 оны эхний хагаст, сар тутам 600,000 ам.доллар байсан бол өнөөдрийн байдлаар 400,000 ам.доллар болж буурсан. Бид бүх зардлаа сайтар нягтлан үзэж, ажлаа хүлээлгэж өгсөн ажилчдын албан тушаалд дахин томилгоо хийхгүй байх замаар дээрх зардлыг бууруулж чадсан. Компанийн хээрийн ажил дахин эхлэхэд эдгээр ажлын байруудад орлох хүн хэрэг болох ч, одоогоор эдгээрийн нэлээд хэсгийг энэ үед Зөвлөх консалтангууд орлон гүйцэтгэж байна. Үүний үр дүнд урт хугацааны өндөр зардал бий болохоос бид зайлсхийж чадсан.

Компанийн хэмжээнд ийнхүү олон эерег өөрчлөлтүүд гарсан хэдий ч 2012 оны төгсгөл гэхэд хайгуулын дараагийн үе шатыг гүйцэтгэх нэмэлт санхүүжилт хэрэгтэй болох нь эргэлзээгүй болсон юм.

Тиймээс Монгол дахь компанийн хайгуулын талбайдын талаар шинэчилсэн мэдээлэлгөөх болон хайгуулын ажлыг эрчимжүүлэх фарм-аутын хамтрагч хайх зорилго бүхий Петро Матад компанийн стратегийг танилцуулахаар компанийн Хайгуулын Хэлтсийн захирал Ридван Карпуз 2013 оны 2-р сард Лондон хотод зохион байгуулагдсан 57 дахь Ойл Баррел Хуралд танилцуулга хийсэн юм.

Үүний зэрэгцээ стратегийн хамтрагч хайхаар Маккуайр Капитал (Европ) Лимитэдийг ("Маккуайр") хөлсөлж байгаа талаар Петро Матадын зүгээс мэдэгдсэн. Нийт 60,000км^2 талбайг хамрах хайгуулын гурван талбайг судлах оновчтой арга нь Фарм-аут болон мэргэжлийн компанитай хамтрах арга юм.

Уг Хурлын дараагаар сонирхогчдод зориулж Компанийн цахим хуудасны "Хөрөнгө оруулагч" хэмээх хэсэгт компанийн шинэ танилцуулгыг нийтэлсэн. Мөн фарм-аутын талаарх мэдээллийн холбоосыг цахим хуудсан дээр байрлуулсан болно.

2013 оны 2-р сард сонирхогч талуудад зориулан виртуал мэдээллийн санг нээсэн ба 3-р сарын эхээр Маккуайрын Лондон дахь албан байранд биет мэдээллийн танхимыг нээсэн болно. Тухайн мэдээлэлд нэвтрэх эрх нь зөвхөн мэргэжлийн компаниудад нууцлалын гэрээний үндсэн дээр нээлттэй байсан юм.

Үүний зэрэгцээ Петро Матад нь сүүлийн үеийн тайлалын ажлын эерэг үр дүнг хувьцаа эзэмшигчид болон боломжит хөрөнгө оруулагчдад мэдээлэхээр нилээд олон хөрөнгө оруулагч компаниудтай уулзах ажлыг эхлүүлсэн. Сүүлийн 2 жилийн хугацаанд Компани нь, ганц хоёрыг эс тооцвол, эдгээр Их Британийн хөрөнгө оруулагч компаниудтай уулзаагүй байсан тул энэ удаагийн зорилтот уулзалтаар бид тэдэнд сүүлийн үеийн мэдээллийг олгох сайхан боломж олдсон юм. Өнөөдрийн зах зээлд хөрөнгө босгох нь газрын тос болон хийн жижиг компаниудын хувьд тааламжгүй байгаа нь удалгүй тодорхой болсон хэдий ч бид үүнийг үр ашигтай туршлага байсан хэмээн үзэж байна. Зах зээлийн хандлага хурдан хувирдаг тул эдгээр уулзалтууд нь ирээдүйн хөрөнгө босгох үйл явцад шаардлагатай суурь мэдээллээр хангана гэдэгт итгэж байна.

2013 онд компанийн хээрийн үйл ажиллагааны бэлтгэл ажлыг эхлүүлэх боломжийг олгон 5 сая ам.долларын хөрөнгө оруулалтыг хийхийг зөвшөөрсөн Петровис гэх хувьцаа эзэмшигч байгаа нь бидний хувьд маш аз завшаантай хэрэг юм. Дээр дурдсанчлан компани нь фарм-аутын ажлыг эхлүүлсэн ба мэдээллийн санг хэд хэдэн олон улсын компаниуд ирж сонирхсон бөгөөд одоо биет мэдээллийн танхим хаагдсан ба боломжийг цаашид судлах сонирхол илэрхийлсэн компаниудтай хэлэлцүүлгийг үргэлжлүүлж байна. Эдгээр хэлэлцүүлгүүд нь ямар нэгэн хэлцлээр дуусах баталгаа байхгүй хэдий ч тэдний зүгээс үзүүлж буй сонирхлын түвшин нь 3 талбайн ирээдүйн боломжийн техникийн үнэлгээний талаар Петро Матад Компанийн ТУЗ-ийн гишүүдэд урам өгсөн билээ.

Эцэст нь компанийн тодорхойгүй байдлаас үл хамааран хичээнгүй, эрч хүчтэйгээр ажиллаж байгаа техникийн баг болон нийт ажилчдадаа ТУЗ-ийн нийт гишүүдийн өмнөөс талархлаа илэрхийлмээр байна. Тэдний хүчин чармайлтгүйгээр бид өнгөрсөн онд ахиц дэвшил гаргаж чадахгүй байсан билээ.

ТУЗ-ийн гишүүд

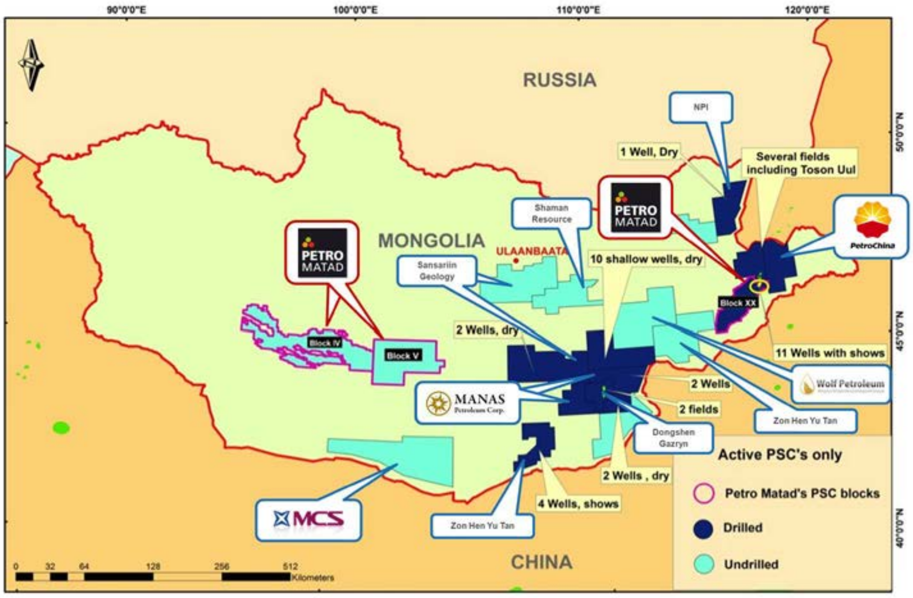
Technical Review

ТЕХНИКИЙН ДҮГНЭЛТ

Petro Matad holds an extensive land position in Mongolia covering prospective emerging and frontier hydrocarbon basins in PSC Blocks IV, V and XX. Together these PSCs have a total licence area of 60,000km^2 within which the basin areas total 21,000km^2.

In all there are 531,000km^2 under licence in Mongolia (see figure 1). However, there has been only limited exploration drilling in recent years and there has been no exploration drilling in the western half of Mongolia. This is surprising given the prolific producing basins that lie just to the south across the border in China. These analogue basins in China have been widely explored resulting in numerous discoveries including a number of giant fields. For example, the Junggar basin, which provides a good analogy for Blocks IV and V, has reported reserves in excess of 9 billion barrels of reported recoverable reserves while the Erlian Basin to the south of Block XX has reported recoverable reserves of more than 600 million barrels.

Figure 1: Exploration activity in Mongolia and location of Petro Matad's blocks



Зураг 1: Монгол Улсад хийгдэж буй газрын тосны хайгуулын ажил болон Петро Матадын талбайнуудын байрлал

Петро Матад компани нь Монгол орны газрын тосны эрлийн хэтийн төлөвтэй, урд нь бараг судлагдаагүй сав газрууд болох Богд-IV, Онги-V болон Матад-XX талбайнуудад БХГ-ний дагуу хайгуул хийж байна. Эдгээр БХГ-т талбайнууд нь нийтдээ 60,000 км^2 талбайг хамрах бөгөөд тэдгээрийн доторхи тунамал хурдаст сав газрууд нь 21,000 км^2 болно.

Монгол Улсад нийтдээ 531,000 км^2 талбайд хайгуул олборлолт хийх тусгай зөвшөөрөл олгогдсон байдаг (1-р зургийг харна уу). Гэвч сүүлийн жилүүдэд маш хязгаарлагдмал тооны хайгуулын өрөмдлөг хийгдсэн бөгөөд Монгол орны баруун хэсэгт ямар нэгэн хайгуулын өрөмдлөг хийгдээгүй байна. Хятадын нөөц ихтэй, олборлолт хийгдэж буй сав газрууд Монголын өмнөд болон баруун өмнөд хилийн цаана оршдог нь гайхалтай. Хятадын эдгээр ижил төстэй сав газруудад өргөн хэмжээний хайгуул хийсний үр дүнд хэд хэдэн том хэмжээний ордуудыг нээсэн байдаг. Жишээ нь Богд-IV, Онги-V талбайнуудтай адилтган харьцуулж болохуйц Зүүнгарын сав газрын ашиглалтын нөөц 9 тэрбум гаруй баррель бол Матад-XX талбайгаас урд зүгт байрлах Эрээний сав газарт 600 сая гаруй баррель ашиглалтын нөөц бий гэж мэдээлсэн байна.

Data from the stratigraphic wells drilled in Blocks IV and V combined with surface outcrop data from field studies has been used to build up a picture of the stratigraphy across these blocks (see figure 2). The stratigraphy is analogous to that in the China basins to the south and comprises a Permo-Carboniferous pre-rift megasequence overlain by a Jurassic-Cretaceous syn-rift megasequence. In places, these megasequences are separated by an angular unconformity. In turn, these are overlain by a Tertiary post-rift megasequence.

Хээрийн судалгаагаар цуглуулсан гаршийн дээжийн шинжилгээ болон Богд-IV, Онги-V талбайнуудад өрөмдсөн давхарга зүйн судалгааны цооногийн нэгтгэсэн мэдээллийг ашиглан эдгээр талбайнуудын давхаргазүйг гаргасан (2-р зургийг харна уу). Талбайнууд нь давхаргазүйн хувьд Монголын өмнөд хилийн дагуу Хятадын нутагт байгаа сав газруудынхтай ижил төстэй бөгөөд Юра-Цэрдийн насны рифтийн мега үелэлээр хучигдсан Перм-Карбоны рифтийн өмнөх мега үелэлээс бүрдэнэ. Эдгээр мега үелэлүүд нь зарим хэсэгтээ өнцгөн үл нийцлэгээр тусгаарлагдаж, гуравдагчийн настай рифтийн дараахи мега үелэлээр хучигдсан байна.

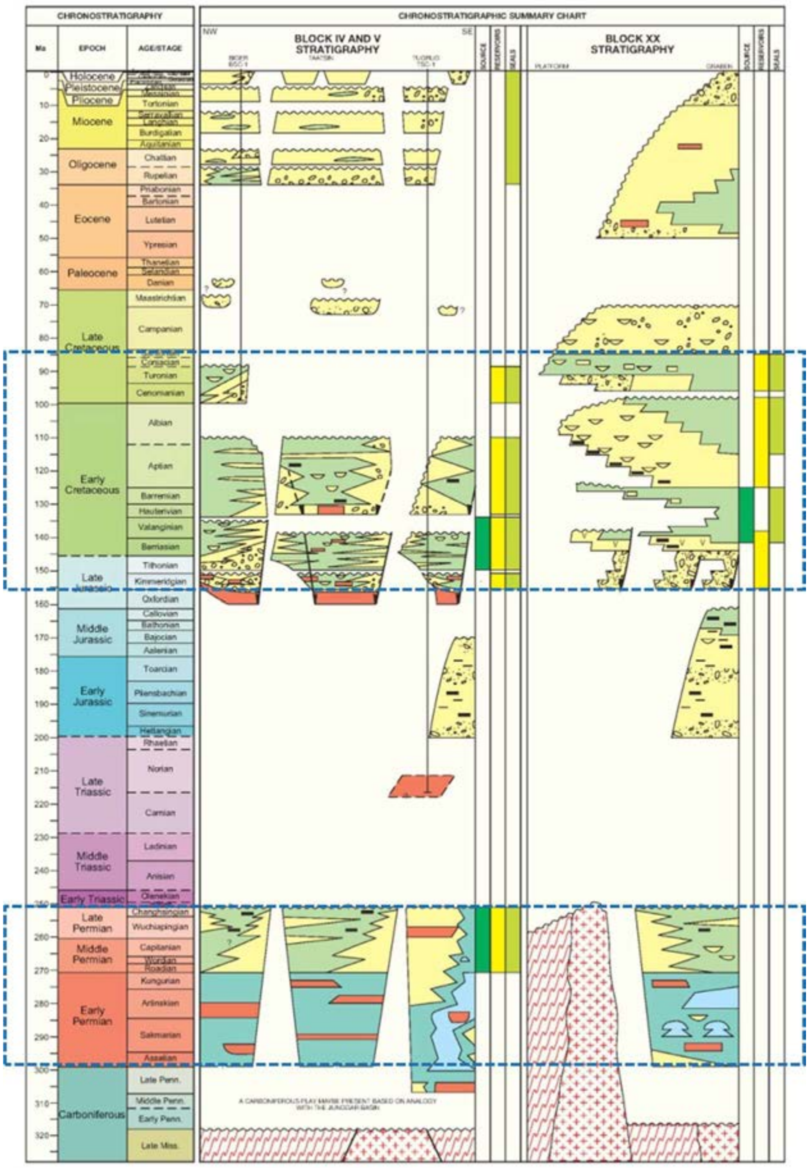


Figure 2: Stratigraphic column with syn-rift and pre-rift petroleum systems

Зураг 2: Рифтийн болон рифтийн өмнөх газрын тосны системийг ялгасан давхаргазүйн багана

All production in Mongolia to date is from the syn-rift sequence. The producing fields in Blocks XIX and XXI are sourced from rich, oil-prone Upper Jurassic – Mid Cretaceous lacustrine shales which form both source and seal. The largest of these fields is the Tolson Uul field in Block XIX which has quoted recoverable reserves of 151 million barrels. This syn-rift sequence is also analogous to productive sequences in the Songliao and Erlian basins to the southeast in China (see figure 3).

As yet, there has been no well penetration of the Permo-Carboniferous pre-rift section and so this sequence remains unproven in Mongolia. However, this sequence has been explored extensively in the Junggar and Turpan basins to the southwest (see figure 3) and has been found to contain multi-million barrels of recoverable reserves.

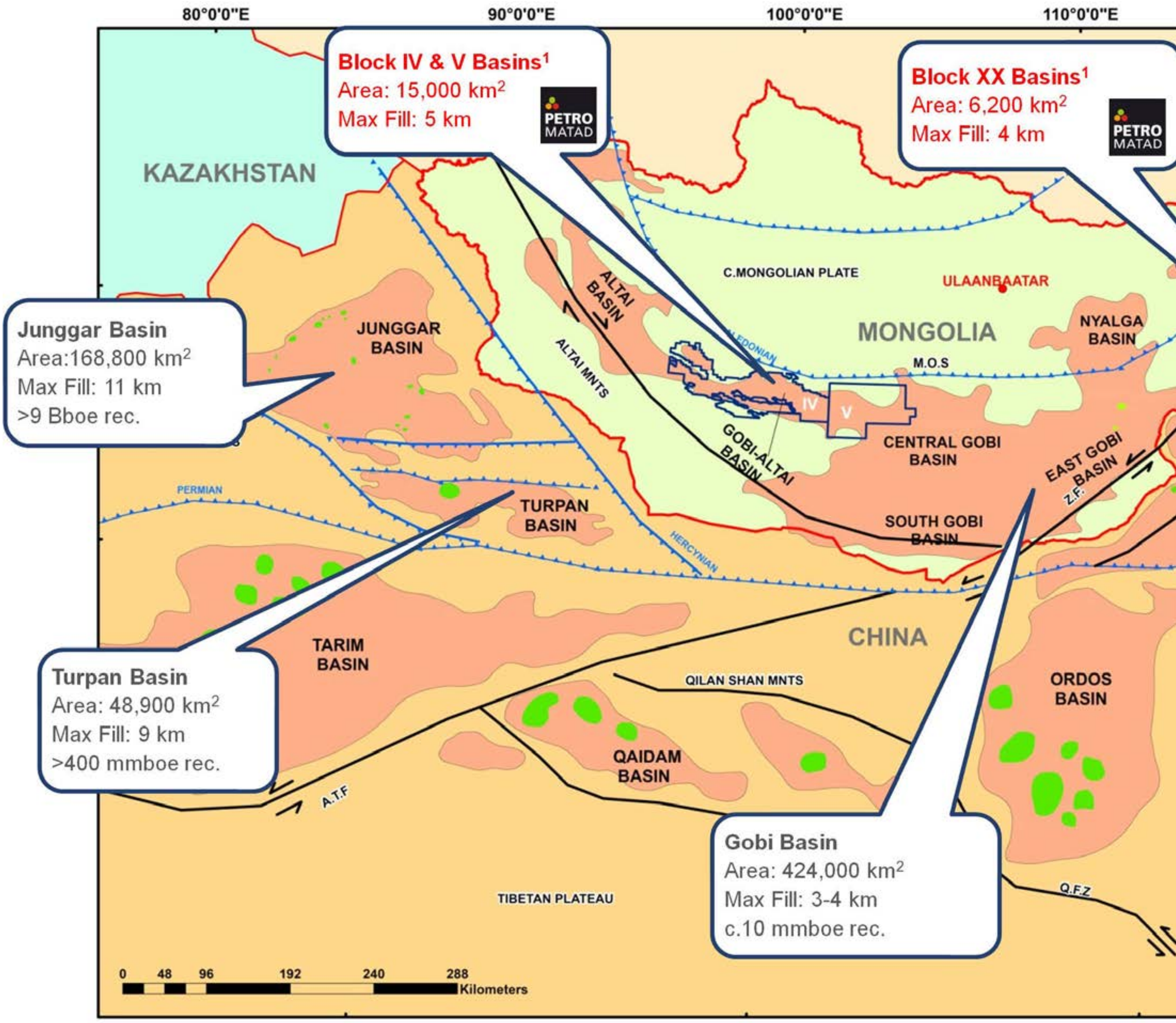
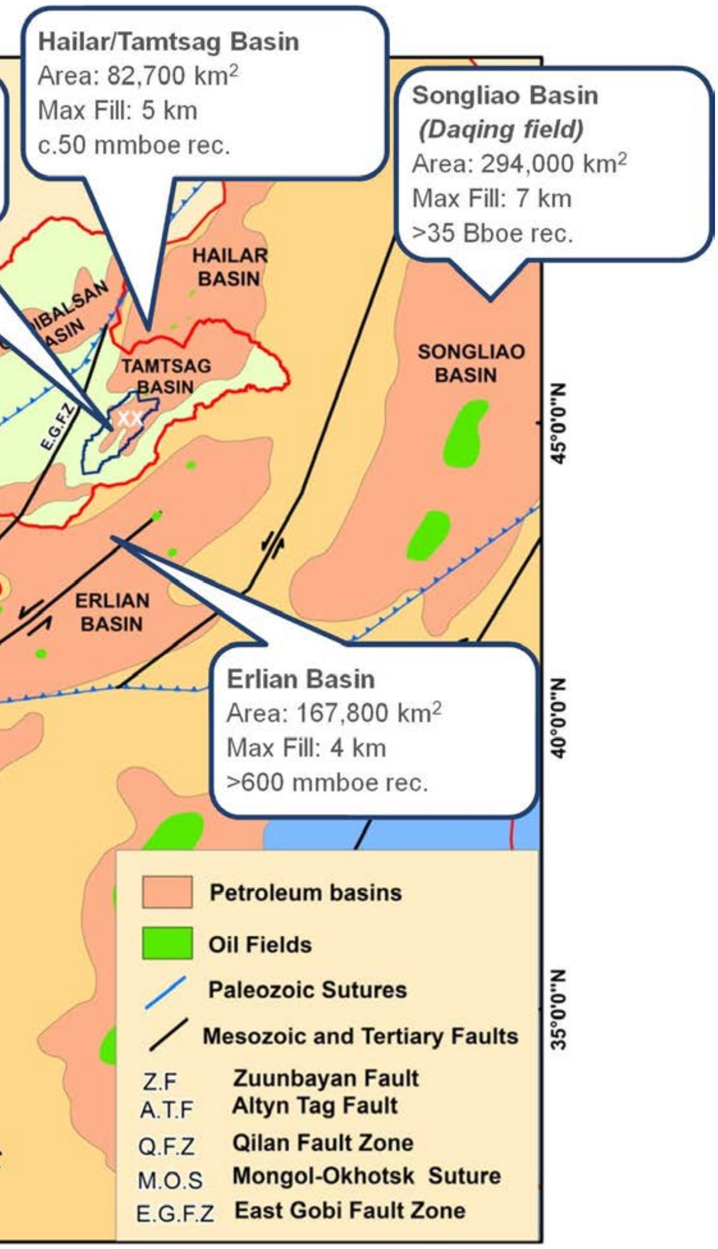


Figure 3: Prolific analogue basins in China
Зураг 3: Хятадын нөөцөөр баялаг ижил төстэй сав газрууд



Монголын газрын тосны бүх олборлолт рифтийн үеийн давхаргуудад хийгдэж байна. XIX болон XXI талбайн ордууд дахь Дээд Юра-Дунд Цэрдийн настай нуурын гаралтай, тос агуулсан байх боломжтой, өндөр органик агуулгатай занараас олборлолт хийж байгаа бөгөөд энэ чулуу нь өөрөө үүсгэгч болон тусгаарлагч чулуулгийг бүрдүүлж байгаа юм. Эдгээрээс хамгийн том нь XIX талбайн Тосон Улын орд бөгөөд түүний ашиглалтын баталгаат нөөцийг 151 сая баррелиар тооцсон. Рифтийн үеийн энэхүү дараалал нь Монголын зүүн урд талд орших Хятадын Сонглиао, Эрээний сав газруудын ашигт давхаргуудтай ижил төстэй байна (3-р зургийг харна уу).

Одоогоор Перм-Карбоны настай рифтийн өмнөх үеийн давхаргад ямар ч цооног өрөмдөөгүй байгаа тул Монгол оронд энэхүү давхаргыг судалж, батлаагүй байна. Харин Монголын баруун урд зүгт орших Зүүнгар, Турпаны сав газруудад энэхүү давхаргыг сайтар судалсан (3-р зургийг харна уу) бөгөөд олон сая баррелийн ашиглалтын нөөцтэй нь тогтоогдсон.

A closer analogy can be made between the producing Junggar and Turpan basins of China with the basins mapped in Blocks IV and V (see figure 4).

When we look closely at the Junggar basin area, we see that it is not a single basin but a series of large sub-basins with production located within these sub-basins. This is the same basin frame work and size that we observe in Blocks IV and V. This is illustrated by the red oblongs shown on the maps of the Junggar basin and Blocks IV and V, which are at the same scale.

Тос олборлож буй Хятадын Зүүнгар, Турпаны сав газруудыг Богд-IV, Онги-V талбайнуудад ялгасан сав газруудтай харьцуулах боломжтой юм (4-р зургийг харна уу).

Зүүнгарын сав газрыг нягтлан харвал энд дан ганц сав газар бус хэд хэдэн дэд сав газрууд байгаа бөгөөд эдгээр дэд сав газруудаас олборлолт хийгдэж байна. Энэ нь бүтэц, хэмжээгээрээ Богд-IV, Онги-V талбайнуудад ажиглагдсан сав газартай ижил байна. Үүнийг Зүүнгарын сав газар, Богд-IV, Онги-V талбайн ижил хэмжээтэй зураг дээр улаан өнгөөр харуулав.

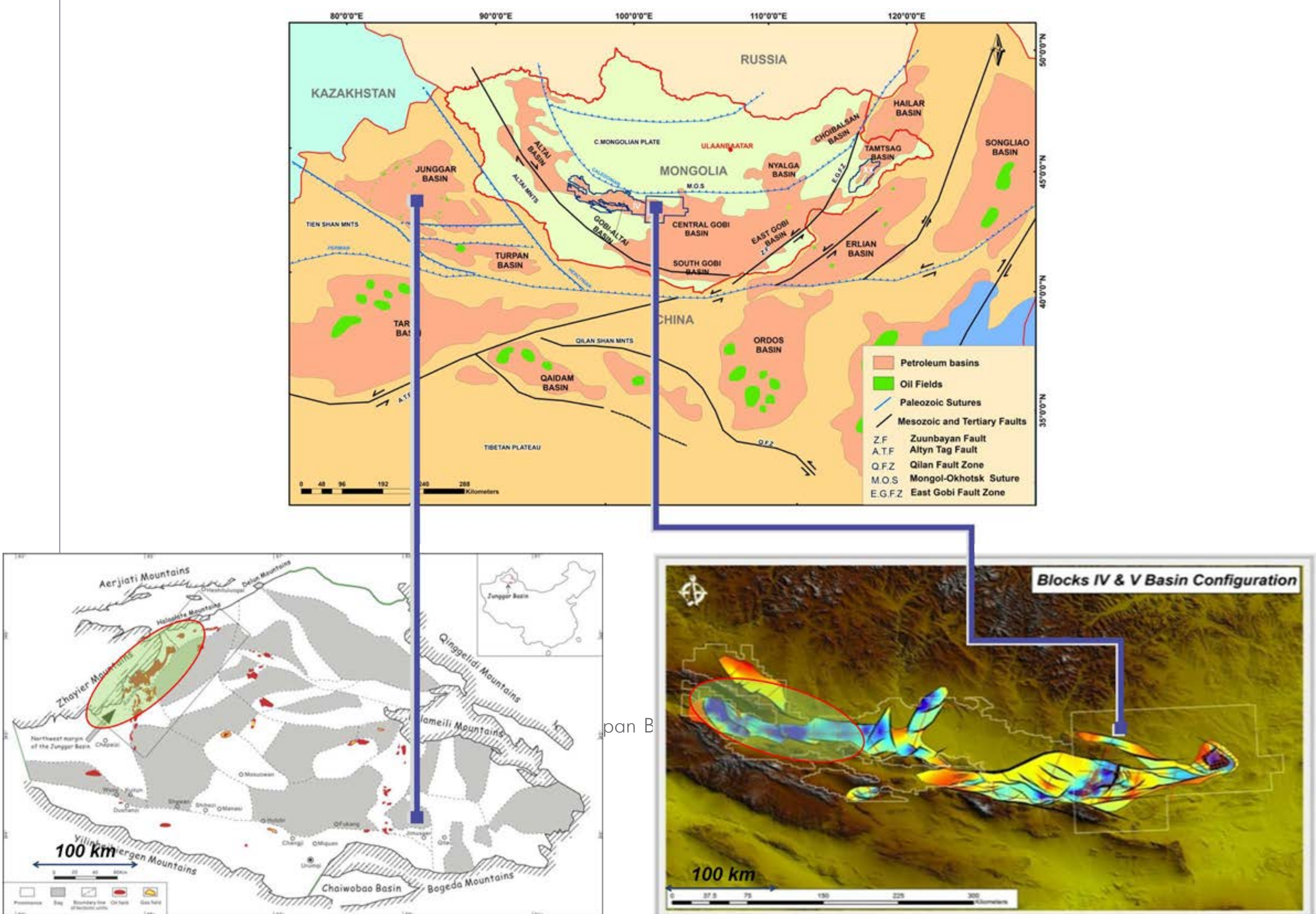


Figure 4: Analogy between Junggar and Turpan Basins and Blocks IV and V
Зураг 4: Зүүнгар, Турпаны сав газрууд болон Богд IV, Онги V талбайнуудын харьцуулалт

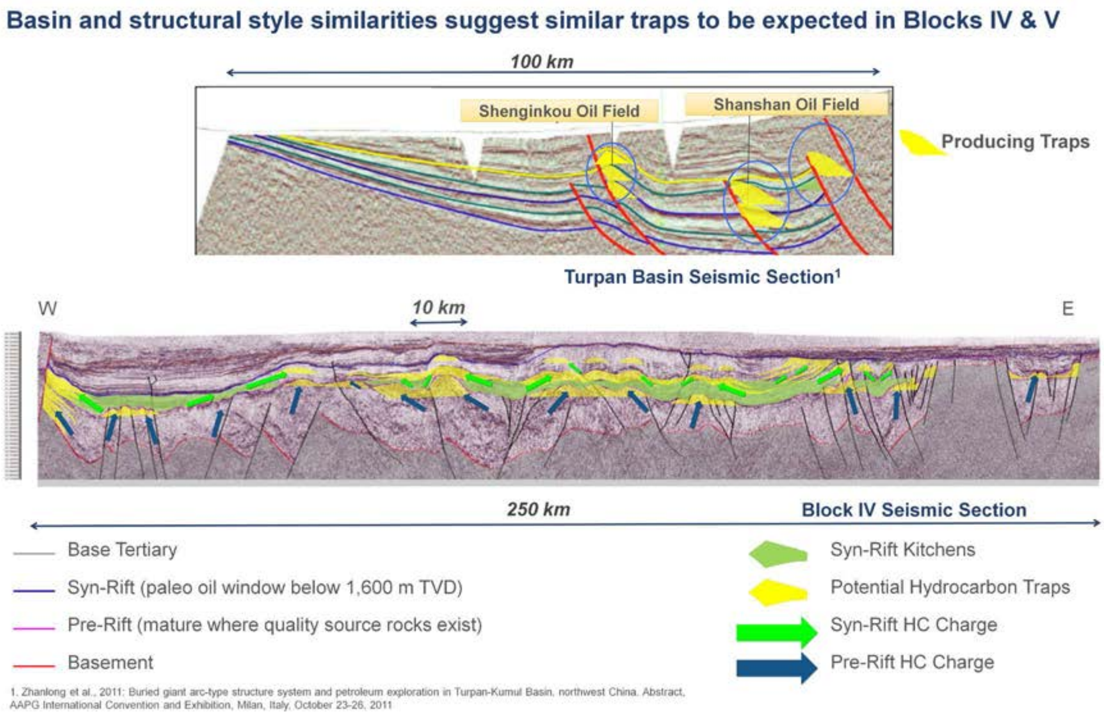


Figure 5: Block IV seismic analogue to the prolific Turpan basin seismic section in China
Зураг 5: Богд IV талбай болон Хятадын Турпаны сав газрын сейсмийн зүсэлтийн харьцуулалт

Comparison of seismic data across fields within the analogue basins suggests that similar trap types can be expected in Blocks IV and V. Figure 5 illustrates a comparison of a seismic line over the Shenginkou and Shanshan fields in the Turpan basin with a seismic line across Block IV. The similarities in structural and depositional styles within the Petro Matad acreage in Blocks IV and V are clearly seen.

Recoverable reserves in the Junggar and Turpan basins are quoted as 9 billion boe and 400 million boe respectively. Using similar parameters to those from the Junggar and Turpan basins for Blocks IV and V, oil in place within these blocks is estimated to be in the order of 3.8 billion boe with resulting prospective recoverable resources of more than 1 billion boe.

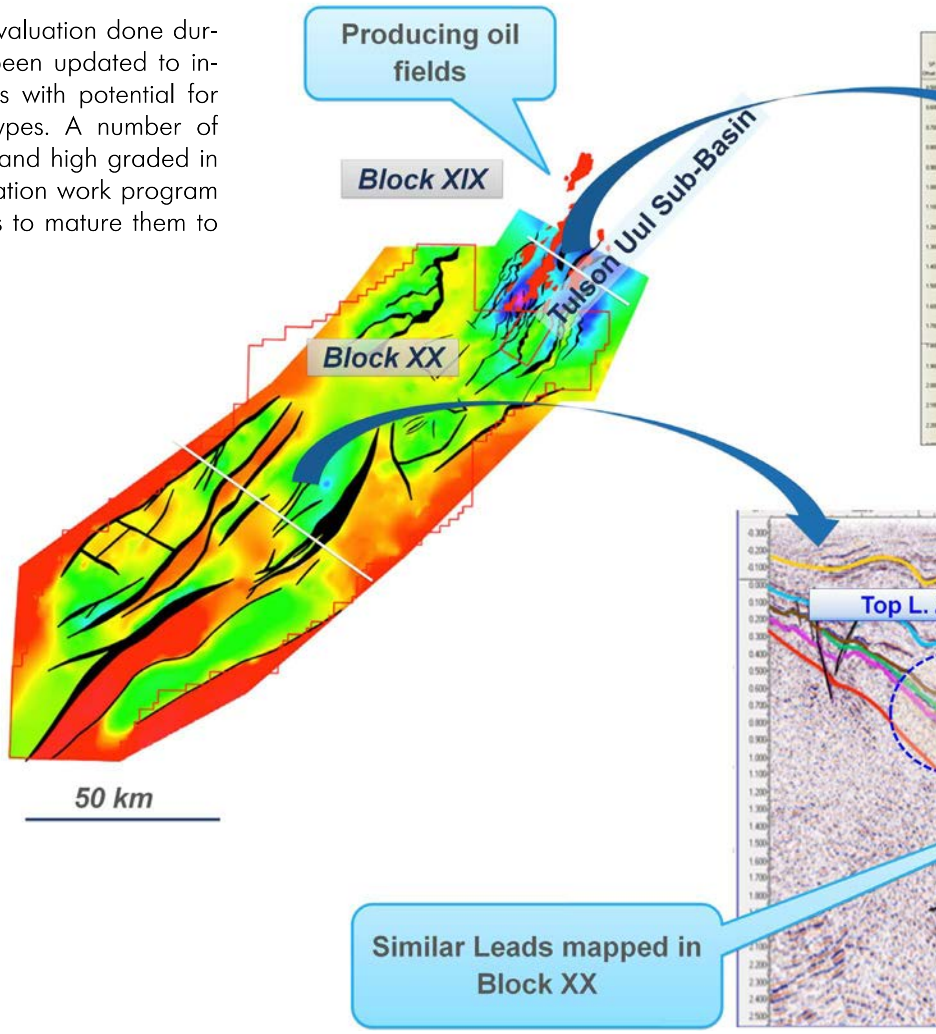
Эдгээр ижил төстэй сав газруудын сейсмийн зүсэлтээс харахад Богд-IV, Онги-V талбайнуудад ижил төрлийн хуриагуурууд байх боломжтой байна. 5-р зурагт Турпаны сав газар дахь Шенгикоу, Шаншан ордуудын сейсмийн шугамыг Богд IV талбайн сейсмийн шугамтай харьцуулсан байна. Петро Матадын Богд-IV, Онги-V талбайнуудад хурдас хуримтлалын төрөл, бүтцийн ижил төстэй байдлууд тодорхой харагдаж байна.

Зүүнгар болон Турпаны сав газруудын ашиглалтын тосны нөөцийг 9 тэрбум болон 400 сая баррельтай тэнцэх (boe) гэж тус тус тооцсон. Богд-IV, Онги-V талбайнуудыг Зүүнгар болон Турпаны сав газруудынхтай ижил үзүүлэлттэйгээр авч үзвэл эдгээр талбайнуудын геологийн нөөцийг 3,8 тэрбум баррельтай тэнцэх (boe), ашиглалтын хэтийн төлөвт нөөцийг 1 тэрбум гаруй баррельтай тэнцэх (boe) гэж тооцсон.

Figure 6 illustrates that a similar seismic analogue can be made between Block XX and producing Block XIX. The producing field areas of Block XIX are on trend with Block XX basins. The seismic sections in the southern half of Block XX document the same structural configuration. In all, six such sub-basins have been identified in the southern half of Block XX. This indicates a significant prospective potential of Block XX which hasn't been tested by drill-bit to date.

The basin area that contains the Block XIX producing fields is shown in dark blue. The producing field areas themselves are shown in red. As it can be seen from the map, the trend of both the basin area and the producing fields point towards the northern boundary of Block XX. This northern part of Block XX is the area that is noted in the 2008 ISIS CPR report as an area worthy of drilling but was not tested as part of Petro Matad's previous drilling campaign.

Based on the comprehensive technical evaluation done during 2012, Petro Matad's portfolio has been updated to include both emerging and frontier basins with potential for multiple petroleum systems and play types. A number of independent leads have been identified and high graded in Blocks IV, V and XX. The forward exploration work program focuses on de-risking the identified leads to mature them to drillable prospects in 2014.



Дээрхитэй ижил төстэй сейсмийн харьцуулалтыг Матад-XX болон олборлолт хийгдэж байгаа XIX талбайнуудад хийж болохыг 6-р зурагт харуулсан байна. XIX талбайн олборлолт хийгдэж байгаа ордууд нь Матад-XX талбайтай нэг чиглэлд байна.

XX талбайн урд хагасаар дайруулсан сейсмийн зүсэлтүүдийн харьцуулалт нь тэдгээрийг бүтцийн хувьд ижил байгааг харуулж байна. Матад-XX талбайн урд хагаст зургаан дэд сав газрыг ялгасан. Энэ нь Матад-XX талбайг онцгой хэтийн төлөвтэй байх боломжтойг харуулж байгаа бөгөөд үүнийг одоогоор өрөмдөж судлаагүй байна.

XIX талбайн олборлолт хийгдэж байгаа ордуудыг багтаасан сав газрыг хар хөх өнгөөр үзүүлсэн бөгөөд олборлолт хийгдэж байгаа ордуудыг улаанаар харуулав. Зураг дээр сав газар болон олборлолт хийгдэж байгаа ордуудын чиглэл нь Матад-XX талбайн хойд хэсэг рүү чиглэсэн байгаа нь харагдаж байна. Матад-XX талбайн энэхүү хойд хэсгийг ISIS компанийн Мэргэжилтнүүдийн тайланд өрөмдлөг хийхэд зохимжтой талбай гэж тусгагдсан хэдий ч Петро Матадын өмнө нь хэрэгжүүлсэн өрөмдлөгийн хөтөлбөрийн хүрээнд судлагдаагүй.

2012 онд хийгдсэн техникийн нарийвчилсан үнэлгээнд тулгуурлан Петро Матадын хэтийн төлөвт болон хэтийн төлөв сайтай талбайнуудыг шинэчилсэн. Үүнд урьд нь судлагдаагүй байсан, нүүрсустөрөгч хуримтлуулах систем бүрдэх боломж бүхий хэд хэдэн сав газруудыг багтаасан. Матад-XX, Богд-IV, Онги-V талбайнуудад мөн бие даасан хэтийн төлөвтэй хэд хэдэн талбайнуудыг ялгасан. Цаашид хайгуулын ажлын хөтөлбөрөө шинээр ялгасан хэтийн төлөвт талбайнуудын эрсдэлийг багасгаж, улмаар 2014 онд өрөмдөх хэтийн төлөв сайтай талбай болгоход чиглүүлэн ажиллана.

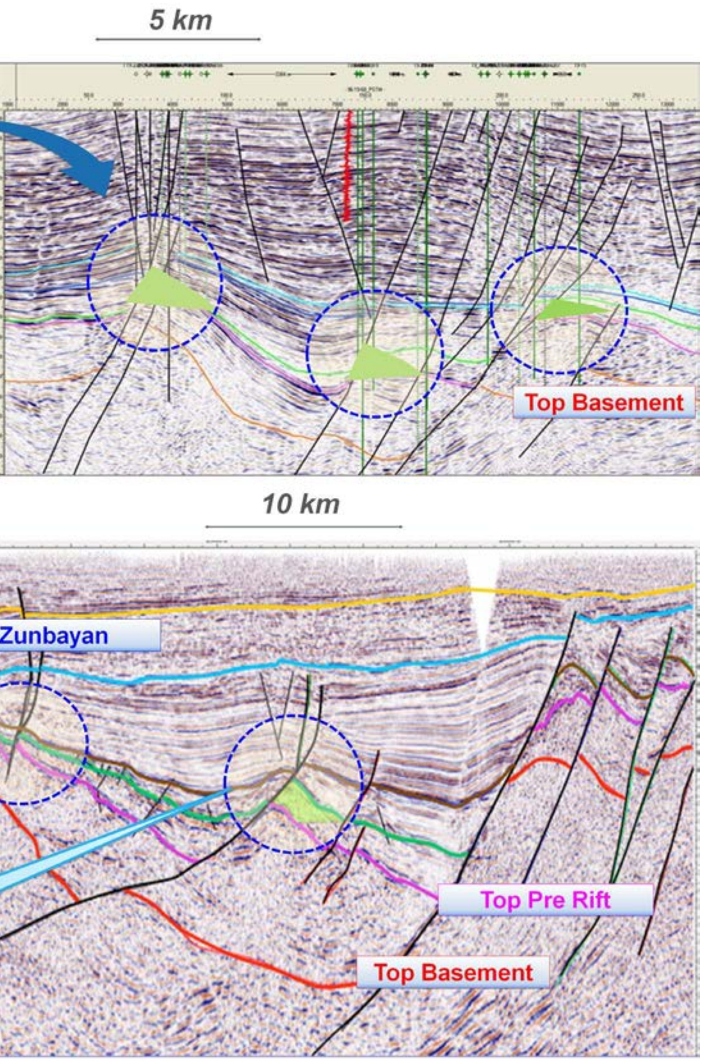


Figure 6: Block XX producing analogue from the adjacent Block XIX.
Зураг 6: Матад XX болон зэргэлдээх XIX талбайн харьцуулалт

PETRO MATAD

Petro Matad Environmental Policy

Petro Matad is committed to conserving and protecting the environment in their areas of operation.

This is achieved by:

- ✓ Adhering to State-approved Environmental Impact Assessment plans and all Mongolian legislation involving the environment
- ✓ Ensuring adequate awareness training is conducted for Petro Matad staff and contractors as well as local communities in areas of operation
- ✓ Striving to stay up-to-date with, and abide by, standard international environmental practices
- ✓ The development and execution of an Environmental Management System
- ✓ Constant and consistent research into new environmental protection practices
- ✓ Employing strict prevention, mitigation and restoration measures and closely enforcing their practice by Petro Matad Staff and contractors

John R. Henriksen Chief Financial Officer Petro Matad LLC	**Ridvan Karpuz** Director of Exploration Petro Matad LLC	**T. Amarzul** Executive Director Petro Matad LLC

PETRO MATAD

Petro Matad Health and Safety Policy

At Petro Matad, our Health and Safety Policy is based on the fact that the well-being of our employees, and those affected by our work, is critical for genuine success and therefore must be a priority during all work performed by us or on our behalf. People are our most important asset and their health and safety is our greatest responsibility. The public shall be given equal priority to that of our Employees.

The objectives of our Health and Safety Policy are to:

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

The success of our health and safety management is dependant on:

- ✓ Pro-active planning of all work activities with due consideration given to implementing health and safety controls that are suitable to each given situation
- ✓ Understanding the total work process and associated health and safety risks
- ✓ Ensuring that the work team is totally committed to achieving our objectives
- ✓ Ensuring that open and honest communication exists between management and all Employees

It is the responsibility of Petro Matad Management to ensure that this policy is adhered to and displayed on all projects.

John R. Henriksen Chief Financial Officer Petro Matad LLC	**Ridvan Karpuz** Director of Exploration Petro Matad LLC	**T. Amarzul** Executive Director Petro Matad LLC

Health, Safety and Environment

Petro Matad has a proven-track record of HSE excellence. During 2012, the company undertook and completed its 2012 exploration fieldwork program in remote and logistically demanding locations without an incident, thereby extending its record of HSE excellence. The attention and dedication of management and staff to working safely and safeguarding the environment continues to be instrumental in these results.

Petro Matad operates in logistically demanding remote locations where stringent application of international Health, Safety and Environmental ("HSE") principles are of utmost importance to ensure Petro Matad staff and contractors return home safely and do no harm to the environment.

Petro Matad has developed and implemented an effective Health, Safety and Environment Management System (HSE Management System) which complies with international standards. It is constantly monitored to ensure upgrading and improvement is implemented in line with Company activities. Based on "lessons learned" from previous operations and everyday life experiences, the HSE Management System is interrogated and improved through the active involvement of all employees, which in turn has significantly improved the HSE awareness of all employees.

Healthy and Safety Policy

Petro Matad's vision and commitment to safety, and ensuring an incident and injury free workplace for its employees are cornerstones of its Health and Safety Policy and Health and Safety Plan. The main objectives of both the Policy and Plan are listed below. The HSE Division underwent organizational changes in 2012 to further enhance the effective implementation of the objectives.

The Company's Health and Safety Policy aims to:

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

The Company's Health and Safety Plan aims to:

- Continual improvement and enhancement of a safety culture
- Ensure zero fatalities
- Reduce the number of total recordable injuries

Petro Matad achieved a remarkable safety milestone during the previous seismic acquisition and drilling operations programs in 2011: 665,336 man-hours recorded without a lost-time injury by Petro Matad's staff, contractors, sub-contractors, and consultants. This high level of HSE performance continued throughout 2012 while undertaking exploration fieldwork activities in remote locations in Blocks IV, V and XX.

The Company is also committed to ensuring that the high standards and best practices of the HSE Management System are adhered to by its contractors and sub-contractors. Petro Matad's HSE team conducts high level HSE Management System audits on its earthworks, seismic and drilling contractors, covering all aspects of their activities. The purpose of these audits is to:

- Increase and improve contractor employee HSE awareness and instil these practices as part of their everyday life.
- Evaluate field, seismic and drilling operations in terms of HSE standards and procedures
- Review contractors HSE system and their practicality
- Evaluate the effectiveness of the implementation of the HSE Plan when compared and integrated with the Petro Matad HSE Management System

Commitment to Environment

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

- Adhering to state-approved environmental impact assessment plans and all Mongolian environmental legislation
- Ensuring adequate awareness training is conducted for Petro Matad staff, contractors and local communities in areas of operations
- Adherence to standard international environmental protection practices, such as the guidelines published by the World Bank
- The development of, and adherence to, an Environmental Management System
- Constant and consistent research into new environmental protection practices
- Ensuring all preventive, mitigation and restoration measures are strictly adhered to by all Petro Matad staff and contractors

The Environmental Policy adopted by Petro Matad underlines management's commitment to the protection of the environment. This is achieved by the adoption of sound practices such as preventing or minimising disturbances or negative impact on the environment through improved waste management, controlled use of water resources and fuels, spill prevention practices and environmental awareness training for its employees. Petro Matad has successfully restored and reclaimed all of its drill sites and did not require the services of external service companies or chemicals for the reclamation. The reclaimed drill sites and other restoration activities have been inspected and accepted by the appointed Governmental environmental inspectors and Authorities. During the year, the Company participated and assisted in extinguishing wild fires on three occasions and enhanced the fire breaks around the Block XX camp and active well sites. The Environmental Monitoring Programme was successfully completed, and Annual Environmental Reports were submitted to the relevant Governmental Authorities. The Environmental Management Plan for 2013 has been approved.

Air Quality

Petro Matad is committed to studying emissions caused by the consumption of fuel. This analysis is aimed at comparing the emission factors with emission parameters in line with local and international regulatory standards in order to identify reliable and accurate emission coefficients to be used for future emission estimations.

Maintaining Biodiversity

Petro Matad also aims to maintain and conserve biodiversity across all areas of the Company's operations through collaboration with its subcontractors and local authorities, and by ensuring that disturbances to flora and fauna are prevented or minimised, especially in critical habitat areas.

Corporate Social Responsibility

At Petro Matad, we believe that operating openly and transparently in the community is integral to developing and maintaining positive relationships. Through meaningful engagement with communities, we identify opportunities to make contributions that are beneficial to all stakeholders. Company representatives meet frequently with the local authorities and strive to educate the community on oil exploration, as well as our planned activities and the possible impact on their community. Our social development policies are focused on the quality and comfort of local community life through the support of local development plans, rather than through providing temporary reliefs.

Petro Matad receives requests for assistance towards projects and developments through the Community Reference Groups, or through local assistance request forms. Submissions are carefully considered and projects that are consistent with our Social Action Plan ("SAP") are selected for implementation. In 2013, Petro Matad plans to spend a total of MNT200million (equivalent to approximately USD140,000) in Blocks IV, V and XX, covering commitments for years 2012 and 2013 on projects aimed to reduce poverty, as well as to improve education, health awareness and the protection of the environment.

Through its PSCs on Blocks IV and V, Petro Matad awarded scholarships to students studying Geology and Petroleum Engineering at the National University of Mongolia and the Mongolian Science and Technology University, in the last four years. 2013 is the last year for the award of these scholarships which vary from MNT500,000 to MNT1million (equivalent to approximately USD380 to USD760) per student for contribution towards their tuition fees. To date, we have awarded a total of approximately MNT161,939,100 (equivalent to approximately USD120,000) to two hundred and eighty students.

The Mongolian Government's PAM is the other Contracting party to our PSCs, and Petro Matad is committed to assisting the Government in providing professional training to PAM's officials and employees. Under this scholarship scheme, a Geologist and a Drilling Engineer are currently studying for their Master's degree at the University of Alberta in Canada. In May 2013, five PAM officials were also sent to a two months intensive professional training at the same University. We are pleased to assist the Government in their capacity building and are confident that the educational development will be beneficial for the development of the Mongolian Petroleum Sector.

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

Corporate Governance Statement

Corporate Governance at Petro Matad Limited

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

A Corporate Governance Social Action and Environmental ("CGSAE") Committee was formed in 2010. The Committee is charged, amongst other things, with overseeing and reviewing compliance and corporate governance issues. For this statement, we have reviewed and analysed the latest changes to the QCA Code published in May 2013, and have applied the new standards accordingly.

"Petro Matad seeks to embrace the highest standards of Corporate Governance, conscious that how a company achieves its objectives is as important as the results themselves. With that in mind, we have strengthened our Committee structure and Board reporting as noted in the following sections." – Chairman, George Watkins.

Board of Directors and Composition

The Board is comprised of three Non-Executive Directors (shareholder representatives), three Independent Non-Executive Directors and three Executive Directors.

The changes made to the Board composition in 2012 were undertaken with the following factors in mind:

- The principle of having an appropriate number of Independent Directors on the Board to oversee the interests of the Company and all shareholders
- Ensuring that the Board has appropriate skills, experience and expertise with the appointment of three experienced oil industry professionals as Independent Non-Executive Directors
- Maintaining appropriate representation for two of the Company's major shareholders, Petrovis and the European Bank for Reconstruction and Development ("EBRD")
- Ensuring appropriate executive representation on the Board

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

- George Edward Watkins,
  Chairman (Independent)
- Oyungerel Janchiv,
  Deputy Chair (Petrovis appointee)
- Mary Ellen Collins,
  Non-Executive Director (EBRD appointee)
- Enkhmaa Davaanyam,
  Non-Executive Director (Petrovis appointee)
- Philip Arthur Vingoe,
  Non-Executive Director (Independent)
- David Daniel Skeels,
  Non-Executive Director (Independent)
- Amarzul Tuul,
- Executive Director
  (Director of the Company's Mongolian subsidiaries)
- John Rene Henriksen,
  Executive Director (Chief Financial Officer)
- Mehmed Ridvan Karpuz,
  Executive Director (Director of Exploration)

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

Whilst the three Independent Non-Executive Directors have been granted Options and Conditional Share Awards to acquire shares in the Company, the amount of Options and Conditional Share Awards granted are not significant so as to affect their independence. In the opinion of the Board, this aligns their objectives with those of shareholders and the Board considers that the three Independent Non-Executive Directors can be classified as being independent. Dr. George Watkins was also appointed as an Independent Chairman in September 2012. Since his appointment, the new Chairman has been appropriately involved in the running of the operations and has contributed significantly to the running of effective and efficient Board meetings and operations. With his experience, skill sets, and independence, the Company is confident of his leadership in fostering a more effective corporate governance regime.

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

Board Processes

There is a clear division of responsibilities at Petro Matad through the separation of the positions of the Chairs of the Board and the Executive Directors.

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

The Executive Directors are charged by the Board with the day to day operations of the Company and are responsible for the execution of strategy set by the Board and to act as an interface between the Board, management and employees to ensure that everyone at Petro Matad works towards upholding the Company's goals, vision and mission.

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

The Board and its Committees meet quarterly and as and when issues arise that requires the Board's attention. During 2012, all Board meetings were attended by the majority of Board members in office at the time. The Board also aims to meet and visit the Company's employees and operating sites periodically so as to adequately oversee and remain acquainted with the Company's operations. The Board and its Committees are provided with detailed Board papers in advance of each Board meeting and receive regular management and financial reports.

Attendance at Board and Committee Meetings in 2012:

	Scheduled Board Meetings	Ad hoc Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	CGSAE Committee Meetings	Nomination Committee Meetings
Oyungerel Janchiv	4/4	1/2	-	4/4	-	-
Douglas John McGay[1]	3/4	2/2	3/5	3/4	3/4	-
Clyde Robert Evans[2]	4/4	1/2	5/5	-	-	-
Mary Ellen Collins	4/4	2/2	-	-	4/4	2/2
Enkhmaa Davaanyam	4/4	1/2	5/5	-	-	2/2
George Edward Watkins	4/4	1/2	5/5	-	4/4	-
Philip Arthur Vingoe	4/4	1/2	5/5	4/4	-	2/2
David Daniel Skeels	4/4	1/2	-	4/4	4/4	2/2
Amarzul Tuul	4/4	2/2	-	2/4	4/4	-
John Rene Henriksen[3]	3/4	-	4/5	1/4	1/4	-
Mehmed Ridvan Karpuz[4]	2/4	-	-	-	-	-
Total No. of Meetings	4	2	5	4	4	2

[1] Douglas John McGay resigned on 30 November 2012 and did not attend the December 2012 Board meeting
[2] Clyde Robert Evans resigned on 20 December 2012 and attended all 2012 Board meetings and relevant committee meetings
[3 and 4] John Rene Henriksen and Ridvan Karpuz were formally appointed as Board members on 20 December 2012 however they have both attended subsequent Board meetings to their commencement of employment on 17 April 2012 and 1 August 2012 respectively.

Board Committees

The Board has established an Audit Committee, a Remuneration Committee, Corporate Governance, Social Action and Environmental ("CGSAE") Committee and a Nomination Committee, each with formally delegated rules and responsibilities. Each of the Committees contains two independent Non-Executive Directors, in accordance with the QCA Guidelines, and meets regularly and at least three times a year. Management executives and other individuals are invited to attend all or part of the Committee meetings as and when appropriate.

Audit Committee

The members of the Audit Committee in 2012 and up to the date of this report are as follows:

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

Members
Gordon Leanard Toll (resigned on 27 January 2012)
Sarangua Davaadorj (resigned on 12 March 2012)
Philip Arthur Vingoe (appointed 19 March 2012)
George Edward Watkins (appointed 19 March 2012)

The Audit Committee met five times in 2012and met with the Group's auditors, Deloitte Touche Tohmatsu in one of the meetings. The Audit Committee meetings are linked to events in the Group's financial calendar, including a review of the Company's annual and half yearly results, the review of the internal controls of the Group and ensuring that the financial performance of the Group is properly reported and monitored. The Audit Committee is responsible, inter alia, for:

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

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

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

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

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

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

"During 2012, the Audit Committee initiated and oversaw a thorough review of internal control processes which cumulated in the introduction of: (a) new Procurement Policy, which includes a requirement for an executive committee to review/approve tender plans for significant value procurement/ contracts and to approve contract awards prior to financial commitments being made to the winning bidder; (b) implemented an updated Delegations of Authority procedure to better align budget responsibilities with departments making operational decisions; (c) introduced an enhanced management reporting system to provide managers and Directors with more focused monthly budget performance reports; and (d) completed a review of the Company's Internal Control procedures and implemented updates as required. With these overall enhancements, the Company's internal control environment has been further improved, operational efficiencies implemented and cost reductions identified/realized for both the near and longer term. As a result, I am confident that from a financial control perspective, Petro Matad is positioned to optimally execute current and future operational/work program activities"- Enkhmaa Davaanyam, Audit Committee Chair.

Remuneration Committee

The members of the Remuneration Committee in 2012 and up to the date of this report are as follows:

Chair

Oyungerel Janchiv
(resigned as Chair on 19 March 2012)

Philip Arthur Vingoe
(appointed Chair on 19 March 2012)

Members

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

The Remuneration Committee met four times in 2012. The Remuneration Committee evaluates the scale and structure of remuneration for Executive Directors, reviews the recommendations for senior management of the Company, and where appropriate overviews the broad issues of salary levels for all employees. The Company's remuneration policy is to facilitate the recruitment, retention and motivation of employees through appropriate remuneration in line with those prevailing in the market of similar positions and responsibilities taking into consideration qualifications and skills possessed. The Committee also makes recommendations to the Board regarding employee incentives and rewards under the share incentive schemes. The Committee reviews and recommends a framework for the remuneration of the Chairman as well as the Non-Executive Directors fees. The full details of the Company's remuneration policy and remuneration of Directors are set out in the Remuneration Report on pages 47 to 53.

"2012 has been a year of considerable change in personnel requiring many decisions regarding recruitment and departure terms. Throughout all of this, the Remuneration Committee has remained firm in its conviction of finding the right business balance for both employees and shareholders. Our guiding principles have been, and will continue to be, to seek both fairness and simplicity in all matters." – Philip Vingoe, Remuneration Committee Chair.

Corporate Governance, Social Action and Environmental ("CGSAE") Committee

The members of the CGSAE Committee in 2012 and up to the date of this report are as follows:

Chair

Mary Ellen Collins

Members

Gordon Leonard Toll (resigned on 27 January 2012)
Enkhmaa Davaanyam (resigned on 19 March 2012)
George Edward Watkins (appointed 19 March 2012)
David Daniel Skeels (appointed 19 March 2012)

The CGSAE Committee met four times in 2012. The CGSAE Committee among other things: regularly reviews the Company's corporate governance and system of internal non-financial controls; assigns responsibilities for health, safety and environmenta matters and community liaison; reviews the application of the Company's social action policies and environmental policies and supervises the preparation of various reports in respect of these aspects of the Company's activities.

"During 2012, Petro Matad put in place new policies on governance, including a clear commitment to best practice in risk evaluation, disclosure and ethics in our business practices.Following the CGSAE Committee recommendation to the Board, Petro Matad adopted the QCA Guidelines as our corporate governance standard. The Committee oversaw implementation of the steps required for compliance, including ensuring that the appropriate disclosure was included on the website and required reporting included in the annual report. The Committee also oversaw the adoption of Petro Matad's Anti-Bribery Policy, and reviewed the training provided for all staff members. The committee also began a process of formal evaluation of operational and corporate risks, to be updated and reported to the board on a regular basis." – Mary Ellen Collins, CGSAE Committee Chair.

Nomination Committee

A Nomination Committee was formed on 13 September 2012. The members of the Nomination Committee in 2012 and up to the date of this report are as follows:

Chair
David Daniel Skeels

Members
Mary Ellen Collins
Enkhmaa Davaanyam
Philip Arthur Vingoe

The Nomination Committee met two times in 2012. The Nomination Committee views the structure and composition of the Board and its Committees as well as senior management. The Committee identifies and nominates possible candidates for the Board and makes recommendations in terms of succession planning, re-appointment and re-elections of Directors.

"The Nomination Committee was formed in 2012 and since its formation, the Committee has met several times to address management staffing requirements. It will continue to be reviewed and appropriate actions will follow subject to the finalization of near future operations programs." – David Skeels, Nomination Committee Chair.

Internal Controls

The Board has responsibility for the Group's systems of internal controls and for reviewing their effectiveness. The internal controls systems are designed to safeguard the assets of the Company, ensure compliance with applicable laws and regulations and internal policies with respect to the conduct of business and the reliability of financial information for both internal use and external publication. The Board has delegated management for the implementation of material internal control system and reviews policies and procedures through regular updates from management. A budgeting process is in place for all material items of expenditures, especially major exploration expenditures and an annual budget is approved by the Board. All major expenditures require senior management approval at the appropriate stages of each transaction. Actual versus budgeted expenditure data and the Company's cash position is monitored on a monthly basis. In 2012, management introduced enhanced procedures for procurement, budgeting and expenditure approvals, which are in line with standard industry practices. Whilst the Board is aware that no system can provide absolute assurance against material misstatement or loss, regular review of internal controls are undertaken to ensure that they are appropriate and effective. It is the opinion of the Board that the system of internal controls operating throughout the year were adequate and effective.

Risk Management

The Board acknowledges that risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system.The principal risks facing the Group are set out below. This list is not exhaustive and investors should be aware that additional risks which were not known to the Directors at the date of this report, or that the Directors considered at the date of this report to be immaterial, may also have a material adverse effect on the financial condition, performance or prospects of the Company, and the market price of Company shares. The Board has undertaken to review risks annually per a designed risk matrix. Risks identified are ranked in relation to the probability of occurrence and impact on operations. Each identified risk is delegated to a senior member of the management team to monitor and propose intervening action, should circumstances warrant it.

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

Government/Statutory Risks
- Expropriation of PSC
- Sanctity of contract – Detrimental change of PSC terms

- Statutory environment: FDI, Petroleum Law, Tax etc
- Government ineffectiveness/Institutional failure
- Loss of listed status
- External statutory risks (Anti-bribery, FSA)

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

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

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

Business Conduct and Ethics

Extractive Industries Transparency Initiative ("EITI")

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

Anti-Bribery and Corruption Policy ("ABCP")

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

Insurance

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

Share Dealing Code

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

Shareholder and Investor Relations

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

REMUNERATION REPORT (UNAUDITED)

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

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

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

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

Remuneration Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Long Term Equity Incentive Plan ("Plan")

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

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

Conditional Share Awards shall vest subject to continuing service and appropriate and challenging service and performance conditions determined by the Remuneration Committee relating to the over-all 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 2011 and 2012, are as below:

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

Directors		
Gordon Leonard Toll	Non-Executive Co-Chair	Resigned 27 January 2012
Oyungerel Janchiv	Non-Executive Deputy Chair	Appointed Chair on 27 January 2012 and Deputy Chair on 13 September 2012
Douglas John McGay	Chief Executive Officer	Resigned 30 November 2012
Clyde Robert Evans	Non-Executive Director	Resigned 20 December 2012
John Campbell Robertson	Non-Executive Director	Resigned 12 March 2012
Sarangua Davaadorj	Non-Executive Director	Resigned 12 March 2012
Mary Ellen Collins	Non-Executive Director	
Enkhchimeg Davaanyam	Non-Executive Director	Resigned 20 May 2011
Enkhmaa Davaanyam	Non-Executive Director	
David Daniel Skeels	Non-Executive Director	Appointed 12 March 2012
Philip Arthur Vingoe	Non-Executive Director	Appointed 12 March 2012
George Edward Watkins	Non-Executive Chairman	Appointed 12 March 2012 and as Chairman on 13 September 2012
Amarzul Tuul	Executive Director	Appointed 19 March 2012
John Rene Henriksen	Chief Financial Officer	Appointed 20 December 2012
Mehmed Ridvan Karpuz	Director of Exploration	Appointed 20 December 2012

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

(b) Compensation of Directors

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Short-term employee benefits		1,950	939
Post-employment benefits		-	-
Share based payment expense		802	1,015
		2,752	1,954

	Consolidated	
Directors	31 Dec 2012 $'000	31 Dec 2011 $'000
Gordon Leonard Toll	5	64
Oyungerel Janchiv	65	64
Douglas John McGay	822	356
Clyde Robert Evans	188	288
John Campbell Robertson	21	48
Sarangua Davaadorj	21	48
Mary Ellen Collins	54	22
Enkhchimeg Davaanyam	-	19
Enkhmaa Davaanyam	54	30
David Daniel Skeels	45	-
Philip Arthur Vingoe	45	-
George Edward Watkins	52	-
Amarzul Tuul	146	-
John Rene Henriksen	267	-
Mehmed Ridvan Karpuz	165	-
Total	1,950	939

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

Directors are not entitled to termination or retirement benefits.

(c) Shareholdings of Directors and their related parties

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

Balance at 31 December 2012 or if applicable at the date of resignation	Balance as at 01-Jan-12	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-12
Directors				
Gordon Leonard Toll	5,102,501	-	-	5,102,501
Oyungerel Janchiv	6,585,000	-	-	6,585,000
Douglas John McGay	3,975,000	-	-	3,975,000
Clyde Robert Evans	4,182,377	-	-	4,182,377
John Campbell Robertson	350,000	-	-	350,000
Sarangua Davaadorj	150,000	-	-	150,000
Mary Ellen Collins	-	-	-	-
Enkhmaa Davaanyam	-	-	-	-
David Daniel Skeels	-	-	-	-
Philip Arthur Vingoe	-	500,000	-	500,000
George Edward Watkins	-	200,000	-	200,000
Amarzul Tuul	472,500	-	-	472,500
John Rene Henriksen	-	-	-	-
Mehmed Ridvan Karpuz	-	-	-	-
Total	20,817,378	700,000	-	21,517,378

Resigned Directors' shareholdings are accurate up to their dates of resignation.
Enkhchimeg Davaanyam (resigned 20 May 2011)
Gordon Leonard Toll (resigned 27 January 2012)
Douglas John McGay (resigned 30 November 2012)
Clyde Robert Evans (resigned 20 December 2012)
John Campbell Robertson (resigned 12 March 2012)
Sarangua Davaadorj (resigned 12 March 2012)

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

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

(d) Options holdings of Directors

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

For the year ended 31 December 2012	Balance as at 01-Jan-12	Granted as Remuneration	Options Exercised	Options Lapsed	Balance as at 31-Dec-12	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Gordon Leonard Toll	675,000	-	(250,000)	(425,000)	-	-	-
Oyungerel Janchiv	475,000	-	-	-	475,000	76,500	398,500
Douglas John McGay	900,000	-	-	-	900,000	-	900,000
Clyde Robert Evans	600,000	-	-	-	600,000	-	600,000
John Campbell Robertson	450,000	-	(150,000)	(300,000)	-	-	-
Sarangua Davaadorj	250,000	-	(37,500)	(212,500)	-	-	-
Mary Ellen Collins	125,000	-	-	-	125,000	42,500	82,500
Enkhmaa Davaanyam	150,000	-	-	-	150,000	100,500	49,500
David Daniel Skeels	-	150,000	-	-	150,000	150,000	-
Philip Arthur Vingoe	-	150,000	-	-	150,000	150,000	-
George Edward Watkins	-	150,000	-	-	150,000	150,000	-
Amarzul Tuul	308,500	300,000	-	-	608,500	356,150	252,350
John Rene Henriksen	-	100,000	-	-	100,000	100,000	-
Mehmed Ridvan Karpuz	-	75,000	-	-	75,000	75,000	-
Total	3,933,500	925,000	(437,500)	(937,500)	3,483,500	1,200,650	2,282,850

All the Options of resigned Directors were vested and remained exercisable for a period of 6 months from the date of their resignations as per the rules of Plan and at the discretion of the Directors. The Options will lapse to the extent unexercised at the end of the 6 months period.

Opening Balance of Amarzul Tuul relates to Options held before commencing as a Director.

(e) Conditional Share Awards holdings of Directors

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

For the year ended 31 December 2012	Balance as at 01-Jan-12	Granted as Remuneration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-12	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Gordon Leonard Toll	425,000	-	(280,000)	(145,000)	-	-	-
Oyungerel Janchiv	475,000	-	-	-	475,000	475,000	-
Douglas John McGay	600,000	-	-	(100,000)	500,000	-	500,000
Clyde Robert Evans	400,000	-	-	(133,334)	266,666	-	266,666
John Campbell Robertson	300,000	-	(198,000)	(102,000)	-	-	-
Sarangua Davaadorj	250,000	-	(165,000)	(85,000)	-	-	-
Mary Ellen Collins	125,000	-	-	-	125,000	125,000	-
Enkhmaa Davaanyam	150,000	-	-	-	150,000	150,000	-
David Daniel Skeels	-	150,000	-	-	150,000	150,000	-
Philip Arthur Vingoe	-	150,000	-	-	150,000	150,000	-
George Edward Watkins	-	150,000	-	-	150,000	150,000	-
Amarzul Tuul	203,000	300,000	-	-	503,000	503,000	-
John Rene Henriksen	-	889,090	-	-	889,090	889,090	-
Mehmed Ridvan Karpuz	-	2,012,364	-	-	2,012,364	2,012,364	
Total	2,928,000	3,651,454	(643,000)	(565,334)	5,371,120	4,604,454	766,666

A portion of the Conditional Share Awards of resigned Directors were vested and made exercisable as per the rules of the Plan and at the discretion of the Directors upon their retirements from the Board.

Opening Balance of Amarzul Tuul relates to awards issued before commencing as a Director.

Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	Consolidated 31 Dec 2012 $'000	Consolidated 31 Dec 2011 $'000
Continuing operations			
Revenue			
Interest income	4(a)	688	1,385
Other income		11	-
		699	1,385
Expenditure			
Consultancy fees		399	199
Depreciation and amortisation		283	174
Employee benefits expense	4(b)	5,164	9,892
Exploration and evaluation expenditure	4(c)	4,912	27,807
Other expenses	4(d)	2,096	2,912
Loss from continuing operations before income tax		(12,155)	(39,599)
Income tax expense	5	-	-
Loss from continuing operations after income tax		(12,155)	(39,599)
Net loss for the year		(12,155)	(39,599)
Other comprehensive income			
Exchange differences on translating foreign operations		69	(609)
Income tax arising on translating the net assets of foreign operations		-	-
Other comprehensive income/(loss) for the year, net of income tax		69	(609)
Total comprehensive loss for the year		(12,086)	(40,208)
Loss attributable to owners of the parent		(12,155)	(39,599)
Total comprehensive loss attributable to owners of the parent		(12,086)	(40,208)
Loss per share (cents per share)			
Basic and diluted loss per share	6	6.5	21.5

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

Statement of Financial Position

For the year ended 31 December 2012

	Note	Consolidated 31 Dec 2012 $'000	Consolidated 31 Dec 2011 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	4,588	15,477
Trade and other receivables	8	422	316
Prepayments and other assets	9	575	729
Total Current Assets		5,585	16,522
Non-Current Assets			
Exploration and evaluation assets	10	15,275	15,275
Property, plant and equipment	11	901	1,149
Total Non-Current Assets		16,176	16,424
TOTAL ASSETS		21,761	32,946
LIABILITIES			
Current Liabilities			
Trade and other payables	13	873	1,952
Annual leave provision		-	24
Total Current Liabilities		873	1,976
TOTAL LIABILITIES		873	1,976
NET ASSETS		20,888	30,970
EQUITY			
Equity attributable to owners of the parent			
Issued capital	14	98,893	97,187
Reserves	15	5,988	6,232
Accumulated losses		(83,993)	(72,449)
TOTAL EQUITY		20,888	30,970

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 2012

	Note	Consolidated 31 Dec 2012 $'000	Consolidated 31 Dec 2011 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(11,679)	(36,475)
Interest received		688	1,385
Net cash flows used in operating activities	7	(10,991)	(35,090)
Cash flows from investing activities			
Purchase of property, plant and equipment		(78)	(873)
Sale of property, plant and equipment		12	-
Net cash flows used in investing activities		(66)	(873)
Cash flows from financing activities			
Proceeds from issue of shares	14	91	303
Capital raising costs		-	-
Net cash flows from financing activities		91	303
Net decrease in cash and cash equivalents		(10,966)	(35,660)
Cash and cash equivalents at beginning of the year		15,477	51,690
Net foreign exchange differences		77	(553)
Cash and cash equivalents at the end of the year	7	4,588	15,477

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 2012

		Consolidated			
		Attributable to equity holders of the parent			
	Note	Issued capital $'000	Accumulated Losses $'000	Other Reserves Note 15 $'000	Total $'000
As at 1 January 2011		95,466	(32,930)	3,900	66,436
Net loss for the year		-	(39,599)	-	(39,599)
Other comprehensive income		-	-	(609)	(609)
Total comprehensive loss for the year		-	(39,599)	(609)	(40,208)
Issue of share capital	14	303	-	-	303
Cost of capital raising	14	-	-	-	-
Share-based payments	15 & 16	1,418	80	2,941	4,439
As at 31 December 2011		97,187	(72,449)	6,232	30,970
Net loss for the year		-	(12,155)	-	(12,155)
Other comprehensive income		-	-	69	69
Total comprehensive loss for the year		-	(12,155)	69	(12,086)
Issue of share capital	14	91	-	-	91
Cost of capital raising	14	-	-	-	-
Share-based payments	14,15 & 16	1,615	611	(313)	1,913
As at 31 December 2012		98,893	(83,993)	5,988	20,888

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

Notes to the Financial Statements

1 CORPORATE INFORMATION

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

This financial report complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ('IASB').

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

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

(b) Statement of compliance

This general purpose financial report has been prepared in accordance with the requirements of all applicable IFRS and Interpretations and other authoritative pronouncements of the IASB that have a material effect.

(c) Going concern note

The consolidated entity has incurred a net loss after income tax of $12.155 million (2011: Loss of $39.599 million) and experienced net cash outflows from operating activities of $10.991 million (2011: $35.090 million) for the year ended 31 December 2012. In addition and as outlined in Note 17(b) the consolidated entity is required to meet minimum exploration commitments on its PSCs of approximately $17.017 million.

Should the minimum exploration commitments for Blocks IV and V not be met and/or unless an alternative arrangement is not reached with PAM, the Company will be required to pay the shortfall (which at the end of 2012 stood at $9.9 million) to PAM at the end of the current PSC term, ending on 29 July 2014.

These conditions indicate a material uncertainty that may cast significant doubt over the consolidated entity's ability to continue as a going concern.

The ability of the consolidated entity to continue as going concern is principally dependent upon raising additional capital of approximately $10 million by early 2014, vary and/or defer Blocks IV and V commitment expenditure and/or secure a farm-out agreement to fund minimum exploration commitments.

On 12 June 2013, Petrovis, signed an Equity Subscription Agreement with the Company that resulted in aggregate subscription monies of $5,000,000 being received on 25 June 2013. Excluding current exploration commitments on PSC Blocks IV and V, this injection of funds enables the Company to operate as a going concern with respect to funding ongoing working capital commitments and operating expenses.

With respect to the current shortfall in expenditures on PSC Blocks IV and V, the Company is engaged in discussions for possible farm-out of the interests in these blocks to potential investors. It is anticipated that the investor would take on part or all of the spend on these blocks as part of the farm-out arrangement. If an agreement is reached, the Company reasonably expects it would be finalized before the end of the third quarter of 2013. In the absence of a farm-out being concluded the Company would engage PAM in discussions to reschedule current PSC term expenditure commitments. The Company has not formally initiated such discussions with PAM and does not intend to do so until the results of the current farm-out process are known. For Block XX, the Company has previously negotiated PSC exploration term extensions and re-phasing of commitments, which indicates an extension and re-phasing of commitments may be possible.

The Directors have prepared a cash flow forecast, which indicates that the consolidated entity will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing the financial report if they are successful in securing funding and/or deferral of exploration commitments as referred above.

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

Should the consolidated entity be unable to achieve the matters referred to above, there is a material uncertainty whether the consolidated entity will be able to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business and at amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

(d) Application of new and revised Accounting Standards

Standards and Interpretations adopted in the current year

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period beginning 1 January 2012.

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

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'
- Amendments to IFRS 7 'Disclosures on Transfers of Financial Assets'

The impact of the adoption of these Standards and Interpretations did not have a material impact on the consolidated entity.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the year ended 31 December 2012:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 9 'Financial Instruments' (December 2009), Amendments to IFRS 7 and IFRS 9 'Mandatory Effective Date of IFRS 9 and Transition Disclosures'	1 January 2015	31 December 2015
IFRS 10 'Consolidated Financial Statements'	1 January 2013	31 December 2013
IFRS 11 'Joint Arrangements'	1 January 2013	31 December 2013
IFRS 12 'Disclosure of Interests in Other Entities'	1 January 2013	31 December 2013
IAS 127 'Separate Financial Statements' (2011)	1 January 2013	31 December 2013
IAS 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	31 December 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance'	1 January 2013	31 December 2013
IFRS 13 'Fair Value Measurement'	1 January 2013	31 December 2013
IFRS 119 'Employee Benefits' (2011)	1 January 2013	31 December 2013
Amendments to IFRS 7 – 'Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	31 December 2013
Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities '	1 January 2014	31 December 2014
Amendments to IFRS's 'Annual Improvements to IFRS's 2009–2011 Cycle'	1 January 2013	31 December 2013

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

(e) Basis of consolidation

The consolidated financial statements 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.

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

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

(f) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

Translation of subsidiaries' functional currency to presentation currency

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

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

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

(g) Cash and cash equivalents

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

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

(h) Trade and other receivables

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

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

(i) Plant and equipment

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

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

(j) Exploration and evaluation expenditure

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

(k) Exploration and evaluation assets

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

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

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

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

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

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

Impairment review for deferred exploration and evaluation assets are carried out on a project-by-project basis, which each project representing a 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; or
- Variations in the currency of operation.

(m) Trade and other payables

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

(n) Interest-bearing loans and borrowings

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

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

Gains and losses are recognised in the profit and loss in the statement of comprehensive income when the liabilities are derecognised.

The component parts of compound financial instruments are classified as financial liabilities and equity in accordance with the substance of the contractual arrangement. The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. The remainder of the proceeds is allocated to the conversion option. If the conversion option meets the definition of an equity instrument, this amount is recognised and included in shareholders' equity and is not subsequently remeasured.

(o) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. If the effect of the time-value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

(p) Leases

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

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

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

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

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

(q) Contributed equity

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

(r) Revenue

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

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 using the effective interest method.

(s) Share-based payment transactions

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

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

In determining the fair value of the equity-settled transactions, no account is taken of any non-market based vesting conditions.

The cost of equity-settled transactions is recognised as an expense on a straight-line basis, together with a corresponding increase in equity, over the period in which they vest.

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

- the extent to which the vesting period has expired; and
- the number of awards that, in the opinion of the Directors of the Group, will ultimately vest.

This opinion is formed based on the best available information at the reporting date. The impact of the revision of original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(t) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(u) Income tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

(v) Earnings per share

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

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

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

(w) Significant accounting judgments, estimates and assumptions

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

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

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

Share -based payments

The Group measures the cost of equity settled transactions with Directors and employees at the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model. One of the inputs into the valuation model is volatility of the underlying share price which is estimated on the 4.5 year history of the share price and has been estimated in a range from 78 % to 220% depending on the date of the grant.

Recovery of the exploration and evaluation assets

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

3 OPERATING SEGMENTS

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

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

4 REVENUES AND EXPENSES

	Note	Consolidated 31 Dec 2012 $'000	31 Dec 2011 $'000
(a) Revenue			
Interest Income		688	1,385
		688	1,385
(b) Employee benefits expense			
Included in employee benefits expense are the following:			
Wages and salaries		1,340	1,762
Directors' fees (including Directors of affiliates)		431	329
Consultancy fees		1,480	3,362
Share-based payments		1,913	4,439
		5,164	9,892
(c) Exploration and evaluation expenditure			
Exploration and evaluation expenditure relates to the following PSC:			
Block XX		2,616	19,333
Blocks IV and V		2,296	8,474
Other		-	-
		4,912	27,807
(d) Other expenses			
Included in other expenses are the following:			
Administration costs		958	1,756
PSC administration costs		651	566
Audit fees		129	104
Travel expenses		367	541
Foreign exchange (gains)/ losses		(9)	(55)
		2,096	2,912

5 INCOME TAX

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'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:

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Net loss for the year		(12,155)	(39,599)
Income tax benefit calculated at 10%	(i)	1,216	3,960
Effect of different tax rates on entities in different jurisdictions	(ii)	(953)	(3,547)
Change in unrecognised deferred tax assets		(263)	(413)
		-	-

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

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

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

6 LOSS PER SHARE

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

	Consolidated	
	31 Dec 2012 cents per share	31 Dec 2011 cents per share
Basic loss per share	6.5	21.5
Diluted loss per share	6.5	21.5
	$'000's	$'000's
The loss and weighted average number of ordinary shares used in the calculation of basic wand diluted loss per share are as follows:		
Net loss attributable to owners of the parent	12,155	39,599
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	185,716	183,995

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

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

7 CASH AND CASH EQUIVALENTS

	Note	Consolidated 31 Dec 2012 $'000	Consolidated 31 Dec 2011 $'000
Cash at bank and in hand		4,588	15,477
		4,588	15,477

Cash at bank and in hand earns interest at fixed and floating rates based on prevailing bank rates, and the fair value of the above cash and cash equivalents is $4,588,000 (2011: $15,477,000) due to the short-term nature of the instruments.

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

	Note	Consolidated 31 Dec 2012 $'000	Consolidated 31 Dec 2011 $'000
Net loss after tax		(12,155)	(39,599)
Adjustments for:			
Depreciation and amortisation		283	174
Net (profit)/loss on disposal of property, plant and equipment		34	-
Share based payments		1,913	4,439
Unrealised foreign exchange (gains)/ losses		(10)	(55)
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		(106)	(228)
Increase/(decrease) in prepayments and other assets		154	(375)
(Increase)/decrease in trade and other payables		(1,104)	554
Net cash flows used in operating activities		(10,991)	(35,090)

Non-cash investing and financing activities

There were no non-cash investing or financing activities undertaken in the financial year or prior year, other than the exercise of Options and Awards of $1.615 million (2011: $1.418 million).

8 TRADE AND OTHER RECEIVABLES

	Note	Consolidated 31 Dec 2012 $'000	Consolidated 31 Dec 2011 $'000
Current			
Other debtors		422	316
		422	316

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

9 PREPAYMENTS AND OTHER ASSETS

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Prepayments		107	262
Other assets		467	467
		575	729

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

10 EXPLORATION AND EVALUATION ASSETS

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Exploration and evaluation assets		15,275	15,275
		15,275	15,275

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

The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation or alternatively the sale of the respective areas of interest at an amount at least equal to book value.

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

11 PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated 31 Dec 2012 $'000	31 Dec 2011 $'000
Plant and equipment at cost		1,263	1,360
Accumulated depreciation and impairment		(362)	(211)
		901	1,149

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

	Note	Consolidated 31 Dec 2012 $'000	31 Dec 2011 $'000
As at 1 January 2011 (net of accumulated depreciation)		450	450
Additions		873	873
Disposals		-	-
Depreciation charge for the year		(174)	(174)
As at 31 December 2011 (net of accumulated depreciation)		1,149	1,149
Additions		78	78
Disposals		(43)	(43)
Depreciation charge for the year		(283)	(283)
As at 31 December 2012 (net of accumulated depreciation)		901	901

12 INVESTMENTS IN SUBSIDIARIES

	Note	Consolidated 31 Dec 2012 $'000	31 Dec 2011 $'000
Investments in subsidiaries at cost		-	-
		-	-

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

13 TRADE AND OTHER PAYABLES (CURRENT)

	Note	Consolidated 31 Dec 2012 $'000	31 Dec 2011 $'000
Trade payables		870	1,949
Other payables		3	3
		873	1,952

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

14 ISSUED CAPITAL

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Ordinary Shares 186,176,001 shares issued and fully paid (2011: 184,565,284)		98,893	97,187
		98,893	97,187

Movements in ordinary shares on issue:

	Number of Shares	Issue Price $	$'000
Consolidated			
As at 1 January 2011	183,061,577		95,466
Exercise of Conditional Share Awards on 25 March 2011 (note (a))	191,479	0.010	2
Issue of shares to Directors and employees on 12 April 2011 on exercise of Options (note (b))	628,750	0.180	113
Issue of shares to a Director on 12 April 2011 on exercise of Options (note (c))	50,000	0.750	38
Exercise of Conditional Share Awards on 21 April 2011 (note (d))	142,447	0.010	1
Issue of shares to employees on 21 April 2011 on exercise of Options (note (e))	25,000	0.180	5
Exercise of Conditional Share Awards on 10 June 2011 (note (f))	83,534	0.010	1
Issue of shares to an employee on 10 June 2011 on exercise of Options (note (g))	7,500	0.180	1
Exercise of Conditional Share Awards on 5 August 2011 (note (h))	97,497	0.010	1
Issue of shares to employees on 5 August 2011 on exercise of Options (note (i))	184,090	0.752	138
Issue of shares to an employee on 5 August 2011 on exercise of Options (note (j))	5,000	0.180	1
Exercise of Conditional Share Awards on 21 November 2011 (note (k))	83,410	0.010	1
Issue of shares to an employee on 21 November 2011 on exercise of Options (note (l))	5,000	0.174	1
Capital raising costs	-	-	-
Share based payment	-	-	1,418
As at 31 December 2011	184,565,284		97,187
Exercise of Conditional Share Awards on 13 February 2012 (note (m))	206,987	0.010	2
Issue of shares to employees on 13 February 2012 on exercise of Options (note (n))	11,250	0.174	2
Exercise of Conditional Share Awards on 5 March 2012 (note (o))	280,000	0.010	3
Exercise of Conditional Share Awards on 26 April 2012 (note (p))	505,447	0.010	5
Issue of shares to Directors and an employee on 26 April 2012 on exercise of БOptions (note (q))	442,500	0.175	77
Exercise of Conditional Share Awards on 9 July 2012 (note (r))	164,533	0.010	2
Capital raising costs	-	-	-
Share based payment	-	-	1,615
As at 31 December 2012	186,176,001		98,893

(a) On 25 March 2011, pursuant to the Group's Plan, 191,479 shares were awarded to employees exercising Conditional Share Awards with an exercise price per share of $0.01.

(b) On 12 April 2011, pursuant to the Group's Plan, 628,750 shares were awarded to Directors and employees exercising Options with an exercise price per share GBP0.11.

(c) On 12 April 2011, pursuant to the Group's Plan, 50,000 shares were awarded to a Director exercising Options with an exercise price per share of $0.75.

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

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

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

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

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

(i) On 5 August 2011, pursuant to the Group's Plan, 184,090 shares were awarded to employees exercising Options with an exercise price per share of GBP0.4616.

(j) On 5 August 2011, pursuant to the Group's Plan, 5,000 shares were awarded to an employee exercising Options with an exercise price per share of GBP0.11.

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

(l) On 21 November 2011, pursuant to the Group's Plan, 5,000 shares were awarded to an employee exercising Options with an exercise price per share of GBP0.11.

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

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

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

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

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

(r) On 9 July 2012, pursuant to the Group's Plan, 164,533 shares were awarded to employees exercising Conditional Share Awards with an exercise price per share of $0.01.

15 RESERVES

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

Consolidated	Merger reserve $'000	Equity benefits reserve $'000	Foreign currency translation $'000	Total $'000
As at 1 January 2011	831	3,213	(144)	3,900
Currency translation differences	-	-	(609)	(609)
Share based payments	-	2,941	-	2,941
As at 31 December 2011	831	6,154	(753)	6,232
Currency translation differences	-	-	69	69
Share based payments	-	(313)	-	(313)
As at 31 December 2012	831	5,841	(684)	5,988

Nature and purpose of reserves

Merger reserve

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

Equity benefits reserve

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

Foreign currency translation reserve

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

16 SHARE BASED PAYMENTS

(a) Long Term Equity Incentive Plan

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

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

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

Some Conditional Share Awards will vest on achievement of the following performance conditions:
- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 September 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2015; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

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

(b) Option pricing model

The following Table summarizes Options granted during 2011 and 2012, along with relevant details in relation to each grant.

	6 Apr 11	5 Jul 11	22 Nov 11	5 Dec 11	25 Apr 12	16 Jul 12	5 Oct 12	4 Dec 12
Options Granted	769,100	623,000	215,000	100,000	981,000	1,198,080	105,000	12,000
Share price at grant date	$3.0202	$1.8819	$0.3534	$0.3081	$0.3630	$0.1383	$0.1271	$0.1284
Expected Volatility (%)	85	85	85	85	85	85	85	85
Risk-free interest rates (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Expected life (years)	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Tranche 1	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Tranche 2	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Tranche 3	1.8167	1.1700	0.2250	0.1975	0.2250	0.0888	0.0788	0.0800
Exercise Price (in GBP)								
Estimate fair value of Option								
Tranche 1	$2.0842	$1.2947	$0.2431	$0.2109	$0.2922	$0.1137	$0.1023	$0.1034
Tranche 2	$2.1470	$1.3333	$0.2507	$0.2174	$0.2991	$0.1165	$0.1047	$0.1058
Tranche 3	$2.2047	$1.3714	$0.2576	$0.2235	$0.3053	$0.1189	$0.1069	$0.1080

Options granted above are exercisable as follows:
- 33% one year after grant date
- 33% two years after grant date
- 34% three years after grant date

The fair value of Options granted is estimated as at the date of grant using the Black Scholes model, taking into account the terms and conditions upon which the Options were granted. The table above lists the inputs to the model used for the years ending 31 December 2011 and 31 December 2012.

Modified Options

848,080 Options granted to employees in April 2011 were cancelled and the same number of Options were issued in July 2012 at a lower exercise price ("Modified Options") as the Board and management viewed that the initial Options' exercise price were too high relative to the share price in 2012 and did not serve the purpose of the Plan to incentivize employees.

The total fair value of the Options granted in July 2012 is GBP0.0733 and the USD equivalent is U$0.1142 as per Options valuation.

The fair value of the Options is estimated using the Black Scholes model consistent with other Options valuation, taking into account the new terms, conditions and exercise price of the new Options granted.

(c) Movement in share Options

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

Consolidated	Opening balance at 1 January 2011	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 December 2011	Exercisable as at 31 December 2011
Grant of Options on 24 April 2008	-	-	-	-	-	-
Grant of Options on 3 June 2008	1,324,500	-	(512,500)	-	812,000	812,000
Grant of Options on 8 April 2009	878,750	-	-	(453,750)	425,000	425,000
Grant of Options on 9 July 2010	2,807,160	-	(857,660)	-	1,949,500	1,281,060
Grant of Options on 6 April 2011	647,000	-	(572,000)	-	75,000	24,750
Grant of Options on 5 July 2011	499,000	-	(349,000)	-	150,000	49,500
Grant of Options on 22 Nov 2011	167,000	-	(47,000)	-	120,000	39,600
Grant of Options on 5 Dec 2011	100,000	-	(15,200)	-	84,800	27,984
Grant of Options on 25 Apr 2012	-	981,000	(46,000)	-	935,000	-
Grant of Options on 16 Jul 2012	-	1,198,080	(454,690)	-	743,390	152,790
Grant of Options on 5 Oct 2012	-	135,000	(20,000)	-	115,000	-
Grant of Options on 4 Dec 2012	-	12,000	-	-	12,000	-
	6,423,410	2,326,080	(2,874,050)	(453,750)	5,421,690	2,812,684
Weighted Average Exercise Price (cents per Option)	93.92	23.24	119.27	16.20	56.67	63.44

(d) Share Options Contractual Life

The weighted average remaining contractual life of outstanding share Options is 7.5 years (2011: 8.1 years).

(e) Conditional Share Awards pricing model

The following table summarizes Conditional Share Awards granted during 2011, along with relevant details in relation to each grant.

	(1) 6 Apr 11	(2) 6 Apr 11	(3) 5 Jul 11	(4) 5 Jul 11	(5) 22 Nov 11	(6) 22 Nov 11	(7) 5 Dec 11
Conditional share awards granted	707,800	293,356	583,000	148,268	119,000	155,000	100,000
Share price at grant date	$3.0202	$3.0202	$1.8819	$1.8819	$0.3534	$0.3534	$0.3081
Expected Volatility (%)	85	85	85	85	79	79	78
Risk-free interest rates (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Expected life (years)	6.5	5	6.5	5	6	5	6
Exercise Price	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Estimated fair value of each Conditional Share Award at the grant date	$3.0202	$3.0202	$1.8819	$1.8813	$0.3495	$0.3466	$0.3040

Items (1), (3), (5) and (7): Conditional Share Awards will vest on achievement of the following performance conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 September 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2015; and
- 50% vest on the company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

Items (2), (4) and (6): Conditional Share Awards are tied to employment continuity and are available for vesting on various dates in commencing 2011-2014.

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

The following table summarizes Conditional Share Awards granted during 2012, along with relevant details in relation to each grant.

	(8) 25 Apr 12	(9) 25 Apr 12	(10) 16 Jul 12	(11) 5 Oct 12	(12) 04 Dec 12	(13) 04 Dec 12
Conditional share awards granted	942,000	790,728	660,000	190,000	6,000	1,862,364
Share price at grant date	$0.3630	$0.3630	$0.1383	$0.1271	$0.1284	$0.1284
Expected Volatility (%)	89	89	91	74	60	60
Risk-free interest rates (%)	0.50	0.50	0.50	0.50	0.50	0.50
Expected life (years)	5.5	5	5	5	5	5
Exercise Price	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Estimated fair value of each Conditional Share Award at the grant date	$0.3601	$0.3574	$0.1341	$0.1233	$0.1277	$0.1209

Items (8), (11), and (12): Conditional Share Awards will vest on achievement of the following performance conditions:

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 September 2014;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2015; and
- 50% vest on the company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2017.

Items (9), (10) and (13): Conditional Share Awards are tied to employment continuity and are available for vesting on various dates in commencing 2012-2015.
The fair value of Conditional Share Awards granted is estimated as at the date of grant using the Black Scholes model, taking into account the terms and conditions upon which the Options were granted. The table above lists the inputs to the model used for the year ending 31 December 2012.

(f) Movement in Conditional share awards

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

Consolidated	Opening balance at 1 Jan 2011	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 Dec 2011	Exercisable as at 31 Dec 2011
Grant of Conditional Share Awards on 3 Jun 2008	1,665,000	-	(550,000)	(30,000)	1,085,000	-
Grant of Conditional Share Awards on 8 Apr 2009	145,000	-	-	-	145,000	-
Grant of Conditional Share Awards on 9 Jul 2010	2,417,000	-	(93,000)	(1,046,334)	1,277,666	-
Grant of Conditional Share Awards on 12 Nov 2010	564,602	-	(282,301)	(142,447)	139,854	-
Grant of Conditional Share Awards on 6 Apr 2011	794,071	-	(153,487)	(274,584)	366,000	2,000
Grant of Conditional Share Awards on 5 Jul 2011	571,623	-	(26,541)	(204,000)	341,082	-
Grant of Conditional Share Awards on 22 Nov 2011	237,000	-	(50,000)	(37,000)	150,000	50,000
Grant of Conditional Share Awards on 5 Dec 2011	100,000	-	-	(15,200)	84,800	-
Grant of Conditional Share Awards on 25 Apr 2012	-	1,732,728	(1,638)	(23,000)	1,708,090	-
Grant of Conditional Share Awards on 16 Jul 2012	-	660,000	-	-	660,000	220,000
Grant of Conditional Share Awards on 5 Oct 2012	-	190,000	-	(15,000)	175,000	-
Grant of Conditional Share Awards on 4 Dec 2012	-	1,868,364	-	-	1,868,364	-
	6,494,296	4,451,092	(1,156,967)	(1,787,565)	8,000,856	272,000
Weighted Average Exercise Price (cents per Award)	1.00	1.00	1.00	1.00	1.00	1.00

(g) Conditional Share Awards Contractual Life

The weighted average remaining contractual life of outstanding Conditional Share Awards is 15.5 years (2011: 16.5 years).

17 COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

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

The Group has committed to office, warehouse and camp container leases in Mongolia in the amounts of $105,000 for 2013

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Operating Leases:			
Within one year		105	166
After one year but not more than five years		-	8
Greater than five years		-	-
		105	174

(b) Exploration expenditure commitments

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

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

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Production Sharing Contract Fees:			
Within one year		972	696
After one year but not more than five years		567	885
Greater than five years		-	-
		1,539	1,581
Minimum Exploration Work Obligations:			
Within one year		17,017	17,040
After one year but not more than five years		29,662	10,680
Greater than five years		-	-
		46,679	27,720

Prior year expenditure over and above minimum exploration work obligations may be used to reduce the following year's obligation. As Block XX expenditure in prior years has significantly exceeded minimum PSC commitments, the Company has the option to reduce its spending in Block XX for next year to year 10 (July 2015). On 22 August 2012, PAM granted a five-year extension for Block XX, meaning that the Company's PSC is therefore in effect until 04 July 2017. Due to the prior focus on Block XX, cumulative expenditures on Blocks IV and V are currently below the cumulative minimum PSC commitment of $9.897m. Discussions with PAM will be held to obtain their approval for future work programme proposals on these blocks.

The work programme planned for the three blocks in 2013/2014 has been largely defined and will include new seismic and wells in each block. The full extent of the work programme will be dependent on the level of capital raised and farm-out negotiations which are currently in progress. In event that the Company is unable to complete a successful farm-out or agree a moratorium with PAM for Blocks IV and V, the Company would have an obligation to repay the underspent amount of its minimum obligation commitment at the end of the PSC contract period.

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

(c) Contingencies

There are no contingencies outstanding at the year end.

18 RELATED PARTY DISCLOSURES

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

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

		Equity Interest	
	Country of Incorporation	2012 %	2011 %
Central Asian Petroleum Corporation Limited	Cayman Islands	100	100
Capcorp Mongolia LLC	Mongolia	100	100
Petromatad Invest Limited	Cayman Islands	100	100
Petro Matad LLC	Mongolia	100	100
Petro Matad Services Limited	Isle of Man	100	100

Subsidiary Details

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

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

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

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

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

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

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

	31 Dec 2012 $'000	31 Dec 2011 $'000
Petrovis' subscription for shares in Petro Matad Limited	-	-
EBRD's subscription for shares in Petro Matad Limited	-	-

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

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

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 2011 and 2012, are as below:

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

Directors		
Gordon Leonard Toll	Non-Executive Co-Chair	Resigned 27 January 2012
Oyungerel Janchiv	Non-Executive Deputy Chair	Appointed Chair on 27 January 2012 and Deputy Chair on 13 September 2012
Douglas John McGay	Chief Executive Officer	Resigned 30 November 2012
Clyde Robert Evans	Non-Executive Director	Resigned 20 December 2012
John Campbell Robertson	Non-Executive Director	Resigned 12 March 2012
Sarangua Davaadorj	Non-Executive Director	Resigned 12 March 2012
Mary Ellen Collins	Non-Executive Director	
Enkhchimeg Davaanyam	Non-Executive Director	Resigned 20 May 2011
Enkhmaa Davaanyam	Non-Executive Director	
David Daniel Skeels	Non-Executive Director	Appointed 12 March 2012
Philip Arthur Vingoe	Non-Executive Director	Appointed 12 March 2012
George Edward Watkins	Non-Executive Chairman	Appointed 12 March 2012 and as Chairman on 13 September 2012
Amarzul Tuul	Executive Director	Appointed 19 March 2012
John Rene Henriksen	Chief Financial Officer	Appointed 20 December 2012
Mehmed Ridvan Karpuz	Director of Exploration	Appointed 20 December 2012

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

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Short-term employee benefits		1,950	939
Post-employment benefits		-	-
Share based payment expense		802	1,015
		2,752	1,954

(c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2011: Nil).

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

Risk Exposures and Responses

Interest rate risk

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

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

		Consolidated	
	Weighted Average Int. rate	31 Dec 2012 $'000	31 Dec 2011 $'000
Financial Assets			
Cash and cash equivalents	7.10%	4,588	15,477
Trade and other receivables	0%	422	316
		5,010	15,793
Financial Liabilities			
Trade and other payables	0%	873	1,952
		873	1.952
Net exposure		4,137	13,841

Sensitivity Analysis
If the interest rate on cash balances at 31 December 2012 weakened/strengthened by 1%, there would be no material impact on profit and loss included in the statement of comprehensive income. There would be no effect on the equity reserves other than those directly related to statement of comprehensive income movements.

Foreign currency risk

As a result of operations overseas, the Group's Statement of Financial Position can be affected by movements in various exchange rates.

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

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

The following significant exchange rates applied during the year:

	Average rate		Spot rate at the balance date	
USD	2012	2011	2012	2011
Mongolian Tugrug ("MNT") 1	1,358.86	1,265.01	1,392.10	1,396.37
Australian Dollar ("AUD") 1	0.96600	0.96890	0.96410	0.98280
Great British Pound ("GBP") 1	0.63110	0.62360	0.61880	0.64710

Sensitivity Analysis
A 5% strengthening/weakening of the MNT against USD at 31 December 2012 would not have a material effect on profit and loss or on equity.

Price risk

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk on its cash and cash equivalents and other receivables as set out in Notes 7 and 8 which also represent the maximum exposure to credit risk. The Group only deposits surplus cash with well established financial institutions of high quality credit standing.

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

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

Maximum exposure to credit risk at reporting date:

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
Financial Assets			
Cash and cash equivalents	7	4,588	15,477
Trade and other receivables	8	422	316
Net exposure		5,010	15,793

Impairment Losses
None of the Group's receivables are past due at 31 December 2012 (2011: Nil)

Liquidity risk

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

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

The Group's objective is to ensure that sufficient funds are available to allow it to continue its exploration activities.

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

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'000
6 months or less		873	1,952
6-12 months		-	-
1-5 years		-	-
over 5 years		-	-
		873	1,952

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

Further, the Group has exploration expenditure commitments on its PSCs as disclosed in Note 17(b).

Fair Value of Financial Assets and Liabilities
The fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the consolidated entity approximate their carrying value due to their short term duration.

21 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management of the Group and the Group's capital is regularly reviewed by the Board. The capital structure of the Group consists of cash and bank balances (Note 7) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in Notes 14 and 15). This is reviewed by the Board of Directors as part of their regular directors meetings.

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

The Group is not subject to externally imposed capital requirements.

22 EVENTS AFTER THE REPORTING DATE

On 25 January 2013, pursuant to the Group's Plan, 500,000 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

In recognition of the need to enhance portfolio management, accelerate work program activities, and to diversify exploration risk, the Company has embarked on a farm-out process and to this end opened a data-room in February 2013. A significant number of parties visited the data-room with several expressing technical interest in the exploration potential of the Company's three PSCs. As of the date of this report discussions with interested parties continue.

In April 2013 the Company commenced a fund raising effort and in conjunction with its joint brokers conducted an institutional roadshow. While the roadshow was well received and successful in outlining the potential of the company's exploration holdings, market sentiment remains bearish and institutional investors' appetite for junior exploration companies continues to be subdued. Although the Company received investment offers they cumulatively were insufficient to meet minimum targets and alternative means of funding the company were explored.

On 12 June 2013, Petrovis signed an Equity Subscription Agreement with the Company that will result in the issuance of 90,612,540 ordinary shares to members of the Petrovis Group at a Subscription price of GBP0.0356 per share. The proceeds have been received by the Company and will be used to fund the company's ongoing operations which is planned to include work program activities in the second half of 2013. The following table summarizes the pre and post Equity Subscription Agreement shareholdings.

	Pre Equity Subscription		Post Equity Subscription	
	Percent	Shares	Percent	Shares
Petrovis Group	27.56%	51,444,262	51.23%	142,056,802
EBRD	17.00%	31,741,110	11.45%	31,741,110
Others	55.44%	103,490,629	37.32%	103,490,629
Total	100.00%	186,676,001	100.00%	277,288,541

23 AUDITORS' REMUNERATION

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

		Consolidated	
	Note	31 Dec 2012 $'000	31 Dec 2011 $'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 entit		96	99
- other services in relation to the entity and any other entity in the consolidated entity		-	-
		96	99
Amounts received or due and receivable by auditors other than Deloitte for:			
- an audit or review of the financial report of subsidiary entities		33	5
- other services in relation to the subsidiary entities		-	-
		33	5
		129	104

24 OTHER INFORMATION

Registered Office:

Victory House
Douglas
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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 2012 and of its performance and cash flows for the year ended on that date in accordance with International Financial Reporting Standards, mandatory professional reporting requirements and other authoritative pronouncements of the International Accounting Standards Board; and

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

On behalf of the Board

John R Henriksen
Director
27 June 2013

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 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 12 to 44.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial report presents fairly, in all material respects, the consolidated entity's financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies Act 2006.

Deloitte.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 2(c) in the financial report, which indicates that the consolidated entity has incurred a net loss after income tax of $12.155 million (2011: Loss of $39.598 million) and experienced net cash outflows from operating activities of $10.991 million (2011: $35.090 million) for the year ended 31 December 2012. These conditions, along with other matters as set forth in Note 2(c), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the ordinary course of business, and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Nicoloff

Chris Nicoloff
Partner
Chartered Accountants
Perth, 27 June 2013

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