PETRO MATAD LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

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

Enkhmaa Davaanyam

Non-Executive Director

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

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. Recently he has been working with governments and state organisations in Eastern Europe, Azerbaijian and Kazakhstan.

Amarzul Tuul

Executive Director of the Mongolian subsidiaries

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

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.

Ridvan Karpuz

Non-Executive Director

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.

DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 December 2013.

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.

- Oyungerel Janchiv
- Mary Ellen Collins
- Enkhmaa Davaanyam
- David Daniel Skeels
- Philip Arthur Vingoe
- George Edward Watkins
- Amarzul Tuul
- John Rene Henriksen
- Mehmed Ridvan Karpuz

Principal Activities

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

Review and Results of Operations

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

The net loss after tax for the Group for the 12 months ended 31 December 2013 was $7.498 million (31 December 2012: Loss $12.155 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 25 January 2013, pursuant to the Group's Long Term Equity Incentive Plan (referred to as "Plan" or "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 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 3 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 20 June 2013, Petrovis Matad Inc. ("Petrovis") signed an Equity Subscription Agreement with the Company that resulted in issuance of 90,612,540 shares to Petrovis (55,500,000 shares) and its concert parties (35,112,540 shares). The proceeds of $5,000,000 are being used to fund the Company's ongoing operations, which included a 2D seismic acquisition work program in the second half of 2013.

On 9 July 2013, pursuant to the Group's Plan, 112,000 Options over shares were granted to employees with an exercise price per share of GBP0.0425, exercisable in three parts as follows:

- 33% after 9 July 2014;
- 33% after 9 July 2015;
- 34% after 9 July 2016

On 9 July 2013, pursuant to the Group's Plan. 176,000 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 22 July 2013, pursuant to the Group's Plan, 671,550 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

On 27 November 2013, pursuant to the Group's Plan, 1,380,788 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

Significant Events after Reporting Date

The Directors of Petro Matad have agreed a number of measures to preserve cash resources. In particular, the Non-Executive Directors have agreed unanimously that for the 6 month period, April-September 2014, they will forgo their usual director fees and in lieu of a cash fee will receive Conditional Share Awards. In addition, the Executive Directors and certain employees at their own volition have also opted to sacrifice a portion of their salary to participate in the same Conditional Share Award programme.

The Conditional Share Awards have been issued under the Company's existing Group's Plan on 23 April 2014. The Conditional Share Awards will vest on 1 October 2014 and participants have a maximum of 1 year to exercise these awards for an exercise price of $0.01 per Petro Matad ordinary share. An aggregate of 5,229,255 Conditional Share Awards have been awarded and the table below sets out the 3,675,536 Conditional Share Awards that have been issued to the Company's Directors.

Director	Number of Conditional Share Awards awarded in lieu of fees
George Watkins	830,634
Oyungerel Janchiv	498,380
Enkhmaa Davaanyam	498,380
Philip Vingoe	498,380
David Skeels	498,380
Ridvan Karpuz	498,380
Amarzul Tuul	58,834
John Henriksen	294,168

The Board has also implemented a number of structural changes to the operational structure of the Company, with resources being focused on a core team to support the technical studies associated with the farm-out effort, maintain relations with government and maintain the financial and administrative governance of the Company. The Company continues to enjoy the support of its largest shareholder in these efforts which are expected to result in significant reductions in monthly running costs. On 18 June 2014, as agreed with the relevant authorities any payments due under the PSCs for Blocks IV and V prior to mid-2015 will not be payable until July 2015.

Dividends

No dividends have been paid or are proposed in respect of the year 2013.

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.

Auditors

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

Rounding

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

Signed in accordance with a resolution of the Directors.

John R Henriksen
Director
30 June 2014

DIRECTORS' STATEMENT

2013 has been another challenging year for Petro Matad. As we reported in last year's annual statement, the first half of 2013 was taken up with major fundraising and farmout initiatives. The second half of the year has focussed on taking forward the technical evaluation of the Company's acreage.

While the fundraising story that we had to tell a year ago was generally well received and did indeed bring forward some offers of funding, these were not considered to be a sufficient quantum to proceed. However, the feedback was extremely valuable in highlighting the principal investor concern that Petro Matad did not have a pipeline of drill ready prospects to provide momentum and maintain investor interest.

Therefore, one of our objectives for 2013 has been to remedy this situation and confirm some prospects that are ready for the drill. This was not as simple a task as it should have been because, although Petro Matad has some 60,000 square kilometres under licence, in the first years of those licences through 2012, Petro Matad focussed its exploration efforts in one corner of Block XX and only pursued limited exploration elsewhere. This resulted in seismic coverage over most of Blocks IV and V and the southern half of Block XX being extremely sparse.

In 2013, when we were seeking areas over which to shoot detailed seismic to firm up drilling prospects, we found that this lack of regional seismic meant that we had few areas to choose from. In the event, we took a calculated risk to shoot additional seismic over a lead that was seen on only one line in Block IV. The 65 kilometres of new seismic that we acquired in Block IV confirmed a three way dip closure on the downthrown side of a major strike slip fault with possible recoverable reserves of 60 to 100 million barrels oil. A smaller, but a well imaged, more robust four way dip closure with possible reserves of about 6 million barrels can also be mapped within this overall fault prospect.

In Block V, we had already identified a large faulted anticlinal area on existing seismic so this feature became the focus of our attention. Unfortunately, the 155 kilometres of new seismic across this feature does not confirm closure within the basin but shows the anticline continuing to rise towards the northeast boundary fault that forms the basin margin. There is a closure against this basin margin but the relatively shallow depth of this closure makes it relatively high risk.

However, this 2013 seismic does confirm two new fault traps in the deepest part of the sub-basin in Block V. One is a tilted fault block, interpreted as a rotated (low angle) normal fault. The second is a closure in the footwall of a reverse fault. Both these leads have robust closures. They also lie within the present-day Syn-Rift source kitchen so migration and timing are considered low risk. Although both prospects are relatively modest with possible recoverable reserves of 22 to 24 million barrels oil, either location would be an excellent candidate for testing the potential of this Tugrug sub-basin in terms of reservoir quality and source potential.

It is worth noting that there are no oil exploration wells and only limited seismic coverage in Central – Western Mongolia so these are the first drillable prospects identified in this frontier area. Both can be considered as locations for possible basin opener wells that will advance significantly knowledge of and confidence in the hydrocarbon potential of the area.

Further details on these prospects can be found in the Investor Section of the Company's website.

The fact that additional seismic was able to translate a one line lead into a drillable prospect gives us confidence that there are many other similar prospect areas within the Company's acreage. However, our licence area is so extensive that to acquire sufficient seismic coverage would be very expensive. We are therefore looking at other technical alternatives to high grade our acreage. One such technique is airborne full tensor gravity gradiometry ("FTG") which has been used successfully in other onshore rift basin areas, such as Africa.

The objectives for a combined FTG and high resolution aeromagnetic ("HRAM") survey would be to produce a preliminary map of the subsurface structures, basement architecture and sediment thickness in the frontier areas of Blocks IV, V and XX where there is currently little or no seismic. As this is an airborne survey it is able to cover a much larger area faster and more cheaply than conventional seismic. The results of the FTG survey can then be used to guide the structural interpretation where there is limited seismic coverage and target where best to acquire follow-on seismic data for prospect definition.

In parallel with this technical activity, we have been seeking a farm-in partner to fund the next phase of exploration in these licences. This has been a very challenging endeavour as we have found that most companies had very limited knowledge of the geology of Mongolia. Some did not initially appreciate the size of the acreage involved and the scale of the opportunity that this represents and how the approach to exploration has to reflect this size and scale. For example, at approximately 60,000 square kilometres, the rift basin acreage that Petro Matad has under licence in Mongolia is comparable in size with the entire licence area held by Tullow Oil across the Kenya rift basins.

Potential partners also had concerns about the Mongolian investment climate and the proposal to rewrite the Petroleum Law. All this at a time when the economic climate globally has been leading exploration and production companies either to sell poor performing assets or to choose to focus their investment on existing production or development of already discovered reserves rather than on frontier exploration.

We found that it was not enough to present what we knew structurally and stratigraphically about our three licence areas. We had to show Mongolian hydrocarbon potential in a regional context and by analogy to the producing basins across the border in China. In particular, companies have required detailed reservoir and source rock data as well as evidence of specific drillable prospects.

This is why, in late 2013, in addition to the detailed seismic over lead areas in Blocks IV and V, we also conducted field work (the third such campaign that Petro Matad has conducted) to collect outcrop rock samples for analysis of both source rock and reservoir quality.

We also changed our approach to the presentation of these data. At the Appex conference in London in March 2014, we gave a presentation that promoted the overall hydrocarbon potential in Mongolia rather than simply talking about Petro Matad's acreage. This proved worthwhile in that it has resulted in a number of new companies requesting access to the Petro Matad data room. It has also rekindled technical interest in companies with whom we have been talking previously.

In addition to the technical presentations, we have had to re-assure companies about the investment climate in Mongolia. Adoption by the Mongolian government of the new Law on Investments in November 2013 has helped as it removed the limitations imposed previously by the law on foreign investments. We have also been able to point to the new draft Petroleum Law that includes provision for extension of the initial licence term from 5 to 8 years as recognition by the Mongolian Government of the size and scale of opportunity, the general lack of regional seismic and the longer time frame that this implies for the exploration effort.

At the time of writing, the new Petroleum Law is still going through the Parliamentary process and is expected to be passed into law shortly. This will certainly be beneficial to Mongolia and to Petro Matad as companies have been clear in their statements to us that they see adoption of an acceptable Petroleum Law as an essential pre-condition to any decision to invest in Mongolia.

Throughout these activities, Petro Matad is fortunate to have a supportive shareholder in Petrovis Matad Inc. who agreed to an equity injection of $5 million into the Company in June 2013. It was this injection of new funds that allowed the Company to undertake seismic and geological field operations during the 2013 field season, and to be able to pursue a farmout with vigour and enthusiasm. Although several companies have shown a high level of interest, to date, no agreements have been reached. The Board recognises that finalising a farmout agreement could yet take some time.

With this is mind, the Directors of Petro Matad have agreed a number of measures to preserve cash resources and maximise the funds available for these operational and farmout activities. In particular, the Non-Executive Directors have agreed unanimously that they will forgo their usual director fees for a period of six months and will receive Conditional Share Awards in lieu of a cash fee.

In addition, the Executive Directors and certain employees at their own volition have also opted to trade a portion of their salary to participate in the same Conditional Share Award programme. The European Bank for Reconstruction and Development ("EBRD") representative Director, Mary Ellen Collins, will be forgoing fees even though no Conditional Share Awards are being issued to her or the EBRD.

The Conditional Share Awards have been issued under the Company's existing Long Term Equity Plan. The Conditional Share Awards will vest on 1 October 2014 and participants have a maximum of one year to exercise these awards for an exercise price of 1 US dollar cent per Petro Matad ordinary share. An aggregate of 5,229,255 Conditional Share Awards have been awarded, of which 3,675,536 Conditional Share Awards have been issued to the Company's Directors.

The Petro Matad Board has also implemented a number of structural changes to the operational structure of the Company, with resources being focused on a core team to support the technical studies associated with the farm-out effort, maintain relations with government and maintain the financial and administrative governance of the Company.

Although there can be no guarantee that a farm-out deal will be forthcoming, the Board believes that these actions display significant confidence in the Company's prospects and its future.

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 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. The Board would like to express a special thanks to Ridvan Karpuz who was Petro Matad's Exploration Director from August 2012 through December 2013. It is Ridvan's technical capability combined with his unbounded energy, enthusiasm and leadership that has enabled Petro Matad to put together the detailed and comprehensive exploration understanding that has impressed potential farmin partners. We are fortunate that Ridvan continues to be associated with the Company as a Non-Executive Director.

Board of Directors




ТУЗ-ИЙН ГИШҮҮДИЙН МЭДЭГДЭЛ

2013 он Петро Матад компанийн хувьд сорилтын жил болж өнгөрлөө . Бид өнгөрсөн оны жилийн тайланд тайлагнаж байсанчлан 2013 оны эхний хагас жилийг томоохон хөрөнгө босгох болон фарм-аутын ажилд зарцуулсан бол жилийн хоёр дахь хагаст Компанийн гэрээт талбайд техникийн үнэлгээ хийхэд анхаарлаа хандуулан ажиллалаа.

Ерөнхийдөө жилийн өмнөх хөрөнгө босгох ажил тодорхой хэмжээнд амжилттай явагдаж, хэд хэдэн санхүүжилтын саналыг хүлээн авсан ч эдгээр санал нь цааш үйл ажиллагаагаа бүрэн явуулахад хангалттай хэмжээнд байгаагүйгээс гадна эдгээр саналын үр дүнд Петро Матад компани нь цаашид үйл ажиллагаагаа явуулан, хөрөнгө оруулагчдын сонирхлыг татахын тулд хэтийн төлөв сайтай талбайд өрөмдөхөд бэлэн цооног байхгүй байгаад гол хөрөнгө оруулагчид санаа зовниж байгааг ойлгож мэдсэн нь ач холбогдол бүхий зүйл болсон юм.

Тиймээс 2013 онд тавьсан зорилтуудын маань нэг нь энэхүү нөхцөл байдлыг өөрчлөн өрөмдөхөд бэлэн хэд хэдэн хэтийн төлөв бүхий газруудыг гаргах явдал байсан юм. Петро Матад компани нь 60,000 километр квадрат талбайд тусгай зөвшөөрлийн дагуу ажиллах эрхтэй боловч тусгай зөвшөөрлийн эхний жилүүд буюу 2012 оныг дуустал хайгуулын ажлыг зөвхөн Матад XX талбайн нэг буланд төвлөрүүлэн хийж байсан ба иййнхүү хязгаарлагдмал хүрээнд хайгуулын ажлыг хийж гүйцэтгэснээс үүдэн Богд IV,Онги V талбайн ихэнх хэсэг мөн Матад XX талбайн өмнөд хагаст сейсмийн судалгааны ажлын мэдээлэл маш сийрэг байгаа нь харагдаж байсан.

Бид 2013 онд өрөмдөж болохуйц хэтийн төлөвтэй талбайг баталгаажуулах нарийвчилсан чичрхийллийн хэмжилтийг хийж болохуйц талбайг судалж байхад региональ чичрхийллийн судалгаа дутагдалтайгаас болж энэ бүс нутгаас зөвхөн цөөн тооны талбайг сонгох боломжтой юм гэдгийг ойлгосон. Богд IV талбайн зөвхөн нэг л сейсмийн шугам дээр харагдаж байсан нэгэн хэтийн төлөвтэй талбайн дээгүүр нэмэлт чичирхийллийн хэмжилт хийх тооцолсон эрсдэлтэй алхмыг хийсэн. Богд IV талбайд бидний хийсэн 65 км урт шинэ чичирхийллийн хэмжилтээр суналын дагуу хөдөлгөөн хийсэн гол хагарлын доошоо суусан хэсэг дээр гурван талаасаа рельефийн налуугаар хаагдсан, 60-100 сая баррель олборлож болох тосыг агуулах боломжтой хураагуур байгааг тогтоосон. Үүнээс жижиг боловч чичирхийллийн зүсэлт дээр илүү тод танигдах, дөрвөн талаасаа рельефийн налуугаар хаагдсан, ойролцоогоор 6 сая баррель тос агуулах боломжтой резервуарыг хагарлаар элбэг хэрчигдсэн энэхүү хэтийн төлөвтэй талбайн дотор зураглаж болох юм. Онги V талбайн дотор бид томоохон хагарлын дагуу атираажсан антиклинал гүдгэрийг урьд өмнө гүйцэтгэсэн чичирхийлэлийн зүсэлтүүд дээр тогтоочихсон байсан юм. Энэхүү бүтэц нь бидний анхаарлын төвд байв. Харамсалтай нь энэхүү бүтцийн дээгүүр шинээр хэмжсэн 155 км урт чичирхийлэлийн судалгаагаар энэ бассейны дотор хаалт байгаа нь батлагдаагүй. Гэхдээ энэ судалгаа нь антиклиналь гүдгэр бассейны захыг илтгэх зүүн хойд захын хагарал руу цааш үргэлжлэн өгссөөр байгааг харуулсан. Энэхүү бассейны захад хаалт бий. Гэвч энэхүү хаалт нь харьцангуй гүехэн гүнд байгаа учир харьцангуй өндөр эрсдэлийг үүсгэж байгаа юм.

Гэвч энэхүү 2013 онд хийгдсэн чичирхийлэлийн судалгаагаар Онги V талбайн дэд бассейны хамгийн гүн хэсэгт хагарлаар хязгаарлагдсан 2 хураагуурууд ыг шинээр тогтоосон. Эдгээрийн нэг нь хазайсан хагарлын блокод үүссэн бөгөөд үүнийг эргэсэн (бага өнцгөөр) энгийн хагарал хэмээн тайлсан болно.

Хоёр дахь нь хөтрүү хагарлын дагуу дээш өргөгдсөн блокын дотор үүссэн хаалт юм. Эдгээр хэтийн төлөвтэй талбайнуудын хаалтууд нь сайн тодорхойлогдсон. Мөн эдгээр хэтийн төлөвтэй хураагуурууд нь орчин үеийн рифтийн үеийн тос үүсгэх гал зуухын дотор байрлах учир бид тосны нүүдэл болон тос үүсэх цаг хугацааны хувьд харьцангуй бага эрсдэлтэй гэж үзэж байгаа болно.

Хэдийгээр энэ хоёр хэтийн төлөв сайтай хураагуурууд нь харьцангуй хязгаарлагдмал буюу 22-24 сая баррель олборлож болох хэмжээний тосыг агуулах боловч эдгээр нь энэхүү Төгрөгийн дэд бассейны потенциалыг резервуарын чанар, үүсгэгч чулуулгийн потенциаль талаас нь шалгаж үзэхэд хамгийн тохиромжтой байрлал дээр байрлаж байна. Монгол орны Баруун-Төв хэсэгт сейсмийн судалгааны ажил хязгаарлагдмал хэмжээнд хийгдсэн ба хайгуулын цооног байдаггүй. Тиймээс эдгээр өрөмдөх боломжтой цэгүүд нь ийнхүү бага судлагдсан талбайд тодорхойлсон анхны цэгүүд бөгөөд энэ бүс нутгийн нүүрсустөрөгчийн ирээдүйн боломжийн талаар мэдээлэл өгөх онцгой ач холбогдол бүхий өрмийн цэгүүд гэдгийг онцлон хэлэх нь зүйтэй болов уу.

Эдгээр хэтийн төлвийн талаархи дэлгэрэнгүй мэдээллийг компанийн цахим хуудасны Хөрөнгө Оруулагчийн Хэсгээс харна уу.

Нэмэлт сейсмийн судалгаа нь сейсмийн нэг шугам дээр суурилсан хэтийн төлвийг өрөмдөх боломжтой хэтийн төлөв сайтай хэмээн баталж өгсөн нь Компанийн нийт талбайд үүнтэй адил олон хэтийн төлөв бүхий газар байгаа гэх итгэл найдварыг биднэд өгсөн. Гэсэн ч бидний гэрээт талбай хэт том учраас хангалттай хэмжээний сейсмийн судалгаа хийх нь маш өндөр өртөгтэй болж байна. Тиймээс бид өөрийн гэрээт талбайг техникийн өндөр түвшинд хүргэх өөр боломжит хувилбаруудыг судалж байна. Эдгээрийн нэг нь Африк гэх мэт эх газрын рифтийн бассейнуудад амжилттай хэрэгжүүлж буй өндөр нарийвчлалтай хүндийн хүч болон соронзон орны агаарын геофизикийн судалгаа (FTG) юм.

Нэгтгэсэн FTG болон өндөр нягтшилтай агаарын соронзон орны судалгаа нь

(HRAM) гадаргын доод давхаргын бүтэц, суурь чулуулгийн бүтэц болон одоогийн байдлаар сейсмийн ажил хийгдээгүй эсвэл бага хэмжээнд хийгдсэн Богд IV,Онги V болон Матад XX талбайдын судлагдаагүй хэсэг дэх хурдсын зузааныг харуулсан газрын зургийг урьдчилсан байдлаар гаргах зорилготой. Энэ нь агаарын судалгаа учраас уламжлалт сейсмийн судалгаанаас илүү том хэмжээний газрыг бага зардлаар хамрах боломжтой. FTG судалгааны үр дүнг хожим нь сейсмийн судалгаа хязгаарлагдмал хэмжээнд хийгдсэн газруудад бүтцийн тайлал хийхэд болон хэтийн төлвийг тодорхойлоход сейсмийн мэдээллийг хаанаас авбал хамгийн тохиромжтой талаар тодорхойлоход ашиглах боломжтой.

Техникийн эдгээр ажлуудын зэрэгцээ бид гэрээт талбайд хайгуулын үйл ажиллагааны шинэ үе шатыг санхүүжүүлэх фарм-ин хамтрагч хайсаара байна. Монгол улсын геологийн газар зүйн талаар ихэнх компаниуд хязгаарлагдмал мэдлэгтэй байгаагийн улмаас энэ нь ихээхэн хүчин чармайлт шаардсан ажил болж байна. Зарим компаниуд анхандаа нийт талбайн хэмжээ болон энэхүү талбайн боломжууд болон хайгуулын ажилд хандаж буй хандлага нь энэ том хэмжээний талбай болон түүний боломжуудыг хэрхэн илэрхийлж байгаа талаар ойлголтгүй байсан. Жишээлбэл, Петро Матадын гэрээт 60,000 км2 талбайн хүрээнд буй рифтийн бассейн нь Туллов Ойл компанийн Кенийн рифтийн бассейны дагуух нийт гэрээт талбайтай харьцуулахуйц хэмжээтэй байна.

Түүнчлэн Хөрөнгө оруулалт хийх боломж бүхий хамтрагчид Монгол улсын хөрөнгө оруулалтын орчин болон Газрын тосны тухай хуулийн шинэчлэн найруулгын талаар сэтгэл зовниж буйгаа илэрхийлсэн. Дэлхий нийтийн хэмжээнд эдийн засгийн нөхцөл байдал нь хайгуул олборлолтын компаниудыг судлагдаагүй хэсэгтээ хайгуулын ажил гүйцэтгэхээс илүүтэй хэдийн илрүүлээд байгаа нөөцөө олборлох, боловсруулах ажилд хөрөнгө оруулалтаа төвлөрүүлэх эсвэл гүйцэтгэл муу бүхий талбайнуудыг зарах сонголтууд дээр аваачиж байна.

Бид зөвхөн өөрсдийн гэрээт гурван талбайн талаар бүтцийн болон давхаргазүйн хувьд олж мэдсэн зүйлээ зөвхөн танилцуулах нь хангалтгүй гэдгийг ойлгосон. Харин бид бүс нутгийн хувьд Монгол улсын нүүрстөрөгчийн нөөц боломж, ижил төсөөтэй байдлын хувьд Хятадын хилийн дагуу тос олборлож буй сав газруудтай адилтган харуулах хэрэгтэй. Ялангуяа компаниудын зүгээс дэлгэрэнгүй резервуар болон эх чулуулгийн мэдээлэл болон өрөмдөх боломжтой тодорхой газруудын талаар баримтыг шаардаж байсан.

Тийм ч учраас Богд IV , Онги V талбайн хэтийн төлөвтэй газруудад хийсэн дэлгэрэнгүй сейсмийн судалгааны зэрэгцээ резервуарын болон эх чулуулгийн чанарыг шинжлэх үүднээс чулуулгийн дээж цуглуулахаар 2013 оны сүүлээр хээрийн ажлыг зохион байгуулсан. (Петро Матад компанийн зүгээс зохион байгуулсан энэ төрлийн 3 дахь ажил)

Үүнээс гадна бид эдгээр мэдээллийн танилцуулах арга барилаа өөрчилсөн. 2014 оны 3-р сард Лондон хотод болсон АППЕКС зөвлөгөөний үеэр бид зөвхөн Петро Матад компанийн гэрээт талбайн талаар танилцуулаад зогсолгүй нийт Монгол улсын хэмжээн дэх нүүрстөрөгчийн нөөц боломжийн талаар танилцуулсан. Энэ нь ч бидэнд үр ашгаа өгөн хэд хэдэн шинэ компаниуд Петро Матад компанийн мэдээлэлтэй танилцах хүсэлтээ гаргасан. Мөн энэ нь өмнө нь сонирхож байсан хэд хэдэн компаниа техникийн хувьд сонирхох сонирхлыг дахин төрүүлсэн.

Техникийн танилцуулгаас гадна бид компаниудад Монгол улсын хөрөнгө оруулалтын орчин нөхцлийн талаар баталгаажуулан хэлэх шаардлагатай тулгарч байсан. 2013онд батлагдсан [10-р сар/11-р сар] Хөрөнгө оруулалтын тухай хууль нь өмнө нь гадаадын хөрөнгө оруулалтын тухай хуулиар хязгаарласан хязгаарлалтуудыг хассанаар бидэнд тус дөхөм болсон. Мөн түүнчлэн Газрын тосны тухай хуулийн төсөл нь хайгуулын эхний 5 жилийн хугацааг 8 жил болгон сунгах талаар заалт оруулсан нь Монгол улсын Засгийн газрын зүгээс хэмжээ, боломж, бүс нутгийн сейсмийн судалгааны дутагдалтай байдал болон хайгуулын ажилд зарцуулж буй хүчин чармайлтыг цаг хугацааны хувьд илүү урт хугацааг олгон хүлээн зөвшөөрч байгаагын илрэл хэмээн онцлон тэмдэглэх боломжтой байсан.

Хэдийгээр хуулийн төсөл бүрэн дуусан ч газрын тосны тухай хууль Улсын Их Хурлаар батлагдаагүй байна. Компаниудын зүгээс Монгол улсад хөрөнгө оруулалт хийх шийдвэрээ гаргахын тулд Газрын тосны тухай хуулийн батлагдах байдлыг нэн тэргүүний урьдач нөхцөл болгон үзэх болно гэдгээ бидэнд тодорхой илэрхийлсэн.

ПетроМатад компаний хувьцаа эзэмшигч групп болон Петровис Матад комданийн түншүүд нь 2013 оны 6-р сард 5 сая ам.долларын хөрөнгө оруулалт нэмж хийн биднийг дэмжсэн явдал нь бидний хувьд аз завшаантай хэрэг байсан. Энэхүү шинэ санхүүжилт нь 2013 онд сейсмийн болон геологийн хээрийн ажлыг хийх мөн фарм-аутын ажлаа эрч хүчтэйгээр цааш үргэлжлүүлэх боломжийг Компанид олгосон. Хэдийгээр хэд хэдэн компаниуд өөрсдийн сонирхлоо илэрхийлсэн боловч өнөөг хүртэл хэлцэлд хүрээгүй байна. Компанийн ТУЗ нь фарм-аутын хэлцэл хийхэд тодорхой хэмжээний хугацаа шаардлагатайг хүлээн ойлгож байгаа.

Үүнтэй холбогдуулан Петро Матад компанийн Захирлууд мөнгөн хөрөнгийн нөөцөө хамгаалах, хайгуулын үйл ажиллагаанд зарцуулах хөрөнгө нэмэгдүүлэх үүднээс хэд хэдэн арга хэмжээг авахаар шийдвэрлээд байна. Тухайлбал Гүйцэтгэх бус Захирлууд ирэх зургаан сарын хугацаанд өөрсдийн цалинг мөнгөн хэлбэрээравахаас санал нэгтэйгээр татгалзсан ба үүний оронд нөхцөлт урамшууллыг авахаар шийдвэрлэсэн болно.

Түүнчлэн Гүйцэтгэх Захирлууд болон тодорхой ажилтнууд өөрийн хүслээр нөхцөлт урамшууллын хөтөлбөрт хамрагдахаар өөрсдийн цалингийн хэсгийг хувьцаагаар авах сонголтыг хийсэн. Мөн түүнчлэн Европын Сэргээн Босголт Хөгжлийн Банкны төлөөлөгч захирал Мари Эллин Коллинс болон ЕСБХБ-нд нөхцөлт урамшуулал олгогдоогүй боловч тэрээр өөрийн цалинг авахаас татгалзсан болно.

Нөхцөлт урамшуулал нь компанийн одоо хэрэгжиж буй урт хугацааны үнэт цаасны төлөвлөгөөний дагуу олгогдсон болно. Нөхцөлт урамшууллыг 2014 оны 10-р сарын 1-ний өдрөөс олгох бөгөөд нэг жилийн хугацаанд Петро Матад компанийн нэг хувьцаа тус бүрийг 1 ам.доллараар хэрэгжүүлэх эрхтэй. Нийтдээ 5,229,255 нөхцөлт урамшууллыг олгосон бөгөөд үүнээс 3,675,536 ширхэг нь компанийн захирлуудад олгосон нөхцөлт урамшуулал болно.

Компанийн гол баг бүрэлдэхүүн техникийн судалгаа шинжилгээ дэмжин ажиллах, засгийн газартай харилцаа холбоогоо хадгалах, компанийн санхүүгийн болон захиргааны удирдлагын үйл ажиллагааг хэвийн үргэлжлүүлэхэд гол нөөц бололцоог зориулах үүднээс Петро Матад компанийн ТУЗ нь компанийн үйл ажиллагааны бүтцэд хэд хэдэн бүтцийн өөрчлөлтийг хийсэн.

Хэдийгээр фарм-аутын хэлэлцээрийг ойрын ирээдүйд хийх баталгаа байхгүй ч эдгээр арга хэмжээнүүд нь Компанийн хэтийн төлөв болон ирээдүйд айдвар байгааг харуулж байгаа гэдэгт ТУЗ итгэж байна.

Эцэст нь Төлөөлөн Удирдах Зөвлөлийн зүгээс компанийн ирээдүй тодорхойгүй цаг мөчүүдэд эрч хүчтэйгээр, тууштай ажиллаж байсан техникийн болон техникийн бус нийт ажилчдадаа чин сэтгэлийн талархал илэрхийлмээр байна. Өнгөрсөн жилийн хугацаанд тэдний хүчин чармайлтгүйгээр энэ ахиц дэвшлийг гаргаж чадахгүй байсан нь эргэлзээгүй. Түүнчлэн ТУЗ-ийн зүгээс 2012 оны 8-р сараас 2013 оны 12-р сар хүртэл хайгуулын хэлтсийн захирлын албан тушаалд ажиллаж байсан Ридван Карпузад мөн талархлаа илэрхийлмээр байна. Түүний техникийн чадвар болон эрч хүч, манлайлал нь Петро Матад компанийг Фарм-ин хамтрагчдийн сэтгэлд нийцсэн хайгуулын дэлгэрэнгүй, тодорхой ойлголтод хүрэх боломжийг бий болгож өгсөн. Ридван гүйцэтгэх бус захирлын хувиар Петро Матад компанитай хамтран ажилласаар байгаад бид баяртай байна.

ТУЗ-ийн гишүүд

HEALTH, SAFETY AND ENVIRONMENT

Petro Matad has a proven-track record of HSE excellence. During 2013, the company undertook and completed its 2013 exploration seismic acquisition and fieldwork program in remote and logistically demanding locations without incident, thereby extending its record of HSE excellence.

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 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 2013 while undertaking exploration fieldwork activities in remote locations in Blocks IV, V and XX including a seismic acquisition program in Blocks IV and V. For 2013, total man-hours without a lost-time injury stand at 47,980.

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. The Company also 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.

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

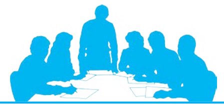
At Petro Matad, we believe that operating openly and transparently in the community is integral to developing and maintaining positive relationships. Through meaningful engagement with communities, we identify opportunities to make contributions that are beneficial to all stakeholders. Company representatives 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. Petro Matad will continue to evaluate community needs with a view to supporting projects aimed at reducing poverty, as well as improving education, health awareness and the protection of the environment.

Through its Production Sharing Contracts ("PSCs") on Blocks IV and V, Petro Matad is continuing with its scholarship program for students studying Geology and Petroleum Engineering at the National University of Mongolia and the Mongolian Science and Technology University. To date, we have awarded a total of approximately MNT161,939,100 (equivalent to approximately USD120,000) to 280 students.

The Mongolian Government's Petroleum Authority of Mongolia ("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, the company has provided full scholarships to two PAM employees to obtain their Master's degree at an overseas 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 25 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.

"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. It is pleasing to see how well our new procurement policy, committee structure and HSE and environmental audit plan worked in the bidding, award and execution of the 2013 seismic survey." – Chairman, George Watkins

Board of Directors and Composition

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

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

Brief biographies of the Directors are set out on pages 3 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 3 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 3 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.

Ridvan Karpuz retired from his executive role at the end of 2013 however we are fortunate and appreciative that he continues to be associated with the Company as a Nion-executive Director.

The Board has not formally adopted performance evaluation procedures. However, the Board takes the effectiveness and efficiency of its Directors seriously and will continue to review its own performance and effectiveness in an informal way.

Board Processes

There is a clear division of responsibilities at Petro Matad through the separation of the positions of the 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 require the Board's attention. During 2013, all Board meetings were attended by majority of the 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.

Board Committees

The Board has established an Audit Committee, a Remuneration Committee, a Corporate Governance Social Action and Environmental ("CGSAE") Committee and a Nomination Committee, each with formally delegated rules and responsibilities. Each of the Committees contains 2 independent Non-Executive Directors, in accordance with the QCA Guidelines, and meets regularly and at least 3 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 2013 and up to the date of this report are as follows:

Chair
Enkhmaa Davaanyam

Members
Philip Arthur Vingoe
George Edward Watkins

The Audit Committee met 4 times in 2013 and 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

Attendance at Board and Committee Meetings in 2013:

	Scheduled Board Meetings	Ad hoc Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	CGSAE Committee Meetings	Nomination Committee Meetings
Oyungerel Janchiv	3/4	0/1	-	2/3	-	-
Mary Ellen Collins	4/4	0/1	-	-	3/3	3/3
Enkhmaa Davaanyam	4/4	1/1	4/4	-	-	3/3
George Edward Watkins	4/4	0/1	3/4	-	3/3	-
Philip Arthur Vingoe	4/4	0/1	4/4	3/3	-	3/3
David Daniel Skeels	4/4	0/1	-	3/3	3/3	3/3
Amarzul Tuul	4/4	0/1	-	-	3/3	-
John Rene Henriksen	4/4	1/1	4/4	3/3	3/3	-
Mehmed Ridvan Karpuz	4/4	1/1	-	-	1/3	-
Total No. of Meetings	4	1	4	3	3	3

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 2013 the Audit Committee continued their policy of regularly reviewing the internal control environment, including a review of budgets and forecasts and variances to them. The committee is satisfied that the internal control environment remains strong and that the implementation in 2012 of the new procurement policy, updated delegations of authority procedure and management reporting system, were all operating as designed. Additionally, in accordance with directives issued by the Board of Directors, the committee reviewed the implementation of processes designed to realize operational efficiencies. The committee is satisfied that the implementation was properly carried out and expects it will result in significant cost savings in both the near and longer term." - Enkhmaa Davaanyam, Audit Committee Chair

Remuneration Committee

The members of the Remuneration Committee in 2013 and up to the date of this report are as follows:

Chair
Philip Arthur Vingoe

Members
Oyungerel Janchiv
David Daniel Skeels

The Remuneration Committee met 3 times in 2013. 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 36 to 43.

"Whilst 2013 was a year of relative stability, the 2014 has led to significant changes which have impacted personnel deeply. Throughout this period, the Remuneration Committee has strived to maintain 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 2013 and up to the date of this report are as follows:

Chair
Mary Ellen Collins

Members
George Edward Watkins
David Daniel Skeels

The CGSAE Committee met 3 times in 2013. The CGSAE Committee among other things: regularly reviews the Company's corporate governance and system of internal non-financial controls; assigns responsibilities for health, safety and environmental ("HSE") matters and community liaison; reviews the application of the Company's social action policies and environmental policies and supervises the preparation of various reports in respect of these aspects of the Company's activities.

"The company has adopted the QCA Guidelines as its governance standard and is fully compliant with its required disclosure, which is regularly reviewed and updated. During the year, Petro Matad provided reports to EITI, of which it is a member, and has conducted staff training in the company's Anti-bribery Policy. The company is very proud to report that its community engagement policy was singled out for its excellence by the World Bank in their economic review of Mongolia (November 2013). The World Bank report said "Petro Matad operates a wide scoped and well-pitched CSR programme, with simple and effective donations or investments across all sectors in society." Petro Matad is a leader in raising industry standards in Mongolia with their HSE and environment policies aimed at minimizing the negative environmental impact in seismic data acquisition. In October 2013 Petro Matad conducted field training in best practice for seismic acquisition and reclamation of the land for the contractor and staff, including participating petroleum authority members. "– Mary Ellen Collins, CGSAE Committee Chair

Nomination Committee

The members of the Nomination Committee in 2013 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 3 times in 2013. 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, reappointment and re-elections of Directors.

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

Shareholder and Investor Relations

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

Risk Management

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

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

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

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.

Business Conduct and Ethics

Extractive Industries Transparency Initiative ("EITI")

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

Anti-Bribery and Corruption Policy ("ABCP")

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

Insurance

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

Share Dealing Code

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

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.

Philip Arthur Vingoe (Chairperson)
Oyungerel Janchiv
David Daniel Skeels

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 overall performance of the Group.

(a) Details of Directors

The names of the Company's Directors, having authority and responsibility for planning, directing and controlling the activities of the Group, in office during 2012 and 2013, 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-Chairperson	Resigned 27 January 2012
John Campbell Robertson	Non-Executive Director	Resigned 12 March 2012
Sarangua Davaadorj	Non-Executive Director	Resigned 12 March 2012
Douglas John McGay	Chief Executive Officer	Resigned 30 November 2012
Clyde Robert Evans	Non-Executive Director	Resigned 20 December 2012
George Edward Watkins	Non-Executive Chairperson	
Oyungerel Janchiv	Non-Executive Deputy Chairperson	
Mary Ellen Collins	Non-Executive Director	
Enkhmaa Davaanyam	Non-Executive Director	
David Daniel Skeels	Non-Executive Director	
Philip Arthur Vingoe	Non-Executive Director	
Amarzul Tuul	Executive Director	
John Rene Henriksen	Chief Financial Officer	
Mehmed Ridvan Karpuz	Non-Executive Director	

On 31 December 2013, Ridvan Karpuz retired from his executive role as Director of Exploration, while continuing on in a role as a Non-Executive Director.

(b) Compensation of Directors

	Note	Consolidated 31 Dec 2013 $'000	31 Dec 2012 $'000
Short-term employee benefits		1,348	1,950
Post-employment benefits		-	-
Share based payment expense		584	802
		1,932	2,752

Directors	Consolidated 31 Dec 2013 $'000	31 Dec 2012 $'000
Gordon Leonard Toll	-	5
Oyungerel Janchiv	55	65
Douglas John McGay	-	822
Clyde Robert Evans	14	188
John Campbell Robertson	-	21
Sarangua Davaadorj	-	21
Mary Ellen Collins	55	54
Enkhmaa Davaanyam	55	54
David Daniel Skeels	55	45
Philip Arthur Vingoe	55	45
George Edward Watkins	94	52
Amarzul Tuul	183	146
John Rene Henriksen	378	267
Mehmed Ridvan Karpuz	404	165
Total	1,348	1,950

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 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

Balance at 31 December 2013	Balance as at 01-Jan-13	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-13
Directors				
Oyungerel Janchiv	6,585,000	11,723,686	-	18,308,686
Mary Ellen Collins	-	-	-	-
Enkhmaa Davaanyam	-	3,891,640	-	3,891,640
David Daniel Skeels	-	-	-	-
Philip Arthur Vingoe	500,000	-	-	500,000
George Edward Watkins	200,000	-	-	200,000
Amarzul Tuul	472,500	-	-	472,500
John Rene Henriksen	-	-	263,030	263,030
Mehmed Ridvan Karpuz	-	-	620,788	620,788
Total	7,757,500	15,615,326	883,818	24,256,644

Resigned Directors' shareholdings are accurate up to their dates of resignation in 2012.
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 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

For the year ended 31 December 2013	Balance as at 01-Jan-13	Granted as Remuneration	Options Exercised	Options Lapsed	Balance as at 31-Dec-13	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	-	-	-	475,000	-	475,000
Mary Ellen Collins	125,000	-	-	-	125,000	-	125,000
Enkhmaa Davaanyam	150,000	-	-	-	150,000	51,000	99,000
David Daniel Skeels	150,000	-	-	-	150,000	100,500	49,500
Philip Arthur Vingoe	150,000	-	-	-	150,000	100,500	49,500
George Edward Watkins	150,000	-	-	-	150,000	100,500	49,500
Amarzul Tuul	608,500	-	-	-	608,500	203,380	405,120
John Rene Henriksen	100,000	-	-	-	100,000	67,000	33,000
Mehmed Ridvan Karpuz	75,000	-	-	-	75,000	50,250	24,750
Total	1,983,500	-	-	-	1,983,500	673,130	1,310,370

(e) Conditional Share Awards holdings of Directors

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

For the year ended 31 December 2013	Balance as at 01-Jan-13	Granted as Remuneration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-13	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	-	-	-	475,000	475,000	-
Mary Ellen Collins	125,000	-	-	-	125,000	125,000	-
Enkhmaa Davaanyam	150,000	-	-	-	150,000	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	503,000	-	-	-	503,000	503,000	-
John Rene Henriksen	889,090	-	(263,030)	-	626,060	626,060	-
Mehmed Ridvan Karpuz	2,012,364	-	(620,788)	(982,915)	408,661	150,000	258,661
Total	4,604,454	-	(883,818)	(982,915)	2,737,721	2,479,060	258,661

A portion of Ridvan Karpuz' Conditional Share Awards based on service conditions were vested and made exercisable per the rules of the Plan and at the discretion of the Directors upon his departure from his executive role.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Continuing operations			
Revenue			
Interest income	4(a)	188	688
Other income	4(a)	67	20
		255	708
Expenditure			
Consultancy fees		(418)	(399)
Depreciation and amortisation		(203)	(283)
Employee benefits expense	4(b)	(3,514)	(5,164)
Exploration and evaluation expenditure	4(c)	(1,617)	(4,912)
Other expenses	4(d)	(2,001)	(2,105)
Loss from continuing operations before income tax		(7,498)	(12,155)
Income tax expense	5	-	-
Loss from continuing operations after income tax		(7,498)	(12,155)
Net loss for the year		(7,498)	(12,155)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations, net of income tax of $Nil (2012: $Nil)		(212)	69
Other comprehensive loss for the year, net of income tax		(212)	69
Total comprehensive loss for the year		(7,710)	(12,086)
Loss attributable to owners of the parent		(7,498)	(12,155)
Total comprehensive loss attributable to owners of the parent		(7,710)	(12,086)
Loss per share (cents per share)			
Basic and diluted loss per share	6	3.3	6.5

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

Consolidated Statement of Financial Position

For the year ended 31 December 2013

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	3,308	4,588
Trade and other receivables	8	310	422
Prepayments and other assets	9	484	575
Total Current Assets		4,102	5,585
Non-Current Assets			
Exploration and evaluation assets	10	15,275	15,275
Property, plant and equipment	11	618	901
Total Non-Current Assets		15,893	16,176
TOTAL ASSETS		19,995	21,761
LIABILITIES			
Current Liabilities			
Trade and other payables	12	718	873
Total Current Liabilities		718	873
TOTAL LIABILITIES		718	873
NET ASSETS		19,277	20,888
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	105,097	98,893
Reserves	14	4,736	5,988
Accumulated losses		(90,556)	(83,993)
TOTAL EQUITY		19,277	20,888

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(6,329)	(11,679)
Interest received		188	688
Net cash flows used in operating activities	7	(6,141)	(10,991)
Cash flows from investing activities			
Purchase of property, plant and equipment		(32)	(78)
Sale of property, plant and equipment		13	12
Net cash flows used in investing activities		(19)	(66)
Cash flows from financing activities			
Proceeds from issue of shares	13	5,025	91
Net cash flows from financing activities		5,025	91
Net decrease in cash and cash equivalents		(1,135)	(10,966)
Cash and cash equivalents at beginning of the year		4,588	15,477
Net foreign exchange differences		(145)	77
Cash and cash equivalents at the end of the year	7	3,308	4,588

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Note	Issued capital $'000	Accumulated Losses $'000	Other Reserves Note 14 $'000	Total $'000
		Consolidated – Attributable to equity holders of the parent			
As at 1 January 2012		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	13	91	-	-	91
Cost of capital raising	13	-	-	-	-
Share-based payments	13,14 & 15	1,615	611	(313)	1,913
As at 31 December 2012		98,893	(83,993)	5,988	20,888
Net loss for the year		-	(7,498)	-	(7,498)
Other comprehensive income		-	-	(212)	(212)
Total comprehensive loss for the year		-	(7,498)	(212)	(7,710)
Issue of share capital	13	5,025	-	-	5,025
Cost of capital raising	13	-	-	-	-
Share-based payments	13,14 & 15	1,179	935	(1,040)	1,074
As at 31 December 2013		105,097	(90,556)	4,736	19,277

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The financial report of Petro Matad Limited (the "Company") for the year ended 31 December 2013 was authorised for issue in accordance with a resolution of the Directors on 26 June 2014.

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 Matad Inc.

Petrovis Matad Inc is a major shareholder of the Company, currently holding approximately 33% of the shareholding.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

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

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

(b) Statement of compliance

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

(c) Going concern note

The consolidated entity has incurred a net loss after income tax of $7.498 million (2012: Loss of $12.155 million) and experienced net cash outflows from operating activities of $6.141 million (2012: $10.991 million) for the year ended 31 December 2013 and has cash and cash equivalents of $3.308 million as at 31 December 2013 (2012: $4.588 million). In addition and as outlined in Note 16(b) the consolidated entity was required to meet minimum exploration commitments in the next 12 months on its PSCs of approximately $22.758 million, with further commitments thereafter as disclosed in Note 16(b).

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

The ability of the consolidated entity to continue as going concern is principally dependent upon further varying and/or deferring Blocks IV and V commitment expenditure and/or securing a farm-out agreement to fund minimum exploration commitments.

Subsequent to year end, the Company has undertaken the following:
i) The Company has been in discussions with Petroleum Authority of Mongolia ("PAM") on extending Blocks IV and V PSCs initial exploration period. An application for a 2 year extension was made, but PAM will only process this application in the unlikely event that the new Petroleum Law is not passed. The Company has received approval from the relevant authorities to defer payments due under the PSCs until July 2015.

ii) A new Petroleum Law is expected to be formally approved during its second Parliamentary reading, expected in early July 2014. A key provision of the new law is the change in the initial PSC exploration term from 5 to 8 years. PAM has stated in writing that upon passage of the law, Blocks IV and V will be granted an eight year term (extendable by a further 2 two year options), in place of the current five-year initial term. In this event, we expect that the 5 year expenditure commitment that currently exists will be phased into the new 8 year period. A work program rephasing the commitment over an 8 year period has been completed and will be presented to PAM upon final passage of the Petroleum law as expected.

iii) The Company has been engaged in discussions for possible farm-out of its interest in these blocks to potential investors, which would take on part or all of the amount of the exploration spend on these blocks as part of their farm-out.

In the absence of a farm-out being concluded, the Company will 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.

The Directors have prepared a cash flow forecast, which indicates that the consolidated entity will have sufficient cash flows to meet their working capital requirements (excluding minimum exploration commitments) for the 12 month period from the date of signing the financial report.

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 the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Should the 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 International Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period beginning 1 January 2013.

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

- IFRS 13 "Fair Value Measurement" ("IFRS 13"). This Standard establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the previous standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 "Financial Instruments: Disclosures" are extended by IFRS 13 to cover all assets and liabilities within its scope.
- IAS 19 "Employee Benefits" (as revised in 2011). This Standard changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. Additionally, IAS (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.
- Amendments to IFRS 7 – 'Disclosures – Offsetting Financial Assets and Financial Liabilities'. The amendments require entities to disclose information about rights to offset and related arrangements for financial instruments under an unenforceable master netting agreement or similar agreement.
- Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income" ("IAS 1"). The amendments introduce new terminology, whose use is not mandatory, for the statement of profit or loss or other comprehensive income. The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other

comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.
- Amendments to IFRS's "Annual Improvements to IFRS's 2009–2011 Cycle".
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine". This standard applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Under the Interpretation, the costs from this waste removal activity ('stripping') which provide improved access to ore is recognised as a non-current asset ('stripping activity asset') when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 "Inventories". The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

The adoption of these Standards and Interpretations did not have a material effect on the consolidated entity, other than amendments to disclosures in the financial report.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, following International Financial Reporting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the year ended 31 December 2013:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 10 'Consolidated Financial Statements'	1 January 2014	31 December 2014
IFRS 11 'Joint Arrangements'	1 January 2014	31 December 2014
IFRS 12 'Disclosure of Interests in Other Entities'	1 January 2014	31 December 2014
IAS 27 'Separate Financial Statements' (as revised in 2011)	1 January 2014	31 December 2014
IAS 28 'Investments in Associates and Joint Ventures' (as revised in 2011)	1 January 2014	31 December 2014
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 2014	31 December 2014
IFRS 9 'Financial Instruments' (December 2009), Amendments to IFRS 7 and IFRS 9 'Mandatory Effective Date of IFRS 9 and Transition Disclosures' and IFRS 9 'Financial Instruments' (December 2010)	1 January 2017	31 December 2017
IFRS 9 'Financial Instruments' (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)	1 January 2017	31 December 2017
Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities '	1 January 2014	31 December 2014
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014	31 December 2015
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014	31 December 2015

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

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

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

(f) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

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

(q) Contributed equity

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

(r) Revenue

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

Interest revenue

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

(s) Share-based payment transactions

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

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

In determining the fair value of the equity-settled transactions, vesting conditions that are not market conditions are not taken into account.

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

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

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

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

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

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

(t) Income tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

(u) Earnings per share

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

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

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

(v) Significant accounting judgments, estimates and assumptions

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.

Going Concern

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

3 OPERATING SEGMENTS

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

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

4 REVENUES AND EXPENSES

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
(a) Revenue			
Interest Income		188	688
Other income		-	11
Foreign exchange gains		67	9
		255	708
(b) Employee benefits expense			
Included in employee benefits expense are the following:			
Wages and salaries		909	1,340
Directors' fees (including Directors of affiliates)		416	431
Consultancy fees		1,115	1,480
Share-based payments		1,074	1,913
		3,514	5,164
(c) Exploration and evaluation expenditure			
Exploration and evaluation expenditure relates to the following PSC:			
Block XX		222	2,616
Blocks IV and V		1,395	2,296
		1,617	4,912
(d) Other expenses			
Included in other expenses are the following:			
Administration costs		781	958
PSC administration costs		807	651
Audit fees		111	129
Travel expenses		302	367
		2,001	2,105

5 INCOME TAX

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Income tax recognised in the statement of profit or loss:			
Tax expense/(benefit) comprises:			
Current tax expense/(benefit)		-	-
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences		-	-
Total tax expense/(benefit) reported in the statement of profit or loss		-	-

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

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Net loss for the year		(7,498)	(12,155)
Income tax benefit calculated at 10%	(i)	750	1,216
Effect of different tax rates on entities in different jurisdictions	(ii)	(527)	(953)
Change in unrecognised deferred tax assets		(263)	(263)
		-	-

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

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

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

6 LOSS PER SHARE

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

	Consolidated	
	31 Dec 2013 cents per share	31 Dec 2012 cents per share
Basic loss per share	3.3	6.5
Diluted loss per share	3.3	6.5
	$'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	7,498	12,155
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	227,541	185,716

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

7 CASH AND CASH EQUIVALENTS

		Consolidated	
	Note	31 Dec 2013 $'000	31 Dec 2012 $'000
Cash at bank and in hand		3,308	4,588
		3,308	4,588

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 $3,308,000 (2012: $4,588,000) due to the short-term nature of the instruments.

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

		Consolidated	
	Note	31 Dec 2013 $'000	31 Dec 2012 $'000
Net loss after tax		(7,498)	(12,155)
Adjustments for:			
Depreciation and amortisation		203	283
Net (profit)/loss on disposal of property, plant and equipment		9	34
Share based payments		1,074	1,913
Unrealised foreign exchange (gains)/ losses		23	(10)
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		112	(106)
Increase/(decrease) in prepayments and other assets		91	154
(Increase)/decrease in trade and other payables		(155)	(1,104)
Net cash flows used in operating activities		(6,141)	(10,991)

Non-cash investing and financing activities

There were no non-cash investing or financing activities undertaken in the financial year or prior year, other than the exercise of Options and Conditional Share Awards of $1.179 million (2012: $1.615 million).

8 TRADE AND OTHER RECEIVABLES

		Consolidated	
	Note	31 Dec 2013 $'000	31 Dec 2012 $'000
Current			
Other debtors		310	422
		310	422

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

9 PREPAYMENTS AND OTHER ASSETS

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Prepayments		70	108
Other assets		414	467
		484	575

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

10 EXPLORATION AND EVALUATION ASSETS

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'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 2013 $'000	Consolidated 31 Dec 2012 $'000
Plant and equipment at cost		1,071	1,263
Accumulated depreciation and impairment		(453)	(362)
		618	901

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

	Plant and equipment Total $'000
As at 1 January 2012 (net of accumulated depreciation)	1,149
Additions	78
Disposals	(43)
Depreciation charge for the year	(283)
As at 31 December 2012 (net of accumulated depreciation)	901
Additions	32
Disposals	(22)
Foreign exchange	(90)
Depreciation charge for the year	(203)
As at 31 December 2013 (net of accumulated depreciation)	618

12 TRADE AND OTHER PAYABLES (CURRENT)

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Trade payables		716	870
Other payables		2	3
		718	873

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

13 ISSUED CAPITAL

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Ordinary Shares			
279,340,879 shares issued and fully paid (2012: 186,176,001)		105,097	98,893
		105,097	98,893

Movements in ordinary shares on issue:

	Number of Shares	Issue Price $	$'000
Consolidated			
As at 1 January 2012	184,565,284		97,187
Exercise of Conditional Share Awards on 13 February 2012 (note (a))	206,987	0.010	2
Issue of shares to employees on 13 February 2012 on exercise of Options (note (b))	11,250	0.174	2
Exercise of Conditional Share Awards on 5 March 2012 (note (c))	280,000	0.010	3
Exercise of Conditional Share Awards on 26 April 2012 (note (d))	505,447	0.010	5
Issue of shares to Directors and an employee on 26 April 2012 on exercise of Options (note (e))	442,500	0.175	77
Exercise of Conditional Share Awards on 9 July 2012 (note (f))	164,533	0.010	2
			91
Share based payment	-	-	1,615
As at 31 December 2012	186,176,001		98,893
Exercise of Conditional Share Awards on 24 January 2013 (note (g))	500,000	0.010	5
Issue of shares to Petrovis on 22 July 2013 (note (h))	90,612,540	0.055	5,000
Exercise of Conditional Share Awards on 22 July 2013 (note (i))	671,550	0.010	6
Exercise of Conditional Share Awards on 27 November 2013 (note (j))	1,380,788	0.010	14
			5,025
Share based payment	-	-	1,179
As at 31 December 2013	279,340,879		105,097

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

(g) On 25 January 2013, pursuant to the Group's Plan, 500,000 shares were awarded to a former Director exercising Conditional Share Awards with an exercise price per share of $0.01.

(h) On 22 July 2013, Petrovis signed an Equity Subscription Agreement with the Company that resulted in issuance of 90,612,540 ordinary shares to Petrovis and concert parties at a subscription price of GBP0.0356 per share.

(i) On 22 July 2013, pursuant to the Group's Plan, 671,550 shares were awarded to Directors and employees exercising Conditional Share Awards with an exercise price per share of $0.01.

(j) On 27 November 2013, pursuant to the Group's Plan, 1,380,788 shares were awarded to a Director and an employee exercising Conditional Share Awards with an exercise price per share of $0.01.

14 RESERVES

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

Consolidated	Merger reserve $'000	Equity benefits reserve $'000	Foreign currency translation $'000	Total $'000
As at 1 January 2012	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
Currency translation differences	-	-	(212)	(212)
Share based payments	-	(1,040)	-	(1,040)
As at 31 December 2013	831	4,801	(896)	4,736

Nature and purpose of reserves

Merger reserve

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

Equity benefits reserve

The equity benefits reserve is used to record the value of Options and Conditional Share Awards provided to employees and Directors as part of their remuneration, pursuant to the Group's Long Term Equity Incentive Plan (referred to as "Plan" or "Group's Plan"). Refer to Note 15 for further details of these plans.

Foreign currency translation reserve

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

15 SHARE BASED PAYMENTS

(a) Long Term Equity Incentive Plan

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

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

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

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 2015;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2016; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2018.

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 2012 and 2013, along with relevant details in relation to each grant.

	25 Apr 12	16 Jul 12	5 Oct 12	4 Dec 12	9 Jul 13
Options Granted	981,000	1,198,080	105,000	12,000	112,000
Share price at grant date	$0.3630	$0.1383	$0.1271	$0.1284	$0.0633
Expected Volatility (%)	85	85	85	85	85
Risk-free interest rates (%)	0.50	0.50	0.50	0.50	0.50
Expected life (years)					
Tranche 1	5.50	5.50	5.50	5.50	5.50
Tranche 2	6.00	6.00	6.00	6.00	6.00
Tranche 3	6.50	6.50	6.50	6.50	6.50
Exercise Price (in GBP)	0.2250	0.0888	0.0788	0.0800	0.0425
Estimate fair value of Option					
Tranche 1	$0.2922	$0.1137	$0.1023	$0.1034	$0.0434
Tranche 2	$0.2991	$0.1165	$0.1047	$0.1058	$0.0447
Tranche 3	$0.3053	$0.1189	$0.1069	$0.1080	$0.0460

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 2012 and 31 December 2013.

Modified Options

In the year ended 31 December 2012, 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.

No modifications have occurred for the year ended 31 December 2013.

(c) Movement in share Options

Consolidated	Opening balance at 1 Jan 2012	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2012	Exercisable as at 31 Dec 2012
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

Consolidated	Opening balance at 1 Jan 2013	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2013	Exercisable as at 31 Dec 2013
Grant of Options on 24 April 2008	-	-	-	-	-	-
Grant of Options on 3 June 2008	812,000	-	(412,500)	-	399,500	399,500
Grant of Options on 8 April 2009	425,000	-	(156,250)	-	268,750	268,750
Grant of Options on 9 July 2010	1,949,500	-	(1,050,000)	-	899,500	899,500
Grant of Options on 6 April 2011	75,000	-	-	-	75,000	49,500
Grant of Options on 5 July 2011	150,000	-	-	-	150,000	99,000
Grant of Options on 22 Nov 2011	120,000	-	-	-	120,000	79,200
Grant of Options on 5 Dec 2011	84,800	-	(4,886)	-	79,914	53,394
Grant of Options on 25 Apr 2012	935,000	-	(6,700)	-	928,300	308,550
Grant of Options on 16 Jul 2012	743,390	-	(226,530)	-	516,860	314,820
Grant of Options on 5 Oct 2012	115,000	-	(16,700)	-	98,300	34,650
Grant of Options on 4 Dec 2012	12,000	-	(6,000)	-	6,000	1,980
Grant of options on 9 July 2013	-	112,000	-	-	112,000	-
	5,421,690	112,000	(1,879,566)	-	3,654,124	2,508,844
Weighted Average Exercise Price (cents per Option)	56.67	6.33	58.94	-	53.96	60.16

(d) Share Options Contractual Life

The weighted average remaining contractual life of outstanding share Options is 6.9 years (2012: 7.5 years).

(e) Conditional Share Awards pricing model

The following Table summarizes Conditional Share Awards granted during 2012 and 2013, along with relevant details in relation to each grant.

	(1) 25 Apr 12	(2) 25 Apr 12	(3) 16 Jul 12	(4) 5 Oct 12	(5) 04 Dec 12	(6) 04 Dec 12	(7) 9 Jul 13
Conditional Share Awards granted	942,000	790,728	660,000	190,000	6,000	1,862,364	176,000
Share price at grant date	$0.3630	$0.3630	$0.1383	$0.1271	$0.1284	$0.1284	$0.0633
Expected Volatility (%)	89	89	91	74	60	60	51
Risk-free interest rates (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Expected life (years)	5.5	5	5	5	5	5	5
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	$0.3601	$0.3574	$0.1341	$0.1233	$0.1277	$0.1209	$0.0541

Items (1), (4), (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 2015;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2016; and
- 50% vest on the company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2018.

Items (2), (3) and (6): 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 years ending 31 December 2012 and 31 December 2013.

(f) Movement in Conditional Share Awards

Consolidated	Opening balance at 1 Jan 2012	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 Dec 2012	Exercisable as at 31 Dec 2012
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	-

Consolidated	Opening balance at 1 Jan 2013	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 Dec 2013	Exercisable as at 31 Dec 2013
Grant of Conditional Share Awards on 3 Jun 2008	1,085,000	-	(550,000)	-	535,000	-
Grant of Conditional Share Awards on 8 Apr 2009	145,000	-	-	-	145,000	-
Grant of Conditional Share Awards on 9 Jul 2010	1,277,666	-	(216,666)	-	1,061,000	-
Grant of Conditional Share Awards on 12 Nov 2010	139,854	-	(139,854)	-	-	-
Grant of Conditional Share Awards on 6 Apr 2011	366,000	-	(2,000)	(39,000)	325,000	-
Grant of Conditional Share Awards on 5 Jul 2011	341,082	-	-	(111,082)	230,000	-
Grant of Conditional Share Awards on 22 Nov 2011	150,000	-	(100,000)	-	50,000	-
Grant of Conditional Share Awards on 5 Dec 2011	84,800	-	-	(6,800)	78,000	-
Grant of Conditional Share Awards on 25 Apr 2012	1,708,090	-	(263,030)	(5,000)	1,440,060	-
Grant of Conditional Share Awards on 16 Jul 2012	660,000	-	(660,000)	-	-	-
Grant of Conditional Share Awards on 5 Oct 2012	175,000	-	-	(10,000)	165,000	-
Grant of Conditional Share Awards on 4 Dec 2012	1,868,364	-	(620,788)	(985,915)	261,661	-
Grant of Conditional Share Awards on 9 Jul 2013	-	176,000	-	-	176,000	-
	8,000,856	176,000	(2,552,338)	(1,157,797)	4,466,721	-
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 14.5 years (2012: 15.5 years).

16 COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

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

The Group has committed to office, warehouse and camp container leases in Mongolia in the amounts of $122,000 for 2013.

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Operating Leases:			
Within one year		122	105
After one year but not more than five years		-	-
Greater than five years		-	-
		122	105

(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.

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Production Sharing Contract Fees:			
Within one year		779	972
After one year but not more than five years		336	567
Greater than five years		-	-
		1,115	1,539
Minimum Exploration Work Obligations:			
Within one year		22,758	17,017
Greater than one year but no more than two years		-	7,120
Greater than two years but no more than three years		11,300	-
Greater than three years but no more than four years		10,299	11,300
Greater than five years		-	11,242
		44,357	46,679

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 until financial year 2016.

Due to the prior focus on Block XX, cumulative expenditures on Blocks IV and V are currently below the cumulative minimum PSC commitment by $15.6 million as at 31 December 2013. Arrangements have been concluded with the relevant authorities on 18 June 2014, which has deferred payments that are currently due under the PSCs to July 2015.

The work programme planned for the three blocks in 2014 has been largely defined and is planned to include two new exploration wells, for which drill ready prospects have been identified. However, 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 commitments 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.

17 RELATED PARTY DISCLOSURES

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

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

		Equity Interest	
	Country of Incorporation	2013 %	2012 %
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 2013 $'000	31 Dec 2012 $'000
Petrovis' subscription for shares in Petro Matad Limited	5,000	-

Petrovis Matad Inc is a major shareholder of the Company, currently holding approximately 33% of the shareholding.

18 KEY MANAGEMENT PERSONNEL

(a) Details of Directors

The names of the Company's Directors, having authority and responsibility for planning, directing and controlling the activities of the group, in office during 2012 and 2013, 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-Chairperson	Resigned 27 January 2012
John Campbell Robertson	Non-Executive Director	Resigned 12 March 2012
Sarangua Davaadorj	Non-Executive Director	Resigned 12 March 2012
Douglas John McGay	Chief Executive Officer	Resigned 30 November 2012
Clyde Robert Evans	Non-Executive Director	Resigned 20 December 2012
George Edward Watkins	Non-Executive Chairperson	
Oyungerel Janchiv	Non-Executive Deputy Chairperson	
Mary Ellen Collins	Non-Executive Director	
Enkhmaa Davaanyam	Non-Executive Director	
David Daniel Skeels	Non-Executive Director	
Philip Arthur Vingoe	Non-Executive Director	
Amarzul Tuul	Executive Director	
John Rene Henriksen	Chief Financial Officer	
Mehmed Ridvan Karpuz	Non-Executive Director	

On 31 December 2013, Ridvan Karpuz retired from his executive role as Director of Exploration, while continuing on in a role as a Non-Executive Director.

(b) Compensation of Directors

		Consolidated	
	Note	31 Dec 2013 $'000	31 Dec 2012 $'000
Short-term employee benefits		1,348	1,950
Post-employment benefits		-	-
Share based payment expense		584	802
		1,932	2,752

(c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2012: Nil).

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

Risk Exposures and Responses

Interest rate risk

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

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

		Consolidated	
	Weighted Average Int. rate	31 Dec 2013 $'000	31 Dec 2012 $'000
Financial Assets			
Cash and cash equivalents	4.34%	3,308	4,588
		3,308	4,588
Financial Liabilities			
Trade and other payables	0%	718	873
		718	873
Net exposure		2,590	3,715

Sensitivity Analysis
If the interest rate on cash balances at 31 December 2012 and 2013 weakened/strengthened by 1%, there would be no material impact on profit or loss. There would be no effect on the equity reserves other than those directly related to other comprehensive income movements.

Foreign currency risk

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

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

The following significant exchange rates applied during the year:

	Average rate		Spot rate at the balance date	
USD	2013	2012	2013	2012
Mongolian Tugrug ("MNT") 1	1,523.27	1,358.86	1,659.34	1,392.10
Australian Dollar ("AUD") 1	1.03730	0.96600	1.12690	0.96410
Great British Pound ("GBP") 1	0.64020	0.63110	0.60650	0.61880

Sensitivity Analysis
A 5% strengthening/weakening of the MNT against USD at 31 December 2012 and 2013 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 2013 $'000	31 Dec 2012 $'000
Financial Assets			
Cash and cash equivalents	7	3,308	4,588
Trade and other receivables	8	310	422
Net exposure		3,618	5,010

Impairment Losses
None of the Group's receivables are past due at 31 December 2013 (2012: 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 2013 $'000	31 Dec 2012 $'000
6 months or less		718	873
6-12 months		-	-
1-5 years		-	-
over 5 years		-	-
		718	873

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

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

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

	Fair Value Hierarchy as at 31 December 2013			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Trade and other receivables	-	310	-	310
Total	-	310	-	310
Financial Liabilities				
Trade and other payables	-	718	-	718
Total	-	718	-	718

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

20 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management of the Group and the Group's capital is regularly reviewed by the Board. The capital structure of the Group consists of cash and bank balances (Note 7) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in Notes 13 and 14). This is reviewed by the Board of Directors as part of their regular directors meetings.

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

The Group is not subject to externally imposed capital requirements.

21 EVENTS AFTER THE REPORTING DATE

The Directors of Petro Matad have agreed a number of measures to preserve cash resources. In particular, the Non-Executive Directors have agreed unanimously that for the 6 month period, April-September 2014, they will forgo their usual director fees and in lieu of a cash fee will receive Conditional Share Awards. In addition, the Executive Directors and certain employees at their own volition have also opted to sacrifice a portion of their salary to participate in the same Conditional Share Award programme.

The Conditional Share Awards have been issued under the Company's existing Group's Plan on 23 April 2014. The Conditional Share Awards will vest on 1 October 2014 and participants have a maximum of 1 year to exercise these awards for an exercise price of $0.01 per Petro Matad ordinary share. An aggregate of 5,229,255 Conditional Share Awards have been awarded and the table below sets out the 3,675,536 Conditional Share Awards that have been issued to the Company's directors.

Director	Number of Conditional Share Awards awarded in lieu of fees
George Watkins	830,634
Oyungerel Janchiv	498,380
Enkhmaa Davaanyam	498,380
Philip Vingoe	498,380
David Skeels	498,380
Ridvan Karpuz	498,380
Amarzul Tuul	58,834
John Henriksen	294,168

The Board has also implemented a number of structural changes to the operational structure of the Company, with resources being focused on a core team to support the technical studies associated with the farm-out effort, maintain relations with government and maintain the financial and administrative governance of the Company. The Company continues to enjoy the support of its largest shareholder in these efforts which are expected to result in significant reductions in monthly running costs.

On 18 June 2014, as agreed with the relevant authorities any payments due under the PSCs for Blocks IV and V prior to mid-2015 will not be payable until July 2015.

22 AUDITORS' REMUNERATION

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

	Note	Consolidated 31 Dec 2013 $'000	Consolidated 31 Dec 2012 $'000
Amounts received or due and receivable by Deloitte for:			
- an audit or review of the financial report of the entity and any other entity in the consolidated entity		85	96
- other services in relation to the entity and any other entity in the consolidated entity		-	-
		85	96
Amounts received or due and receivable by auditors other than Deloitte for:			
- an audit or review of the financial report of subsidiary entities		26	33
- other services in relation to the subsidiary entities		-	-
		26	33
		111	129

23 OTHER INFORMATION

Registered Office:

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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 2013 and of its performance and cash flows for the year ended on that date in accordance with International Financial Reporting Standards as adopted by the European Union, 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
30 June 2014

Deloitte.

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

We have audited the accompanying annual financial report of Petro Matad Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 44 to 81.

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 as adopted by the European Union, and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the consolidated financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Deloitte.

Opinion

In our opinion, the consolidated financial report presents fairly, in all material respects, the consolidated entity's financial position as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the *Companies Act 2006*.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 2(c) in the financial report, which indicates that the consolidated entity has incurred a net loss after income tax of $7.498 million (2012: Loss of $12.155 million) and experienced net cash outflows from operating activities of $6.141 million (2012: $10.991 million) for the year ended 31 December 2013. 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Nicoloff

Chris Nicoloff
Partner
Chartered Accountants
Perth, 30 June 2014

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