PETRO MATAD LIMITED
ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

CONTENTS

BOARD of DIRECTORS

Dr. Oyungerel Janchiv

Acting Chairperson

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 CEO of the Petroleum Import Concern of Mongolia and in 1994 became the CEO 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 CEO until January 2008 and has been Chair ever since. 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. On 15 August 2014, she was appointed as the Chairperson of Ard Financial Group.

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.

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.

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.

John Rene Henriksen

Chief Financial Officer (CFO)

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.

Amarzul Tuul

Executive Director of the Petro Matad 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.

DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 December 2014.

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 (Not re-appointed 21 November 2014)
- Enkhmaa Davaanyam
- David Daniel Skeels (Not re-appointed 21 November 2014)
- Philip Arthur Vingoe
- George Edward Watkins (Resigned 24 November 2014)
- 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 2014 was $3.940 million (31 December 2013: Loss $7.498 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

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

The Conditional Share Awards were issued under the Group's existing Long Term Equity Incentive Plan ("Plan" or "Group's Plan") on 23 April 2014. The Conditional Share Awards vested on 1 October 2014 and participants have a maximum of one year from the vesting date 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 were awarded and the table below sets out the 3,675,536 Conditional Share Awards that were issued to the Company's Directors.

Director name	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 also implemented a number of 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. These efforts resulted 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.

The new Mongolian Petroleum Law became effective on 29 July 2014. With passage of this law the initial exploration terms for Blocks IV and V have been amended to eight years as compared to five years under the old law. Consequently the initial exploration term for these Blocks now expires on 29 July 2017 (extendable by a further four years - 2 years x 2).

On 3 October 2014, pursuant to the Group's Plan, 146,400 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01.

SIGNIFICANT EVENTS AFTER REPORTING DATE

On 7 April 2015, the Company announced the successful completion of a farmout agreement with BG International Limited and BG Mongolia Holdings Limited ("BG Group"). Under the terms of the farmout the BG Group will acquire 78% of Blocks IV and V in exchange for agreeing to fund Petro Matad's share of a mutually agreed US$28 million work programme which will fulfil the minimum work obligations for both Blocks within the current licence period to July 2017. To accelerate the exploration evaluation process the majority of the work will be undertaken in 2015 and 2016. Petro Matad will also receive additional cash consideration of US$4.55 million to fund ongoing operations and obligations.

On 23 April 2015, pursuant to the Group's Plan, 5,750,946 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01. Of the 5,750,946 Conditional Share Awards shares issued, 5,229,255 of the Conditional Share Awards shares relate to the Conditional Share Awards programme. The other 521,691 Conditional Share Awards shares are pursuant to the Group's Plan.

On 22 June 2015 all conditions to the farmout were satisfied and unconditional status was therefore received. On the same date $2,750,000 cash consideration was received from BG Group. The remaining cash consideration of $1.8 million under the terms of the farmout agreement will be received over the next thirty months - $300,000 of which will be received shortly, with the balance being received in increments of $50,000 per month.

DIVIDENDS

No dividends have been paid or are proposed in respect of the year 2014.

FUTURE DEVELOPMENTS

The Group will continue to pursue exploration projects within high graded exploration areas 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
29 June 2015

DIRECTORS' STATEMENT

2014 was a quiet year from the perspective of work programme activities in the field, but it was nevertheless a very active and busy year for the Company and its core team of staff. The primary focus was the continuing effort to farmout a working interest share of the Company's acreage, comprising of three PSCs covering some 60,000 square kilometres.

The farmout process, which initially commenced in 2013, finally realised a successful outcome with the conclusion of an agreement with BG Group in April 2015. The agreement enables BG Group to earn a 78% working interest in Blocks IV and V in West/Central Mongolia, in exchange for a substantial work programme to be carried out at BG Group's sole cost, as well as the payment of significant cash consideration.

The farmout agreement included two conditions precedent which had to be satisfied before unconditional status could be achieved. The first of these, approval by the Mongolian Government, was obtained on 11 June 2015. The remaining condition precedent was waived by BG Group and consequently the farmout became unconditional on 22 June 2015, when final signed documents were exchanged.

The farmout is a key milestone as for the first time in its history the Company will be undertaking operations with a partner. That the partner is a world class oil and gas producer and explorer enhances the impact of the transaction. The entry of BG Group into Mongolia is a very positive message for exploration in the country in general and the prospectivity of Blocks IV and V in particular.

The planned work programme activities to be undertaken in 2015 and 2016 in Blocks IV and V as a result of the farmout are summarized below.

- **Geological field studies.** Expeditions are planned to collect additional outcrop data to better understand the evolution of the basins and structures. The fieldwork will be carried out in cooperation with international university research groups, which have been involved in the previous studies in the region.

- **Surface Geochemical Survey.** The study is aimed at identifying indications of hydrocarbon seeps at surface. To date no geochemical sampling work has been carried out in the region. The survey will be conducted along the new seismic lines that will be acquired in 2015, which will enable the integration of surface seep data with subsurface data to analyse the source of any hydrocarbon seeps.

- **2000 kms of 2D seismic acquisition and processing.** The programme has been designed to achieve three main objectives: (1) to infill the existing reconnaissance level and basin definition seismic grids to improve correlation and understanding of structural and stratigraphic architecture of the petroleum basin systems; (2) to tighten line spacing across previously identified lead and prospect trends such that drillable prospects may be adequately mapped; (3) to expand reconnaissance level and basin definition coverage into unimaged parts of the basin to identify new lead areas, play concepts and improve the resource estimation across a greater basin area.

- **Full Tensor Gravimetry (FTG).** The survey is designed to provide high-resolution gravity coverage capable of resolving prospect scale structural offsets, which will aid in the correlation between 2D seismic profiles and extrapolate structural networks into frontier areas to delineate future exploration focus areas. This tri-axial gravity measurement is collected and processed in conjunction with high-resolution aero-magnetic surveys and lidar topographic profiles to precisely constrain both lithologic and terrain induced variability in the gravitational field. This will better constrain the subsurface basin structures and correlate structural trends in areas of limited seismic data; and high grade prospective basinal areas in an economical way.

- **Core Holes.** The two planned 1,500m-2,000m continuous core holes are designed to characterise sedimentologic and stratigraphic properties of the basin fill and inspect the presence/quality of petroleum system elements (source, reservoir, and seal) at the basin margin. These continuous coring operations will be located in a position that will maximise recovery of data within the mechanical limitation of the continuous coring rig. The positions will be tied to deep kitchen areas along specific seismic profiles to improve correlation of sedimentary/stratigraphic architecture, petroleum system packages, and burial history models across the entire basin fill sequence.

- **Exploration Wildcat Wells**. Two basin centre exploration wildcat wells are planned to be drilled in 2016. To date there have been no exploration wells drilled in the frontier acreage of Blocks IV and V, nor in the surrounding regions. The primary objectives of the wells are to prove the existence of a working petroleum system and play types and ultimately to test the hydrocarbon potential of the structures. The wells will be drilled in optimum locations to allow the full penetration of the stratigraphy to collect data on the source rock and reservoir potential of the basin(s) and to test the hydrocarbon productive potential of the high graded structure(s). The final location of the wells will be determined once the new seismic data has been acquired, processed and interpreted along with the existing geological and geophysical data.

It is worth noting that there are no oil exploration wells and only limited seismic coverage in Central – Western Mongolia so the planned exploration wells will be the first drilled in this frontier area. The wells will be basin openers that will significantly advance knowledge of, and confidence in, the hydrocarbon potential of the area.

The announcement of 7 April 2015 anticipated that all work programme activities, except one of the exploration wells, would be completed in 2015. The Company now anticipates that both exploration wells will be drilled in 2016, with the remaining work programme activities still being undertaken in 2015. The drilling of both exploration wells in 2016 will provide additional time for the new data arising from this year's work programme to positively influence the location of the wells.

The tender processes for the 2015 programmes commenced in April and contract awards for FTG, core-hole drilling and seismic acquisition are progressing. The tender processes and well design engineering for the 2016 exploration wells are about to commence.

The planned work programme in Blocks IV and V will meet the cumulative PSC commitments in those blocks until the end of the first exploration period in July 2017. Petro Matad will continue to act as operator during this period. BG Group has the option to assume operatorship in any extended PSC term beyond July 2017.

Petro Matad has always taken its health, safety, environment and social action plan responsibilities very seriously. Great care is taken to not negatively impact the communities in proximity to our areas of operation. The Company's record of working with local communities has been exemplary and we fully intend to maintain and even enhance this record. BG Group's commitment to these areas is second to none and their expertise and experience will augment and possibly elevate our own already high standards.

The new Petroleum Law was passed by Parliament in mid-2014, which was a significant step in improving the investment climate for oil exploration in Mongolia, especially as the new law grandfathered the key commercial terms for existing PSC's. This development was instrumental in enabling the farmout to be concluded.

Minimal exploration activity is planned in 2015 in Block XX. Petro Matad's working interest in this PSC remains at 100%. The amount of expenditure in previous years was such that the PSC remains in good standing as cumulative expenditures against cumulative PSC commitments are in surplus. The vast majority of Block XX acreage remains underexplored. Previous reconnaissance and survey activities in the southern portion of the PSC lead us to believe the block has excellent potential. The Company continues to engage in a farmout efforts to try to bring in a proven explorer to assist in future exploration efforts in Block XX.

The structural changes that the Petro Matad Board implemented in 2014 reduced the organisation to a core group of staff that continued the farmout effort, maintained relations with government and maintained the financial and administrative governance of the Company. The Company is currently in process of hiring additional qualified staff to be able to safely, effectively and efficiently meet the requirements and objectives of the planned work programme. The Company's expertise, in conjunction with the secondees to be provided by the BG Group, guarantees that the exploration effort will be properly focused and will increase the probabilities of a successful exploration outcome.

In conclusion, the Board would like to express their great appreciation to our staff, both technical and non-technical, who have worked with enthusiasm and diligence throughout the year, regardless of the challenges that were presented to them. We would also like to express our gratitude to shareholders for their continued support of the Company.

Board of Directors

ТУЗ-ИЙН
ГИШҮҮДИЙН МЭДЭГДЭЛ

/АЛБАН БУС ОРЧУУЛГА/

Хэдийгээр хээрийн ажил хийгээгүй боловч 2014 он манай компаний хувьд маш ачаалалтай, завгүй жил болж өнгөрлөө. Энэ хугацаанд манай компаний гол зорилго нь өөрийн эзэмшлийн гурван бүтээгдэхүүн хуваах гэрээнээс бүрдэх 60,000 хавтгай дөрвөлжин километр талбай дээр хамтран үйл ажиллагаа явуулах сонирхолтой түншийг эрж олох ажлыг үргэлжлүүлэхэд төвлөрч байв.

Анх 2013 онд эхлүүлсэн фармоутын үйл ажиллагаа нь 2015 оны 4 дүгээр сард Би Жи Групптэй гэрээ байгуулснаар амжилттай хэрэгжиж чадлаа. Энэхүү гэрээнийн дагуу Би Жи Групп нь Монгол орны баруун-төв хэсэгт байрлах IV болон V талбайд явуулах үйл ажиллагааны эрх, үүргийн 78 хувийг эзэмших, ингэснээр хоёр талаас хамтран боловсруулсан ажлын хөтөлбөрт тусгагдсан нилээд хэмжээний ажлыг дангаараа санхүүжүүлэх мөн манай компанид тодорхой хэмжээний бэлэн мөнгөний төлбөр хийхээр болсон юм.

Фармаутын гэрээ нь урьдчилан заасан 2 нөхцөл биелсний дараа хүчин төгөлдөр болох байв. Тэдгээрийн нэг нь Монгол улсын засгийн газрын зөвшөөрөл байсан бөгөөд 2015 оны 6-р сарын 11-ний өдөр энэхүү зөвшөөрөл олгогдсон юм. Нөгөө нэг нөхцлийг нь Би Жи Группын зүгээс хүчингүй болгосон. Ингээд 2015 оны 6 дугаар сарын 22-ны өдөр талууд харилцан гарын үсэг зурж баталгаажуулан, эцсийн баримт бичгүүдийг солилцсоноор фармаут гэрээ нь хүчин төгөлдөр боллоо.

Манай компани түүхэндээ анх удаа хэн нэгэнтэй хамтарч хайгуулын үйл ажиллагааг явуулах гэж байна. Энэ утгаараа энэхүү гэрээг байгуулсан явдал нь бидний түүхэнд учирч буй чухал үйл явдал болсон юм. Тэр тусмаа бидний сонгосон түнш маань газрын тос, хийн хайгуул, олборлолтын дэлхийн тэргүүлэх хэмжээний компани байгаа нь энэхүү хэлэлцээрийн үр дүнд эерэгээр нөлөөллөө. Би Жи Групп нь Монгол улсад орж ирсэн нь тус улсын газрын тосны хайгуулын үйл ажиллагаанд, ялангуяа IV, V талбайн хэтийн төлөвт нааштай ирээдүй байгааг харуулж байна.

Фармаут гэрээний дагуу IV, V талбай дээр 2015, 2016 онд гүйцэтгэхээр төлөвлөж буй ажлын хөтөлбөрт тусгагдсан үйл ажиллагаануудыг доор хураангуйлав.

- **Геологийн хээрийн судалгаа.** Сав газруудын хөгжил, тэдгээрийн сутруктур бүтцийн талаар илүү их ойлголттой болохын тулд чулуулгийн гаршийн талаархи илүү олон өгөгдлүүдийг цуглуулах хээрийн ажлын экспедицүүдийг ажиллуулахаар төлөвлөж байна. Хээрийн ажлыг урьд өмнө энэ бүс нутагт судалгаа хийхэд оролцож байсан гадаадын их, дээд сургуулиудын судлаачдаас бүрдсэн багуудтай хамтарч гүйцэтгэнэ.

- **Гадаргуугийн геохимийн судалгаа.** Энэ судалгаагаар газрын гадаргуу дээр нүүрс-устөрөгчийн шүүрэл байгаа эсэхийг тогтоохыг зорьж байна. Өнөөг хүртэл энэ бүс нутагт геохимийн дээжлэлтийн ажил хийгдээгүй байгаа юм. Гадаргуугийн геохимийн судалгааг 2015 онд шинээр гүйцэтгэх чичирхийллийн шугамуудын дагуу хийж гүйцэтгэнэ. Ингэснээр гадаргуугийн шүүрлийн өгөгдлүүдийг газрын гүний өгөгдлүүдтэй нэгтгэж нүүрс-устөрөгчийн ямар нэгэн шүүрлийн эх үүсвэрийг шинжлэх боломжтой болно.

- **2000 тууш км урт 2 хэмжээст чичирхийллийн хээрийн хэмжилт болон боловсруулал**т. Энэ ажлыг үндсэн гурван зорилгыг хэрэгжүүлэхийн тулд төлөвлөв. Нэгдүгээрт, петролеум агуулах бассейнуудын структур бүтэц, хурдас хуримтлалын тогтолцоог ойлгох, тэдгээрийн уялдаа холбоог хооронд нь холбож өгөхийн тулд урьд өмнө хийгдсэн чичирхийлэлийн судалгаа, торлол хоорондын хоосон зайг өгөгдлөөр бөглөх. Хоёрдугаарт, өмнөх судалгааны ажлуудаар тогтоосон газрын тосны хуримтлалын хэтийн төлөвтэй талбайнууд дээр шугам хоорондын зайг нягтруулах. Ингэснээр өрөмдлөгөөр нэвтэрч болох газрын тосны хэтийн төлөвтэй хуримтлалуудыг зөв зураглах боломж нэмэгдэх юм. Гуравдугаарт, газрын тосны хуримтлалын хэтийн төлөвтэй шинэ талбайнуудыг тогтоох, газрын тос үүсэх, нүүх, хуримтлал үүсгэхэд нөлөөлөх хүчин зүйлүүдийг нь тодорхойлох, илүү том талбайд газрын тосны нөөцийн тооцоог хийх нөхцлийг бүрдүүлэхийн тулд хайгуулыг өргөтгөх, ялангуяа сав газрыг илрүүлсэн өгөгдлүүдийг тэлж түүнийг хараахан дүрсэлж чадаагүй хэсгүүдийг өгөгдлөөр хучих.

- **Бүрэн хэмжээст хүндийн хүчний судалгаа (FTG).** Судалгааны талбайг өндөр нягтралтай хүндийн хүчний өгөгдлөөр хучих зорилгоор энэ ажлыг төлөвлөж байна. Өндөр нягтралтай хүндийн хүчний өгөгдөл нь газрын тосны хуримтлал байж болох хэтийн төлөвтэй хураагуурууд, тэдгээртэй холбоотой структуруудын хэлбэр, хэмжээг өндөр харьцаатай масштабаар ялгаж таних, тогтооход ашиглагдана. Мөн 2 хэмжээст чичирхийлэлийн зүсэлтүүдийг хооронд нь уялдуулан холбох, структуруудын үргэлжлэлүүдийг судалгааны өгөгдөл хомс талбайнуудад илрүүлэн тайлах, ирээдүйд хайгуулын ажил төвлөрөх талбайнуудыг тогтооход хэрэглэгдэнэ. Чулуулгийн литологи болон газрын гүнд байгаа янз бүрийн геологийн биетүүдийн хэлбэр хэмжээнээс үзүүлэх нөлөөллөөс хүндийн хүчний оронд гарч байгаа өөрчлөлтүүдийг нарийвчлан судлах үүднээс энэхүү гурван тэнхлэгийн дагуу хийгдэх хүндийн хүчний хэмжилтийг өндөр нягтралтай агаарын

соронзон орны судалгаа, өндөр нягтралтай гадаргуугийн рельефийн хэмжилттэй хамт гүйцэтгэж, боловсруулалтыг хийнэ. Ингэснээр сав газрын гүний бүтцийг зөв дүрслэх, чичирхийллийн мэдээлэл хязгаарлагдмал талбайд структуруудын чигүүдийг хооронд нь зөв холбох, улмаар бассейны газрын тосны хуримтлал агуулж болох хэтийн төлөвтэй талбайнуудыг эдийн засгийн хувьд зэрэгчлэх, зэрэглэлийг нь өсгөх боломжтой болно.

- **Чөмгөн дээж авах цооног.** Хайгуулын талбайд тасалдалгүй үргэлжилсэн урт чөмөг дээж авах зорилгоор 1,500-2,000 м гүнтэй хоёр цооногийг өрөмдөхөөр төлөвлөв. Бассейны захад хийгдэх чөмөг дээжийн өрөмдлөгийн ажлаар олж авах мэдээлэл нь тухайн бассейныг дүүргэсэн чулуулгийн хурдас хуримтлалын онцлогийг судлах, давхарга зүйн шинж чанарыг тодорхойлох, цаашилбал петролеумын системийг бүрдүүлэх элементүүд (үүсгэгч, резервуар, тусгаарлагч) тухайн бассейны дотор цогцоороо байгаа эсэхийг шалгах, хэрвээ ийм элементүүд байгаа бол тэдгээрийн чанарыг үнэлэх зэрэгт маш чухал мэдээлэл болох юм. Өрөмдлөгийн байрлалыг өрмийн төхөөрөмжийн механик хүчин чадлыг бүрэн ашиглах боломжид тохируулан хамгийн тохиромжтой байрлал дээр сонгосон болно. Тухайн байрлал дээрээс олж авсан геологийн мэдээллүүдийг чичирхийлэлийн зүсэлтүүдийн дагуу гал зуух байрлах бассейны гүн хэсэгтэй уялдуулан холбоно. Ингэснээр тухайн сав газрын хурдас хуримтлал болон давхарга зүйн бүтэц, түүний петролеумын системийн багц, хурдас хуримтлалын түүхийг хооронд нь нэгтгэн, тэдгээрийн уялдаа холбоог ойлгох боломжийг сайжруулна.

- **Хайгуулын тулгуур цооног.** 2016 онд хайгуулын хоёр тулгуур цооногийг бассейнуудын гүн төв хэсэгт өрөмдөхөөр төлөвлөв. Судалгаа бага хийгдсэн IV, V талбай, тэдгээрийн эргэн тойрны бүс нутагт өнөөг хүртэл ганц ч хайгуулын цооногийг өрөмдөөгүй байгаа юм. Хайгуулын тулгуур цооногуудыг өрөмдөх гол зорилго нь тухайн бассейны дотор ажилладаг петролеумын систем байгаа эсэхийг шалгах, хэрвээ байгаа бол түүнийг бүрдүүлэх элементүүдийн хоорондын холбоог тогтоох, улмаар бассейны дотор тогтоогдсон структуруудын нүүрс-устөрөгч агуулах чадамжийг нь туршихад чиглэнэ. Бассейны доторхи тос үүсгэгч чулуу, резервуар чулуулгийн потенциалын талаар бүрэн мэдээлэл авах, мөн газрын тосны хуримтлал агуулах өндөр боломжтой структуруудын нүүрс-устөрөгчийн гарцын потенциалыг шалгахын тулд цооногуудыг давхарга зүйн бүх үе давхаргуудыг нэвтрэх боломжтой байрлалууд дээр өрөмдөнө. Цооногийн өрөмдлөгийн байрлалыг 2 хэмжээст чичирхийлэлийн хээрийн хэмжилтийн судалгааг хийж, үр дүнг нь геологи, геофизикийн өгөгдлүүдтэй нэгтгэн тайлал хийсний дараа эцэслэн тогтооно.

Баруун болон төв Монголын нутаг дэвсгэрт газрын тосны хайгуулын цооног өрөмдөж байгаагүй бөгөөд энэ бүс нутаг нь зөвхөн чичирхийллийн шугамуудаар маш хязгаарлагдмал хэмжээнд хучигдсан болохыг дурьдах нь зүйтэй. Иймээс бидний өрөмдөхөөр төлөвлөж байгаа цооног нь энэхүү бага судлагдсан бүс нутагт өрөмдөх анхны хайгуулын цооног болох юм. Цооногууд нь сав газрыг нээж, түүний нүүрс-устөрөгчийн талаар илүү их мэдээлэл олж авах боломжийг бидэнд олгох болно.

Монголын хахир хүйтэн өвлийн улирал буюу 12-оос 3-р сарын хооронд хээрийн ажлын хөтөлбөрийг хэрэгжүүлэх нөхцөл үндсэндээ бүрддэггүй юм. 2015 онд хайгуулын цооногуудын өрөмдлөгөөс бусад ажлын хөтөлбөрт багтсан бүх ажлуудыг хийж дуусгахаар төлөвлөж байна. Хэрвээ өвлийн хүйтний эрч эрт чангарвал чөмөг дээж авах цооногуудын нэгийг нь 2016 он хүртэл хойшлуулж магадгүй. Харин хайгуулын хоёр цооногийн өрөмдлөгийг 2016 оны хоёрдугаар улиралд эхлүүлнэ.

2015 оны ажлын хөтөлбөрт тусгагдсан хээрийн ажлуудыг гүйцэтгэх компаниудыг сонгон шалгаруулах тендерийн ажиллагаа 4-р сард эхэлсэн бөгөөд одоогоор бүрэн хэмжээст градиаметрийн судалгаа (FTG), чөмгөн дээжийн цооногийн өрөмдлөг, 2 хэмжээст чичирхийллийн хээрийн хэмжилтийн ажлын эрхийг олгох гэрээнүүдийг боловсруулж байна. 2016 оны хайгуулын цооногуудын тендерийн ажиллагаа болон цооногуудын хийцийг зохиох ажлууд удахгүй эхлэх гэж байна.
Бүтээгдэхүүн хуваах гэрээнд заасан хайгуулын ажлын эхний үе шат 2017 оны 7-р сард дуусах бөгөөд IV, V талбайд хийхээр төлөвлөж буй ажлын хөтөлбөр нь энэ үе шатанд манай компаний Бүтээгдэхүүний хуваах гэрээгээр хүлээсэн үүрэг хариуцлагыг бүрэн хангана. Энэ хугацаанд Петроматад компани нь операторoор үргэлжлүүлэн ажиллана. 2017 оны 7-р сард Бүтээгдэхүүн хуваах гэрээ сунгагдсаны дараа Би Жи Групп операторыг хариуцах эсэхээ сонгоно.

Петроматад компанийн зүгээс эрүүл мэнд, хөдөлмөр хамгааллын аюулгүй байдал, байгаль орчныг хамгаалах болон нийгмийн асуудалд ямагт хариуцлагатай хандаж ирсэн. Бид хайгуулын үйл ажиллагаа явагдаж байгаа бүс нутгийн ард иргэдийн амьдралд сөрөг нөлөө үзүүлэхгүй байх асуудалд ихээхэн анхаарал хандуулдаг. Манай компанийн орон нутгийн иргэдтэй хамтран ажиллаж ирсэн түүх бусдад үлгэр жишээ болдог бөгөөд бид цаашид ч гэсэн үүнийгээ улам бэхжүүлж өргөжүүлэх болно. Би Жи Групп нь энэ чиглэлээр дэлхийд тэргүүлэх шилдэг компани юм. Бид тэдний энэхүү арвин их мэдлэг, туршлагыг өөрсдийн үйл ажиллагаандаа нэвтрүүлж, хэрэгжүүлж буй стандартуудаа улам сайжруулах болно.

Монгол Улсын Их Хурлаас газрын тосны тухай шинэ хуулийг баталсан нь Монгол улсад газрын тосны хайгуул хийх хөрөнгө оруулалтын орчинг сайжруулах чухал алхам болсон юм. Ялангуяа шинэ хуулиар одоогийн бүтээгдэхүүн хуваах гэрээнүүдийн арилжааны гол гол нөхцлүүдийг тогтоосон. Хуулийг сайжруулсан эдгээр заалтуудын үр дүнд фармаутын гэрээг байгуулсан юм.

2015 онд XX талбайд багахан хэмжээний хайгуулын ажил төлөвлөгдсөн. XX талбайн Бүтээгдэхүүн хуваах гэрээнд Петро Матад компаний үйл ажиллагааны эрх, үүрэг 100% хэвээр үлдэнэ. Урьд жилүүдэд манай компаний тухайн талбайд зарцуулсан хөрөнгө оруулалтын хэмжээ Бүтээгдэхүүн хуваах гэрээнд үүргээр хүлээсэн хөрөнгө оруулалтын хэмжээнээс илүү байгаа юм. Өөрөөр хэлбэл бид Бүтээгдэхүүн хуваах гэрээгээр хүлээсэн үүргээ биелүүлсэн. Одоогоор XX талбайн ихэнх хэсэгт хайгуулын ажил хийгдээгүй эсвэл маш бага хийгдсэн хэвээр байна. Талбайн өмнөд хэсэгт хийсэн урьдын судалгааны үр дүнгээс харвал энэхүү талбайн газрын тос агуулах боломж маш өндөр юм. Манай компани цаашид XX талбайд хайгуулын туршлагатай компанийг татан оролцуулах фармаутын үйл ажиллагааг үргэлжлүүлэн явуулах болно.

Петро Матад компаний Төлөөлөн удирдах зөвлөлөөс 2014 онд хэрэгжүүлсэн бүтцийн өөрчлөлтөөр компаний нийт ажиллагсдын тоог цөөлж, фармаутын үйл ажиллагааг үргэлжлүүлэх, төрийн байгууллагуудтай харилцах, компанийн санхүүгийн болон захиргааны засаглалыг хэвийн явуулах үүднээс компаний цөмийг бүрдүүлсэн үндсэн ажиллагсдаас бүрдсэн цомхон багийг зохион байгуулсан юм. Одоогоор манай компани дээр төлөвлөж буй ажлын хөтөлбөрийг хөдөлмөрийн аюулгүй, идэвхтэй, үр дүнтэй хэрэгжүүлэхэд шаардлагатай чадварлаг, мэргэшсэн ажиллагсдыг шинээр авч ажиллуулах үйл явц явагдаж байна. Манай компаний мэргэжилтнүүд Би Жи группээс манайд түр хугацаагаар томилон ажиллуулж байгаа мэргэжилтнүүдтэй хамтарч хайгуулын ажлыг амжилтанд хүргэхэд, амжилтын магадлалыг нэмэгдүүлэхэд бүх анхаарлаа төвлөрүүлэх болно.

Эцэст нь тэмдэглэхэд, ТУЗ-ийн зүгээс өнгөрсөн жилүүдэд учирсан саад бэрхшээлүүдийг үл хайхран урам зориг, хичээл зүтгэл гарган ажилласан компаний нийт ажилчдадаа гүнээ талархаж буйгаа илэрхийлж байна. Түүнчлэн бид нийт хувьцаа эзэмшигчиддээ манай компанийг байнга дэмжиж байдагт нь талархаж байгаагаа илэрхийлэхийг хүсч байна.

ТУЗ-ийн гишүүд

HEALTH, SAFETY and ENVIRONMENT

Petro Matad has a proven-track record of HSE excellence. Although no substantial work programme was undertaken in 2014, Petro Matad continues to prepare for commencement of major activities in 2015, with HSE at the forefront of planning. The attention and dedication of management and staff to working safely and safeguarding the environment on an ongoing basis will continue to be a paramount objective.

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 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. Employees and contractors are encouraged to report any hazards or potential issues which ae then immediately addressed and corrected. Employees are empowered to bring field operations to a halt if they see any unsafe work practices.

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
- Maintain a comprehensive reporting system that tracks performance at a detailed level, which provides feedback for improvement on an ongoing basis.

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 or incidents

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 planned operations in 2015 will see a substantial number of man hours worked and HSE awareness and best practices will continually be reinforced.

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. During past operations Petro Matad 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 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, rather than direct cash handouts, aimed at reducing poverty, as well as improving education, health awareness and the protection of the environment.

Through its PSCs on Blocks IV and V, Petro Matad had offered scholarship programme for students studying Geology and Petroleum Engineering at the National University of Mongolia and the Mongolian Science and Technology University. We have awarded total of approximately USD 120,000 to 280 students over 4 years.

Every year we also provide USD150,000 under the PSCs on Blocks IV and V to the Government Scholarship Fund. The Government administers the funds received.

The Mongolian Government's PAM is the other Contracting party to our PSCs, and Petro Matad is committed to assisting the Government in providing professional training to PAM's officials and employees. 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 on our operations, 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.

Our focus area for 2015 will shift to Blocks IV and V in West/Central Mongolia where we plan to undertake a significant work programme encompassing air borne surveys, seismic acquisition and drilling. Meetings and visits to local communities across multiple provinces and dozens of local communities are planned in advance of the work programme activities commencing in the third quarter of 2015. Full engagement with local communities at an early stage fosters understanding and support from communities for our activities. In essence, local communities become willing stakeholders as any commercial success realised from our work programmes will have a positive impact on the communities in an environmentally sustainable manner.

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.

BOARD OF DIRECTORS AND COMPOSITION

The Board is currently comprised of 3 Non-Executive Directors (2 of whom are shareholder representatives), 1 Independent Non-Executive Director and 2 Executive Directors.

Due consideration is given to the composition of the Board to ensure:

- The principle of having an appropriate number of Independent Directors on the Board to oversee the interests of the Company and all shareholders. In this regard, there are plans to appoint another independent director to the Board in the future
- Ensuring that the Board has appropriate skills, experience and expertise
- Maintaining appropriate representation for the Company's major shareholder Petrovis Matad Inc. (Petrovis)
- Ensuring appropriate executive representation on the Board

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

- Oyungerel Janchiv, Acting Chairperson (Petrovis appointee)
- Enkhmaa Davaanyam, Non-executive Director (Petrovis appointee)
- Philip Vingoe, 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 4 to 9. Directors are re-elected at the Annual General Meetings on a rotational basis as per the Company's Articles of Associations.

Whilst the Independent Non-Executive Director has 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 his independence. In the opinion of the Board, this aligns his objectives with those of shareholders and the Board considers that the Independent Non-Executive Director can be classified as being independent.

Whilst the Chairperson of the Board may not qualify under the definitions of an Independent Chairperson, with her experience, skill sets, and independence, the Company is confident of her leadership in fostering an effective corporate governance regime.

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 Chairperson of the Board and the Executive Directors.

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

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

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

The Board and its Committees meet quarterly and as and when issues arise that requires the Board's attention. During 2014, all Board meetings were attended by the majority of Board members in office at the time. The Board also aims to meet and visit the Company's employees and operating sites periodically so as to adequately oversee and remain acquainted with the Company's operations.

Attendance at Board and Committee Meetings in 2014:

	Scheduled Board Meetings	Ad hoc Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	CGSAE Committee Meetings	Ad hoc Nomination Committee Meetings
Oyungerel Janchiv	1/1	3/6	-	1/1	-	-
Mary Ellen Collins	1/1	6/6	-	-	1/1	1/1
Enkhmaa Davaanyam	1/1	6/6	2/2	-	-	1/1
George Watkins	1/1	6/6	2/2	-	1/1	-
Philip Vingoe	1/1	6/6	2/2	1/1	-	1/1
David Skeels	1/1	6/6	-	1/1	1/1	1/1
Amarzul Tuul	1/1	6/6	-	-	1/1	-
John Henriksen	1/1	6/6	2/2	1/1	1/1	-
Ridvan Karpuz	-	6/6	-	-	-	-
Total No. of Meetings	1	6	2	1	1	1

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 contained until November 2014 two independent non-executive directors, in accordance with the QCA Guidelines, and meets regularly and at least three times a year. Management executives and other individuals are invited to attend all or part of the Committee meetings as and when appropriate.

Audit Committee

The members of the Audit Committee in 2014 and up to the date of this report are as follows:

Chair
Enkhmaa Davaanyam

Members
Philip Vingoe
George Watkins (resigned 24 November 2014)

The Audit Committee met 2 times in 2014 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 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.

Remuneration Committee

The members of the Remuneration Committee in 2014 and up to the date of this report are as follows:

Chair
Philip Arthur Vingoe

Members
Oyungerel Janchiv
David Skeels (not re-appointed 21 November 2014)

The Remuneration Committee met 1 time in 2014. 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 [].

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

The members of the CGSAE Committee in 2014 and up to the date of this report are as follows:

Chair
Mary Ellen Collins (not re-appointed 21 November 2014)

Members
George Watkins (resigned 24 November 2014)
David Skeels (not re-appointed 21 November 2014)

The CGSAE Committee met 1 time in 2014. 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 Board is intending to appoint new members to this Committee in due course.

Nomination Committee

The members of the Nomination Committee in 2014 and up to the date of this report are as follows:

Chair
David Skeels (not re-appointed 21 November 2014)

Members
Mary Ellen Collins (not re-appointed 21 November 2014)
Enkhmaa Davaanyam
Philip Vingoe

The Nomination Committee met informally 1 time in 2014. The Nomination Committee views the structure and composition of the Board and its committees as well as senior management. The Committee identifies and nominates possible candidates for the Board and makes recommendations in terms of succession planning, re-appointment and re-elections of Directors.

INTERNAL CONTROLS

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

RISK MANAGEMENT

The Board acknowledges that risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system. The principal risks facing the Group are set out below. This list is not exhaustive and investors should be aware that additional risks which were not known to the Directors at the 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

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 co-operated with the government in this respect and participated in the transparency report prepared by the Mongolian government.

Anti-Bribery and Corruption Policy ("ABCP")

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

Insurance

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

Share Dealing Code

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

SHAREHOLDER AND INVESTOR RELATIONS

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

REMUNERATION REPORT (UNAUDITED)

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

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

Philip Arthur Vingoe (Chairperson)
Oyungerel Janchiv

David Daniel Skeels was a member of the committee until 21 November 2014, at which point he was not re-appointed to the Board of Directors during the Company's Annual General Meeting on 21 November 2014. In due course the company expects to appoint another director to the committee to return to the optimum level of three.

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" or "Group's 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 2013 and 2014, are as below:

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

Directors

George Edward Watkins	Non-Executive Chairperson	Resigned 24 November 2014
Oyungerel Janchiv	Non-Executive Deputy Chairperson	Appointed Chairperson 27 November 2014
Mary Ellen Collins	Non-Executive Director	Not re-appointed 21 November 2014
Enkhmaa Davaanyam	Non-Executive Director	
David Daniel Skeels	Non-Executive Director	Not re-appointed 21 November 2014
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 2014 $'000	31 Dec 2013 $'000
Short-term employee benefits		646	1,348
Post-employment benefits		-	-
Share based payment expense		499	584
		1,145	1,932

	Consolidated	
Directors	31 Dec 2014 $'000	31 Dec 2013 $'000
Oyungerel Janchiv	12	55
Clyde Robert Evans	-	14
Mary Ellen Collins	12	55
Enkhmaa Davaanyam	12	55
David Daniel Skeels	12	55
Philip Arthur Vingoe	12	55
George Edward Watkins	22	94
Amarzul Tuul	183	183
John Rene Henriksen	369	378
Mehmed Ridvan Karpuz	12	404
Total	646	1,348

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 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

Balance at 31 December 2014 or if applicable at the date of resignation	Balance as at 01-Jan-14	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-14
Directors				
Oyungerel Janchiv	18,308,686	-	-	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	24,256,644	-	-	24,256,644

Resigned Directors' shareholdings are accurate up to their dates of resignation or none re-appointment in 2014.
Mary Ellen Collins (not re-appointed 21 November 2014)
David Daniel Skeels (not re-appointed 21 November 2014)
George Edward Watkins (resigned 24 November 2014)

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 2013	Balance as at 01-Jan-13	Granted as Remu-neration	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

For the year ended 31 December 2014	Balance as at 01-Jan-14	Granted as Remu-neration	Options Exercised	Options Lapsed	Balance as at 31-Dec-14	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	51,000	99,000
Philip Arthur Vingoe	150,000	-	-	-	150,000	51,000	99,000
George Edward Watkins	150,000	-	-	-	150,000	51,000	99,000
Amarzul Tuul	608,500	-	-	-	608,500	102,000	506,500
John Rene Henriksen	100,000	-	-	-	100,000	34,000	66,000
Mehmed Ridvan Karpuz	75,000	-	-	-	75,000	25,500	49,500
Total	1,983,500	-	-	-	1,983,500	314,500	1,669,000

(e) Conditional Share Awards holdings of Directors

For the year ended 31 December 2013	Balance as at 01-Jan-13	Granted as Remu-neration	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

For the year ended 31 December 2014	Balance as at 01-Jan-14	Granted as Remu-neration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-14	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	498,380	-	-	973,380	475,000	498,380
Mary Ellen Collins	125,000	-	-	-	125,000	125,000	-
Enkhmaa Davaanyam	150,000	498,380	-	-	648,380	150,000	498,380
David Daniel Skeels	150,000	498,380	-	-	648,380	150,000	498,380
Philip Arthur Vingoe	150,000	498,380	-	-	648,380	150,000	498,380
George Edward Watkins	150,000	830,634	-	-	980,634	150,000	830,634
Amarzul Tuul	503,000	58,834	-	-	561,834	503,000	58,834
John Rene Henriksen	626,060	294,168	-	-	920,228	363,030	557,198
Mehmed Ridvan Karpuz	408,661	498,380	-	-	907,041	150,000	757,041
Total	2,737,721	3,675,536	-	-	6,413,257	2,216,030	4,197,227

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Note	Consolidated 31 Dec 2014 $'000	Consolidated 31 Dec 2013 $'000
Continuing operations			
Revenue			
Interest income	4(a)	72	188
Other income	4(a)	5	67
		77	255
Expenditure			
Consultancy fees		(147)	(418)
Depreciation and amortisation		(131)	(203)
Employee benefits expense	4(b)	(1,941)	(3,514)
Exploration and evaluation expenditure	4(c)	(266)	(1,617)
Other expenses	4(d)	(1,532)	(2,001)
Loss from continuing operations before income tax		(3,940)	(7,498)
Income tax expense	5	-	-
Loss from continuing operations after income tax		(3,940)	(7,498)
Net loss for the year		(3,940)	(7,498)
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 (2013: $Nil)		(115)	(212)
Other comprehensive loss for the year, net of income tax		(115)	(212)
Total comprehensive loss for the year		(4,055)	(7,710)
Loss attributable to owners of the parent		(3,940)	(7,498)
Total comprehensive loss attributable to owners of the parent		(4,055)	(7,710)
Loss per share (cents per share)			
Basic and diluted loss per share	6	1.4	3.3

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 2014

	Note	Consolidated 31 Dec 2014 $'000	Consolidated 31 Dec 2013 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	895	3,308
Trade and other receivables	8	241	310
Prepayments and other assets	9	364	484
Total Current Assets		1,500	4,102
Non-Current Assets			
Exploration and evaluation assets	10	15,275	15,275
Property, plant and equipment	11	439	618
Total Non-Current Assets		15,714	15,893
TOTAL ASSETS		17,214	19,995
LIABILITIES			
Current Liabilities			
Trade and other payables	12	1,353	718
Total Current Liabilities		1,353	718
TOTAL LIABILITIES		1,353	718
NET ASSETS		15,861	19,277
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	105,278	105,097
Reserves	14	4,896	4,736
Accumulated losses		(94,313)	(90,556)
TOTAL EQUITY		15,861	19,277

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 2014

	Note	Consolidated 31 Dec 2014 $'000	31 Dec 2013 $'000
Cash flows from operating activities			
Payments to suppliers and employees		(2,363)	(6,329)
Interest received		72	188
Net cash flows used in operating activities	7	(2,291)	(6,141)
Cash flows from investing activities			
Purchase of property, plant and equipment		(20)	(32)
Proceeds from the sale of property, plant and equipment		15	13
Net cash flows used in investing activities		(5)	(19)
Cash flows from financing activities			
Proceeds from issue of shares	13	1	5,025
Net cash flows from financing activities		1	5,025
Net decrease in cash and cash equivalents		(2,295)	(1,135)
Cash and cash equivalents at beginning of the year		3,308	4,588
Net foreign exchange differences		(118)	(145)
Cash and cash equivalents at the end of the year	7	895	3,308

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 2014

	Note	Consolidated – Attributable to equity holders of the parent: Issued capital $'000	Accumulated Losses $'000	Other Reserves Note 14 $'000	Total $'000
As at 1 January 2013		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
Net loss for the year		-	(3,940)	-	(3,940)
Other comprehensive income		-	-	(115)	(115)
Total comprehensive loss for the year		-	(3,940)	(115)	(4,055)
Issue of share capital	13	1	-	-	1
Cost of capital raising	13	-	-	-	-
Share-based payments	13,14 & 15	180	183	275	638
As at 31 December 2014		105,278	(94,313)	4,896	15,861

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 ("Company") for the year ended 31 December 2014 was authorised for issue in accordance with a resolution of the Directors on 28 June 2015.

This financial report presents the consolidated results and financial position of Petro Matad Limited and its subsidiaries (together, the "Group"). The Group's principal activity in the course of the financial year consisted of oil exploration in Mongolia.

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 $3.940 million (2013: Loss of $7.498 million) and experienced net cash outflows from operating activities of $2.291 million (2013: $6.141 million) for the year ended 31 December 2014.

In addition and as outlined in Note 16(b) the consolidated entity is required to meet minimum exploration commitments in the next 12 months on its PSCs of approximately $7.515 million with further commitments thereafter as disclosed in Note 16(b).

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

The ability of the Company and the consolidated entity to continue as going concerns is principally dependent upon raising additional equity and/or further varying and/or deferring PSC commitment expenditures and/or securing farmout agreements to fund minimum exploration commitments.

In April 2015, the Company successfully entered into a farmout agreement with BG International Limited on Blocks IV and V, which gives access to additional funding necessary to meet the minimum expenditure requirements until the end of the first exploration term in July 2017 under the PSC contracts with the government. The necessary government approval in relation to this transaction has been obtained and all the conditions precedent have been satisfied and as such part funding to the extent of $2.75 million under the farmout arrangement has now been received.

In relation to Block XX, the consolidated entity will have to arrange for alternative sources of funding to fund the future exploration expenditure commitments of $21.8 million due by July 2017. The Company has engaged in discussions for possible farmout arrangements of its interest in this Block to potential investors, which would take on part or all of the amount of the exploration spend on this Block as part of the arrangement. In the absence of a farmout being concluded, the Company will engage with PAM 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 farmout process are known and the fact that the current term for Block XX expires in July 2017.

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 successful outcomes in relation to 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 Company and the consolidated entity be unable to achieve the matters referred to above, there is a material uncertainty whether the Company and the consolidated entity will be able to continue as going concerns and, therefore, whether they will realise their assets and discharge their 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 Company and the consolidated entity not continue as going concerns.

(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 2014.

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

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 ' Disclosures of Interests in Other Entities'
- IAS 27 ' Separate Financial Statements'
- IAS 27 ' Investments in Associates and Joint Ventures'
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- IFRIC 21 Levies

The impact of the adoption of the above standards and interpretations did not have a material impact for the group.

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 2014:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 9 'Financial Instruments'	1 January 2018	31 December 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	31 December 2017
Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture'	1 January 2016	31 December 2016
Amendments to IFRS 11- 'Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	31 December 2016
Amendments to IAS 27 'Equity Method in Separate Financial Statements'	1 January 2016	31 December 2016
IAS 36 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	31 December 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016	31 December 2016
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014	31 December 2015
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 recognised 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 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 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 conversion of dilutive 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 2014 $'000	31 Dec 2013 $'000
(a) Revenue			
Interest Income		72	188
Other income		5	-
Foreign exchange gains		-	67
		77	255
(b) Employee benefits expense			
Included in employee benefits expense are the following:			
Wages and salaries		610	909
Directors' fees (including Directors of affiliates)		104	416
Consultancy fees		589	1,115
Share-based payments		638	1,074
		1,941	3,514
(c) Exploration and evaluation expenditure			
Exploration and evaluation expenditure relates to the following PSCs:			
Block XX		30	222
Blocks IV and V		236	1,395
		266	1,617
(d) Other expenses			
Included in other expenses are the following:			
Administration costs		623	781
PSC administration costs		732	807
Audit fees		99	111
Travel expenses		78	302
		1,532	2,001

5 INCOME TAX

	Note	Consolidated 31 Dec 2014 $'000	31 Dec 2013 $'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 loss from continuing operations reconciles to the income tax expense/(benefit) in the financial statements as follows:

	Note	Consolidated 31 Dec 2014 $'000	31 Dec 2013 $'000
Net loss for the year		(3,940)	(7,498)
Income tax benefit calculated at 10%	(i)	394	750
Effect of different tax rates on entities in different jurisdictions	(ii)	(220)	(527)
Change in unrecognised deferred tax assets		(174)	(223)
		-	-

(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 loss and share data used in the total operations basic and diluted loss per share computations:

	Consolidated	
	31 Dec 2014 cents per share	31 Dec 2013 cents per share
Basic loss per share	1.4	3.3
Diluted loss per share	1.4	3.3
	$'000's	$'000's
The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:		
Net loss attributable to owners of the parent	3,940	7,498
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	279,377	227,541

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 2014 $'000	31 Dec 2013 $'000
Cash at bank and in hand		895	3,308
		895	3,308

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 $895,000 (2013: $3,308,000) 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 2014 $'000	31 Dec 2013 $'000
Net loss after tax		(3,940)	(7,498)
Adjustments for:			
Depreciation and amortisation		131	203
Net (profit)/loss on disposal of property, plant and equipment		6	9
Share based payments		638	1,074
Unrealised foreign exchange (gains)/ losses		50	23
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		69	112
(Increase)/decrease in prepayments and other assets		120	91
Increase/(decrease) in trade and other payables		635	(155)
Net cash flows used in operating activities		(2,291)	(6,141)

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 $0.180 million (2013: $1.179 million).

8 TRADE AND OTHER RECEIVABLES

		Consolidated	
	Note	31 Dec 2014 $'000	31 Dec 2013 $'000
Current			
Other debtors		241	310
		241	310

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

9 PREPAYMENTS AND OTHER ASSETS

		Consolidated	
	Note	31 Dec 2014 $'000	31 Dec 2013 $'000
Prepayments		55	70
Other assets		309	414
		364	484

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

10 EXPLORATION AND EVALUATION ASSETS

		Consolidated	
	Note	31 Dec 2014 $'000	31 Dec 2013 $'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

		Consolidated	
	Note	31 Dec 2014 $'000	31 Dec 2013 $'000
Plant and equipment at cost		936	1,071
Accumulated depreciation and impairment		(497)	(453)
		439	618

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

	Plant and equipment Total $'000
As at 1 January 2013 (net of accumulated depreciation)	901
Additions	32
Disposals	(22)
Depreciation charge for the year	(90)
	(203)
As at 31 December 2013 (net of accumulated depreciation)	618
Additions	20
Disposals	(21)
Foreign exchange	(47)
Depreciation charge for the year	(131)
As at 31 December 2014 (net of accumulated depreciation)	439

12 TRADE AND OTHER PAYABLES (CURRENT)

		Consolidated	
	Note	31 Dec 2014 $'000	31 Dec 2013 $'000
Trade payables		1,351	716
Other payables		2	2
		1,353	718

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

13 ISSUED CAPITAL

		Consolidated	
	Note	31 Dec 2014 $'000	31 Dec 2013 $'000
Ordinary Shares			
279,487,279 shares issued and fully paid (2013: 279,340,879)		105,278	105,097
		105,278	105,097

Movements in ordinary shares on issue:

	Number of Shares	Issue Price $	$'000
As at 1 January 2013	186,176,001		98,893
Exercise of Conditional Share Awards on 24 January 2013 (note (a))	500,000	0.010	5
Issue of shares to Petrovis on 22 July 2013 (note (b))	90,612,540	0.055	5,000
Exercise of Conditional Share Awards on 22 July 2013 (note (c))	671,550	0.010	6
Exercise of Conditional Share Awards on 27 November 2013 (note (d))	1,380,788	0.010	14
			5,025
Share based payment	-	-	1,179
As at 31 December 2013	279,340,879		105,097
Exercise of Conditional Share Awards on 3 October 2014 (note (e))	146,400	0.010	1
			1
Share based payment	-	-	180
As at 31 December 2014	279,487,279		105,278

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) On 3 October 2014, pursuant to the Group's Plan, 146,400 shares were awarded to former employees 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 2013	831	5,841	(684)	5,988
Currency translation differences	-	-	(212)	(212)
Share based payments	-	(1,040)	-	(1,040)
As at 31 December 2013	831	5,841	(684)	5,988
	831	4,801	(896)	4,736
Currency translation differences	-	-	(115)	(115)
Share based payments	-	275	-	275
As at 31 December 2014	831	5,076	(1,011)	4,896

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 ("Plan" or "Group's Plan")

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

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

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

Conditional Share Awards based on performance conditions 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 2016;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2017; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2019.

Other Conditional Share Awards 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 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 following Table summarizes Options granted during 2013, along with relevant details in relation to grant. No options have been issued during 2014.

	9 Jul 13
Options Granted	112,000
Share price at grant date	$0.0633
Expected Volatility (%)	85
Risk-free interest rates (%)	0.50
Expected life (years)	
Tranche 1	5.50
Tranche 2	6.00
Tranche 3	6.50
Exercise Price (in GBP)	0.0425
Estimate fair value of Option	
Tranche 1	$0.0434
Tranche 2	$0.0447
Tranche 3	$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

(c) Movement in share Options

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

Consolidated	Opening balance at 1 Jan 2014	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2014	Exercisable as at 31 Dec 2014
Grant of Options on 24 April 2008	-	-	-	-	-	-
Grant of Options on 3 June 2008	399,500	-	(19,500)	-	380,000	380,000
Grant of Options on 8 April 2009	268,750	-	(52,500)	-	216,250	216,250
Grant of Options on 9 July 2010	899,500	-	(154,100)	-	745,400	745,400
Grant of Options on 6 April 2011	75,000	-	-	-	75,000	75,000
Grant of Options on 5 July 2011	150,000	-	-	-	150,000	150,000
Grant of Options on 22 Nov 2011	120,000	-	-	-	120,000	120,000
Grant of Options on 5 Dec 2011	79,914	-	(36,486)	-	43,428	43,428
Grant of Options on 25 Apr 2012	928,300	-	(66,360)	-	861,940	570,900
Grant of Options on 16 Jul 2012	516,860	-	(306,020)	-	210,840	200,640
Grant of Options on 5 Oct 2012	98,300	-	(23,300)	-	75,000	49,500
Grant of Options on 4 Dec 2012	6,000	-	-	-	6,000	3,960
Grant of options on 9 July 2013	112,000	-	(12,000)	-	100,000	33,000
	3,654,124	-	(670,266)	-	2,983,858	2,588,078
Weighted Average Exercise Price (cents per option)	53.96	-	31.68	-	58.96	63.54

(d) Share Options Contractual Life

The weighted average remaining contractual life of outstanding share Options is 6.3 years (2013: 6.9 years).

(e) Conditional Share Awards pricing model

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 Awards were granted.

The following Table summarizes Conditional Share Awards granted during 2013 and 2014, along with relevant details in relation to each grant.

	(1) 9 Jul 13	(2) 23 Apr 14
Conditional Share Awards granted	176,000	5,229,255
Share price at grant date	$0.0633	$0.0923
Expected Volatility (%)	51	10
Risk-free interest rates (%)	0.50	0.50
Expected life (years)	5	10
Exercise Price	$0.01	$0.01
Estimated fair value of each Conditional Share Award at the grant date	$0.0541	$0.0827

Items (1): Conditional Share Awards will vest on achievement of the following performance conditions: (Note: these dates are based on a farmout being successfully concluded in near future, otherwise they will need to be revised)

- 25% vest on the first discovery of oil on a commercial scale, estimated by management as being by 30 September 2016;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 June 2017; and
- 50% vest on the company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 June 2019.

Items (2): Conditional Share Awards vested on 1 October 2014.

(f) Movement in Conditional Share Awards

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	-

Consolidated	Opening balance at 1 Jan 2014	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 Dec 2014	Exercisable as at 31 Dec 2014
Grant of Conditional Share Awards on 3 Jun 2008	535,000	-	-	(20,000)	515,000	-
Grant of Conditional Share Awards on 8 Apr 2009	145,000	-	-	(50,000)	95,000	-
Grant of Conditional Share Awards on 9 Jul 2010	1,061,000	-	(87,000)	(102,000)	872,000	-
Grant of Conditional Share Awards on 12 Nov 2010	-	-	-	-	-	-
Grant of Conditional Share Awards on 6 Apr 2011	325,000	-	(24,000)	(157,000)	144,000	-
Grant of Conditional Share Awards on 5 Jul 2011	230,000	-	(12,000)	(38,000)	180,000	-
Grant of Conditional Share Awards on 22 Nov 2011	50,000	-	-	-	50,000	-
Grant of Conditional Share Awards on 5 Dec 2011	78,000	-	(3,400)	(35,000)	39,600	-
Grant of Conditional Share Awards on 25 Apr 2012	1,440,060	-	(20,000)	(41,000)	1,379,060	263,030
Grant of Conditional Share Awards on 16 Jul 2012	-	-	-	-	-	-
Grant of Conditional Share Awards on 5 Oct 2012	165,000	-	-	(15,000)	150,000	-
Grant of Conditional Share Awards on 4 Dec 2012	261,661	-	-	-	261,661	258,661
Grant of Conditional Share Awards on 9 Jul 2013	176,000	-	-	(6,000)	170,000	-
Grant of Conditional Share Awards on 23 Apr 2014	-	5,229,255	-	-	5,229,255	5,229,255
	4,466,721	5,229,255	(146,400)	(464,000)	9,085,576	5,750,946
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 awards is 13.5 years (2013: 14.5 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 lease in Mongolia in the amounts of $27,000 as at 31 December 2014.

	Note	Consolidated 31 Dec 2014 $'000	Consolidated 31 Dec 2013 $'000
Operating Leases:			
Within one year		27	122
After one year but not more than five years		-	-
Greater than five years		-	-
		27	122

(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 2014 $'000	Consolidated 31 Dec 2013 $'000
Production Sharing Contract Fees:			
Within one year		1,677	779
After one year but not more than five years		835	336
Greater than five years		-	-
		2,512	1,115
Minimum Exploration Work Obligations:			
Within one year		7,515	22,758
Greater than one year but no more than two years		18,815	-
Greater than two years but no more than three years		18,056	11,300
Greater than three years but no more than four years		-	10,299
Greater than five years		-	-
		44,386	44,357

Prior year expenditure over and above minimum exploration work obligations may be used to reduce the following year's obligation.

Due to the prior focus on Block XX, cumulative expenditures for Blocks IV and V are currently below the minimum PSC commitment at the end of 31 December 2014 by $22.5 million. Under the new petroleum law, the initial exploration term has been extended from five to eight years, without any additional expenditure commitments required to be made; the Company therefore has the years 2015 - 2017 to fulfil the shortfall at the end of 2014. Accordingly, the deficit at end of 31 December 2014 has been allocated over the final three years (2015-2017) of the initial exploration period for the Blocks IV and V PSCs. Further, the relevant authorities have agreed to defer the fulfilling of PSC fee payments until July 2015.

The successful completion of the farmout of a portion of the Company's Blocks IV and V interests will result in sufficient expenditures in those blocks to fully satisfy all outstanding commitments over the remaining initial exploration term of the PSCs, which runs until July 2017. The majority of the expenditure in the Blocks will occur in 2015 and 2016.

In relation to Block XX, expenditure in prior years has significantly exceeded minimum PSC commitments and the Company has the option to reduce its spending in Block XX until June 2015. Beyond June 2015, the company will have to arrange for alternative sources of funding (ie capital raising and/or and farm-out arrangements) to fund the future exploration expenditure commitments of $21.8 million due by July 2017.

In event that the Company is unable to complete a successful farm-out or agree a moratorium with the relevant authorities for Blocks, the Company would have an obligation to pay 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	
		2014	2013
	Country of Incorporation	%	%
Central Asian Petroleum Corporation Limited ("Capcorp")	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.

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

Petro Matad LLC is 100% owned by Petromatad Invest Limited. Petromatad Invest Limited holds 15,000 ordinary shares 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 2014 $'000	31 Dec 2013 $'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 2013 and 2014, are as below:

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

Directors

George Edward Watkins	Non-Executive Chairperson	Resigned 24 November 2014
Oyungerel Janchiv	Non-Executive Deputy Chairperson	Appointed Chairperson 27 November 2014
Mary Ellen Collins	Non-Executive Director	Not re-appointed 21 November 2014
Enkhmaa Davaanyam	Non-Executive Director	
David Daniel Skeels	Non-Executive Director	Not re-appointed 21 November 2014
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	
		31 Dec 2014	31 Dec 2013
	Note	$'000	$'000
Short-term employee benefits		646	1,348
Post-employment benefits		-	-
Share based payment expense		499	584
		1,145	1,932

(c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2013: 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 2014 $'000	31 Dec 2013 $'000
Financial Assets			
Cash and cash equivalents	3.74%	895	3,308
		895	3,308
Financial Liabilities			
Trade and other payables	0%	1,353	718
		1,353	718
Net exposure		(458)	2,590

Sensitivity Analysis

If the interest rate on cash balances at 31 December 2013 and 2014 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	2014	2013	2014	2013
Mongolian Tugrug ("MNT") 1	1,817.27	1,523.27	1,888.44	1,659.34
Australian Dollar ("AUD") 1	1.10970	1.03730	1.22600	1.12690
Great British Pound ("GBP") 1	0.60730	0.64020	0.64380	0.60650

Sensitivity Analysis

A 5% strengthening/weakening of the MNT against USD at 31 December 2013 and 2014 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 2014 $'000	31 Dec 2013 $'000
Financial Assets			
Trade and other receivables	8	241	310
Net exposure		241	310

Impairment Losses
None of the Group's receivables are past due at 31 December 2014 (2013: 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 2014 $'000	31 Dec 2013 $'000
6 months or less		1,318	718
6-12 months		35	-
1-5 years		-	-
over 5 years		-	-
		1,353	718

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 2014			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Trade and other receivables	-	241	-	241
Total	-	241	-	241
Financial Liabilities				
Trade and other payables	-	1,353	-	1,353
Total	-	1,353	-	1,353

	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

On 7 April 2015, the Company announced the successful completion of a farmout agreement with BG International Limited and BG Mongolia Holdings Limited ("BG Group"). Under the terms of the farmout the BG Group will acquire 78% of Blocks IV and V in exchange for agreeing to fund Petro Matad's share of a mutually agreed US$28 million work programme which will fulfil the minimum work obligations for both Blocks within the current licence period to July 2017. To accelerate the exploration evaluation process the majority of the work will be undertaken in 2015 and 2016. Petro Matad will also receive additional cash consideration of US$4.55 million to fund ongoing operations and obligations.

On 23 April 2015, pursuant to the Group's Plan, 5,750,946 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of $0.01. Of the 5,750,946 Conditional Share Awards shares issued, 5,229,255 of the Conditional Share Awards shares relate to the Conditional Share Awards programme. The other 521,691 Conditional Share Awards shares are pursuant to the Group's Plan.

On 22 June 2015 all conditions to the farmout were satisfied and unconditional status was therefore received. On the same date $2,750,000 cash consideration was received from BG Group. The remaining cash consideration of $1.8 million under the terms of the farmout agreement will be received over the next thirty months - $300,000 of which will be received shortly, with the balance being received in increments of $50,000 per month.

DIRECTORS' DECLARATION

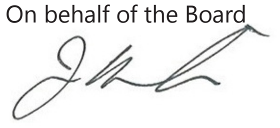
In accordance with a resolution of the Directors of Petro Matad Limited, I state that:

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 2014 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
29 June 2014

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

We have audited the accompanying annual financial report of Petro Matad Limited which comprises the consolidated statement of financial position as at 31 December 2014, 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.

This report is made solely to the company's members, as a body, in accordance with Section 80C of the Isle of Man Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Report

The Directors are responsible for the preparation of the financial report that gives a true and fair view 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 gives a true and fair view of the consolidated entity's financial position as at 31 December 2014 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 Isle of Man 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 \$3.940 million (2013: Loss of \$7.498 million) and experienced net cash outflows from operating activities of \$2.291 million (2013: \$6.141 million) for the year ended 31 December 2014. 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 ability of the company and the consolidated entity to continue as going concerns and therefore, whether they will realise their assets and extinguish their liabilities in the ordinary course of business.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Neil Smith
Partner
Chartered Accountants
Perth 29 June 2015

Isle of Man:
Victory House
Prospect Hill, Douglas
Isle of Man IM1 1EQ
Tel: +44 (0)1624 627099
Fax: +44 (0)1624 677225

Hong Kong:
3905 Two Exchange Square
Suite 7703, 8 Connaught Place Central
Tel: +852 3189 2564
Fax: +852 2521 1190

Mongolia:
NIC Building, Suite 407
8 Prime Minister Amar St
Ulaanbaatar 210646
Tel: +976 11 331099
Fax: +976 11 321799

E-mail: admin@petromatad.com
Web: www.petromatad.com

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