



Petro Matad Limited

ANNUAL REPORT

for the year ended 31 December 2016

The cover features a white background with large, diagonal geometric shapes in gold, dark blue, and light grey. A gold band on the left side contains a pattern of white dots that increases in density towards the top right.

2016
ANNUAL REPORT

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BOARD OF DIRECTORS

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Enkhmaa Davaanyam

Chairperson

Ms. Enkhmaa is the CEO of Petrovis Group, Mongolia's largest fuel supplier. Ms. Enkhmaa has over 19 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 Managing Director at Macquarie Group for over 10 years, responsible for risk management in the energy sector in the United States.



Ridvan Karpuz

Chief Executive Officer (CEO)

Mr. Karpuz has over 25 years' experience in petroleum industry with proven oil finder skills. He joined Petro Matad as the CEO in October 2015. Previously, Mr. Karpuz was the Exploration and Operations Director for Petro Matad in 2012 and 2013. After his departure from his executive role in 2014, Mr. Karpuz stayed on the Board as a Non-Executive Director while he worked as the Exploration and Reservoir Manager for DNO International in Tunisia. Earlier, Mr. Karpuz worked for Austrian listed integrated oil and gas company, OMV, where he spent 5 years as an Exploration and Reservoir Manager working in Iran, Yemen and 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.



Dr. Oyungerel Janchiv

Non-Executive Director

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.



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.



Timothy Bushell

Non-Executive Director

Mr. Bushell is a qualified geologist with more than 30 years' experience in the oil and gas industry. He has worked at British Gas, Ultramar, LASMO, and Paladin Resources. Most recently Mr. Bushell was Chief Executive Officer at Falkland Oil and Gas Limited and Director/co-founder of Core Energy AS. He is currently serving as a Non-Executive Director on the Board of Rockhopper Exploration PLC and as a Director with Point Resources AS and Redrock Energy Limited.



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, MRPAM, 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 2016.

Petro Matad Limited (Company) a company incorporated in the Isle of Man on 30 August 2007 has four 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). The Company and its subsidiaries are collectively referred to as the "Group". Petro Matad Service Limited, a subsidiary of the Company was dissolved on 1 January 2016, as the company was dormant due to no longer being operationally required.

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
- Enkhmaa Davaanyam
- Philip Arthur Vingoe (Retired 10 March 2017)
- Amartzul Tuul
- John Rene Henriksen
- Mehmed Ridvan Karpuz
- Timothy Paul Bushell (Appointed 10 March 2017)

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 profit after tax for the Group for the 12 months ended 31 December 2016 was \$10.90 million (31 December 2015: Loss \$0.19 million).

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

Changes in State of Affairs

On 1 January 2016, Petro Matad Service Limited was dissolved, as the company was dormant due to no longer being operationally required.

On 20 April 2016, MRPAM granted a one-year moratorium, effective 1 January 2016, for Block XX. The moratorium enabled the Company to defer expenditures towards the minimum PSC obligation by one year. The PSC term is consequently extended by one year to July 2018.

On 28 April 2016, the Company received an Exit Notification from Shell's Affiliate that advised they were triggering their option under the farm-out agreement to exit Blocks IV and V PSCs, with immediate effect. Following Mongolian Government approval after the period end, the Company's working interest in both PSCs have reverted to 100%.

Significant Events after Reporting Date

On 1 Feb 2017, following the withdrawal of Shell's Affiliate from Mongolia, \$5 million was received from the Affiliate, which was in relation to an agreement that such amount would be paid upon receipt of Mongolian government approval for the reassignment of Blocks IV and V interests back to the Company which was received on 15 December 2016, with the Protocol of Assignments signed on 18 January 2017.

On 24 March 2017, 197,500 shares were issued to Directors and employees upon exercise of options under the Group's Long Term Equity Incentive Plan (Plan), with an exercise price per share of GBP0.11.

On 24 March 2017, 75,000 shares were awarded to a Director upon exercise of options under the Group's Plan, with an exercise price per share of GBP0.0788.

On 24 March 2017, 16,000 shares were awarded to a Director and employees upon exercise of options under the Group's Plan, with an exercise price per share of GBP0.1975.

On 24 March 2017, 141,000 shares were awarded to employees upon exercise of options under the Group's Plan, with an exercise price per share of GBP0.0888.

On 8 May 2017, the Company announced a Private Placement/Convertible Note arrangement with Bergen Asset Management, LLC (Bergen), which provides staged private placements of up to \$43.20 million worth of new ordinary shares in the Company and a convertible instrument with a nominal value of \$2 million. The staged private placements will occur over a period not exceeding 15 months and the value of each tranche will range between \$1.2 million - \$3 million per month, the precise amounts being subject to mutual agreement.

On 11 May 2017, the Company issued 5,651,951 commencement and collateral shares to Bergen as part of the initial closing under the Private Placement arrangement.

On 16 May 2017, the Company received \$1,235,000 from Bergen as the first tranche and collateral shares payment.

On 13 June 2017, the Company issued 9,507,963 new ordinary shares to Bergen in relation to the first tranche payment.

On 14 June 2017, the Company received PSCs extension approvals from MRPAM for Blocks IV and V. These extensions are for two years to 29 July 2019. A further extension of two years is allowed under the PSCs. The agreed financial commitments for obtaining the extensions are \$5 million for Block IV and \$2 million for Block V.

On 21 June 2017, the Company received \$1,200,000 from Bergen for the second tranche payment.

Dividends

No dividends have been paid or are proposed in respect of the year 2016 (2015: Nil).

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

Bentleys (WA) Pty Ltd, 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 2017

DIRECTORS' STATEMENT

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Petro Matad has an extensive onshore licence position (60,500 km²) in three petroleum blocks. Blocks IV and V are in a regionally proven play, with virgin undrilled frontier acreage in West Central Mongolia. The 2016 financial year was a busy and exciting one for the Company, as it brought Petro Matad to a stage of being ready to drill wildcat exploration wells in Blocks IV and V in 2017.

Our 2016 work programme focused on high grading basins and maturing prospects to drillable targets, and building a diversified drilling prospect portfolio in Blocks IV and V. Our objective is to generate significant shareholder value through our upcoming drilling programme. Our exploration strategy is focused on “play-based” exploration by systematically de-risking and high-grading prospective basins with geological and geophysical studies by introducing state of the art exploration techniques. In addition to our wildcat exploration drilling campaign, the Company intends to acquire 300 km² of 3D seismic in the Tugrug Basin in Block V, where the TSC-1 core hole has already proved a working petroleum system by recovering live oil, to de-risk prospects and to generate drillable targets. This will be the first time 3D seismic will have been acquired in this region and the results are expected to generate additional prospects with higher chances of success for our upcoming drilling campaign in 2018.

As this area of Mongolia has never seen exploration drilling for hydrocarbons, the wells will not only be play and basin openers for our blocks, but also for an entire geographic area of the country.

The exit of Shell's Affiliate from Blocks IV and V (which followed Shell's acquisition of BG Group) did not alter Petro Matad's work programme plans as the exit payments made by Shell funded all planned activities during the year.

Farmout Process

In November 2016, the Company embarked on a farmout campaign. The Company is of the view that sharing the risk of frontier exploration is a prudent approach for conserving existing funds and accessing additional funds, which will also allow for a more comprehensive exploration effort to fully explore the Company's vast frontier acreage. Significant interest has been shown by potential partners in the farmout campaign. The farmout process continues and, at the time writing, a number of companies remain engaged in discussions that could result in an agreement. Almost universally, parties that have visited Petro Matad's virtual and physical data rooms have expressed very positive views on the technical aspects and prospectivity of our blocks. However, new country entry is always a substantial hurdle for any potential farmout partner and that is a principal factor resulting in their internal review processes to take significantly longer than for opportunities where they already have a presence in the country.

Financing Flexibility

To ensure that Petro Matad is well financed in the event a farmout is not concluded on a timely basis, the Company investigated several financing opportunities and, on 8 May 2017, entered into an agreement with Bergen Asset Management, LLC (Bergen) which, in the Board's view, offered the most attractive package. The agreement provides staged private placements of up to \$43.20 million worth of new ordinary shares in the Company and a \$2 million convertible instrument. The staged private placements will occur approximately monthly, over a period of up to 15 months, with the value of each tranche ranging between \$1.2 million - \$3 million per month, the precise amounts being subject to mutual agreement. The funding provided by the agreement with Bergen provides the Company with the financial flexibility to enable it to carry out its 2017 and 2018 work programmes. It is important to note that the Bergen facility may be cancelled at any time by the Company and, if appropriate under the circumstances, this would be an option that the Company would consider if or when a farmout is concluded.

The funds from each tranche are received prior to the issuance of the new shares for each tranche.

On 15 June 2017, the Company announced that the Mineral Resources and Petroleum Authority of Mongolia (MRPAM) had formally approved an extension of the exploration period for the Blocks IV and V Production Sharing Contracts (PSCs), for 2 years each, until 29 July 2019. A further two-year extension is provided for in the PSCs, which the Company will be eligible to apply for in early 2019. With funding secured and the commencement of the drilling programme in the near term, the Company is poised to enter a new and exciting chapter in its history, especially given the exploration potential of our blocks. The following points from the PETEX conference presentation made by Petro Matad in November 2016, reinforces this point.

- With the incorporation of the results of the data acquired during the 2015-2016 exploration work program (including the acquisition of 1660 km of 2D seismic and 11,000 km² of Full Tensor Gradiometer & High Resolution Aeromagnetic data), the Company has significantly upgraded its prospective basin portfolio. The current data coverage in the Company's acreage has revealed 12 prospective basins and this is likely to increase as further work programme activities, including seismic acquisition, are undertaken in the future. Therefore, excellent potential for discovering material hydrocarbon volumes exists within the Company's acreage.
- Regional petroleum basin modelling and play evaluation work has addressed 6 key basins where the data coverage is currently more complete; these are: Biger, Shal, Baatsagaan, and Baidrag in Block IV; and Taats and Tugrug in Block V. The other basins (which only have sparse data coverage) that make up the remainder of the 12 prospective basins are: Delger, Bayantsagaan, Khangai, Orog, Khovor and Guchin-Uus.
- The Company's in-house estimates of undiscovered petroleum resources initially in place, as determined by its exploration team and consultants

following the interpretation acquired datasets in Blocks IV and V, show potentially generated hydrocarbons using the play and basin analysis method on the 6 high-graded key basins of circa 90 billion barrels of oil in the Upper Jurassic-Lower Cretaceous play, which is the proven and producing petroleum system in Mongolia. The volume of potentially trapped oil ranges from 9 to 23 billion barrels of Stock Oil Initially in Place (STOIP), assuming trapping efficiencies of 10% to 25%. Further upside potential exists in the deeper Permian-Jurassic play, which is analogous to the prolific systems in the western Chinese basins. The remaining six other sub-basins and other areas with limited data coverage will be the focus of future new seismic acquisition to determine their prospectivity potential.

- The Company's play and basin focused exploration strategy has enabled the Company to build a portfolio which contains a wide range of exploration opportunities. This diversified basin portfolio approach has provided the framework for a spectrum of leads and prospects with different risk and reward factors, to be developed. The result is that the Company has an extensive drill-ready high impact prospect portfolio for the upcoming 2017 drilling campaign and beyond.

2016 and 2017 Work Programme Summary

The 2D seismic acquisition programme that commenced in 2015 and was completed in 2016 was designed to: 1) improve basin-scale definition over the greater Baatsagaan trend of central Block IV, and 2) elevate data coverage to prospect-scale for drill target definition over two priority areas - the Taats Basin of Block V and the high-graded Baidrag Graben of Block IV.

The first phase of the seismic programme in Block IV was completed in December 2015, with 1085 kms of high quality data being acquired. The results were encouraging and led to the discovery of the attractive Baidrag Graben trend, which was the focus area of the 2016 seismic infill programme in Block IV, which after a winter break was acquired in

May 2016. Operations then moved to Block V with seismic acquisition commenced in June 2016 where 256 km of seismic were acquired for targeting and developing leads as well as to pinpoint possible well locations in the Taats Basin.

Since completing the seismic acquisition programme in August 2016, the Company has been primarily focused on interpreting data to develop a leads and prospects portfolio, several which are now drill-ready.

The Company completed its tender processes for a drilling rig and related services and on 31 May 2017, awarded a Letter of Intent (LOI) to Sinopec Mongolia LLC (Sinopec). The formal signing of the drilling contract is expected in the very near future. Sinopec has initiated preparation processes for commencement of rig mobilization.

The key work programme activity that is planned over the remainder of 2017 is to drill two wildcat exploration wells and to acquire approximately 300 square km. of 3D seismic over the Tugrug Basin in Block V. Details on the specific drilling targets will be provided by announcements to the market prior to spudding the wells. The 3D Seismic programme is designed to acquire data over the Tugrug Basin, which is in a remote area 600 km southwest of Ulaanbaatar, in Block V. The main objectives of the 3D survey are to de-risk/high-grade drillable prospects and understand further upside and play potential in the basin. The currently identified leads and prospects in the basin were defined on 2D seismic acquired in 2010, 2011, and 2013.

It should be noted that the Tugrug basin is structurally complex and the 2D interpretation leaves a high level of uncertainty regarding fault linkage and trap definition, which the 3D survey is expected to resolve and further identify the stratigraphic traps which are now proven to be most prolific producing trap styles in similar lacustrine basins. The target formations are in the late Jurassic-early Cretaceous fluvial-lacustrine Mega-Sequence. Drilling of the most optimal prospect is planned in 2018.

In relation to Block XX, in April 2016 the MRPAM

provided a one-year moratorium covering the calendar year 2016, which froze the obligations that would have normally been incurred, while at the same time extending the current license period to July 2018. The moratorium has enabled the Company to focus on the Blocks IV and V work programmes in 2016, while providing additional time to seek interested partners in exploring the highly prospective Block XX acreage.

Governance

During the period, the Company also strengthened the Board with the addition of Timothy Bushell as a Non-Executive Director. Mr. Bushell is a highly experienced public company director in the UK as well as a trained Geo-scientist. Tim's exploration background and capital markets experience will reinforce the Board's commercial and technical expertise as the Company enters an important period in its development.

HSSE

As part of the Board's ongoing process of continual improvement the Company's Health, Safety, Security and Environmental Management System (HSSE MS) is now fully structured according to International Association of Oil and Gas Producers (IOGP) guidelines.

All incidents are investigated, recorded and classified according to IOGP guidelines and learnings are shared through the management review process.

The Company is deeply focused on environmental protection. This was evident during the seismic acquisition programmes in 2015 and 2016. To ensure both legal compliance when working near protected areas and to minimise all adverse environmental impacts, detailed environmental and cultural sensitivity field studies by specialist consultants were also commissioned. No environmental complaints were received during any of the Company's field activities.

Community Relations

The Company takes its responsibilities in community engagement and relations very seriously. In advance of any work programme activity being undertaken,

the Company obtains approval from MRPAM and then invites them to join Company representatives on trips to local communities to present the planned activities. In addition to meeting local government officials, community relations efforts will also normally include town hall meetings where questions by local residents are answered. Company representatives will also meet with herders who may be in proximity to planned operations.

In all the various work programmes the Company has undertaken over the years, community support has always been provided and no disruption to work or serious community issues have arisen. This is a record the Company is proud of and works hard to consistently achieve.

Outlook - a busy period moving the business towards exploration drilling.

2017 has already started well with the de-risking of the balance sheet through the equity financing agreement with Bergen, as well as the agreement with Sinopec for a drilling rig. Looking ahead we are anticipating finalising the drilling contract and mobilising the rig out to location on Block V in Q3 2017 and spudding the well in September 2017. Following this first well, we then expect to move directly to drill the second well. Both the wells are fully funded from existing resources and we will be announcing details of the drill targets ahead of the commencement of the campaign.

We look forward to updating shareholders regularly as to our progress with our drilling campaign and other corporate developments.

Conclusion

The Board would like to express their appreciation to our staff, both technical and non-technical, who have worked with enthusiasm and diligence throughout the year. 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/

Петро Матад нь эх газар байрлалтай өргөн уудам талбайг хамарсан 3 талбайд (60491 км²) газрын тосны хайгуулын тусгай зөвшөөрлийг эзэмшдэг. Бүс нутгийн хэмжээнд батлагдсан плэйтэй, гэхдээ хайгуулын цооног өрөмдөж байгаагүй фронтир (судалгааны өгөгдөл багатай) Богд-IV, Онги-V талбай нь Монгол орны төв хэсгийн баруун өмнөд болон өмнөд хэсэгт оршино. 2016 оны санхүүгийн жил манай компанийн хувьд ажил ихтэй, олон үйл явдал өрнөсөн жил болж өнгөрлөө. Учир нь Петро Матад 2017 онд IV, V талбай дээр хайгуулын тулгуур цооногуудыг өрөмдөхөөр бэлтгэлээ базаагаад байна.

Бидний 2016 оны хөтөлбөрт тусгагдсан ажлууд нь бассейнуудын зэрэглэлийг ахиулах, проспектуудыг нарийвчлан судалж өрөмдөхөд бэлэн болгох, ингэснээр IV, V талбайд өрөмдөхөд бэлэн олон төрлийн проспектуудыг агуулсан портфелийг бий болгоход төвлөрсөн. Бидний зорилго бол одоогийн төлөвлөж байгаа өрөмдлөгийн ажлын хөтөлбөрөөр дамжуулан тус компанийн хувьцаа эзэмшигчдэд тодорхой үнэ цэнийг авчрах явдал юм. Бидний хайгуулын стратеги нь хайгуулын хамгийн орчин үеийн дэвшилтэт аргуудыг ашигласан геологи, геофизикийн судалгаагаар эрсдэлүүдийг системтэйгээр бууруулж, газрын тосны хэтийн төлөвтэй бассейнуудын зэрэглэлийг ахиулах "плэйд суурилсан" хайгуул юм. Хайгуулын тулгуур цооногийг өрөмдөхийн зэрэгцээ бид V талбайн Төгрөгийн бассейнд 300 км² талбайг хамарсан 3 хэмжээст чичирхийллийн судалгаа хийхээр төлөвлөж байна. Төгрөгийн бассейнд урьд нь өрөмдсөн стратиграфийн TSC-1 дээжний цооноогоос авсан чөмөг дээжинд тосны толбо (амьд тос) тогтоогдсон явдал бол түүний доторх петролеумын систем ажилладаг болохыг баталж байгаа юм. Иймд 3 хэмжээст чичирхийллийн судалгааны гол зорилго нь проспектуудын тос агуулаагүй байх эрсдэлүүдийг бууруулах, түүнчлэн өрөмдөх цэгүүдийг нарийвчлан тогтооход оршино. Энэхүү судалгаа нь энэ бүс нутгийн хэмжээнд хийгдэж байгаа хамгийн анхны 3 хэмжээст чичирхийллийн судалгаа болох бөгөөд бид

энэ ажлын үр дүнгээр тухайн бассейнд шинээр олон тооны проспектуудыг илрүүлнэ хэмээн найдаж байна. Түүнчлэн 2018 онд Төгрөгийн бассейнд гүйцэтгэхээр төлөвлөж байгаа өрөмдлөгийн ажлын тос илрүүлэх амжилтын боломж нь өндөр байх болно гэдэгт бид эргэлзэхгүй байна.

Монгол улсын энэ хэсэгт нүүрсустөрөгчийн хайгуулын цооногийг өрөмдөж байгаагүй учир эдгээр цооногууд нь манай хайгуулын талбайд байгаа плэй болон бассейнуудыг онгойлгох цооног болоод зогсохгүй тус улсын газар зүйн энэ байрлалыг петролеумын хайгуул талаас нь нээж өгөх чухал ач холбогдолтой цооногууд болох юм.

Шеллийн салбар компани (Шелл нь БиЖи группыг худалдаж авсны дараа) IV, V талбайгаас гарсан боловч энэ нь Петро Матадын ажлын хөтөлбөрт ямар нэгэн байдлаар нөлөөлөөгүй болно. Шелл компани нь гэрээ цуцалсантай холбоотой төлбөрүүдийг хийж барагдуулсан тул тухайн жилд төлөвлөсөн байсан бүх ажлуудын санхүүжилтүүд хийгдсэн.

Фармаут үйл ажиллагаа

2016 оны 11-р сард компани нь фармаутын кампанит ажлыг эхлүүлсэн. Компанийн үзэж буйгаар фронтир хайгуулын эрсдэлийг бусадтай хуваалцах замаар бууруулах нь одоогийн байгаа санхүүгийн эх үүсвэрээ хадгалан үлдэх, цаашлаад нэмэлт санхүүжилттэй болох маш ухаалаг арга зам бөгөөд ингэснээр бид энэ том талбайнуудаа бүрэн судлах зорилгоор хайгуулын өргөн цар хүрээтэй ажлуудыг авч хэрэгжүүлэх боломжтой болох юм. Фармаутын кампанит ажлын хүрээнд боломжит түншүүдийн зүгээс сонирхлоо ихээр илэрхийлж байна. Фармаут үйл ажиллагаа үргэлжилсэн хэвээр байгаа бөгөөд энэхүү мэдэгдлийг бичиж буй яг энэ цаг мөчид нэлээд хэдэн компани бидэнтэй яриа хэлэлцээ хийсээр байгаа гэдгийг дурдъя. Эдгээр сонирхогч талуудын аль нэгтэй нь гэрээ байгуулах боломж бий гэдэгт итгэлтэй байна. Петроматад компанийн мэдээллийн виртуал

болон бодит өрөөнүүдэд зочилсон сонирхогч бүр талбайнуудын техникийн үзүүлэлт, хэтийн төлвийн талаар маш эерэг байр суурьтай байлаа. Гэсэн хэдий ч аливаа улсад шинээр үйл ажиллагаа эхлүүлнэ гэдэг хэзээд яггүй даваа байдаг тул боломжит фармаут түншийн хувьд ч мөн дотооддоо шинжиж дүгнэх процесс нь үйл ажиллагаагаа хэдийнээ явуулдаг улс оронтой нь харьцуулахад хамаагүй урт хугацаа шаардаж байна.

Уян хатан санхүүжилт

Фармаутын гэрээ зорьсон хугацаанд хийгдээгүй тохиолдолд ч компанийн санхүүжилтийг хангалттай байлгах нөхцөлийг бүрдүүлэх үүднээс Петро Матад нь санхүүжилтийн хэд хэдэн хувилбаруудыг судалж үзээд ТУЗ-ын гишүүд санхүүжилтийн багцын хамгийн таатай нөхцөлийг Бэрген Ассет Менежмент ХХК ("Бэрген") санал болгосон хэмээн үзсэн тул 2017 оны 5-р сарын 08-ны өдөр түүнтэй гэрээ байгуулсан. Энэхүү гэрээний дагуу 43,200,000 хүртэлх ам.доллартай тэнцэхүйц хэмжээний энгийн хувьцааг үе шатлалтайгаар шинээр гаргаж өгөх бөгөөд мөн 2,000,000 ам.долларын дүнтэй хөрвөдөг санхүүгийн хэрэгслийг гаргах боломжтой. Хувьцааны шаталсан арилжаа нь ерөнхийдөө 15 сар хүртэлх хугацаанд сар бүр явагдах бөгөөд сар тутмын багцын дүн нь 1.2 сая ам.доллароос 3 сая ам.доллар хүртэл байх юм. Ингэхдээ тухайн сарын үнийн дүнг талууд харилцан зөвшилцсөний үндсэн дээр тохирно. Бэргентэй байгуулсан энэхүү санхүүжилтийн гэрээ нь компанид 2017, 2018 оны ажлын хөтөлбөрөө хэрэгжүүлэх санхүүгийн уян хатан нөхцөлийг буй болгож байна. Энэхүү Бэргений санхүүжилтийг компанийн зүгээс хэзээ ч цуцлах эрхтэй гэдгийг дурдах нь чухал юм. Хэрэв фармаутын гэрээ байгуулсан тохиолдолд энэ эрхээ эдлэх боломжтой. Хувьцааны багц бүрийг гаргахын өмнө компани тухайн багцын санхүүжилтийг хүлээн авна.

Монгол улсын Ашигт малтмал газрын тосны газраас IV, V талбайн Бүтээгдэхүүн хуваах гэрээ (БХГ)-ний хайгуулын хугацааг тус бүр 2 жилээр буюу 2019 оны 7-р сарын 29-ний өдрийг хүртэл албан ёсоор сунгасан тухай компани 2017 оны 6-р сарын 15-ны өдөр нийтэд мэдээлсэн. БХГ-нд гэрээний хугацааг дахин хоёр жилээр сунгах заалт орсон ба компани хугацааг дахин хоёр жилээр сунгах хүсэлтээ 2019 оны эхээр гаргах боломжтой.

Санхүүжилт баталгаажсан, өрөмдлөгийн хөтөлбөр удахгүй эхлэх гэж байгаа, мөн манай талбайнуудын хайгуулын потенциалыг бодолцож үзвэл компани өөрийн түүхэндээ маш сонирхолтой нэгэн хуудсыг сөхөж байна гэж хэлж болохоор байна. PETEX бага хурал дээр Петро Матадын тавьсан илтгэлийн дараах зүйлүүд

дээрхийг баталгаажуулж буй. Үүнд:

- 2015, 2016 онуудад хийгдсэн хайгуулын ажлын хөтөлбөрийн хүрээнд (үүнд 1660 тууш км 2 хэмжээст чичирхийллийн судалгаа, 11,000 км²-т хийгдсэн бүрэн хэмжээст градиометрийн болон агаараас хэмжсэн өндөр нарийвчлалтай соронзон орны мэдээлэл орно) цуглуулсан мэдээллийн үр дүнгүүдийг хамруулснаар компани нь хэтийн төлөв бүхий бассейны портфелоо мэдэгдэхүйц хэмжээнд өргөжүүлж сайжруулж чадсан. Тус компани нь өөрийн талбай дээрх одоогийн байгаа өгөгдлүүд дээрээ тулгуурлан 12 бассейныг илрүүлээд байгаа бөгөөд сейсмийн хээрийн хэмжилт зэрэг олон ажлуудыг багтаасан цаашдын хөтөлбөрүүдийг хэрэгжүүлбэл ирээдүйд энэ тоо өсөх магадлалтай юм. Иймд тус компанийн талбайнууд дээр их хэмжээний нүүрстүртөрөгч илрүүлэх өндөр боломж байна.

- Петролеумын бассейны региональ загварчлал болон плэйг үнэлэх ажлууд нь өгөгдлөөр арай илүү нягт хучигдсан 6 бассейн дээр төвлөрсөн. Эдгээрээс Бигэр, Шал, Баацагаан, Байдрагийн бассейнууд нь IV талбайд, Таац, Төгрөгийн бассейнууд нь V талбайд хамаарна. 12 бассейны үлдсэн 6 бассейн нь (өгөгдлөөр сийрэг хучигдсан) Дэлгэр, Баянцагаан, Хангай, Орог, Хөөвөр, Гучин-Усын бассейнууд юм.

- IV, V талбайгаас олж авсан мэдээлэл, өгөгдлүүд дээр хийсэн тайлал дээр тулгуурлан тус компанийн хайгуулын баг зөвлөхүүдийнхээ хамт компанийн дотоод тооцоог нээгдээгүй байрандаа байгаа петролеумын анхдагч нөөц дээр хийж гаргасан. Ингэхдээ плэй болон бассейны задлан шинжилгээний аргыг хэрэглэн зэрэглэл ахисан 6 гол бассейнуудад үүссэн байж болох нүүрстөрөгчийн хэмжээг тооцож үзэхэд ойролцоогоор 90 тэрбум баррель тос дээд Юра – доод Цэрдийн плэйд үүссэн байх боломжтой байна. Энэ плэй нь Монгол улсад батлагдсан, олборлолт хийгдэж буй петролеумын систем юм. Хураагуурт баригдах чадамжийг 10%-аас 25% гэж үзвэл хураагуурт баригдсан байх боломжтой тосны эзэлхүүн нь 9-өөс 23 тэрбум баррель байрандаа байгаа тосны анхдагч нөөц (STOIP)-ийн хооронд хэлбэлзэж байна. Үүнээс гадна Хятадын баруун хэсгийн бассейнуудад эдийн засгийн ашигтай олборлогдож буй петролеумын системтэй нэгэн адил Перм – Юрагийн плэй дотор нүүрсустөрөгчийн потенциал цаашлаад байгаа юм. 12 бассейны үлдсэн 6 бассейн болон өгөгдлөөр харьцангуй бага хучигдсан талбайн бусад хэсгийн хэтийн төлвийн потенциалыг тодорхойлох нь ирээдүйд хийгдэх сейсмийн хээрийн хэмжилтүүдийн гол зорилго болох юм.

Компанийн плэй болон бассейнд төвлөрсөн хайгуулын стратеги нь бидэнд өргөн цар хүрээтэй хайгуулын боломжуудыг багтаасан портфел үүсгэх боломжийг олгож байна. Энэхүү олон хувилбарыг багтаасан портфелийн аргачлал нь өөр өөр эрсдэл болон ашиг хүртээмжийн факторууд бүхий олон тооны цаашид хөгжүүлэх лийд, проспектуудыг тогтоох үндэслэл болж өгсөн. Үүний үр дүнд тус компани нь ирж байгаа 2017 он болон түүнээс цааш гүйцэтгэх өрөмдлөгийн ажилд шаардлагатай, чухал нөлөөтэй өрөмдөхөд бэлэн проспектуудын жагсаалттай боллоо.

2016, 2017 оны ажлын хөтөлбөрийн тойм

Манай компанийн 2015 онд эхэлж 2016 онд дуусгасан 2 хэмжээст чичирхийллийн судалгааны хөтөлбөр нь (1) IV талбайн төв хэсэгт орших Баацагааны гэгдэх нэлээд том тогтцыг бассейний түвшинд сайжруулан тодорхойлох; (2) V талбайн Таацын бассейн болон IV талбайн Байдрагийн грабен гэх илүүтэйгээр сонирхогдож байсан хоёр газарт өгөгдлийн хучилт, торлолыг проспектын түвшний хэмжээнд хүртэл нягтаршуулан, өрөм тавих цэг тогтоох зорилттойгоор загварчлагдсан юм.

Чичирхийллийн судалгааны хөтөлбөрийн эхний үе шат IV талбай дээр 1085 тууш км маш чанар сайтай мэдээлэл цуглуулснаар 2015 оны 12-р сард дуусгавар болсон. Үүний үр дүн нь бидэнд маш их урам зоригийг өгч, дээр дурдсан анхаарал татахуйц Байдраг грабэнийг илрүүлсэн юм. Энэ нь цаашлаад өвлийн түр зогсолтын дараа буюу 2016 оны 5-р сараас эхлэн хийгдсэн IV талбайн чичирхийллийн судалгааны гол төв нь байлаа. Үүний дараа 2016 оны 6-р сард үйл ажиллагааг V талбайн Таацын бассейн руу шилжүүлэн, 256 км сейсмийн өгөгдлийг лийдүүдийг тодорхойлох, зэрэглэлийг ахиулах болон өрөмдлөг тавьж болохуйц цэгүүдийг тодорхойлох зорилготойгоор хэмжсэн.

Ийнхүү чичирхийллийн судалгааны мэдээлэл цуглуулах хөтөлбөр 2016 оны 8-р сард дууссанаас хойш бид олж авсан мэдээлэл дээрээ тайлал хийж, лийд, проспектуудын портфел гаргахад төвлөрөн ажилласан бөгөөд эдгээрээс заримыг нь өрөмдөх түвшинд авчраад байна.

Түүнчлэн өрөмдлөг болон үүнтэй холбоотой бүх үйлчилгээг үзүүлэх туслан гүйцэтгэгчийг сонгон шалгаруулах тендерийн үйл ажиллагааг амжилттай дуусган Синопек Монголиа ХХК-д Letter of Intent буюу гэрээ байгуулахыг завдаж байгаа тухай мэдэгдлийг 2017 оны 5-р сарын 31-ны өдөр хүргүүлсэн. Өрөмдлөгийн

гэрээ тун ойрын хугацаанд зурагдахаар хүлээгдэж байна. Синопекийн зүгээс өрмийн цамхагийг нүүлгэх ажлыг эхлүүлэх бэлтгэл ажлаа хангаж байгаа.

2017 оны үлдсэн хугацаанд төлөвлөж буй ажлын хөтөлбөрийн гол хэсэг нь хайгуулын тулгуур хоёр цооног өрөмдөх, мөн V талбайн Төгрөгийн бассейнд ойролцоогоор 300 км² газарт 3 хэмжээст чичирхийллийн судалгаа хийх ажлууд юм. Цооногуудын байршлын талаарх тодорхой мэдээллийг өрөмдлөг эхлэхээс өмнө нийтэд хүргэх болно. Харин 3 хэмжээст чичирхийллийн судалгааны хувьд гэвэл Улаанбаатар хотоос баруун урагш 600 км-ийн зайд, алслагдмал Төгрөгийн бассейнд хийхээр төлөвлөсөн. Энэхүү 3 хэмжээст чичирхийллийн судалгааны гол зорилго нь өрөмдлөг тавьж болохуйц проспектуудын эрсдэлийг бууруулах буюу зэрэглэлийг ахиулахад, мөн тухайн сав газар өшөө том хэмжээтэй байх, ондоо плэй байх эсэх зэрэг цаашдын боломжуудыг ойлгоход оршино. Тус сав газарт одоогийн байдлаар тодорхойлогдоод байгаа лийд, проспектууд 2010, 2011, 2013 онуудад хийгдсэн 2 хэмжээст чичирхийллийн судалгаанууд дээр тулгуурласан болно.

Төгрөгийн бассейн нь структур бүтцийн хувьд тун эдрээтэй учир 2 хэмжээст тайлал дээр хагарлуудыг холбох, хураагууруудыг нарийн дүрслэх зэрэг нь дээр маш хүндрэлтэй байдгийг энд дурдах нь зүйтэй. Харин 3 хэмжээст чичирхийллийн судалгаагаар энэхүү сул талыг арилгаад зогсохгүй стратиграфын хураагууруудыг илрүүлэх боломжтой гэж үзэж байна. Стратиграфын хураагуурууд нь ижил төстэй нуурын орчинд үүссэн тунамал хурдсын бассейнуудад хамгийн үр ашигтай хураагууруудын хэв маяг болох нь тогтоодоод байгаа юм. Олж батлахыг зорьж буй давхаргууд нь хожуу Юра-эрт Цэрдийн үеийн голын болон нуурын орчинд үүссэн тунамал хурдсын мега секвенц юм. Хамгийн оновчтой гэж сонгосон проспектыг 2018 онд өрөмдөх төлөвлөгөөтэй байна.

XX талбайн хувьд гэвэл Газрын тосны газраас 2016 оны 4-р сард нэг жилийн хугацаатай 2016 оныг хамруулсан мораториумыг баталсан байгаа. Энэ нь 2016 онд биелүүлэх ёстой байсан үүрэг хариуцлагуудыг зогсоосон буюу хөлдөөсөн гэсэн үг бөгөөд ингэснээр тусгай зөвшөөрлийн хүчинтэй хугацаа 2018 оны 7-р сар хүртэл сунгагдсан. Энэ мораториумыг авснаар бид 2016 онд IV, V талбайн ажлын хөтөлбөрт анхаарлаа бүрэн төвлөрүүлэх боломжтой болсноос гадна манай энэ өндөр потенциалтай XX талбайд хамтран хайгуул хийх сонирхолтой түншийг хайж олох хугацааг ч уртасгасан юм.

Засаглал

Тайлант хугацааны үеэр компани нь Тим Бушеллийг хараат бус захирлаар ТУЗөвлөлдөө элсүүлээд байна. Тим бол Их Британи Умард Ирландын Нэгдсэн Вант Улсад хувьцаа гаргасан компанийн удирдлагад маш их туршлага хуримтлуулсан нэгэн бөгөөд бэлтгэгдсэн гео-шинжлэх ухааны мэргэжилтэн юм. Компани өөрийн хөгжлийнхөө чухал үе шатанд шилжин орж буй энэ цаг үед Тимийн хайгуулын мэргэшил, хөрөнгийн зах зээлийн мэдлэг туршлага ТУЗ-ийн санхүүгийн болон техникийн экспертизийг улам зузаатгах нь дамжиггүй юм.

ХАБЭАБО

ТУЗ-өөс компанийн үйл ажиллагааг тогтмол сайжруулах зорилгоор хэрэгжүүлдэг үйл явцын хүрээнд компанийн Хөдөлмөрийн аюулгүй байдал, Эрүүл ахуй, Байгал орчны менежментийн системийг бүрэн хэмжээнд Олон улсын газрын тос, байгалийн хийн үйлдвэрлэгчдийн холбооны (IOGP) удирдамжийн дагуу бүтэцтэй болгоод байна.

Аливаа ослыг Олон улсын газрын тос, байгалийн хийн үйлдвэрлэгчдийн холбооны удирдамжийн дагуу шалгаж, бүртгэж, ангилдаг бөгөөд энэ талаарх мэдээлэл, сургамжийг удирдлагын хяналтын ажиллагааны хүрээнд бусадтай хуваалцдаг.

Компанийн зүгээс байгаль орчныг хамгаалах асуудалд ихээхэн анхаарал хандуулдаг гэдэг нь 2015, 2016 оны чичирхийллийн судалгааны хэмжилтийн үйл ажиллагааны үед нотлогдсон. Хамгаалалттай газар нутгийн ойролцоо ажиллаж байхдаа хууль эрх зүйн хэрэгжилтийг хангах болон байгаль орчинд учруулж болзошгүй аливаа сөрөг нөлөөллийг багасгахын тулд байгаль орчин, соёлын өвийн эмзэг байдлын хээрийн судалгааг мэргэжлийн зөвлөх компаниудаар хийлгэсэн. Компанийн хээрийн үйл ажиллагааны үед байгаль орчинтой холбоотой ямарваа нэгэн гомдол гараагүй болно.

Олон нийтийн харилцаа

Компани олон нийтийн оролцоо, харилцаатай холбоотой хариуцлага маш чухалд үздэг. Компани ямар ч ажлын хөтөлбөрийн үйл ажиллагааг хэрэгжүүлэхээсээ өмнө Ашигт малтмал газрын тосны газраас зөвшөөрөл авдаг бөгөөд тус байгууллагын төлөөлөгчдийг орон нутгийн иргэдэд төлөвлөсөн үйл ажиллагааг танилцуулах аялалд компанийн төлөөлөгчидтэй нэгдэн оролцохыг урьдаг. Орон нутгийн засаг захиргааны албан тушаалтнуудтай уулзалт хийхээс гадна нийгмийн хөгжил, орон нутгийн

хамтын ажиллагааны хөтөлбөрийн хүрээнд орон нутгийн иргэдийн асуултанд хариулах уулзалтыг тухайн суурин газрын захиргааны байранд хийдэг. Мөн компанийн төлөөлөгчид үйл ажиллагаа явуулахаар төлөвлөсөн талбайд ойролцоо амьдардаг малчидтай уулзалт хийнэ.

Компани өнгөрсөн жилүүдэд хэрэгжүүлсэн олон төрлийн үйл ажиллагаандаа олон нийтийн дэмжлэгийг үргэлж авч байсан бөгөөд ажилд саад учруулах эсхүл олон нийтийг хамарсан ноцтой асуудал үүсээгүй. Энэ нь компанийн бахархах зүйл бөгөөд үүнийгээ байнга бататгахын төлөө шаргуу ажиллаж байна.

Ирээдүйн төлөв - үйл ажиллагааг хайгуулын өрөмдлөг хийхэд чиглүүлсэн ажил ихтэй, завгүй үе.

2017 он бидний хувьд хэд хэдэн таатай үйл явдлаар эхэлсэн. Үүнд Бэргентэй санхүүжилтийн гэрээ байгуулснаар компанийн санхүүгийн тэнцвэртэй байдлын эрсдэлийг бууруулж чадсан; мөн өрөмдлөг хийлгэх ажлын тухайд Синопектэй тохиролцоонд хүрсэн зэргийг дурдъя. Цаашлаад бид өрөмдлөгийн гэрээг эцэслэн байгуулж өрмийн тоног төхөөрөмжийг V талбай дээрх өрөмдлөгийн цэг рүү 2017 оны 3-р улиралд зөөж аваачин, 2017 оны 9-р сард өрөмдлөгөө эхлүүлэх төлөвлөгөөтэй байна. Эхний цооногийг өрөмдсөний дараагаар шууд хоёр дугаар цооногийг өрөмдөх ажилд орохоор тооцоолсон. Хоёр цооногийг хоёуланг нь одоогийн байгаа санхүүгийн эх үүсвэрээр бүрэн санхүүжүүлэх ба бид өрөмдлөгийн талаарх тодорхой мэдээллийг кампанит ажил эхлэхээс өмнө гаргах болно.

Бид өрөмдлөгийн ажлын явц, компанитай холбоотой бусад мэдээллийг цаг тухайд нь хувьцаа эзэмшигчиддээ хүргэхдээ баяртай байх болно.

Дүгнэлт

Эцэст нь хэлэхэд ТУЗ-ийн зүгээс жилийн турш урам зориг, хичээл зүтгэлтэй ажиллаж ирсэн техникийн болон техникийн бус ажилтан, ажиллагсаддаа талархаж буйгаа илэрхийлэхийг хүсэж байна. Мөн компанийн үйл ажиллагааг үргэлж дэмжиж ирсэн хувьцаа эзэмшигчиддээ талархаж буйгаа илэрхийлье.

ТУЗ-ийн гишүүд

PETRO MATAD TEAM

4



EXPLORATION TEAM

RIDVAN KARPUZ
Chief Executive Officer



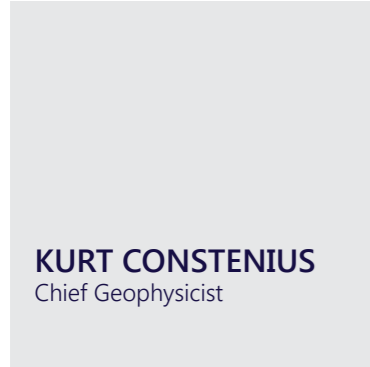
BRUCE BARRIE
Drilling Manager



JUSTIN TULLY
Exploration Geologist

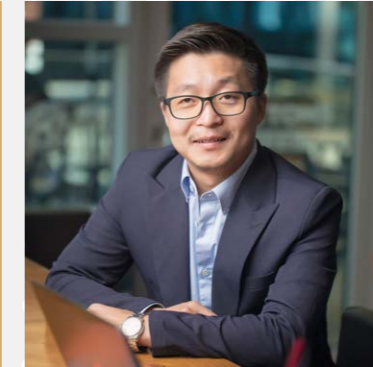


KURT CONSTENIUS
Chief Geophysicist



E. BOLOR
Exploration Geophysicist

D. BUYAN-ARIVJIKH
Exploration Geologist



B. OCHIRBAT
Reservoir Engineer

ANDREW BARNWELL
Consultant Petroleum Geologist



SARAH PARKER
Consultant Interpretation Geophysicist



Z. KHISHIGSAIKHAN
Junior Drilling Engineer



MASSIMO QUARCHIONI
Sr Operations Geologist



T. BATBILEG
Intern - Geophysicist



FINANCE TEAM

JOHN HENRIKSEN
Chief Financial Officer



T. AMARZUL
Executive Director



B. TAMIR
Chief Accountant



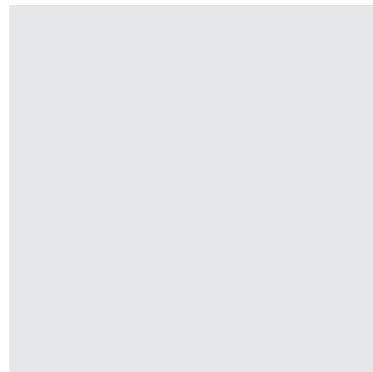
B. OYUNCHIMEG
Senior Accountant



N. SOLONGO
Accountant



Ts. NARMANDAKH
Intern - Accountant



A. BUREN-ERDENE
Community Liaison Officer



B. DENDEVCHULUUN
Advisor



J. CHINSANAA
Community Liaison Officer



U. BUYANDELGER
Environmental Officer

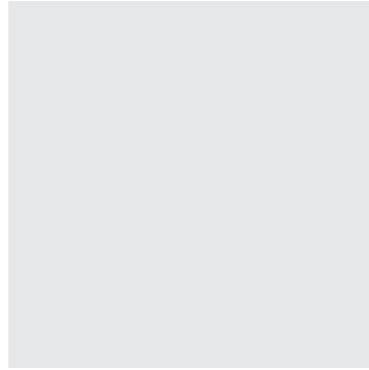
B. BAYARMAGNAI
HSSE Officer



HSSE AND CSR TEAM

SUPPORT FUNCTIONS TEAM

B. PUREVKHUU
IT Supervisor



T. KHONGORZUL
Corporate Manager



E. GERELMAA
Procurement Coordinator



G. GANTUYA
Administrative Coordinator



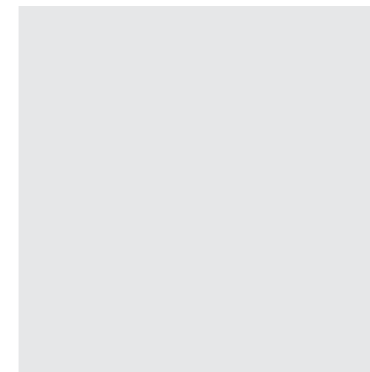
D. NARANTSETSEG
Permits



S. BATGEREL
Driver



B. OTGONBAYAR
Field Driver



S. BAYASGALAN
Driver



S. BYAMBASUREN
Journey/Logistics Supervisor



JOHN JOHNSTON
Operations Support &
Supply Chain Coordinator



HEALTH, SAFETY, SECURITY AND ENVIRONMENT

5

Health, Safety, Security and Environmental Management System (HSSE MS)

Petro Matad's Health, Safety, Security and Environment Management System (HSSE MS) has been continuously updated with reports, information and statistics from operations in 2016.

The HSSE MS is designed to provide practical and real-time support for our operations by enabling quick and reliable access to Mongolian legislations and industry standards. The HSSE MS is explicitly aligned with *ISO14001* Environmental Management System Guidelines, *OHSAS 18001* Occupational Health and Safety Management System Guidelines, the International Association of Drilling Contractors (*IADC*) and American Petroleum Institute (*API*) guidance where appropriate. Clear definition of standards, competence assurance, efficient and open communication and record keeping lies at the heart of our HSSE MS. We operate a proactive HSSE observation programme not only to identify unsafe acts and conditions but also to identify best practice in all our operations. Information from the observation programmes is actively combined with monitoring and learnings from incidents. The process ensures effective quick corrective actions are taken as well as the identification of root cause preventative measures. All incidents are investigated, recorded and classified according to IOGP guidelines and learnings are shared through the management review process.

Petro Matad remains demonstrably committed to best practice in health, safety, security and environmental (HSSE) management for the benefit of all stakeholders. Petro Matad's assets are located in remote frontier locations of Mongolia. In this operating environment, it is essential to have fit for purpose HSSE support to be able to operate safely and with minimum impact on the environment. Safety of our people, our communities and the environment is our priority on all our activities. Petro Matad cultivates and implements a safety and environmental awareness culture not only within the Company but with the contractors involved with our projects and activities.

In order to improve the implementation and control mechanisms in complying with legal requirements, we have also established a reference data base on environmental legal laws, regulations and acts.

Operations

Petro Matad is committed to support the building of industry capacity for Oil and Gas Exploration in Mongolia. In early 2016, Petro Matad continued with the seismic acquisition programme in Blocks IV and V, which commenced in 2015 and was successfully completed in August 2016. Petro Matad continued to work closely with the seismic contractor to establish and maintain minimum requirements of IOGP's 432 Managing HSE in a Geophysical Contract standards prior to commencement and during the field operations. The contractor's management personnel demonstrated commitment to achieve compliance and as part of its continual improvement during the course of the acquisition programme the contractor made significant investment in people, systems and equipment to ensure operations were executed to the standard Petro Matad required. Prior to the commencement of all exploration activities, the Company organizes "Kick off" meetings at which time representatives from all stakeholders attend. This meeting is important in ensuring awareness, extending knowledge and encouraging participatory initiatives on environmental related issues.

Consequently, the underlying HSSE performance showed marked improvement from the previous year, and efficient and proactive HSSE reporting provided good information on both leading and lagging

HSSE indicators. The 2016 seismic acquisition survey was completed without any reportable incidents.

Commitment to Environment

Environmental protection is one of the priority requirements within the legal framework locally, as well as internationally. It is addressed comprehensively in every aspect throughout all exploration programme activities. The statutory Environmental Management Plan (EMP), which we implement every year for our exploration programme, is developed in accordance with the recommendations of the Detailed Environmental Impact Assessments and within the legal framework.

The EMP is effective after having been reviewed by the Mineral Resources and Petroleum Authority of Mongolia and approved by the Ministry of Environment and Tourism. The EMP covers not only environmental related issues such as protection, restoration, offset, displacement, waste and substances management and monitoring, but also details issues regarding collaboration with local people and stakeholders in terms of socio-economy, and preserving culture and heritage.

At the completion of the exploration programme, the implementation of the EMP is evaluated by the working group appointed by the Aimag's Governor, headed by the Environmental Department Head of the Aimag. No environmental complaints were received from the authorities in 2016 and the EMP implementation was signed off by the relevant local authorities.

The following studies were carried out for this purpose: Detailed Environmental Impact Assessment (2010); Environmental Sensitivity Baseline Study and Assessment (2015); A Socio-Economic and Community Baseline Study (2015); Archaeological and Paleontological Study (2015); Baseline Field Environmental Study for Exploration Specific Areas of Interest (2016) and the implementation of an Environmental Monitoring Programme every year for the annual EMP.

Based on these studies, we have developed constraint maps to avoid and minimize impact on sensitive areas environmentally, culturally and socio-economically.



Petro Matad Group HSSE Policy

Commitment

Petro Matad Group is committed to conducting its activities in a manner that incorporates safety, people's health, security and environmental protection (HSSE) as core values. To achieve this commitment, Petro Matad Group companies will be guided by the following principles:

Leadership and Integrated Management

The Board of Directors shall lead and set the overall strategy for health, safety, security and environmental programmes. The Board shall also mandate and facilitate the process where

- appropriate resources will be allocated to implement the strategy; and
- all employees are made aware of and work in accordance with the established principles on a continuing basis.

Line Management shall integrate health, safety, security and environmental protection principles into the business and shall be responsible for their implementation and for the achievement of goals and objectives.

Inclusion of Health, Safety, Security and Environmental Criteria in the Complete Business Cycle

Petro Matad Group shall do everything 'reasonably practicable' to demonstrate legal "due diligence" in onsite health, safety, security and environmental criteria in its strategy and in all aspects and throughout the life cycle of its business activities. The objective is to prevent personal injuries, asset damage and minimise any detrimental effects on the environment and on climate change while respecting local bio-diversity and local communities.

Compliance with Standards & HSSE Management System

Petro Matad Group shall be proactive in seeking to identify, understand and comply with all local applicable regulatory requirements.

This shall be achieved through a fit for purpose documented Health, Safety, Security, and Environmental Management System (HSSE MS). The HSSE MS will also seek to incorporate current industry best practice and will be updated through a process of continual improvement.

These standards and practices covering health, safety, security and the environment shall be common across all geographic areas, no matter where the Group's activities are being carried out. In non-operated joint ventures, the Group will seek to influence the designated Operator to comply with equivalent standards and principles and apply duty of care to verify minimum standards of performance are met. Petro Matad Group will also seek to design and plan its strategies taking into account relevant trends in legislation and international standards.

Continual Improvement

Petro Matad Group shall systematically establish goals and objectives for continual improvement in health, safety, security and environmental protection. Performance against these objectives shall be evaluated and the necessary corrective measures shall be applied in order to achieve the established goals. Petro Matad Group shall actively research new technical solutions and approaches concerning health, safety, security and environmental issues.

Communication and Community Relations

Petro Matad Group shall maintain regular communication with interest groups and shall work with the community, sharing its knowledge and reporting its performance and the effect of its activities and products upon people and the environment, in a trustworthy and transparent manner.

Contractor and Worker Competency

Petro Matad Group considers demonstrable "competence" an essential prerequisite for all persons holding HSSE or operational critical positions. The scope of this requirement includes both staff and consultants and Contractors carrying out work on behalf of the Group. All personnel in critical positions shall be demonstrably task competent through training, and experience to safely perform the work assigned without supervision. All personnel shall also demonstrate site competence through successful induction.

All Petro Matad Group staff and consultants, no matter what their position or geographic location, are responsible for their own safety and shall contribute as an individual and collectively, to health, safety, security and environmental performance.

Implementation, Including Rights and Duties of Workers

Petro Matad Group considers that complying with and ensuring the fulfilment of this policy is the responsibility of everyone who takes part in its activities. This includes the right and duty to refuse work which might reasonably be considered to be outside this policy subject to formal review.

Working Safely – One Day at a Time

CORPORATE SOCIAL RESPONSIBILITY



6

Community Social Responsibility is an integral part of Petro Matad's activities. The Company is committed to evaluating and minimizing social and environmental impact of its operations, thereby ensuring its long term sustainability. Petro Matad has developed a Social Performance (SP) Plan based on socio-economic and social impact assessments, which sets out the socio-economic context, identifies the key stakeholders and associated consultation process, community grievance management mechanism, social investment strategy and commitments including the required resources and budget.

Social Performance Objectives

Petro Matad's strategic SP objective is to support the business needs primarily through managing social risks and building broad based stakeholder support for the project to enable on-time and within budget project delivery. The strategic SP objectives are to:

- Manage on the ground social impacts and engage closely with local communities on the management of these risks
- Ensure community access to timely and accurate information on the projects;
- Maintain an effective community grievance mechanism to resolve complaints promptly and appropriately;
- Support contractors to avoid, minimise or mitigate adverse social and cultural impacts on surrounding communities; and
- Support contractors to optimise local participation in the project through direct employment or procurement of goods/services.

Stakeholder Engagement

The core objective of Petro Matad's SP stakeholder engagement strategy is to build relationships, strengthen trust, gain broad-based support and broaden understanding of the communities in which Petro Matad is operating, in so doing providing for effective social risk management. In 2016, Petro Matad conducted community and stakeholder engagement ahead of the exploration programme with the objectives of:

- Introducing the project, its background and status, current and planned activities to community members in the areas where seismic work is being conducted;
- Gaining the support of herders and other stakeholders for the proposed exploration programme;
- Building trust between the project and affected community members;
- Building a constructive working relationship with local authorities;
- Obtaining a better understanding of community concerns about the seismic acquisition programme and other issues; and
- Managing stakeholders' expectations related to the project and its benefits.

Petro Matad maintains an effective community grievance mechanism to resolve complaints promptly and appropriately. The grievance mechanism was established ahead of commencing seismic programme in Block IV in 2015 and continues to this date for all work programme activities undertaken by the Company. To-date, no significant grievances have been recorded.

Social Investment Activities

Petro Matad has developed and adopted a Social Development Policy to contribute to the social developments of communities located near and impacted by our exploration and drilling activities in Blocks IV, V and XX. Through meaningful engagement with communities and stakeholders, we identify opportunities to make contributions that have wide reaching benefits to all local residents. We emphasize on the delivery of accessible and meaningful assistance to the community. Our social development policies are focused on the quality and comfort of local community life through supporting developments in local regions and provinces, rather than providing temporary reliefs.

In 2016, under the Company's Social Development Policy and Social Action Plans, we implemented the following projects some of which had already commenced in 2015, after consultation with Community Reference Groups formed in each Soum.

Baatsagaan Soum, Bayankhongor Aimag:

- Drilling of 2 properly engineered water wells which will serve as valuable water source for grazing animals and nearby herders
- Donation of medical equipment to the Soum's hospital
- Purchase and planting of 500 Aspen trees

Bayantsagaan Soum, Bayankhongor Aimag:

- Contributions towards the building of hay storage facilities

Chandmani Soum, Gobi-Altai Aimag:

- Contributions towards the instalment of G-mobile telecommunications antenna

Guchin-Us Soum, Gobi-Altai Aimag:

- Donation of medical equipment to the Soum's hospital

Baruun-Bayan Ulaan Soum, Uvurkhangaï Aimag:

- Donation of medical equipment to the Soum's hospital

CORPORATE GOVERNANCE STATEMENT

7

The Board is committed to and 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 2 Non-Executive Directors (who are shareholder representatives), 1 Independent Non-Executive Director and 3 Executive Directors.

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

- The principle of having an Independent Director 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:

- Enkhmaa Davaanyam, Chairperson (Petrovis appointee)
- Oyungerel Janchiv, Non-executive Director (Petrovis appointee)
- Timothy Bushell, Non-Executive Director (Independent)
- Ridvan Karpuz, Executive Director (Chief Executive Officer)
- Amarzul Tuul, Executive Director (Director of the Company's Mongolian subsidiaries)
- John Henriksen, Executive Director (Chief Financial Officer)

Brief biographies of the Directors are set out on pages 6 to 11. Directors are re-elected at the Annual General Meetings on a rotational basis as per the Company's Articles of Associations.

Whilst the Chairperson of the Board may not fully meet the definitions of an Independent Chairperson,

with her experience, skill sets, and independence from Petro Matad day to day operations, 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 and duties of the Chairperson of the Board and the Executive Directors.

Ms D. Enkhmaa 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, reviewing and approving annual operating plans and budgets, 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 achieving 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.

In 2016, the Board had 2 formal meetings and 2 ad hoc discussions via teleconference, which were attended by majority of the Directors. 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 and a Corporate Governance Social Action and Environmental (CGSAE) Committee each with formally delegated rules and responsibilities. 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 2015 and to the date of this report are as follows:

Chair

Enkhmaa Davaanyam

Members

J. Oyungerel (appointed 30 May 2016)

Philip Vingoe (retired from the Board on 10 March 2017)

Timothy Bushell (appointed 16 June 2017)

The Audit Committee met once in 2016, to receive the 2015 Audit Report with the Group's auditors at the time, Deloitte Touche Tohmatsu. The Audit Committee meetings are normally 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.

On 16 November 2016, the Audit Committee appointed Bentleys Audit and Corporate (WA) Pty Ltd (Bentleys) as Group Auditors. Accordingly, the audit of the Group's accounts for the year ended 31 December 2016 was undertaken by Bentleys.

Remuneration Committee

The members of the Remuneration Committee in 2016 and to the date of this report are as follows:

Chair

Philip Vingoe (retired from the Board on 10 March 2017)

Timothy Bushell (appointed 16 June 2017)

Members

Oyungerel Janchiv

D. Enkhmaa (appointed 30 May 2016)

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 motiva-

tion 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 46 to 51.

Corporate Governance, Social Action and Environmental (CGSAE) Committee

The members of the CGSAE Committee in 2016 and to the date of this report are as follows:

Chair

J. Oyungerel (appointed 30 May 2016)

Members

D. Enkhmaa (appointed 30 May 2016)

Philip Vingoe (appointed 30 May 2016 and retired from the Board on 10 March 2017)

Timothy Bushell (appointed 16 June 2017)

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 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.

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 to management the implementation of internal control systems and reviews policies and procedures through regular updates from management. A budgeting process is in place for all items of expenditures, and an annual budget is approved by the Board. In accordance with Board Approved Delegation of Authorities, 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 reported to, and monitored by, the Board on a monthly basis. In 2016, management continued to enhance 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 using 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 define mitigating and 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, FCA)

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, Security 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)

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 country would enable governments to better manage its natural resource wealth for the benefit of a country's citizens. Mongolia is one of the countries compliant

with the EITI. Therefore, the Company's Mongolian subsidiaries have cooperated with the government in this respect and participated in the transparency report prepared by the Mongolian government.

Anti-Bribery and Corruption Policy (ABCP)

At the time of 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 of its staff to ensure that business integrity and ethics are upheld within the operations of the Company at all levels to demonstrate a zero-tolerance approach on bribery and corruption.

Insurance

The Group maintains insurance for its Directors and officers to protect against liabilities in relation to the Company's operations.

Share Dealing Code

The Company has adopted a Share Dealing Policy for dealing in ordinary shares by Directors and employees which is in line with the new Market Abuse Regulations that came into effect on 3 July 2016.

Shareholder and Investor Relations

The Board remains committed to maintaining communication with its shareholders. The Company maintains a 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. The Company has also engaged FTI Consulting in 2017 to enhance investor relations.

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. Directors were in office for this entire year unless otherwise stated.

Philip Arthur Vingoe (Chairperson) (Retired 10 March 2017)
Timothy Paul Bushell (Chairperson) (Appointed 16 June 2017)
Oyungerel Janchiv
Enkhmaa Davaanyam

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 2015 and 2016, are as below:

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

Oyungerel Janchiv	Non-Executive Director	Resigned as Chairperson 1 August 2015
Enkhmaa Davaanyam	Non-Executive Chairperson	Appointed as Chairperson 1 August 2015
Philip Arthur Vingoe	Non-Executive Director	Retired 10 March 2017
Amarzul Tuul	Executive Director	
John Rene Henriksen	Chief Financial Officer	
Mehmed Ridvan Karpuz	Chief Executive Officer	Appointed as CEO 1 October 2015
Timothy Paul Bushell	Non-Executive Director	Appointed 10 March 2017

(b) Compensation of Directors

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Short-term employee benefits		1,402	864
Post-employment benefits		-	-
Share based payment expense		177	143
		1,579	1,007

Directors	Consolidated	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Oyungerel Janchiv	39	45
Enkhmaa Davaanyam	66	47
Philip Arthur Vingoe	39	35
Amarzul Tuul	230	196
John Rene Henriksen	337	330
Mehmed Ridvan Karpuz	691	211
Total	1,402	864

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 2015 or if applicable at the date of resignation	Balance as at 01-Jan-15	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-15
Directors				
Oyungerel Janchiv	18,308,686	-	996,760	19,305,446
Enkhmaa Davaanyam	3,891,640	-	996,760	4,888,400
Philip Arthur Vingoe	500,000	-	996,760	1,496,760
Amarzul Tuul	472,500	-	58,834	531,334
John Rene Henriksen	263,030	-	820,228	1,083,258
Mehmed Ridvan Karpuz	620,788	70,000	1,255,421	1,946,209
Total	24,056,644	70,000	5,124,763	29,251,407

Balance at 31 December 2016 or if applicable at the date of resignation	Balance as at 01-Jan-16	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-16
Directors				
Oyungerel Janchiv	19,305,446	-	-	19,305,446
Enkhmaa Davaanyam	4,888,400	-	-	4,888,400
Philip Arthur Vingoe*	1,496,760	-	-	1,496,760
Amarzul Tuul	531,334	-	-	531,334
John Rene Henriksen	1,083,258	-	-	1,083,258
Mehmed Ridvan Karpuz	1,946,209	-	-	1,946,209
Total	29,251,407	-	-	29,251,407

*Philip Arthur Vingoe retired from the Board of Petro Matad Limited on 10 March 2017.

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 2015	Balance as at 01-Jan-15	Granted as Remu- neration	Options Exercised	Options Lapsed	Balance as at 31-Dec-15	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	-	-	-	475,000	-	475,000
Enkhmaa Davaanyam	150,000	-	-	-	150,000	-	150,000
Philip Arthur Vingoe	150,000	-	-	-	150,000	-	150,000
Amarzul Tuul	608,500	-	-	-	608,500	-	608,500
John Rene Henriksen	100,000	-	-	-	100,000	-	100,000
Mehmed Ridvan Karpuz	75,000	-	-	-	75,000	-	75,000
Total	1,558,500	-	-	-	1,558,500	-	1,558,500

For the year ended 31 December 2016	Balance as at 01-Jan-16	Granted as Remu- neration	Options Exercised	Options Lapsed	Balance as at 31-Dec-16	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	-	-	-	475,000	-	475,000
Enkhmaa Davaanyam	150,000	-	-	-	150,000	-	150,000
Philip Arthur Vingoe*	150,000	-	-	-	150,000	-	150,000
Amarzul Tuul	608,500	-	-	-	608,500	-	608,500
John Rene Henriksen	100,000	-	-	-	100,000	-	100,000
Mehmed Ridvan Karpuz	75,000	-	-	-	75,000	-	75,000
Total	1,558,500	-	-	-	1,558,500	-	1,558,500

*Philip Arthur Vingoe retired from the Board of Petro Matad Limited on 10 March 2017.

(e) Conditional Share Awards holdings of Directors

For the year ended 31 December 2015	Balance as at 01-Jan-15	Granted as Remu- neration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-15	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	973,380	498,380	996,760	-	475,000	475,000	-
Enkhmaa Davaanyam	648,380	498,380	996,760	-	150,000	150,000	-
Philip Arthur Vingoe	648,380	498,380	996,760	-	150,000	150,000	-
Amarzul Tuul	561,834	-	58,834	-	503,000	503,000	-
John Rene Henriksen	920,228	-	820,228	-	100,000	100,000	-
Mehmed Ridvan Karpuz	907,041	498,380	1,255,421	-	150,000	150,000	-
Total	4,659,243	1,993,520	5,124,763	-	1,528,000	1,528,000	-

For the year ended 31 December 2016	Balance as at 01-Jan-16	Granted as Remu- neration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-16	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv	475,000	-	-	-	475,000	475,000	-
Enkhmaa Davaanyam	150,000	-	-	-	150,000	150,000	-
Philip Arthur Vingoe*	150,000	-	-	-	150,000	150,000	-
Amarzul Tuul	503,000	-	-	-	503,000	503,000	-
John Rene Henriksen	100,000	-	-	-	100,000	100,000	-
Mehmed Ridvan Karpuz	150,000	-	-	-	150,000	150,000	-
Total	1,528,000	-	-	-	1,528,000	1,528,000	-

*Philip Arthur Vingoe retired from the Board of Petro Matad Limited on 10 March 2017.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Continuing operations			
Revenue			
Interest income	4(a)	40	22
Other income	4(a)	18,849	11,722
		18,889	11,744
Expenditure			
Consultancy fees		(55)	(476)
Depreciation and amortisation		(226)	(97)
Employee benefits expense	4(b)	(3,280)	(2,438)
Exploration and evaluation expenditure	4(c)	(2,464)	(7,236)
Other expenses	4(d)	(1,968)	(1,687)
Profit/(Loss) from continuing operations before income tax		10,896	(190)
Income tax expense	5	-	-
Profit/(Loss) from continuing operations after income tax		10,896	(190)
Net profit/(loss) for the year		10,896	(190)
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 (2014: \$Nil)		(93)	(41)
Other comprehensive loss for the year, net of income tax		(93)	(41)
Total comprehensive profit/(loss) for the year		10,803	(231)
Profit/(Loss) attributable to owners of the parent		10,896	(190)
Total comprehensive profit/(loss) attributable to owners of the parent		10,803	(231)
Earnings/(Loss) per share (cents per share)			
Basic earnings/(loss) per share	6	3.8	(0.1)
Diluted earnings/(loss) per share	6	3.8	(0.1)

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

As at 31 December 2016

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	6,479	5,339
Trade and other receivables	8	5,155	822
Prepayments and other assets	9	523	812
Total Current Assets		12,157	6,973
Non-Current Assets			
Trade and other receivables	8	-	536
Exploration and evaluation assets	10	15,275	15,275
Property, plant and equipment	11	783	502
Total Non-Current Assets		16,058	16,313
TOTAL ASSETS		28,215	23,286
LIABILITIES			
Current Liabilities			
Trade and other payables	12	1,352	7,436
Total Current Liabilities		1,352	7,436
TOTAL LIABILITIES		1,352	7,436
NET ASSETS		26,863	15,850
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	106,150	106,150
Reserves	14	4,109	4,010
Accumulated losses		(83,396)	(94,310)
TOTAL EQUITY		26,863	15,850

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 2016

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Cash flows from operating activities			
Payments to suppliers and employees		(9,908)	(9,359)
Interest received		40	22
Farm-out proceeds		11,659	13,921
Net cash flows provided by/(used in) operating activities	7	1,791	4,584
Cash flows from investing activities			
Purchase of property, plant and equipment		(676)	(183)
Proceeds from the sale of property, plant and equipment		35	3
Net cash flows used in investing activities		(641)	(180)
Cash flows from financing activities			
Proceeds from issue of shares		-	81
Net cash flows from financing activities		-	81
Net increase in cash and cash equivalents		1,150	4,485
Cash and cash equivalents at beginning of the year		5,339	895
Net foreign exchange differences		(10)	(41)
Cash and cash equivalents at the end of the year	7	6,479	5,339

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 2016

	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 2015		105,278	(94,313)	4,896	15,861
Net loss for the year		-	(190)	-	(190)
Other comprehensive income		-	-	(41)	(41)
Total comprehensive loss for the year		-	(190)	(41)	(231)
Issue of share capital	13	81	-	-	81
Cost of capital raising	13	-	-	-	-
Share-based payments	13, 14 & 15	791	193	(845)	139
As at 31 December 2015		106,150	(94,310)	4,010	15,850
Net loss for the year		-	10,896	-	10,896
Other comprehensive income		-	-	(93)	(93)
Total comprehensive loss for the year		-	10,896	(93)	10,803
Issue of share capital	13	-	-	-	-
Cost of capital raising	13	-	-	-	-
Changes in equity (Dissolved PMSL)		-	18	-	18
Share-based payments	13, 14 & 15	-	-	192	192
As at 31 December 2016		106,150	(83,396)	4,109	26,863

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

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1 CORPORATE INFORMATION

The financial report of Petro Matad Limited (Company) for the year ended 31 December 2016 was authorised for issue in accordance with a resolution of the Directors on 29 June 2017.

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 (Company) a company incorporated in the Isle of Man on 30 August 2007 has four wholly owned subsidiaries, including Capcorp Mongolia LLC and Petro Matad LLC (both incorporated in Mongolia), as well as Central Asian Petroleum Corporation Limited (Capcorp) and Petromatad Invest Limited (both incorporated in the Cayman Islands). The Company and its subsidiaries are collectively referred to as the "Group". Petro Matad Service Limited, a subsidiary of the Company was dissolved on 1 January 2016, as the company was dormant due to no longer being operationally required.

Petrovis Matad Inc. is a major shareholder of the Company, holding approximately 32.06% of the shareholding at the year end of 2016.

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.

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 related Interpretations and other authoritative pronouncements.

(c) Going concern note

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group generated a profit of \$10.89 million (2015: \$0.19 million loss) and experienced net cash inflows from operating activities of \$1.79 million (2015: \$4.58 million). In addition, as outlined in Note 16(b) the Group is required to meet minimum exploration commitments in the next 12 months on its PSCs of approximately \$8.41 million with further commitments of \$21.07 million thereafter.

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

The ability of the Group to continue as a going concern is principally dependent upon a combination of 1 or more of the following:

- Being able to draw down a minimum of \$22.50 million from the Bergen Private Placement and Convertible Note agreement.
- Raising additional equity
- Further varying and/or deferring PSCs commitment expenditures; and/or
- Securing farm-out agreements to fund minimum exploration commitments.

On 8 May 2017, the Company announced a Private Placement/Convertible Note arrangement with Bergen which provides staged private placements of up to \$43.20 million worth of new ordinary shares in the Company and a convertible instrument with a nominal value of \$2 million. The staged private placements will occur over a period not exceeding 15 months and the value of each tranche will range between \$1.20 million - \$3 million per month, the precise amounts above \$1.20 million if any being subject to mutual agreement. The funds payable to the Company as a result of this arrangement will enable it to fund an aggressive work programme, which will result in meeting all PSCs expenditure commitments if \$22.50 million or more is received over the life of the agreement.

On 14 June 2017, the Company received PSCs extension approvals from the MRPAM for Blocks IV and V. These extensions are for two years to 29 July 2019. A further extension of two years is allowed under the PSCs. The agreed financial commitments for obtaining the extensions are \$5 million for Block IV and \$2 million for Block V over the two year extension period not including the existing commitments.

The Block XX PSC term was extended to July 2018 as a result of MRPAM's approval of a one year moratorium in 2016. Although the financial commitment did not increase as a result of the moratorium, the Group is still required to spend an additional \$21.30 million by the end of the current term in July 2018. The Company is currently in negotiations with MRPAM to substantially reduce this commitment in exchange for agreeing to restate the Block XX PSC in accordance with the new Petroleum Law. The Company is willing to consider this since all the key commercial terms are grandfathered and will not change. The outcome of these negotiations are unknown at this time.

The Directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this 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 Group be unable to achieve the matters referred to above, there is a material uncertainty whether the Group will be able to continue as a going concerns, 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 nor to the amounts and classification of liabilities that might be necessary should the Company and the Group not continue as going concerns.

(d) Application of new and revised Accounting Standards

Standards and Interpretations adopted in the current year

The Group 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 2016.

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

- *Annual Improvements to IFRSs 2010- 2012 Cycle and 2011-2013 Cycle*

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, the 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 Group for the year ended 31 December 2016:

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 2018	31 December 2018
IFRS 16 'Leases'	1 January 2019	31 December 2019
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016	31 December 2016

The impact of these recently issued or amended standards and interpretations are currently being assessed by the Group 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 six months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(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 6.0 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) Interest in joint operations

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint operator recognises the following in its financial statements in respect to the joint operation:

- its assets including its share of any jointly held assets;
- its liabilities, including its share of any jointly incurred liabilities;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly

The group accounts for the assets, liabilities, revenues and expenses relating to its interest in a Joint operation in accordance with IFRSs applicable to the particular asset, liabilities, revenues and expenses.

(w) Significant accounting judgments, estimates and assumptions

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

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

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

Share-based payments

The Group measures the cost of equity-settled transactions with Directors and employees at the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model. One of the inputs into the valuation model is volatility of the underlying share price which is estimated on the 4.5 year history of the share price and has been estimated in a range from 10% to 120% 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 2016 \$'000	31 Dec 2015 \$'000
(a) Revenue			
Interest Income		40	22
Other income:			
Consideration for the BG Group farm-out agreement*		14,008	4,486
Cash calls received from BG Group*		4,841	7,234
Other income*		-	2
		18,889	11,744

*On 28 April 2016, Shell which acquired BG Group, through its affiliate company issued an Exit Notice to Petro Matad's 100% owned subsidiary, Capcorp, exercising the exit option under the Farmout Agreement (FOA) dated 7 April 2015, to withdraw from Blocks IV and V Production Sharing Contracts in West/Central Mongolia. In accordance with provisions of the FOA, Shell's affiliate company was required to pay an exit payment of \$10,005,303, which was received by the Company on 9 August 2016, which along with Cash calls paid by Shell's affiliate prior to their exit accounts for the Other Income amount.

On 1 Feb 2017, following the withdrawal of Shell's Affiliate from Mongolia, \$5 million was received from the Affiliate, which was in relation to an agreement that such amount would be paid upon receipt of Mongolian government approval for the reassignment of Blocks IV and V interests back to the Company.

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
(b) Employee benefits expense			
Included in employee benefits expense are the following:			
Wages and salaries		2,370	1,601
Directors' fees (including Directors of affiliates)		144	175
Consultancy fees		574	557
Share-based payments		192	105
		3,280	2,438
(c) Exploration and evaluation expenditure			
Exploration and evaluation expenditure relates to the following PSCs:			
Block XX		-	1
Blocks IV and V		2,464	7,235
		2,464	7,236
(d) Other expenses			
Included in other expenses are the following:			
Administration costs		977	903
PSC administration costs		773	533
Audit fees		81	114
Travel expenses		137	137
		1,968	1,687

5 INCOME TAX

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'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 benefit 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 2015 \$'000	31 Dec 2014 \$'000
Net profit/(loss) for the year		10,896	(190)
Income tax benefit calculated at 10%	(i)	(1,090)	19
Effect of different tax rates on entities in different jurisdictions	(ii)	1,639	650
Change in unrecognised deferred tax assets		(549)	(669)
		-	-

(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 EARNINGS/(LOSS) PER SHARE

The following reflects the loss and share data used in the total operations basic and diluted earnings/(loss) per share computations:

	Consolidated	
	31 Dec 2016 cents per share	31 Dec 2015 cents per share
Basic earnings/(loss) per share	3.8	(0.1)
Diluted earnings/(loss) per share	3.8	(0.1)
	\$'000's	\$'000's
The loss and weighted average number of ordinary shares used in the calculation of basic and diluted earnings/(loss) per share are as follows:		
Net profit/(loss) attributable to owners of the parent	10,896	(190)
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share (in thousands)	287,626	-
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share (in thousands)	287,495	284,450

7 CASH AND CASH EQUIVALENTS

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Cash at bank and in hand		6,479	5,339
		6,479	5,339

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 \$6,479,000 (2015: \$5,339,000) due to the short-term nature of the instruments.

Reconciliation from the net gain/(loss) after tax to the net cash flows from operations:

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Net gain/(loss) after tax		10,896	(190)
<i>Adjustments for:</i>			
Depreciation and amortisation		226	97
Net (profit)/loss on disposal of property, plant and equipment		24	9
Share based payments		192	140
Unrealised foreign exchange (gains)/losses		110	10
Dissolvement of PMSL		18	-
<i>Changes in assets and liabilities</i>			
(Increase)/decrease in trade and other receivables		(3,797)	(1,117)
(Increase)/decrease in prepayments and other assets		289	(448)
Increase/(decrease) in trade and other payables		(6,167)	6,083
Net cash flows used in operating activities		1,791	4,584

Non-cash investing and financing activities

There were no non-cash investing or financing activities undertaken in the financial year or prior year (2015: \$0.79 million).

8 TRADE AND OTHER RECEIVABLES

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Current			
Receivable from BG Group		5,000	600
Other debtors		155	222
Non-Current			
Receivable from BG Group		-	536
		5,155	1,358

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

9 PREPAYMENTS AND OTHER ASSETS

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Prepayments		222	505
Other assets		301	307
		523	812

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

10 EXPLORATION AND EVALUATION ASSETS

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'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 Petro-matad Invest Limited, together with acquisition on 12 November 2007 of the remaining 50% not already held by the Group, for a consideration of 23,340,000 ordinary shares credited as fully paid up and with an estimated fair value of \$0.50 per share, taking into account assets and liabilities acquired on acquisition. This relates to the exploration and evaluation of PSC Block XX.

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

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

11 PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Plant and equipment at cost		1,300	1,050
Accumulated depreciation and impairment		(517)	(548)
		783	502

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

	Plant and equipment Total \$'000
As at 1 January 2015 (net of accumulated depreciation)	439
Additions	183
Disposals	(9)
Foreign exchange	(14)
Depreciation charge for the year	(97)
As at 31 December 2015 (net of accumulated depreciation)	502
Additions	676
Disposals	(59)
Foreign exchange	(110)
Depreciation charge for the year	(226)
As at 31 December 2016 (net of accumulated depreciation)	783

12 TRADE AND OTHER PAYABLES (CURRENT)

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Trade payables		1,352	4,097
Funding received in advance from BG Group		-	3,337
Other payables		-	2
		1,352	7,436

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

13 ISSUED CAPITAL

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Ordinary Shares			
287,494,775 shares issued and fully paid (2015: 287,494,775)		106,150	106,150
		106,150	106,150

Movements in ordinary shares on issue:

	Number of Shares	Issue Price \$	\$'000
As at 1 January 2015	279,487,279		105,278
Exercise of Conditional Share Awards on 23 April 2015 (note (a))	5,750,946	0.010	58
Exercise of Conditional Share Awards on 27 July 2015 (note (b))	2,256,550	0.010	23
			81
Share based payment	-	-	791
As at 31 December 2015	287,494,775		106,150
No transaction during 2016	-		-
As at 31 December 2016	287,494,775		106,150

(a) 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 pursuant to the Cash Preservation Scheme.

(b) On 27 July 2015, pursuant to the Group's Plan, 2,256,550 shares were awarded upon exercise of Conditional Share Awards with an exercise price per share of \$0.01 pursuant to the Cash Preservation Scheme.

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 2015	831	5,076	(1,011)	4,896
Currency translation differences	-	-	(41)	(41)
Share based payments	-	(845)	-	(845)
As at 31 December 2015	831	4,231	(1,052)	4,010
Currency translation differences	-	-	(93)	(93)
Share based payments	-	192	-	192
As at 31 December 2016	831	4,423	(1,145)	4,109

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 2017;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 30 September 2019; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil, estimated by management as being by 30 September 2020.

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.

No options have been issued during 2015 and 2016.

(c) Movement in Share Options

Consolidated	Opening balance at 1 Jan 2015	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2015	Exercisable as at 31 Dec 2015
Grant of Options on 3 June 2008	380,000	-	-	-	380,000	380,000
Grant of Options on 8 April 2009	216,250	-	-	-	216,250	216,250
Grant of Options on 9 July 2010	745,400	-	(125,000)	-	620,400	620,400
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	43,428	-	(3,828)	-	39,600	39,600
Grant of Options on 25 Apr 2012	861,940	-	(311,940)	-	550,000	550,000
Grant of Options on 16 Jul 2012	210,840	-	(45,840)	-	165,000	165,000
Grant of Options on 5 Oct 2012	75,000	-	-	-	75,000	75,000
Grant of Options on 4 Dec 2012	6,000	-	-	-	6,000	6,000
Grant of options on 9 July 2013	100,000	-	(50,000)	-	50,000	33,000
	2,983,858	-	(536,608)	-	2,447,250	2,430,250
Weighted Average Exercise Price (cents per option)	58.96	-	39.40	-	63.25	63.64

Consolidated	Opening balance at 1 Jan 2016	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2016	Exercisable as at 31 Dec 2016
Grant of Options on 3 June 2008	380,000	-	-	-	380,000	380,000
Grant of Options on 8 April 2009	216,250	-	-	-	216,250	216,250
Grant of Options on 9 July 2010	620,400	-	-	-	620,400	620,400
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	39,600	-	-	-	39,600	39,600
Grant of Options on 25 Apr 2012	550,000	-	-	-	550,000	550,000
Grant of Options on 16 Jul 2012	165,000	-	-	-	165,000	165,000
Grant of Options on 5 Oct 2012	75,000	-	-	-	75,000	75,000
Grant of Options on 4 Dec 2012	6,000	-	-	-	6,000	6,000
Grant of options on 9 July 2013	50,000	-	-	-	50,000	50,000
	2,447,250	-	-	-	2,447,250	2,447,250
Weighted Average Exercise Price (cents per option)	63.25	-	-	-	63.25	63.25

(d) Share Options contractual life

The weighted average remaining contractual life of outstanding share Options is 3.8 years (2015: 5.7 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 2015, along with relevant details in relation to each grant.

	(1) 7 Jul 2015
Conditional Share Awards granted	1,993,520
Share price at grant date	\$0.0621
Expected Volatility (%)	28
Risk-free interest rates (%)	0.50
Expected life (years)	10
Exercise Price	\$0.01
Estimated fair value of each Conditional Share Award at the grant date	\$0.0527

No awards have been issued during 2016.

(f) Movement in Conditional Share Awards

Consolidated	Opening balance at 1 Jan 2015	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 Dec 2015	Exercisable as at 31 Dec 2015
Grant of Conditional Share Awards on 3 Jun 2008	515,000	-	-	-	515,000	-
Grant of Conditional Share Awards on 8 Apr 2009	95,000	-	-	-	95,000	-
Grant of Conditional Share Awards on 9 Jul 2010	872,000	-	-	(125,000)	747,000	-
Grant of Conditional Share Awards on 6 Apr 2011	144,000	-	-	-	144,000	-
Grant of Conditional Share Awards on 5 Jul 2011	180,000	-	-	-	180,000	-
Grant of Conditional Share Awards on 22 Nov 2011	50,000	-	-	-	50,000	-
Grant of Conditional Share Awards on 5 Dec 2011	39,600	-	-	-	39,600	-
Grant of Conditional Share Awards on 25 Apr 2012	1,379,060	-	(526,060)	(3,000)	850,000	-
Grant of Conditional Share Awards on 5 Oct 2012	150,000	-	-	-	150,000	-
Grant of Conditional Share Awards on 4 Dec 2012	261,661	-	(258,661)	-	3,000	-
Grant of Conditional Share Awards on 9 Jul 2013	170,000	-	-	(50,000)	120,000	-
Grant of Conditional Share Awards on 23 Apr 2014	5,229,255	-	(5,229,255)	-	-	-
Grant of Conditional Share Awards on 7 Jul 2015	-	1,993,520	(1,993,520)	-	-	-
	9,085,576	1,993,520	(8,007,496)	(178,000)	2,893,600	-
Weighted Average Exercise Price (cents per award)	1.00	1.00	1.00	1.00	1.00	-

Consolidated	Opening balance at 1 Jan 2016	Granted during the year	Awarded during the year	Forfeited during the year	Closing balance as at 31 Dec 2016	Exercisable as at 31 Dec 2016
Grant of Conditional Share Awards on 3 Jun 2008	515,000	-	-	-	515,000	-
Grant of Conditional Share Awards on 8 Apr 2009	95,000	-	-	(15,000)	80,000	-
Grant of Conditional Share Awards on 9 Jul 2010	747,000	-	-	(100,000)	647,000	-
Grant of Conditional Share Awards on 6 Apr 2011	144,000	-	-	-	144,000	-
Grant of Conditional Share Awards on 5 Jul 2011	180,000	-	-	-	180,000	-
Grant of Conditional Share Awards on 22 Nov 2011	50,000	-	-	-	50,000	-
Grant of Conditional Share Awards on 5 Dec 2011	39,600	-	-	-	39,600	-
Grant of Conditional Share Awards on 25 Apr 2012	850,000	-	-	-	850,000	-
Grant of Conditional Share Awards on 5 Oct 2012	150,000	-	-	-	150,000	-
Grant of Conditional Share Awards on 4 Dec 2012	3,000	-	-	-	3,000	-
Grant of Conditional Share Awards on 9 Jul 2013	120,000	-	-	-	120,000	-
Grant of Conditional Share Awards on 23 Apr 2014	-	-	-	-	-	-
Grant of Conditional Share Awards on 7 Jul 2015	-	-	-	-	-	-
	2,893,600	-	-	(115,000)	2,778,600	-
Weighted Average Exercise Price (cents per award)	1.00	-	-	1.00	1.00	-

(g) Conditional Share Awards contractual life

The weighted average remaining contractual life of outstanding Conditional Share Awards is 11.5 years (2015: 12.5 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.

Due to prepayment of rent, the Group has no commitment for office lease in Mongolia as at 31 December 2016.

Note	Consolidated	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Operating Leases:		
Within one year	-	45
After one year but not more than five years	-	104
Greater than five years	-	-
	-	149

(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 MRPAM.

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

Note	Consolidated	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Production Sharing Contract Fees:		
Within one year	284	898
After one year but not more than five years	75	40
Greater than five years	-	-
	359	938
Minimum Exploration Work Obligations:		
Within one year	8,124	19,374
Greater than one year but no more than five years	21,004	15,580
Greater than five years	-	-
	29,128	34,954

(c) Contingencies

On 5 August 2016, Shell through its Affiliate company announced it would be withdrawing from Blocks IV and V in West/Central Mongolia. As part of the negotiations leading to formal Mongolian Government approval of the reassignment of interest from Shell's Affiliate to Petro Matad's Affiliate, Shell agreed to a payment of \$5 million to be remitted to Petro Matad's Affiliate upon such government approval being received. A condition to the payment by Shell is that the proceeds would be repaid to Shell by Petro Matad in the event a farmout is concluded in future prior to the development of either Block IV or V. There is no certainty that such farmout will be concluded in future in which case funds would not be repaid. The \$5 million payment was received on 1 February 2017.

17 RELATED PARTY DISCLOSURES

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

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

	Country of Incorporation	Equity Interest	
		2016 %	2015 %
Central Asian Petroleum Corporation Limited	Cayman Islands	100	100
Capcorp Mongolia LLC	Mongolia	100	100
Petromatad Invest Limited	Cayman Islands	100	100
Petro Matad LLC	Mongolia	100	100
Petro Matad Services Limited	Isle of Man	-	100

Subsidiary Details

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

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.

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. Petro Matad Services Limited was dissolved on 1 January 2016.

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.

Petrovis Matad Inc. is a major shareholder of the Company, holding approximately 32.06% of the shareholding at the year end of 2016.

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 2015 and 2016, are as below:

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

Directors		
Oyungerel Janchiv	Non-Executive Director	Resigned as Chairperson 1 August 2015
Enkhmaa Davaanyam	Non-Executive Chairperson	Appointed as Chairperson 1 August 2015
Philip Arthur Vingoe	Non-Executive Director	Retired 10 March 2017
Amarzul Tuul	Executive Director	
John Rene Henriksen	Chief Financial Officer	
Mehmed Ridvan Karpuz	Chief Executive Officer	Appointed as CEO 1 October 2015
Timothy Paul Bushell	Non-Executive Director	Appointed 10 March 2017

(b) Compensation of Directors

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Short-term employee benefits		1,402	864
Post-employment benefits		-	-
Share based payment expense		177	143
		1,579	1,007

(c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2015: 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:

	Weighted Average Int. rate	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Financial Assets			
Cash and cash equivalents	0.94%	6,479	5,339
Trade and other receivables	0%	5,155	1,358
		11,634	6,697
Financial Liabilities			
Trade and other payables	0%	1,352	7,436
		1,352	7,436
Net exposure		10,282	(739)

Sensitivity Analysis

If the interest rate on cash balances at 31 December 2015 and 2016 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	
	2016	2015	2016	2015
USD				
Mongolian Tugrug (MNT) 1	2,145.72	1,969.88	2,489.53	1,995.98
Australian Dollar (AUD) 1	1.34553	1.37978	1.38851	1.37003
Great British Pound (GBP) 1	0.74031	0.66662	0.81029	0.67553

Sensitivity Analysis

A 5% strengthening/weakening of the MNT against USD at 31 December 2015 and 2016 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:

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Financial Assets			
Trade and other receivables	8	5,155	1,358
Net exposure		5,155	1,358

Impairment Losses

None of the Group's receivables are past due at 31 December 2016 (2015: 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:

	Note	Consolidated	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
6 months or less		1,352	6,938
6-12 months		-	498
1-5 years		-	-
over 5 years		-	-
		1,352	7,436

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 Group approximate their carrying value due to their short term duration.

	Fair Value Hierarchy as at 31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Trade and other receivables	-	5,155	-	5,155
Total	-	5,155	-	5,155

	Fair Value Hierarchy as at 31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial Liabilities				
Trade and other payables	-	1,352	-	1,352
Total	-	1,352	-	1,352

	Fair Value Hierarchy as at 31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Trade and other receivables	-	1,358	-	1,358
Total	-	1,358	-	1,358

	Fair Value Hierarchy as at 31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial Liabilities				
Trade and other payables	-	7,436	-	7,436
Total	-	7,436	-	7,436

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 1 Feb 2017, following the withdrawal of Shell's Affiliate from Mongolia, \$5 million was received from the Affiliate, which was in relation to an agreement that such amount would be paid upon receipt of Mongolian government approval for the reassignment of Blocks IV and V interests back to the Company which was received on 15 December 2016 with the Protocol of Assignments signed on 18 January 2017.

On 24 March 2017, 197,500 shares were issued to Directors and employees upon exercise of options under the Group's Plan with an exercise price per share of GBP0.11.

On 24 March 2017, 75,000 shares were awarded to a Director upon exercise of options under the Group's Plan with an exercise price per share of GBP0.0788.

On 24 March 2017, 16,000 shares were awarded to a Director and employees upon exercise of options under the Group's Plan with an exercise price per share of GBP0.1975.

On 24 March 2017, 141,000 shares were awarded to employees upon exercise of options under the Group's Plan with an exercise price per share of GBP0.0888.

On 8 May 2017, the Company announced a Private Placement/Convertible Note arrangement with Bergen, which provides staged private placements of up to \$43.20 million worth of new ordinary shares in the Company and a convertible instrument with a nominal value of \$2 million. The staged private placements will occur over a period not exceeding 15 months and the value of each tranche will range between \$1.2 million - \$3 million per month, the precise amounts being subject to mutual agreement.

On 11 May 2017, the Company issued 5,651,951 commencement and collateral shares to Bergen as part of the initial closing under the Private Placement arrangement.

On 16 May 2017, the Company received \$1,235,000 from Bergen for the first tranche and collateral shares payment.

On 13 June 2017, the Company issued 9,507,963 new ordinary shares to Bergen in relation to the first tranche payment.

On 14 June 2017, the Company received PSC extension approvals from MRPAM for Blocks IV and V. These extensions are for two years to 29 July 2019. A further extension of two years is allowed under the PSCs. The agreed financial commitments for obtaining the extensions are \$5 million for Block IV and \$2 million for Block V.

On 21 June 2017, the Company received \$1,200,000 from Bergen for the second tranche payment.

22 AUDITORS' REMUNERATION

The auditor of Petro Matad Limited is Bentleys (WA) Pty Ltd.

Note	Consolidated	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Amounts received or due and receivable by Bentleys (WA) Pty Ltd (2015: Deloitte):		
- an audit or review of the financial report of the entity and any other entity in the Group	42	75
- other services in relation to the entity and any other entity in the Group	-	-
	42	75
Amounts received or due and receivable by Deloitte Onch Audit LLC:		
- an audit or review of the financial report of subsidiary entities	39	39
- other services in relation to the subsidiary entities	-	-
	39	39
	81	114

23 OTHER INFORMATION

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DIRECTORS' DECLARATION

11

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 Group's financial position as at 31 December 2016 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; 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 2017

Independent Auditor's Report

To the Members of Petro Matad Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Petro Matad Limited ("the Company") and its subsidiaries ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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.

In our opinion, the consolidated financial report gives a true and fair view of the consolidated entity's financial position as at 31 December 2016 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 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.



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Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)

Basis for Opinion

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 about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Isle of Man Companies Act 2006* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Exploration and evaluation \$15.28 million (Refer to Note 10 Exploration and evaluation assets)</p> <p>The balance is in relation to the exploration and evaluation of PSC block XX in Mongolia.</p> <p>We focused on this area due to the size of the exploration and evaluation balance (\$15.28 million as at 31 December 2016) and to determine whether there are any indicators that the asset is impaired and therefore not recoverable under <i>IFRS 6 "Exploration for and Evaluation of Mineral Resources"</i>.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▶ For Block XX, we assessed the Consolidated Entity's rights to tenure by corroborating to government registries and evaluating agreements in place with other parties; ▶ Reviewed budgeted exploration expenditure on Block XX to ensure it will satisfy the capital commitment required under the Production Sharing Agreement; ▶ We assessed Block XX for one or more of the following circumstances that may indicate impairment of the capitalised expenditure and concluded no issues: <ul style="list-style-type: none"> ▶ the licenses for the right to explore expiring in the near future or are not expected to be renewed; ▶ substantive expenditure for further exploration in the specific area is neither budgeted or planned'

Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)



Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> ▶ decision or intent by the Consolidated Entity to discontinue activities in the specific area of interest due to lack of commercially viable quantities of resources; and ▶ data indicating that, although a development in the specific area is likely to proceed, the carrying amount of the exploration asset is unlikely to be recorded in full from successful development or sale.
<p>Farm in Revenue \$18.85 million (Refer to Note 4a Revenue)</p> <p>The majority of the revenue for the period pertained to exit payments received from BG Group upon the termination of the farm-out agreement as disclosed in Note 4a.</p> <p>The risks we identified surrounding the termination fees is whether they have been accurately and completely accounted for within the financial statements in the correct period and in accordance with the Farm-out Agreement. This is what led to this being a Key Audit Matter in addition to its size compared to total revenue of \$18.89 million.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▶ Reviewed farm out agreement & other correspondence to confirm the right to receive cash under the contract with reference to IFRS 39 ▶ Made enquiries of management in relation to terms of exit payments with respect to timing of receipt and the right to receive the final payment for \$5 million. We confirmed the final payment of \$5 million met the recognition requirement as a receivable as at 31 December 2016. ▶ Agreed total receipt of funds (\$18.85 million) to bank statements
<p>Share based payments \$0.19 million (Refer to Note 15 Share based payments)</p> <p>As disclosed in Note 15, the Consolidated Entity provides long term incentives to employees and consultants based on the achievement of certain performance criteria. The Plan provides for share awards in the form of Options and Conditional Share Awards.</p> <p>These share awards are subject to the measurement and recognition criteria of IFRS 2 "Share-based Payments".</p> <p>As disclosed in Note 15, there are various assumptions made by Management in determining the probability of certain performance conditions being met. There are further accompanying service conditions attached to Options and Conditional Share Awards.</p> <p>This is a Key Audit Matter due to the subjectivity and estimates required to be applied by management.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▶ Obtaining a reconciliation of outstanding options and conditional share awards. ▶ Enquired with Management whether there have been any new options or shares issued during the year ▶ Enquired with Management whether any Shares or Options vested during the year. ▶ Reviewed the current probabilities and estimated vesting dates assigned to the performance conditions attached to Share Awards being met to ascertain whether they are reasonable. ▶ Ensured disclosure is complete and accurate.

Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)



Key audit matter	How our audit addressed the key audit matter
<p>Exploration and Expenditure Commitments Production Sharing Contract Fee: \$0.36 million Minimum Exploration Work Obligations: \$29.13 million (Refer Note 16b Exploration Expenditure Commitments)</p> <p>As disclosed in Note 16b Petro Matad Limited has minimum spend obligations under the terms of its Petroleum Sharing Contracts with the Petroleum Authority of Mongolia. This has been determined a Key Audit Matter as adherence to these requirements is required for Petro Matad Limited to maintain the rights for exploration and thus its principal activity.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▶ Obtaining the Petroleum Sharing Agreements for each block and agreeing the contract fees and work obligations to the relevant calculations. ▶ Recalculating the disaggregation of total amounts due and comparing to the breakdown disclosed of amounts due in each subsequent period. ▶ Ensuring amounts disclosed represent future obligations and that no present obligations at year end are included. ▶ Cross referencing of internal budgets and forecasts to ensure they are consistent with the obligations disclosed.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the Isle of Man Companies Act 2006 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state in accordance with International Accounting Standard IAS 1 *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)



In preparing the financial report, the directors are responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the International Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



BENTLEYS
Chartered Accountants



CHRIS NICOLOFF CA
Director

Dated at Perth this 29th day of June 2017



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