



Petro Matad Limited

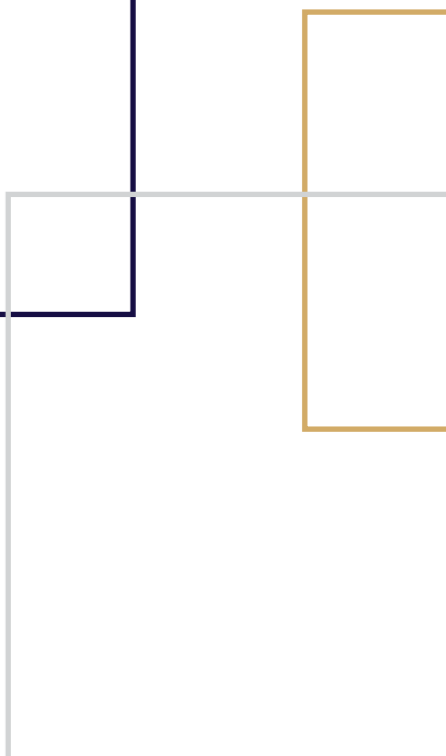
# ANNUAL REPORT

for the year ended 31 December 2017



2017

ANNUAL REPORT



# CONTENTS

<b>1</b>	Board of Directors . . . . .	4
<b>2</b>	Directors' Report . . . . .	12
<b>3</b>	Directors' Statement . . . . .	16
<b>4</b>	Health, Safety, Security and Environment . . . . .	24
<b>5</b>	Corporate Social Responsibility . . . . .	28

<b>6</b>	Corporate Governance Statement . . . . .	32
<b>7</b>	Remuneration Report (Unaudited) . . . . .	38
<b>8</b>	Consolidated Financial Statements . . . . .	44
<b>9</b>	Notes to the Consolidated Financial Statements . . . . .	50
<b>10</b>	Directors' Declaration . . . . .	85
<b>11</b>	Independent Auditor's Report . . . . .	86

1	Corporate information	52
2	Summary of significant accounting policies	52
3	Operating segments	63
4	Revenues and expenses	63
5	Income tax	64
6	(Loss)/Earnings per share	65
7	Cash and cash equivalents	66
8	Trade and other receivables	67
9	Prepayments	67
10	Financial assets	67
11	Inventory	68
12	Exploration and evaluation assets	68
13	Property, plant and equipment	68
14	Trade and other payables (current)	69
15	Issued capital	69
16	Reserves	71
17	Share based payments	72
18	Commitments and contingencies	76
19	Related party disclosures	77
20	Key management personnel	78
21	Financial risk management objectives and policies	78
22	Capital management	82
23	Events after the reporting date	83
24	Auditor's remuneration	83
25	Other information	84

# BOARD OF DIRECTORS

1

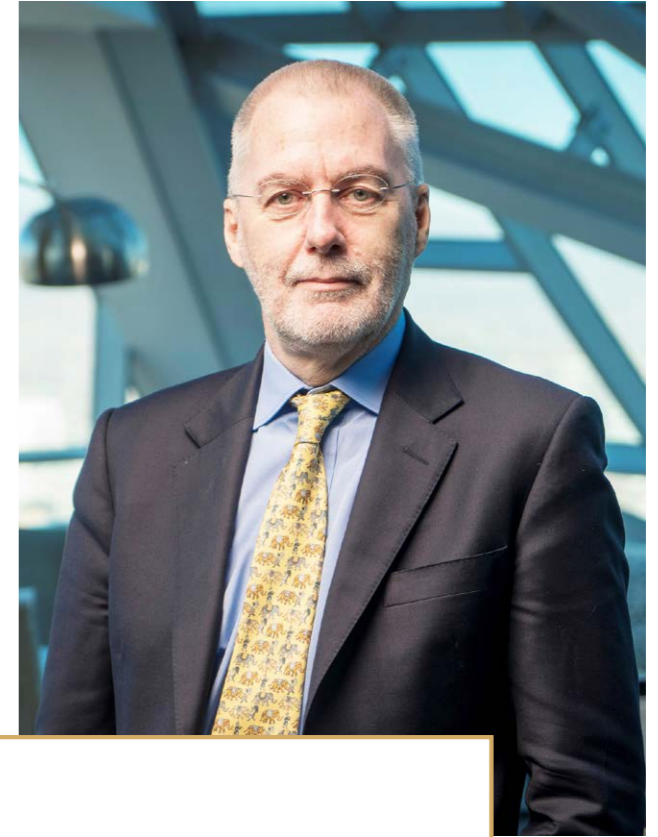




## Enkhmaa Davaanyam

Chairperson

Ms. Enkhmaa is the CEO of Petrovis Group, Mongolia's largest fuel supplier. Ms. Enkhmaa has over 18 years of international experience in financing and risk management of mining, infrastructure and energy projects and commodities trading. She serves as Deputy Chair of Board of Directors of Petrovis Group since 2011 and was appointed as the CEO in August 2013. Prior to joining Petrovis Group, Ms. Enkhmaa worked as a Managing Director at Macquarie Group for over 10 years, responsible for risk management in the energy sector in the United States. Ms. Enkhmaa was appointed as Petro Matad's Chairperson in 2015.



## Michael Buck

Chief Executive Officer (CEO)

Mr. Buck is a geologist/geophysicist by training and joined the oil industry in 1979. He spent 20 years with LASMO PLC working first as a prospect generator focused on the UK continental shelf. He then moved to international assignments in Indonesia, Colombia, Vietnam and Libya and was involved in the discovery of several commercial oil and gas field. Following Eni's takeover of LASMO, Mike became Managing Director of Eni Pakistan and then Managing Director of Eni Iran, working on major oil and gas developments in both countries. In 2006, Mike joined S E Asian focused Salamander Energy PLC as Chief Operating Officer. After the takeover of Salamander by Ophir Energy he was retained to help with the integration process following which he consulted for a number of companies in the S E Asian region before joining Petro Matad. Mike has worked on all aspects of the E&P value chain. He holds a BSc in Geophysics from Liverpool University and an MSc (with Distinction) in Petroleum Geology from Imperial College, London.



### **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.



### **Timothy Bushell**

Non-Executive Director

Mr. Bushell is a qualified geologist with more than 35 years' experience in the oil and gas industry. He has worked for British Gas, Ultramar, LASMO, and Paladin Resources. Most recently Tim was Chief Executive Officer at Falkland Oil and Gas Limited and Director/co-founder of Core Energy AS (now Point Resources AS). He is currently serving as a Non-Executive Director on the Boards of Rockhopper Exploration PLC and Genel Energy Limited. He is also a Director of Point Resources AS and Redrock Energy Limited.



## John 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.

# DIRECTORS' REPORT

2

Your Directors submit their report for the year ended 31 December 2017.

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".

## 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)
- Amarzul Tuul (Stepped down 11 September 2017)
- John Rene Henriksen
- Mehmed Ridvan Karpuz (Stepped down 15 October 2017)
- Timothy Paul Bushell (Appointed 10 March 2017)
- Michael James Buck (Appointed 1 November 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 loss after tax for the Group for the 12 months ended 31 December 2017 was \$9.93 million (31 December 2016: Profit \$10.90 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 February 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 \$43,200,000 worth of new ordinary shares in the Company and a convertible instrument with a nominal value of \$2,000,000. The staged private placements were planned to occur over a period not exceeding 15 months and the value of each tranche ranging 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 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.

On 18 July 2017, the Company issued 13,389,719 new ordinary shares to Bergen in relation to the second tranche payment.

On 16 August 2017, the Company received \$1,500,000 from Bergen for the issue of a convertible note.

On 1 September 2017, the Company issued 16,784,344 new ordinary shares to Bergen in relation to the issue of a convertible note.

#### Significant Events after Reporting Date

On 9 February 2018, the Company issued 59,167,335 shares through direct subscriptions at a price of GBP0.065 per share.

On 9 February 2018, the Company concluded a placement by issuing 19,708,520 shares at a price of GBP0.065 per share arranged through its broker, Pareto.

On 9 February 2018, the Company concluded a placement by issuing 67,057,398 shares at a price of GBP0.065 per share arranged through its broker, Stifel.

On 9 February 2018, the Company concluded a placement by issuing 40,654,376 shares at a price of GBP0.065 per share arranged through its broker, Stockdale.

On 14 February 2018, pursuant to the Group's Plan, 5,507,533 Bonus Share Awards were issued to Directors and employees. These have an exercise price per share of \$0.01.

On 3 April 2018, 2,598,911 shares were awarded to employees upon exercise of Awards under the Group's Plan, with an exercise price per share of \$0.01.

On 16 April 2018, 2,868,065 shares were awarded to Directors and employee upon exercise of Awards under the Group's Plan, with an exercise price per share of \$0.01.

#### Dividends

No dividends have been paid or are proposed in respect of the year 2017 (2016: 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  
4 June 2018

# DIRECTORS' STATEMENT

3

## SUMMARY

2017 was a challenging year which commenced with an expectation that the Company would conduct its first drilling operation for more than six years. Snow Leopard-1 (Irvs-1) in Block V was planned to be drilled in the second half of 2017 and would have been the first exploration well drilled in this part of Mongolia. As the year progressed, it became evident that the drilling rig contracted for the programme would not achieve the required certification to international standards, in time to allow the well to be completed prior to winter setting in. The Company therefore took the decision to defer drilling until 2018.

While disappointing, this did provide the Company with additional time in which to review and revise its financing and operational strategy. In October 2017, the Company appointed a new Chief Executive Officer, Mr. Mike Buck, who brought with him considerable international exploration and production expertise, including experience in raising equity funding. With the full support of the Board, in January 2018 the CEO and the Technical Non-Executive Director, Mr. Tim Bushell, embarked on an equity raise roadshow, with a view to replacing the Company's previous equity financing arrangements. Meetings were held with more than 50 institutions and potential investors to present the exploration strategy and the opportunity was well received, with investors participating in a placing to raise \$16.8 million at 6.5p per share. The Company's largest shareholder, Petrovis Matad Inc, once again showed its full support of, and commitment to, the Company as the largest participant in the raise. Additionally Petro Matad's management also participated. At the time of publication the shares are currently trading at 12p.

The fundraise has enabled the Company to implement an aggressive, impactful and exciting drilling programme in 2018.

## 2017 REVIEW

### Governance

During 2017, the Company strengthened its Board with the addition of Mr. Tim Bushell as Technical Non-Executive Director (in April) and Mr. Mike Buck as Chief Executive Officer (in October). Both are qualified geoscientists and each has more than thirty years of related experience in international upstream oil and gas exploration and production.

### HSSE

As part of the Board's ongoing process of continual improvement the Company's Health, Safety, Security and Environmental Management System (HSSE MS) has been fully structured to follow

International Association of Oil and Gas Producers (IOGP) guidelines and has been rolled out and implemented within the Company. All incidents are fully investigated, recorded and classified according to IOGP guidelines and learnings are shared through the management review process.

The Company is fully committed to environmental protection and ensures all practical measures are implemented. National and international standards are strictly followed with reference to ISO 14001 as the benchmark.

Both the Company and its sub-contractors followed all prescribed procedures during 2017 operations which were conducted in full legal compliance at all times. Environmental specialists were contracted to undertake base line and environmental impact studies and to generate independent reports on the Company's compliance to environmental policies. There were no environmental incidents during the Company's field activities in 2017.

The Company had no lost time injuries (LTI) and no reportable incidents during the year. The Company has an overall goal of zero LTI and strives to maintain this in all of its 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 the necessary approvals from industry regulator, the Mineral Resources and Petroleum Authority of Mongolia (MRPAM), and then participates in joint meetings with the regulator and the local communities to present and discuss planned activities. In addition to meeting local government officials, the socialisation programmes will also normally include town hall meetings where questions from local residents are answered. Company representatives will also meet with nomadic herders who may be in proximity to planned operations.

A focused programme of community projects is undertaken in areas where operations are conducted, and this is done in cooperation with local government.

The Company views the successful engagement with local communities as a key to conducting safe and successful operations.

### PSC Licences

On 15 June 2017, the Company announced that the 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. In exchange for these extensions, the Company agreed to further commit \$5 million in expenditure in Block IV and \$2 million in Block V. These additional commitments, along with the commitments in the first eight-year terms of the PSCs, will be fully met by the planned 2018 drilling programme.

In October 2017, the Company lodged an application with MRPAM to extend the PSC on Block XX for a further two years. This was approved in early 2018. The term of the PSC now runs to July 2020. No additional work programme or financial commitment were required to obtain the two-year extension. The outstanding commitment in the previous term will be carried forward into the extended term.

### Operations

The 2017 work programme was initially focused on preparations for drilling wells in Blocks IV and V in western central Mongolia. The tender processes for the planned drilling programme commenced in late 2016. A significant number of companies expressed initial interest in providing rigs, and after pre-qualification processes were completed three valid bids were received. Evaluation and negotiations followed which eventually led to the award of the drilling contract to Sinopec. Subsequently, the Company's primary focus was to prepare for drilling and to work with Sinopec to ensure the rig achieved certification to international standards prior to mobilisation.

As previously announced, the Company took the decision to defer the planned 2017 drilling programme as the rig had not achieved certification in time for the drilling to be conducted before winter set in. While this was an unfortunate outcome, the Company had no choice but to delay the drilling programme once it was clear that rig certification to recognised international industry standard, a prerequisite for Petro Matad, would not be achieved within the required timeframe. Sinopec did eventually achieve the required rig certification in October 2017, meeting all of the Company's requirements and the rig is in good working order and ready to undertake the planned drilling programme in Blocks IV and V in 2018.

With the postponement of the 2017 drilling campaign, the Company re-evaluated its work plans for the remainder of the year and decided to accelerate a programme of 3D seismic acquisition in the Tugrug Basin in Block V, with a view to optimising the 2018 drilling programme. The Tugrug Basin has long been of particular interest as the TSC-1 core hole, drilled by Petro Matad in 2011, had proved a working petroleum system with the discovery of live oil staining in sandstones and basement rocks. The interpretation of previous 2D seismic programmes in the basin had resulted in the mapping of attractive prospects, but sub-surface structural complexity was such that it was determined that a 3D seismic programme was needed to reduce pre-drill risks.

A 200km<sup>2</sup> 3D seismic survey was successfully acquired in November and December 2017. A planned 2D survey, also in the Tugrug Basin, was postponed to avoid disturbance to local herders in what, at the time, was the only piece of winter pasture not snowbound in the area. The acquisition crew subsequently moved to Block IV to acquire 204 km of 2D seismic in the Khangai Basin. This programme was designed to evaluate a newly defined deep and prospective basin in Block IV evident on only two regional 2D seismic lines and on 2015 high resolution gravity and magnetics data. Acquisition was completed successfully in early 2018.

### Farmout

Following the exit of Shell from Blocks IV and V after its takeover of Petro Matad's partner BG Group, the Company initiated a farmout process that ran through most of 2017. The goal was to find a well-financed and experienced partner for the exploration campaign planned on Blocks IV and V. Whilst most companies that attended the data room were very positive about the technical aspects of the opportunity, the year passed without any firm offers to farm in. From the feedback received Petro Matad believes this to be a combination of the high hurdles companies place, when considering new country entry decisions, along with a continued lull within the exploration farm in market following the 2015 decrease in oil prices.

Petro Matad's successful equity raise in early 2018 has fully financed the Company for its planned 2018 work programme, with the requirement for a farmout less pressing to the business at this stage. This allows the Company to be more strategic in its thinking and a farmout that enables a significant expansion of the work programme could be an attractive proposition if achievable on good commercial terms. With evidence of a gradual improvement in market sentiment towards exploration, it was decided to continue the farmout process into 2018. This has allowed the Company to gauge market interest and the Company will evaluate any proposals that may be forthcoming.

### 2018 OUTLOOK

With funding secured for the high impact exploration drilling programme, 2018 is going to be a very exciting year for the Company. Preparations are in hand to spud the first well, on the Snow Leopard prospect in Block V, in July 2018. This is to be followed back to back by a well on the Wild Horse prospect in Block IV. These two targets have estimates of 90MMbo and 480MMbo respectively of prospective resources, presenting excellent success case economics. In Block XX, five lease line prospects have been identified straddling the boundary of Petro Matad's Block XX and Petro China's producing Block

XIX to the North. These targets offer prospective resources in the range of 15 to 28MMbo and have high chance of success with the potential for early commercialisation via production through adjacent processing and export facilities. Drilling in Block XX is expected to commence in the second half of 2018.

### CONCLUSION

The Directors would like to express their appreciation to the staff of Petro Matad, both technical and non-technical, who have worked with enthusiasm and diligence throughout the year. The Board looks forward to an exciting time ahead with the full commitment of the Petro Matad team. The Board would also like to express its gratitude to shareholders for their continued support of the Company.

### Board of Directors

# ТУЗ-ИЙН ГИШҮҮДИЙН МЭДЭГДЭЛ

## АЛБАН БУС ОРЧУУЛГА

### ХУРААНГУЙ

Зургаан жил гаруй хугацаа өнгөрсний дараа дахин өрөмдлөг хийнэ гэсэн хүлээлтэй эхэлсэн 2017 он компанийн хувьд нэгэн сорилттой жил болж өнгөрлөө. V талбайн Ирвэс-1 цооногийг 2017 оны хоёрдугаар хагаст өрөмдөхөөр төлөвлөсөн байсан бөгөөд энэхүү цооног нь Монгол орны тус бүс нутагт өрөмдөгдөх анхны хайгуулын цооног болох байв. Ажлыг хийлгэхээр гэрээлсэн өрмийн цамхаг нь олон улсын стандартад нийцсэн, шаардлагат гэрчилгээжүүлэлт, баталгаажуулалтыг цооногийг өвөл болохоос өмнө дуусгах боломжтой байх цаг хугацаанд нь авч амжихгүй нь ажлын явцад тодорхой болсон. Ингээд компани өрөмдлөгийн ажлыг 2018 он руу шилжүүлэх шийдвэр гаргасан юм.

Таагүй хэдий ч энэ нь компанид санхүү болон үйл ажиллагааныхаа стратегийг нягтлан шалгах, өөрчилж сайжруулах ахиу цаг, хугацаа гаргасан. 2017 оны 10-р сард Ерөнхий гүйцэтгэх захирлын албан тушаалд ноён Майк Бакийг шинээр томилсон ба тэрээр хайгуул, олборлолтын талын ихээхэн олон улсын мэдлэг, экспертиз авчраад зогсохгүй санхүүжилтийн хөрөнгө босгох туршлагатай нэгэн юм. ТУЗ-ийн бүрэн дэмжлэгтэйгээр 2018 оны 01-р сард компанийн Ерөнхий гүйцэтгэх захирал техникийн талын хараат бус захирал ноён Тим Бушеллын хамтаар хөрөнгө босгох мэдээллийн аян эхлүүлсэн ба компанийн урьдын хийсэн санхүүжилтийн тохиролцоог солих зорилготой байв. Хайгуулын стратегиа танилцуулан 50 гаруй байгууллага, боломжит хөрөнгө оруулагчидтай уулзалт хийсэн бөгөөд энэ үйл ажиллагаа амжилттай болж нэг хувьцааг 6.5 пенс стерлингээр үнэлэн 16.8 сая ам.доллар босгоход хөрөнгө оруулагчид хувьцаа авч оролцлоо. Манай компанийн хамгийн том хувьцаа эзэмшигч Петровис Матад компани уг хөрөнгө босголтонд хамгийн том оролцогч нь байснаараа компанийг бүрэн дэмждэг, компанид бүрэн итгэж байгаагаа дахин нэг харууллаа. Түүнчлэн Петро Матадын удирдлагын баг үндэс оролцсон. Энэхүү тайланг гаргаж буй энэ цаг үед хувьцаа 12пенс стерлингээр арилжаалагдаж байна.

Энэхүү хөрөнгө босголт маань компанид эрчимтэй, өндөр нөлөө үзүүлэх, сэтгэл хөдөлгөм өрөмдлөгийн хөтөлбөрийг 2018 онд хэрэгжүүлэх боломж олгоод байна.

### 2017 ОНЫ ТОЙМ

#### Засаглал

2017 онд компани нь техникийн талын хараат бус захирлаар ноён Тим Бушеллыг (04-р сард), ерөнхий гүйцэтгэх захирлаар ноён Майк Бак (10-р сард) нарыг томилон ТУЗ-ийн хүчийг зузаатгалаа. Хоёул маш чадварлаг гео-шинжлэх ухааны мэргэжилтнүүд бөгөөд газрын тос, хийн хайгуул, олборлолтын талбарт гуч илүү жилийн олон улсын ажлын туршлагатай хүмүүс юм.

#### ХАБЭАБО

ТУЗ-өөс компанийн үйл ажиллагааг тогтмол сайжруулах зорилгоор авч хэрэгжүүлдэг ажлын хүрээнд компанийн Хөдөлмөрийн аюулгүй байдал,

Эрүүл ахуй, Байгаль орчны менежментийн систем (ХАБЭАБО-ы МС)-ийг Олон улсын газрын тос, байгалийн хий олборлогчдын холбоо (IOGP)-ны удирдамжийг мөрдөж баримтлах зорилготой бүтцэд бүрэн оруулан нэвтрүүлж, компанийн үйл ажиллагаанд ашиглаж байна. Аливаа гарсан тохиолдлыг IOGP-ны удирдамжийн дагуу бүрэн шалгаж, бүртгэж, ангилдаг ба эдгээрээс олж авч, суралцсан зүйлсийг удирдлагын хяналтын үйл явцын хүрээнд цааш түгээдэг.

Компани нь байгаль орчныг хамгаалах тал дээр өндөр хариуцлагатай ажилладаг бөгөөд авч болох бүх арга хэмжээг хэрэгжүүлэх боломжоор хангадаг. ISO 14001-ийг жишиг болгон үндэсний болон олон улсын стандартуудыг чанд мөрдөн ажиллаж байна.

2017 оны үйл ажиллагааны явцад компани болон туслан гүйцэтгэгчид цаг мөч бүрт заагдсан горим журмыг мөрдөж, хууль дүрмийн хүрээнд ажилласан. Суурь судалгаа болон байгаль орчны нөлөөллийн үнэлгээ хийлгэх, компанийн байгаль орчны чиг бодлогын биелүүлэлтэн дээр хараат бус тайлан гаргуулах зэрэгт байгаль орчны мэргэжлийн байгууллагууд гэрээлж ажиллуулсан. 2017 онд компанийн талбай дээрх үйл ажиллагааны явцад ямарваа нэгэн байгаль орчинтой холбоотой зөрчил гараагүй болно.

Компанийн хувьд тайлант жилийн туршид хугацаа алдсан гэмтэл (LTI) эсвэл тайлагнавал зохих тохиолдлууд гараагүй. Компанийн ерөнхий зорилго бол LTI-ийг тэг байлгах бөгөөд үүнийг бүх үйл ажиллагаандаа цаашид хадгалж үлдэхийг хичээж байна.

#### Олон нийтийн харилцаа

Компани олон нийтийн оролцоо, харилцаатай холбоотой хариуцлагаа маш чухалд үздэг. Аливаа ажлын хөтөлбөрийг эхлүүлэхээс өмнө компани нь шаардлагатай зөвшөөрлүүдийг салбар хариуцсан агентлаг Ашигт малтмал, газрын тосны газар (АМГТГ)-аас авдаг ба үүний үндсэн дээр төлөвлөсөн үйл ажиллагаагаа танилцуулж, хэлэлцэх зорилготойгоор орон нутаг, олон нийт, дээрх агентлагийн оролцоотой хамтарсан уулзалтуудад оролцдог. Орон нутгийн засаг захиргааны албан тушаалтнуудтай уулзалт хийхийн зэрэгцээ нийгмийн хөгжил, орон нутгийн хамтын ажиллагааны хөтөлбөрүүдийн хүрээнд орон нутгийн иргэдийн асуултанд хариулах

уулзалтыг тухайн газрын захиргааны байранд нь зохион байгуулдаг. Мөн компанийн төлөөлөгчид үйл ажиллагаа явуулахаар төлөвлөсөн газарт ойролцоо амьдардаг эсвэл нутагладаг нүүдэлчин малчидтай уулзаж ярилцдаг.

Үйл ажиллагаа явуулж байгаа газруудад орон нутаг руу төвлөрсөн хөтөлбөрүүдийг нутгийн захиргаатай хамтран хэрэгжүүлдэг.

Компани аюулгүй бөгөөд амжилттай үйл ажиллагаа хэрэгжүүлэхийн гол түлхүүр бол орон нутгийн түлхүү оролцоо, хамтын ажиллагаа хэмээн үздэг.

## Бүтээгдэхүүн Хуваах Гэрээнүүд

АМГТГ IV, V талбайн Бүтээгдэхүүн Хуваах Гэрээ (БХГ)-ний хайгуулын хугацааны тус бүр 2 жилийн буюу 2019 оны 07-р сарын 29-нийг хүртэлх сунгалтыг албан ёсоор зөвшөөрснийг компани 2017 оны 06-р сарын 15-ны өдөр мэдэгдсэн. БХГ-нд дахин 2 жилийн сунгалт тусгагдсан байдаг ба компани 2019 оны эхээр үүнд хүсэлт гаргах эрхтэй байх юм. Дээрх сунгалтын хариуд компани 5 сая ам.долларыг IV талбай дээр, 2 сая ам.долларыг V талбай дээр нэмэлтээр зарцуулахаар тохирсон. Эдгээр нэмэлт амлалтууд нь БХГ-ний эхний найман жилийн хугацааны амлалтуудын хамт 2018 онд төлөвлөсөн өрөмдлөгийн хөтөлбөрийг хэрэгжүүлснээр бүрэн биелэгдэх болно.

2017 оны 10-р сард компани XX талбайн БХГ-г дахин 2 жилээр сунгуулах хүсэлтээ АМГТГ-т тавьсан. Энэ нь 2018 оны эхээр зөвшөөрөгдсөн болно. БХГ-ний хугацаа 2020 оны 07-р сар хүртэл үргэлжилнэ. Энэ 2 жилийн сунгалтыг авахын тулд нэмэлт ажлын хөтөлбөр эсвэл санхүүгийн амлалт шаардагдаагүй ба өмнөх хугацааны биелүүлээгүй амлалтыг сунгасан хугацаа руу шилжүүлэн тооцох юм.

## Үйл ажиллагаа

2017 оны ажлын хөтөлбөр анхлаад Монгол орны баруун-төв хэсэгт байрлах IV, V талбайд цооног өрөмдөхөд бэлтгэхэд төвлөрч байв. Энэхүү төлөвлөгөөт өрмийн хөтөлбөрийн тендерийн үйл ажиллагаа 2016 оны сүүлээр эхэлсэн байсан. Нэлээд олон компани өрмийн цамхгаа оролцуулах сонирхлоо илэрхийлж байсан бөгөөд урьдчилсан сонгон шалгаруулалт дууссаны дараагаар гурван шаардлага хангахуйц тендерийн материал хүлээн авсан. Үнэлгээ болон хэлэлцээрүүдийн үр дүнд

Синопек өрөмдлөгийн гэрээг авах компаниар эцэстээ тодорсон юм. Ингээд манай компанийн гол анхаарал өрөмдлөгийн ажилд бэлтгэх, мөн өрмийн цамхгийг нүүлгэхээс өмнө олон улсын стандартад нийцүүлэн гэрчилгээжүүлэн баталгаажуулахад Синопектэй хамтран ажиллах байв.

Өмнө мэдээлж байсанчлан өрмийн цамхгийн гэрчилгээ, баталгаажуулалт цагтаа амжаагүйн улмаас өрөмдлөгийн ажил өвөл болохоос өмнө дуусахааргүй болсон тул компани төлөвлөөд байсан 2017 оны өрмийн хөтөлбөрийг хойшлуулах шийдвэр гаргасан билээ. Энэ нь хэдийгээр таагүй зүйл байсан ч Петро Матадын шаардаж байсан салбарын хэмжээнд хүлээн зөвшөөрөгддөг олон улсын стандартад нийцсэн өрмийн цамхгийн гэрчилгээжүүлэлт, баталгаажуулалт шаардлагат хугацаанд амжихгүй нь тодорхой болох үед компанид өрөмдлөгийн ажлыг хойшлуулахаас өөр сонголт үлдээгүй юм. Синопек өрмийн цамхгийн шаардлагатай гэрчилгээ, баталгаажуулалтыг 2017 оны 10-р сард гаргуулж, компанийн тавьж байсан бүх шаардлагуудыг хангасан ба өрмийн цамхаг одоо 2018 оны IV, V талбайн төлөвлөгөөт өрмийн хөтөлбөрийг хэрэгжүүлэхэд бэлэн байдалд байна.

Ийнхүү 2017 оны өрөмдлөгийн кампанит ажил хойшилсон тул жилийн үлдсэн хугацаанд хийх ажлын төлөвлөгөөгөө эргэн харж, 2018 оны өрмийн хөтөлбөрийг илүү оновчтой болгох зорилготойгоор V талбай дах Төгрөгийн бассейны 3 хэмжээст чичирхийллийн хэмжилтийн ажлыг түргэсгэх шийдвэр гаргасан. Төгрөгийн бассейн нь анхнаасаа бидний сонирхлыг ихээр татаж байсан. Учир нь Петро Матадын 2011 онд өрөмдсөн TSC-1 дээжний цооноогоос дээжилсэн элсэн чулуу болон суурь чулуунд амьд тосны толбо тогтоогдож, петролеумын систем ажиллаж буйг харуулсан юм. Энэ бассейнд өмнө нь хийгдсэн 2 хэмжээст чичирхийллийн судалгааны тайллын үр дүнд сонирхол татсан проспектууд зураглагдсан хэдий ч газрын гүн дэх структур бүтэц нь тун ээдрээтэй байгаа тул өрөмдлөгийн өмнөх эрсдэлийг бууруулах 3 хэмжээст чичирхийллийн судалгаа шаардлагатай гэж үзэхэд хүргэсэн.

200км<sup>2</sup> 3 хэмжээст чичирхийллийн судалгааны хэмжилтийг 2017 оны 11, 12-р саруудад амжилттай хийж дуусгасан. Төгрөгийн бассейнд мөн 2 хэмжээст чичирхийллийн хэмжилт төлөвлөсөн байсан хэдий ч тухайн үед тус газар нь тэр хавьдаа цасанд

хучигдаагүй үлдсэн ганц өвлийн бэлчээр нь байсан тул нутгийн малчдад түвэг болохгүйн үүднээс хойшлуулсан юм. Ингээд хээрийн хэмжилтийн баг Хангайн бассейнд 204км 2 хэмжээст чичирхийллийн хэмжилт хийхээр хөдөлсөн. Тус хөтөлбөр нь бүсийн хэмжээнд хийгдэж байсан хоёрхон 2 хэмжээст чичирхийллийн шугам болон 2015 онд хийгдсэн өндөр нарийвчлалтай хүндийн хүч, соронзон орны өгөгдлүүдээр илэрхийлэгдэн шинээр тогтоогдоод байсан IV талбайн гүн, хэтийн төлөвтэй байж болохуйц дээрх бассейныг судлахаар загварчлагдсан юм. Хээрийн хэмжилт нь 2018 оны эхээр амжилттай хийгдэж дууссан.

## Фармаут

Петро Матадын хамтрагч байсан БиЖи Группыг Шелл худалдаж авмагцаа IV, V талбайгаас гарсан. Үүний дараагаар манай компани фармаут үйл ажиллагаа эхлүүлсэн ба 2017 оны ихэнх хугацаанд уг үйл ажиллагааг үргэлжлүүлсэн. Үүний зорилго нь IV, V талбайд төлөвлөсөн хайгуулын кампанит ажилд оролцох, туршлагатай, санхүүгийн чадавхтай түнш олох байсан юм. Мэдээллийн өрөөнд зочилсон ихэнх компаниуд санал болгож буй боломжийн техникийн үзүүлэлтийн тухайд маш эерэг байр суурьтай байсан ч 2017 он хамтран ажиллах баталгаат саналгүйгээр дууслаа. Хүлээн авсан хариу санал хүсэлтүүдээс харахад энэ нь нэг талаас компаниуд аливаа улсад анхлан орох шийдвэр гаргахдаа өндөр шалгуурууд тавьдаг, нөгөө талаас 2015 оны газрын тосны үнийн уналтын дараах хайгуулын фармин зах зээл дээрх намжуу байдал үргэлжилсээр байгаатай холбоотой байна гэж Петро Матад үзэж байгаа юм.

Петро Матадын 2018 оны эхээр амжилттай босгосон хөрөнгө нь компанийн 2018 оны төлөвлөгөөт ажлын хөтөлбөрийг бүрэн санхүүжүүлж байгаа ба фармаут хийх шаардлага одоогийн байдлаар тийм ч их яаралтай биш байна. Энэ нь компанийг бодлогын хүрээнд илүү уян хатан стратегитай болгож байна. Хэрэв санхүүгийн сайн нөхцөл тохиролцвол ажлын хөтөлбөрийг даацтайгаар ихэсгэж чадах фармаут нь нэгэн таатай үйл хэрэг болж болох юм. Хайгуулын талбар дээр зах зээлийн хандлага аажмаар сайжирч байгаа шинж тэмдэг ажиглагдаж байгаа тул фармаут үйл ажиллагааг 2018 онд үргэлжлүүлэхээр шийдвэрлэсэн. Ингэснээр компанид зах зээл дээрх сонирхлыг цаашид ажиглах бололцоо гарч байгаа ба орж ирж болзошгүй саналуудыг компани үнэлж судлах юм.

## 2018 ОНЫ ТӨЛӨВ

Өндөр нөлөө үзүүлэх хайгуулын өрөмдлөгийн хөтөлбөрийг хэрэгжүүлэх санхүүжилтыг босгосноор 2018 он компанийн хувьд маш сэтгэл хөдөлгөсөн жил болох нь. V талбайн Ирвэс проспект дээр эхний цооноогоо 2018 оны 07-р сард өрөмдөж эхлэх бэлтгэл хангагдаад байна. Үүний араас шууд залгуулаад IV талбайн Тахь проспектын өрөмдлөгийн ажил эхэлнэ. Эдгээр хоёр проспект нь багцаалан тооцож байгаагаар тус бүр харгалзан 90 сая болон 480 сая баррель тосны хэтийн нөөц баялагтай. Эдгээрийн амжилттай тохиолдол дах эдийн засгийн ашиг нь маш сайн байхаар байна. XX талбайн хувьд талбайн хилийн дагуу таван проспект тодорхойлсон бөгөөд эдгээрийн зэргэлдээ хойд хэсэгт Петро Чайнагийн олборлолтын талбай оршдог. Эдгээр проспектууд нь 15-аас 28 сая баррель тосны хэтийн нөөц баялагтай хэмээн тооцоолоод байгаагийн зэрэгцээ зэргэлдээх экспортын болон олборлолтын ил байгууламжуудыг ашиглан олборлож, түргэн хугацаанд ашиг, орлого олж эхлэх боломжтой байж болох юм. XX талбайн өрөмдлөгийн ажил 2018 оны хоёрдугаар хагаст эхлэх төлөвтэй байна.

## ДҮГНЭЛТ

ТУЗ-ийн зүгээс жилийн турш урам зориг, хичээл зүтгэлтэй ажиллаж ирсэн техникийн болон техникийн бус ажилтан, ажиллагсдаа талархаж буйгаа илэрхийлэхийн зэрэгцээ Петро Матадын багийн уйгагүй хичээл зүтгэлд дөрөөлөн ирж буй сэтгэл хөдөлгөм энэ цаг үеийг угтаж байна. Мөн компанийн үйл ажиллагааг үргэлжид дэмжиж ирсэн хувьцаа эзэмшигчдэдээ талархаж буйгаа илэрхийлье.

## ТУЗ-ийн гишүүд

# HEALTH, SAFETY, SECURITY AND ENVIRONMENT

## 4

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

As part of Petro Matad's ongoing improvement to its HSSE-MS, the Company has revised and re-structured the Management System to align it with International Oil and Gas Procedure (IOGP) 511, which specifies Operational Management System Guidelines. Petro Matad will continue to update its HSSE-MS to conform with IOGP 511 as new practices are released.

Petro Matad's HSSE-MS is a fundamental part of the Company's HSSE culture. It is designed to provide real time and practical support to all of the

Company's operations. It allows for instant access to industry standards facilitating the Company to apply these and to do so always in line with Mongolian legislation. The HSSE-MS is focused and aligned to OSHA 18001 Occupational Health and Safety Management System Guidelines, International Association of Drilling Contractors (IADC), American Petroleum Institute (API), the International Association of Geophysical Contractors and ISO 14001, Environmental Management System Guidelines.

Petro Matad's HSSE-MS includes a proactive approach to all incidents. Our Observation Programme identifies all Unsafe Acts, Near Misses, Unsafe Conditions as well as recognising

best practises in all field operations and in the Ulaanbaatar Office. Information gathered from the Observation Programme is collated and learnings are cascaded throughout the Company. This process allows effective root causes analysis and preventative measures to be identified and corrective actions to be taken. All incidents are investigated, classified and recorded per the guidelines laid out in IOGP.

### Operations

As a good corporate citizen, Petro Matad is committed to the building of HSSE capacity in Mongolia.

In 2017, the Company undertook seismic acquisition programme in Blocks IV and V. The seismic programme was planned and executed under the IOGP guidelines for Managing HSE in a Geophysical Contract. Petro Matad ensured that its Contractor and Sub-Contractors operated within the requirements of IOGP 432. During the seismic programme, members of Petro Matad's senior management conducted an Audit on the main seismic Contractor. The purpose of the Audit was to:

- Evaluate the Contractor's and their Sub-Contractor's operational capacity and commitment to HSSE in the field.
- Evaluate the Contractor's HSSE Plan and its execution during seismic operations.
- Evaluate the Contractor's compliance to guidelines set out by IOGP and IAGC.

The Audit findings concluded that the Contractor was operating satisfactorily under the guidelines set out in IOGP, IAGC and as a Mode 2 Contractor. This being where the Contractor executes all aspects of the contract under their own HSSE-MS. The Company is responsible for verifying the overall effectiveness of the HSSE management controls put in place by the Contractor, including its interface with Sub-Contractors, and assuring that both the Company's and the Contractor's HSSE-MS are compatible.

With a strong Petro Matad HSSE presence in the field and the continued efforts of the Contractor, the seismic programme concluded with no lost time injuries (LTI), with a total of 183,408 manhours

recorded. Leading and Lagging Indicators allowed for proactive information gathering, which enabled both Petro Matad and its Contractor to analyse trends that could lead to a potential incident occurring.

The Company had initially planned to proceed with a small 2D seismic acquisition programme in the Tugrug Basin following the completion of the 3D survey in Block V. However, as this 2D programme was designed to identify additional prospects and leads for potential drilling beyond 2018, and therefore did not impact the choice of locations for the 2018 drilling programme, the Company decided to not acquire the Tugrug Basin 2D seismic at the time. A factor in this decision was that the Mongolian winter had been harsh and there were only a few grazing lands still accessible to livestock, one of which was in the area where the Tugrug Basin 2D survey was planned. Herders and their livestock had therefore entered the area in large numbers. The Company therefore felt it prudent to postpone the 2017/18 Block V 2D seismic programme to avoid the short term but poorly timed disturbance to herders' access to pasture for their animals.

### Health, Safety, Security and Environmental Policy

Petro Matad's Health, Safety, Security and Environmental Policy is focused primarily on the well-being of our employees, Contractors and all those involved in or who may be affected by our work. It is critical in achieving success and therefore is a priority during all operations. People are our most important asset and their health and safety is our greatest responsibility.

The objectives of our HSSE Policy are to:

- Achieve an accident-free workplace
- Make Health & Safety an integral part of every managerial and supervisory position
- Ensure Health & Safety is considered in all planning and work activities
- Involve our employees in the decision-making process through regular communication, consultation, and training
- Ensure that we minimize the Environmental footprint, in all of our activities.
- Provide a continuous programme of education

and development to ensure that our employees work in the safest possible manner

- Identify, manage, and control all potential hazards in the work place through hazard identification and risk analysis
- Ensure all potential accidents and incidents are controlled and prevented
- Provide effective injury management
- Comply with relevant occupational Health & Safety laws, regulations, guidelines, and project requirements specified by our regulations.

The success of our HSSE management system is dependent on:

- Pro-active planning of all work activities with consideration given to implementing health and safety controls that are suitable to each given situation
- Understanding the total work process and associated health and safety risks
- Ensuring that the work team is totally committed to achieving our objectives
- Ensuring that open and honest communication exists between management and all employees
- Petro Matad minimizing impact upon and conservation and protection of the environment in its areas of operation.

### Commitment to the Environment

Petro Matad is fully committed to the conservation and protection of the environment in all its areas of operation. The Company's annual Environmental Management Plans (EMP) for each of its areas of operation which are approved by the Ministry of the Environment and Tourism, comprise detailed plans as to how the Company intends to protect the environment in all operating areas. The EMP is provided to local and regional governance bodies to provide assurance to local communities and governments that Petro Matad will operate responsibly. The Environmental Policy underlines the Company's commitment to the protection of the environment. It includes robust measures for spill prevention, environmental training of staff and Contractors, waste management and recycling and water source management.

During the Company's 2017 seismic programme, a specialist company was contracted to conduct a third party Environmental Monitoring Programme in our areas of operations to ensure legal compliance when working near protected areas and to minimize all adverse environmental impacts. Petro Matad takes all comments received from the local community seriously and we ensure that comments are addressed, and where possible are recertified as soon as reasonably practical. Post the seismic programme, the areas of operations are inspected by local authorities to ensure that we have made appropriate efforts to remediate the land and any comments and recommendations made by the local authorities are acknowledged and recorded. Recommendations from the 2017 operational follow up have been incorporated into the planning and execution of the Company's 2018 operations.

### Air Quality

Air Quality is one of the fundamental areas of the Company's commitment to the environment. Through our environmental monitoring Contractors, we are able to ascertain the emissions that are produced through the Company's consumption of hydrocarbon fuels. This ensures that national and international regulatory parameters are adhered to and accurate emissions are recorded for future emission estimations and emission reduction measures are assessed and adopted.

### 2017 Manhours Recorded

In 2017, a total of 206,432 man hours were recorded by the Company.



## 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

5

Community Social Responsibility (CSR) is an integral part of Petro Matad's activities. The Company is committed to evaluating and minimizing the 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 its business needs primarily through managing social risks and building broad based stakeholder support for its projects to enable on-time and within budget 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 proposed and executed projects;
- Maintain an effective community grievance mechanism to resolve issues promptly and appropriately;
- Provide local contractor support to avoid, minimise or mitigate adverse social and cultural impact on surrounding communities; and
- Support local contractors to optimise local participation in projects 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, which provides a mechanism for effective social risk management. In 2017, Petro Matad undertook community and stakeholder engagement ahead of its exploration programme with the objectives of:

- Introducing the project, its background and status, and provision of information on current and planned activities to community members in the areas where seismic acquisition was being conducted;
- Gaining the support of herders and other stakeholders for the proposed exploration programme;
- Building trust between the Company 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 in relation to the project and its benefits.

Petro Matad maintains an effective community grievance mechanism to resolve issues and complaints promptly and appropriately. The grievance mechanism was established ahead of commencing the seismic acquisition programme in Block IV in 2015 and continues to this day for all work programme activities undertaken by the Company.

The Company's stakeholder engagement initiatives were tested during the 2017/18 seismic programme in Block V. Petro Matad had initially planned to proceed with a small 2D seismic acquisition programme in the Tugrug Basin following the completion of the 3D survey in late 2017. However, as this 2D programme was designed to identify additional prospects and leads for potential drilling beyond 2018, and therefore did not impact the choice of locations for the 2018 drilling programme, the Company decided to not acquire Tugrug Basin 2D seismic. A factor in this decision was that the

Mongolian winter was harsh and there were only a few snow-free grazing lands still accessible to livestock, one of which was in the area where the Tugrug Basin 2D survey was planned. Herders and their livestock had therefore entered the area in large numbers. The presence of the seismic acquisition crew and its activities were impacting, if only temporarily, the herders full access to grazing areas. Following local meetings, the Company therefore felt it prudent to postpone the Tugrug 2D seismic programme and by doing so, reduced the immediate impact in a time of hardship and reduced the potential for grievances to arise.

### Social Investment Activities

Petro Matad has developed and implemented a Social Development Policy to contribute to the social needs 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 for all local residents. The Company focuses on the delivery of accessible and meaningful assistance to the communities in which work programme activities are undertaken. 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 relief.

In 2017, under the Company's Social Development Policy and Social Action Plans, we implemented the following projects, after consultation with Community Reference Groups formed in each Soum.

#### *Guchin-Us Soum, Uvurkhangai Aimag:*

- Funded the construction of modern toilet facilities at a local High School for the comfort of students, teachers, residents and visitors
- Funding of 'Elders Tour' for 120 elders to visit Gandan Monastery in Ulaanbaatar and Aglag Buteel Monastery, near Ulaanbaatar

#### *Tugrug Soum, Uvurkhangai Aimag:*

- Funded the construction of 'Elders Hall' for elders to spend their time constructively. The venue will also be used by the Soum for many other social events.

#### *Bayankhongor Aimag:*

- Contributions towards renovation of the Burged Boxing Club training hall where children can now train in a proper and controlled environment.

#### *Bumbugur Soum, Bayankhongor Aimag:*

- Supply of winter feed to herders to tide livestock over the harsh winter.

# CORPORATE GOVERNANCE STATEMENT

6

The Board is committed to and aware of the importance of good corporate governance and ensures that the Company is in compliance with the QCA Corporate Governance Guidelines for AIM Companies (QCA Code) in force during 2017, 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 2 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.
- 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 as of the date of this report:

- Enkhmaa Davaanyam, Non-Executive Chairperson (Petrovis appointee)
- Oyungerel Janchiv, Non-executive Director (Petrovis appointee)
- Timothy Bushell, Non-Executive Director (Independent)
- Michael Buck, Executive Director (Chief Executive Officer)
- John Henriksen, Executive Director (Chief Financial Officer)

Brief biographies of the Directors are set out on pages 6 to 10. 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's 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 and non-executive members 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 all Petro Matad employees and contractors work 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 2017, the Board had 2 formal meetings and 8 ad hoc discussions via teleconference, which were attended by a 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 2017 and to the date of this report, are as follows:

#### Chair

Enkhmaa Davaanyam

#### Members

J. Oyungerel

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

Timothy Bushell (appointed 16 June 2017)

The Audit Committee met once in 2017, to receive the 2016 Audit Report with the Group's auditors at the time, Bentleys (WA) Pty Ltd. 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.

### Remuneration Committee

The members of the Remuneration Committee in 2017 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

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

Company's remuneration policy and remuneration of Directors are set out in the Remuneration Report on pages 38 to 43.

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

The members of the CGSAE Committee in 2017 and to the date of this report are as follows:

*Chair*  
J. Oyungerel

*Members*  
D. Enkhmaa  
Philip Vingoe (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, security and environmental (HSSE) 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 2017, 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 reviews 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 purpose built 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 countries 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)

7

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 2016 and 2017, 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	
Enkhmaa Davaanyam	Non-Executive Chairperson	
Philip Arthur Vingoe	Non-Executive Director	Retired 10 March 2017
Amarzul Tuul	Executive Director	Stepped down 11 September 2017
John Rene Henriksen	Chief Financial Officer	
Mehmed Ridvan Karpuz	Chief Executive Officer	Stepped down 15 October 2017
Timothy Paul Bushell	Non-Executive Director	Appointed 10 March 2017
Michael James Buck	Chief Executive Officer	Appointed 1 November 2017

#### (b) Compensation of Directors

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Short-term employee benefits	1,176	1,402
Post-employment benefits	-	-
Share based payment expense	11	177
	1,187	1,579

Directors	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Oyungerel Janchiv	31	39
Enkhmaa Davaanyam	52	66
Philip Arthur Vingoe	6	39
Timothy Paul Bushell	59	-
Amarzul Tuul	170	230
John Rene Henriksen	279	337
Mehmed Ridvan Karpuz	481	691
Michael James Buck	98	-
Total	1,176	1,402

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 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
<b>Directors</b>				
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

Balance at 31 December 2017 or if applicable at the date of resignation	Balance as at 01-Jan-17	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-17
<b>Directors</b>				
Oyungerel Janchiv	19,305,446	(6,100,000)	62,500	13,267,946
Enkhmaa Davaanyam	4,888,400	-	-	4,888,400
Philip Arthur Vingoe*	1,496,760	-	-	1,496,760
Amarzul Tuul**	531,334	-	52,000	583,334
John Rene Henriksen	1,083,258	-	-	1,083,258
Mehmed Ridvan Karpuz***	1,946,209	-	75,000	2,021,209
Timothy Paul Bushell	-	-	-	-
Michael James Buck	-	-	-	-
Total	29,251,407	(6,100,000)	189,500	23,340,907

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

\*\* Amarzul Tuul stepped down from the Board of Petro Matad Limited on 11 September 2017.

\*\*\* Mehmed Ridvan Karpuz stepped down from the Board of Petro Matad Limited on 15 October 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-16	Granted as Remu- neration	Options Exercised	Options Lapsed	Balance as at 31-Dec-16	Not Vested & Not Exercisable	Vested & Exercisable
<b>Directors</b>							
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
<b>Total</b>	<b>1,558,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,558,500</b>	<b>-</b>	<b>1,558,500</b>

For the year ended 31 December 2017	Balance as at 01-Jan-17	Granted as Remu- neration	Options Exercised	Options Lapsed	Balance as at 31-Dec-17	Not Vested & Not Exercisable	Vested & Exercisable
<b>Directors</b>							
Oyungerel Janchiv	475,000	-	(62,500)	-	412,500	-	412,500
Enkhmaa Davaanyam	150,000	-	-	-	150,000	-	150,000
Philip Arthur Vingoe*	150,000	-	-	(150,000)	-	-	-
Amarzul Tuul**	608,500	-	(52,000)	-	556,500	-	556,500
John Rene Henriksen	100,000	-	-	-	100,000	-	100,000
Mehmed Ridvan Karpuz***	75,000	-	(75,000)	-	-	-	-
Timothy Paul Bushell	-	-	-	-	-	-	-
Michael James Buck	-	-	-	-	-	-	-
<b>Total</b>	<b>1,558,500</b>	<b>-</b>	<b>(189,500)</b>	<b>(150,000)</b>	<b>1,219,000</b>	<b>-</b>	<b>1,219,000</b>

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

\*\* Amarzul Tuul stepped down from the Board of Petro Matad Limited on 11 September 2017.

\*\*\* Mehmed Ridvan Karpuz stepped down from the Board of Petro Matad Limited on 15 October 2017.

**(e) Conditional Share Awards holdings of Directors**

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
<b>Directors</b>							
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	-
<b>Total</b>	<b>1,528,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,528,000</b>	<b>1,528,000</b>	<b>-</b>

For the year ended 31 December 2017	Balance as at 01-Jan-17	Granted as Remu- neration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-17	Not Vested & Not Exercisable	Vested & Exercisable
<b>Directors</b>							
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	-
Timothy Paul Bushell	-	-	-	-	-	-	-
Michael James Buck	-	-	-	-	-	-	-
<b>Total</b>	<b>1,528,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,528,000</b>	<b>1,528,000</b>	<b>-</b>

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

\*\* Amarzul Tuul stepped down from the Board of Petro Matad Limited on 11 September 2017.

\*\*\* Mehmed Ridvan Karpuz stepped down from the Board of Petro Matad Limited on 15 October 2017.

# CONSOLIDATED FINANCIAL STATEMENTS

8





## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	Consolidated	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>			
Interest income	4(a)	203	40
Other income	4(a)	7	18,849
		210	18,889
<b>Expenditure</b>			
Consultancy fees		(55)	(55)
Depreciation and amortisation		(271)	(226)
Employee benefits expense	4(b)	(2,845)	(3,280)
Exploration and evaluation expenditure	4(c)	(4,416)	(2,464)
Other expenses	4(d)	(2,553)	(1,968)
<b>(Loss)/Profit from continuing operations before income tax</b>		(9,930)	10,896
Income tax expense	5	-	-
<b>(Loss)/Profit from continuing operations after income tax</b>		(9,930)	10,896
<b>Net (loss)/profit for the year</b>		(9,930)	10,896
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations, net of income tax of \$Nil (2016: \$Nil)		18	(93)
<b>Other comprehensive (loss)/income for the year, net of income tax</b>		18	(93)
<b>Total comprehensive (loss)/income for the year</b>		(9,912)	10,803
(Loss)/Profit attributable to owners of the parent		(9,930)	10,896
Total comprehensive (loss)/income attributable to owners of the parent		(9,912)	10,803
<b>(Loss)/Earnings per share (cents per share)</b>			
Basic (loss)/earnings per share	6	(3.2)	3.8
Diluted (loss)/earnings per share	6	(3.2)	3.8

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 2017

	Note	Consolidated	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	5,090	6,479
Trade and other receivables	8	6	5,155
Prepayments	9	220	222
Financial assets	10	3,010	-
Inventory	11	254	301
<b>Total Current Assets</b>		8,580	12,157
<b>Non-Current Assets</b>			
Exploration and evaluation assets	12	15,275	15,275
Property, plant and equipment	13	604	783
<b>Total Non-Current Assets</b>		15,879	16,058
<b>TOTAL ASSETS</b>		24,459	28,215
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	14	3,389	1,352
<b>Total Current Liabilities</b>		3,389	1,352
<b>TOTAL LIABILITIES</b>		3,389	1,352
<b>NET ASSETS</b>		21,070	26,863
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	15	109,769	106,150
Reserves	16	2,980	4,109
Accumulated losses		(91,679)	(83,396)
<b>TOTAL EQUITY</b>		21,070	26,863

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 2017

	Note	Consolidated	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(7,677)	(9,908)
Interest received		203	40
Farm-out proceeds		5,000	11,659
<b>Net cash flows (used in)/provided by operating activities</b>	7	(2,474)	1,791
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(81)	(676)
Purchase of financial assets		(3,010)	-
Proceeds from the sale of property, plant and equipment		-	35
<b>Net cash flows used in investing activities</b>		(3,091)	(641)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		4,186	-
Capital raising cost		(15)	-
<b>Net cash flows from financing activities</b>		4,171	-
<b>Net decrease/increase in cash and cash equivalents</b>		(1,394)	1,150
Cash and cash equivalents at beginning of the year		6,479	5,339
Net foreign exchange differences		5	(10)
<b>Cash and cash equivalents at the end of the year</b>	7	5,090	6,479

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 2017

	Note	Consolidated			
		Attributable to equity holders of the parent			
		Issued capital \$'000	Accumulated Losses \$'000	Other Reserves Note 16 \$'000	Total \$'000
<b>As at 1 January 2016</b>		106,150	(94,310)	4,010	15,850
Net loss for the year		-	10,896	-	10,896
Other comprehensive income		-	-	(93)	(93)
<b>Total comprehensive gain/(loss) for the year</b>		-	10,896	(93)	10,803
Issue of share capital	15	-	-	-	-
Cost of capital raising	15	-	-	-	-
Changes in equity (Dissolved PMSL)		-	18	-	18
Share-based payments	15, 16 & 17	-	-	192	192
<b>As at 31 December 2016</b>		106,150	(83,396)	4,109	26,863
Net loss for the year		-	(9,930)	-	(9,930)
Other comprehensive income		-	-	18	18
<b>Total comprehensive gain/(loss) for the year</b>		-	(9,930)	18	(9,912)
Issue of share capital	15	4,818	-	-	4,818
Cost of capital raising	15	(1,251)	-	602	(649)
Share-based payments	15 & 16	-	-	(50)	(50)
Exercise of Options	15, 16 & 17	52	-	(52)	-
Expiry of Options	16 & 17	-	1,647	(1,647)	-
<b>As at 31 December 2017</b>		109,769	(91,679)	2,980	21,070

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9

1 Corporate information	52
2 Summary of significant accounting policies	52
3 Operating segments	63
4 Revenues and expenses	63
5 Income tax	64
6 (Loss)/Earnings per share	65
7 Cash and cash equivalents	66
8 Trade and other receivables	67
9 Prepayments	67
10 Financial assets	67
11 Inventory	68
12 Exploration and evaluation assets	68
13 Property, plant and equipment	68
14 Trade and other payables (current)	69
15 Issued capital	69
16 Reserves	71
17 Share based payments	72
18 Commitments and contingencies	76
19 Related party disclosures	77
20 Key management personnel	78
21 Financial risk management objectives and policies	78
22 Capital management	82
23 Events after the reporting date	83
24 Auditor's remuneration	83
25 Other information	84

## 1 CORPORATE INFORMATION

The financial report of Petro Matad Limited (Company) for the year ended 31 December 2017 was authorised for issue in accordance with a resolution of the Directors on 31 May 2018.

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".

Petrovis Matad Inc. is a major shareholder of the Company, holding approximately 28.41% of the shareholding at the year end of 2017.

## 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 loss of \$9.93 million (2016: \$10.89 million profit) and experienced net cash outflows from operating activities of \$2.47 million (2016: \$1.79 million inflow). In addition, as outlined in note 18(b) the Group is required to meet minimum exploration commitments in the next 12 months on its PSCs of approximately \$9.85 million with further commitments of \$18.80 million thereafter.

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

Although the Company is fully funded for its planned 2018 work programme the ability of the Company and the Consolidated Entity to continue as going concerns beyond 2018 is principally dependent upon one or more of the following:

- Negotiating a reduction in Block XX financial commitments;
- Raising additional equity;
- Securing farm-out agreements to fund operations beyond 2018.

On 19 January 2018, the Company announced a \$16.8 million fundraise (gross before deduction of broker commissions and fees) through issuance of 127,420,294 shares to new institutional investors and a further 59,167,335 shares to the Company's largest shareholder (Petrovis Matad Inc) and management of the Company. The Company has therefore secured financing for its planned exploration drilling programme in 2018. The Company continues to evaluate farmout opportunities as conclusion of an agreement that meets the Company's expectations would preserve its cash and enable expansion of the work programme while sharing the risk of exploration with the farminee.

The previous financing arrangement that was announced on 8 May 2017, was terminated on 1 December 2017.

Expenditures in Block IV, by end 2017 had fully met financial obligations for the initial eight-year exploration term that ended in July 2017. An additional \$5 million was committed to by the Company to obtain a two-year PSC extension, which has been granted by MRPAM and runs to July 2019. The drilling of the Wild Horse well (planned in 2018) will fully discharge the financial commitment to the end of the extended PSC term (July 2019).

Expenditures in Block V, by end 2017 were \$3.3 million under the initial eight-year exploration term that ended in July 2017. An additional \$2 million was committed to by the Company to obtain a two-year PSC extension, which has been granted by MRPAM and runs to July 2019. The drilling of the Snow Leopard well (planned in 2018) will fully discharge the shortfall in the initial term as well as the new financial commitment to the end of the extended PSC term (July 2019).

Expenditures in Block XX were \$21.1 million below cumulative expenditure requirements at the end of 2017. Although the current term of the PSC was not due to expire until July 2018, MRPAM has granted a two-year extension to July 2020. No additional financial commitment was required for the extension and the current shortfall will carry-over to the extended period.

The Directors have prepared a cash flow forecast which indicates that the consolidated entity will have sufficient cash to meet their working capital requirements for the twelve-month period from the date of signing the financial report.

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

Should the Company and the Consolidated Entity be unable to achieve the matters referred to above, there is a material uncertainty whether the Company and the Consolidated Entity will be able to continue as going concerns beyond 2018 and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business and at amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Company and the Consolidated Entity not continue as a going concern.

#### **(d) Application of new and revised Accounting Standards**

##### ***New or revised standards and interpretations that are first effective in the current reporting period***

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

##### ***New Accounting Standards for Application in Future Periods***

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

**AASB 9: Financial Instruments and associated Amending Standards** (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Based on preliminary analysis the directors

anticipate that the adoption of AASB 9 is unlikely to have a material impact on the Group's financial instruments.

**AASB 15: Revenue from Contracts with Customers** (applicable to annual reporting periods beginning on or after 1 January 2018,).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108 : Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15 ); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the Directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

**AASB 16: Leases** (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives

in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the Directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

### (e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

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

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

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

### (f) Foreign currency translation

#### *Functional and presentation currency*

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

#### *Transactions and balances*

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

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

Exchange differences are recognised in profit or loss in the period in which they arise except for:

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

#### *Translation of subsidiaries' functional currency to presentation currency*

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

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

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

### (g) Cash and cash equivalents

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

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

### (h) Trade and other receivables

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

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

### (i) Plant and equipment

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

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

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

#### *Derecognition*

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

#### **(j) Financial assets**

Financial assets are classified into the following category: 'held-to-maturity' investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *Held-to-maturity investments*

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

#### *Loan and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

#### **(k) Inventory**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### **(l) 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.

#### **(m) 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 Group's accounting policy.

#### **(n) 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.

#### **(o) 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.

#### **(p) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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.

### (q) 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.

### (r) Contributed equity

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

### (s) 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.

### (t) 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.

### (u) Income tax

#### *Current tax*

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

#### *Deferred tax*

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

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

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



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

#### *Current and deferred tax for the year*

Current and deferred tax is recognised as an expense or income in the 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.

#### **(v) Earnings per share**

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

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

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the year that would result from the 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.

#### **(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 historical share price.

#### *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 its 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**

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>(a) Revenue</b>		
Interest Income	203	40
Other income:		
Consideration for the BG Group farm-out agreement*	-	14,008
Cash calls received from BG Group*	-	4,841
Other income	7	-
	210	18,889

\* 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 an additional \$5 million received from Shell (as below) and cash calls paid by Shell's affiliate prior to their exit, accounts for the Other Income amount in 2016.

On 1 February 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.

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>(b) Employee benefits expense</b>		
Included in employee benefits expense are the following:		
Wages and salaries	2,101	2,370
Non-Executive Directors' fees (including Directors of affiliates)	148	144
Consultancy fees	646	574
Share-based payments	(50)	192
	2,845	3,280
<b>(c) Exploration and evaluation expenditure</b>		
Exploration and evaluation expenditure relates to the following PSCs:		
Block XX	49	-
Blocks IV and V	4,367	2,464
	4,416	2,464
<b>(d) Other expenses</b>		
Included in other expenses are the following:		
Administration costs	1,432	977
PSC administration costs	754	773
Audit fees	79	81
Travel expenses	288	137
	2,553	1,968

## 5 INCOME TAX

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'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 2017 \$'000	31 Dec 2016 \$'000
Net (loss)/profit for the year		(9,930)	10,896
Income tax benefit calculated at 10%	(i)	993	(1,090)
Effect of different tax rates on entities in different jurisdictions	(ii)	(280)	1,639
Change in unrecognised deferred tax assets		(713)	(549)
		-	-

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

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

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

## 6 (LOSS)/EARNINGS PER SHARE

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

	Consolidated	
	31 Dec 2017 cents per share	31 Dec 2016 cents per share
Basic (loss)/earnings per share	(3.2)	3.8
Diluted (loss)/earnings per share	(3.2)	3.8
	\$'000's	\$'000's
The loss and weighted average number of ordinary shares used in the calculation of basic and diluted (loss)/earnings per share are as follows:		
Net (loss)/profit attributable to owners of the parent	(9,930)	10,896
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share (in thousands)	308,465	287,626
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share (in thousands)	308,465	287,495

## 7 CASH AND CASH EQUIVALENTS

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Cash at bank and in hand	5,090	6,479
	5,090	6,479

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 \$5,090,000 (2016: \$6,479,000) due to the short-term nature of the instruments.

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

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Net (loss)/gain after tax	(9,930)	10,896
<i>Adjustments for:</i>		
Depreciation and amortisation	271	226
Net (profit)/loss on disposal of property, plant and equipment	-	24
Share based payments	(50)	192
Unrealised foreign exchange (gains)/ losses	-	110
Dissolvement of PMSL	-	18
<i>Changes in assets and liabilities</i>		
Decrease/(increase) in trade and other receivables	5,149	(3,797)
Decrease/(increase) in prepayments	2	289
Decrease/(increase) in inventory	47	-
Increase/(decrease) in trade and other payables	2,037	(6,167)
Net cash flows used in operating activities	2,474	1,791

### Non-cash investing and financing activities

There were no non-cash investing or financing activities undertaken in the 2017 financial year or prior year, other than the exercise of Options of \$0.106 million (2016: Nil).

## 8 TRADE AND OTHER RECEIVABLES

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Current</b>		
Receivable from BG Group	-	5,000
Other debtors	6	155
	6	5,155

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

## 9 PREPAYMENTS

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Prepayments	220	222
	220	222

## 10 FINANCIAL ASSETS

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Long Term Deposits	3,010	-
	3,010	-

The Group holds term deposits with an average weighted interest rate of 6.4%. The deposits have maturity dates greater than 3 months. None of these assets had been past due or impaired at the end of the reporting period.

## 11 INVENTORY

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Raw materials	254	301
	254	301

Inventory are mainly consumables, including casing, mud and drilling materials purchased for Block XX.

## 12 EXPLORATION AND EVALUATION ASSETS

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'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.

## 13 PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Plant and equipment at cost	1,250	1,300
Accumulated depreciation and impairment	(646)	(517)
	604	783

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

	Plant and equipment Total \$'000
As at 1 January 2016 (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
Additions	81
Disposals	-
Foreign exchange	11
Depreciation charge for the year	(271)
As at 31 December 2017 (net of accumulated depreciation)	604

The following useful lives are used in the calculation of depreciation:

Plant and equipment – 3 to 10 years

## 14 TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Trade payables	3,389	1,352
	3,389	1,352

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

## 15 ISSUED CAPITAL

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Ordinary Shares 333,258,252 shares issued and fully paid (2016: 287,494,775)	109,769	106,150
	109,769	106,150

**Movements in ordinary shares on issue:**

	Number of Shares	Issue Price \$	\$'000
As at 1 January 2016	287,494,775		106,150
No transaction during 2016	-		-
As at 31 December 2016	287,494,775		106,150
Issue of shares to Directors and employees on 24 March 2017 on exercise of Options (note (a))	197,500	\$0.136	27
Issue of shares to a Director on 24 March 2017 on exercise of Options (note (b))	75,000	\$0.093	7
Issue of shares to a Director and employees on 24 March 2017 on exercise of Options (note (c))	16,000	\$0.250	4
Issue of shares to employees on 24 March 2017 on exercise of Options (note (d))	141,000	\$0.113	16
Issue of commencement shares to Bergen (note (e))	2,151,951	\$0.294	632
Issue of collateral shares to Bergen (note (f))	3,500,000	\$0.066	232
Issue of ordinary shares to Bergen (note (g))	9,507,963	\$0.126	1,200
Issue of ordinary shares to Bergen (note (h))	13,389,719	\$0.090	1,200
Issue of ordinary shares to Bergen (note (i))	16,784,344	\$0.089	1,500
Capital raising cost			(1,251)
Exercise of Options			52
As at 31 December 2017	333,258,252		109,769

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) On 11 May 2017, the Company issued 2,151,951 commencement shares to Bergen as part of the initial closing under the Private Placement arrangement.
- (f) On 11 May 2017, the Company issued 3,500,000 collateral shares to Bergen as part of the initial closing under the Private Placement arrangement.
- (g) On 13 June 2017, the Company issued 9,507,963 new ordinary shares to Bergen in relation to the first tranche payment.
- (h) On 18 July 2017, the Company issued 13,389,719 new ordinary shares to Bergen in relation to the second tranche payment.
- (i) On 1 September 2017, the Company issued 16,784,344 new ordinary shares to Bergen in relation to the issue of a convertible note.

**16 RESERVES**

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

	Merger reserve \$'000	Equity benefits reserve \$'000	Foreign currency translation \$'000	Total \$'000
As at 1 January 2016	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
Currency translation differences	-	-	18	18
Cost of capital raising	-	602	-	602
Expiry of Options	-	(1,647)	-	(1,647)
Exercise of Options	-	(52)	-	(52)
Share based payments	-	(50)	-	(50)
As at 31 December 2017	831	3,276	(1,127)	2,980

**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 17 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.

## 17 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 31 December 2018;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 31 December 2020; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil, estimated by management as being by 31 December 2021.

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 2016 and 2017.

The Company issued 3,900,000 warrants to Bergen Global Opportunity Fund, LP on 8 May 2017. Refer to Note 17 (h).

### (c) Movement in Share Options

The weighted average fair value for all options in existence as at 31 December 2017 is 0.62 (2016: 0.51).

	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
Consolidated						
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

	Opening balance at 1 Jan 2017	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2017	Exercisable as at 31 Dec 2017
Consolidated						
Grant of Options on 3 June 2008	380,000	-	-	-	380,000	380,000
Grant of Options on 8 April 2009	216,250	-	-	(197,500)	18,750	18,750
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	-	-	(16,000)	23,600	23,600
Grant of Options on 25 Apr 2012	550,000	-	(150,000)	-	400,000	400,000
Grant of Options on 16 Jul 2012	165,000	-	-	(141,000)	24,000	24,000
Grant of Options on 5 Oct 2012	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	-	(150,000)	(429,500)	1,867,750	1,867,750
Weighted Average Exercise Price (cents per option)	63.25	-	36.30	15.36	76.42	76.42

#### (d) Share Options contractual life

The weighted average remaining contractual life of outstanding share Options is 2.8 years (2016: 3.8 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.

No Awards have been issued during 2016 and 2017.

#### (f) Movement in Conditional Share Awards

The weighted average fair value for all awards in existence as at 31 December 2017 is 0.81 (2016: 0.77)

	Opening balance at 1 Jan 2016	Granted during the year	Exercised during the year	Forfeited during the year	Closing balance as at 31 Dec 2016	Exercis- able as at 31 Dec 2016
Consolidated						
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	-
	2,893,600	-	-	(115,000)	2,778,600	-
Weighted Average Exercise Price (cents per award)	1.00	-	-	1.00	1.00	-

	Opening balance at 1 Jan 2017	Granted during the year	Exercised during the year	Forfeited during the year	Closing balance as at 31 Dec 2017	Exercis- able as at 31 Dec 2017
Consolidated						
Grant of Conditional Share Awards on 3 Jun 2008	515,000	-	-	-	515,000	-
Grant of Conditional Share Awards on 8 Apr 2009	80,000	-	-	-	80,000	-
Grant of Conditional Share Awards on 9 Jul 2010	647,000	-	-	-	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	-	-	(300,000)	550,000	-
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	-
	2,778,600	-	-	(300,000)	2,478,600	-
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 10.5 years (2016: 11.5 years).

#### (h) Warrants

The Company granted 3,900,000 warrants to Bergen Global Opportunity Fund, LP on 8 May 2017 as consideration for the private placement. These Warrants were valued using the Black-Scholes model with the following inputs:

Expected volatility is based on the historical share price volatility over the past 2 years.

	8 May 17
Warrant issued	3,900,000
Share price at grant date (GBP)	0.2375
Exercise Price (GBP)	0.4219
Expected Volatility (%)	100
Option life (years)	3
Dividend yield	-
Risk-free interest rates (%)	0.01
Exchange rate on grant date (GBP: USD)	0.76991
Fair value per Warrant (GBP)	0.119
Fair value per Warrant (USD)	0.155

#### (i) Summary of Share Based Payments

A reconciliation of all share-based payments made during the year is as follows:

	Note	Consolidated	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000
Issue of 3,900,000 Warrants to Bergen	17 (h)	602	-
Issue of 2,151,951 commencement shares to Bergen	15 (e)	632	-
Vesting of Awards and Options	17	(50)	0.192
		1,184	0.192

## 18 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 2017.

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Operating Leases:</b>		
Within one year	-	-
After one year but not more than five years	-	-
Greater than five years	-	-
	-	-

### (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.

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Production Sharing Contract Fees:</b>		
Within one year	869	284
After one year but not more than five years	606	75
Greater than five years	-	-
	1,475	359
<b>Minimum Exploration Work Obligations:</b>		
Within one year	9,846	8,124
Greater than one year but no more than five years	18,800	21,004
Greater than five years	-	-
	28,646	29,128

### (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.

## 19 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	
		2017 %	2016 %
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

### Subsidiary Details

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

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

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

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

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 28.41% of the shareholding at year end of 2017.



## 20 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 2016 and 2017, are as below:

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

#### Directors

Oyungerel Janchiv	Non-Executive Director	
Enkhmaa Davaanyam	Non-Executive Chairperson	
Philip Arthur Vingoe	Non-Executive Director	Retired 10 March 2017
Amarzul Tuul	Executive Director	Stepped down 11 September 2017
John Rene Henriksen	Chief Financial Officer	
Mehmed Ridvan Karpuz	Chief Executive Officer	Stepped down 15 October 2017
Timothy Paul Bushell	Non-Executive Director	Appointed 10 March 2017
Michael James Buck	Chief Executive Officer	Appointed 1 November 2017

### (b) Compensation of Directors

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Short-term employee benefits	1,176	1,402
Post-employment benefits	-	-
Share based payment expense	11	177
	1,187	1,579

### (c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2016: Nil).

## 21 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 2017 \$'000	31 Dec 2016 \$'000
<b>Financial Assets</b>			
Cash and cash equivalents	2.08%	5,090	6,479
*Other financial assets	2.37%	3,010	-
	4.45%	8,100	6,479
Trade and other receivables	0%	6	5,155
		8,106	11,634
<b>Financial Liabilities</b>			
Trade and other payables	0%	3,389	1,352
		3,389	1,352
Net exposure		4,717	10,282

\*Other financial assets are comprised of cash deposits placed in the banks over 90 days.

#### Sensitivity Analysis

If the interest rate on cash balances at 31 December 2016 and 2017 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	
	2017	2016	2017	2016
USD				
Mongolian Tugrug (MNT) 1	2,439.40	2,145.72	2,427.13	2,489.53
Australian Dollar (AUD) 1	1.305155	1.34553	1.281089	1.38851
Great British Pound (GBP) 1	0.776810	0.74031	0.741150	0.81029

#### Sensitivity Analysis

A 5% strengthening/weakening of the MNT against USD at 31 December 2016 and 2017 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 2017 \$'000	31 Dec 2016 \$'000
<b>Financial Assets</b>			
Trade and other receivables	8	6	5,155
Net exposure		6	5,155

#### Impairment Losses

None of the Group's receivables are past due at 31 December 2017 (2016: 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 following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted maturities of the financial assets including interest that will be earned on those assets.

	Weighted average interest rate	6 months or less \$'000	6-12 months \$'000	1-5 years \$'000	over 5 years \$'000	Total \$'000
Cash and Cash Equivalents	2.08%	5,090	-	-	-	5,090
Trade and Other Receivables	-	6	-	-	-	6
Financial Assets	2.37%	3,010	-	-	-	3,010
As at 31 December 2017		8,106	-	-	-	8,106
Weighted Average Exercise Price (cents per award)	0.94%	6,479	-	-	-	6,479
	-	5,155	-	-	-	5,155
As at 31 December 2016		11,634	-	-	-	11,634

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

	Note	Consolidated	
		31 Dec 2017 \$'000	31 Dec 2016 \$'000
6 months or less		3,389	1,352
6-12 months		-	-
1-5 years		-	-
over 5 years		-	-
		3,389	1,352

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 18(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 2017				
	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Trade and other receivables	-	6	-	6
<b>Total</b>	-	6	-	6

<b>Financial Liabilities</b>				
Trade and other payables	-	3,389	-	3,389
<b>Total</b>	-	3,389	-	3,389

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

<b>Financial Liabilities</b>				
Trade and other payables	-	1,352	-	1,352
<b>Total</b>	-	1,352	-	1,352

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.

## 22 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 15 and 16). 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.

## 23 EVENTS AFTER THE REPORTING DATE

On 9 February 2018, the Company issued 59,167,335 shares through direct subscriptions at a price of GBP0.065 per share.

On 9 February 2018, the Company concluded a placement by issuing 19,708,520 shares at a price of GBP0.065 per share arranged through its broker, Pareto.

On 9 February 2018, the Company concluded a placement by issuing 67,057,398 shares at a price of GBP0.065 per share arranged through its broker, Stifel.

On 9 February 2018, the Company concluded a placement by issuing 40,654,376 shares at a price of GBP0.065 per share arranged through its broker, Stockdale.

On 14 February 2018, pursuant to the Group's Plan, 5,507,533 Bonus Share Awards were issued to Directors and employees. These have an exercise price per share of \$0.01.

On 3 April 2018, 2,598,911 shares were awarded to employees upon exercise of Awards under the Group's Plan, with an exercise price per share of \$0.01.

On 16 April 2018, 2,868,065 shares were awarded to Directors and employee upon exercise of Awards under the Group's Plan, with an exercise price per share of \$0.01.

## 24 AUDITORS' REMUNERATION

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

	Consolidated	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Amounts received or due and receivable by Bentleys (WA) Pty Ltd :</b>		
- an audit or review of the financial report of the entity and any other entity in the Group	39	42
- other services in relation to the entity and any other entity in the Group	-	-
	39	42
<b>Amounts received or due and receivable by Deloitte Onch Audit LLC:</b>		
- an audit or review of the financial report of subsidiary entities	40	39
- other services in relation to the subsidiary entities	-	-
	40	39
	79	81

## 25 OTHER INFORMATION

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*Registered Office:*

Victory House  
Douglas  
Isle of Man  
IM1 1EQ

# DIRECTORS' DECLARATION

# 10

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 2017 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  
4 June 2018

**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 2017, 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, 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 2017 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**

We draw attention to Note 2(c) in the financial report, which indicates that the Consolidated Entity incurred a net loss of \$9.93 million during the year ended 31 December 2017. As stated in Note 2(c), these events or conditions, along with other matters as set forth in Note 2(c), indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our opinion is not modified in this respect of this matter.



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- Accountants
- Auditors
- Advisors



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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><b>Exploration and evaluation \$15.28 million</b></p> <p>(Refer to Note 12 Exploration and evaluation assets)</p> <p>The balance is in relation to the exploration and evaluation asset 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 2017) and to determine whether there are any indicators that the asset is impaired and therefore not recoverable under IFRS 6 "Exploration for and Evaluation of Mineral Resources".</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>▶ For Block XX, we assessed the Consolidated Entity's rights to tenure by corroborating to government registries.</li> <li>▶ Reviewed budgeted exploration expenditure on Block XX to ensure it will satisfy the capital commitment required under the Production Sharing Agreement;</li> <li>▶ 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"> <li>▶ the licenses for the right to explore expiring in the near future or are not expected to be renewed;</li> <li>▶ substantive expenditure for further exploration in the specific area is neither budgeted or planned'</li> </ul> </li> </ul>

## 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"> <li>➤ 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</li> <li>➤ 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.</li> </ul>
<p><b>Share based payments \$1.18 million</b></p> <p>(Refer to Note 17 Share based payments)</p> <p>As disclosed in Note 17, 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>Further to this warrants were issued to their financier during the period.</p> <p>These share awards and warrants are subject to the measurement and recognition criteria of IFRS 2 "Share-based Payments".</p> <p>As disclosed in Note 17, 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 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"> <li>➤ Obtaining a reconciliation of outstanding options and conditional share awards.</li> <li>➤ Enquired with Management whether there have been any new options or shares issued during the year.</li> <li>➤ Enquired with Management whether any Shares or Options vested during the year.</li> <li>➤ 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.</li> <li>➤ For Warrants issued during the year, evaluated management's Black-Scholes Valuation Models and assessed the assumptions and inputs used;</li> <li>➤ For equity-settled share based payments we assessed the valuations against supporting documentation and assessed key inputs such as grant date.</li> <li>➤ Ensured disclosure is complete and accurate.</li> </ul>
<p><b>Exploration and Expenditure Commitments</b></p> <p>Production Sharing Contract Fee: \$1.48 million</p> <p>Minimum Exploration Work Obligations: \$28.65 million</p> <p>(Refer Note 18b Exploration Expenditure Commitments)</p> <p>As disclosed in Note 18b 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"> <li>➤ Obtaining the Petroleum Sharing Agreements for each block and agreeing the contract fees and work obligations to the relevant calculations.</li> <li>➤ Recalculating the disaggregation of total amounts due and comparing to the breakdown disclosed of amounts due in each subsequent period.</li> <li>➤ Ensuring amounts disclosed represent future obligations and that no present obligations at year end are included.</li> <li>➤ Cross referencing of internal budgets and forecasts to ensure they are consistent with the obligations disclosed.</li> </ul>

## Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)



### 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 2017, 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.

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.

## Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)



- 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.

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 4<sup>th</sup> day of June 2018



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