



Petro Matad Limited

Annual Report



for the year ended 31 December 2018



2018
ANNUAL REPORT

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01



**Board of
Directors**



Enkhmaa Davaanyam

Chairperson

Ms. Enkhmaa is the CEO of Petrovis Group, Mongolia's largest fuel supplier. Ms. Enkhmaa has over 21 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 fields. 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.



Shinezaya Batbold

Non-Executive Director

Ms. Shinezaya is the CEO of Petrovis Venture Capital LLC, one of the first local venture capital funds investing into multiple SME sectors in Mongolia. She was a Vice President of Petrovis LLC from 2010 to 2012 and currently holds a number of board and chair positions in diversified business sectors in Mongolia, including Board Member of Petrovis LLC and Chairperson of UNIGAS LLC, a gas distribution company in Ulaanbaatar. She is a graduate of Northeastern University, Boston, MA.



Timothy Bushell

Non-Executive Director

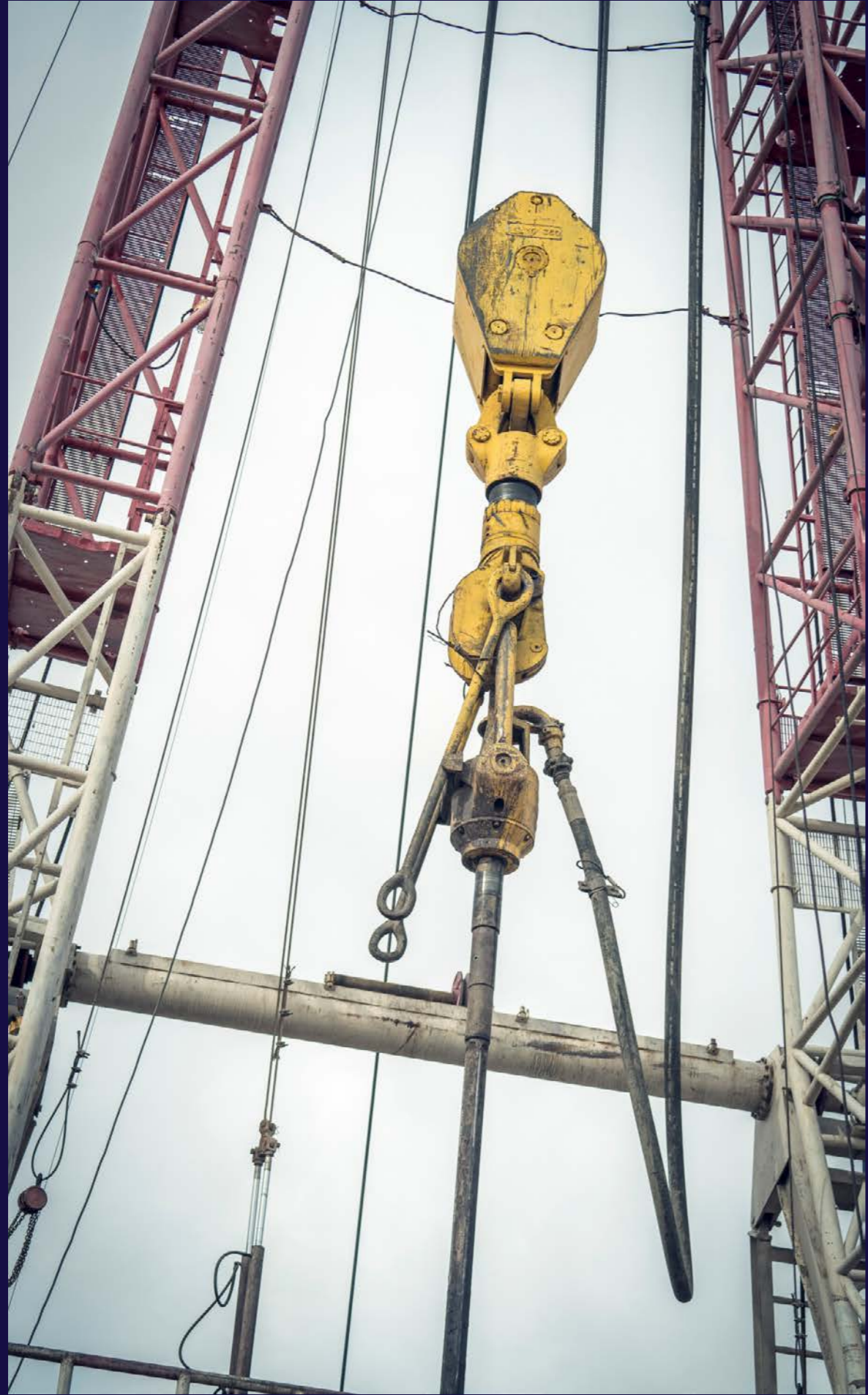
Mr. Bushell is a qualified geologist with more than 35 years' experience in the oil and gas industry. He has worked for British Gas, Ultramar, LASMO, and Paladin Resources. Most recently Tim was Chief Executive Officer at Falkland Oil and Gas Limited and Director/co-founder of Core Energy AS (now part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



02



Directors' Report

Your Directors submit their report for the year ended 31 December 2018.

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
(Retired 20 September 2018)
- Enkhmaa Davaanyam
- John Rene Henriksen
- Timothy Paul Bushell
- Michael James Buck
- Shinezaya Batbold
(Appointed 20 September 2018)

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 2018 was \$18.44 million (31 December 2017: Loss \$9.93 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 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.

On 4 July 2018, the Company issued 1,846,439 shares through direct subscriptions at a price of GBP0.10 per share.

On 4 July 2018, the Company concluded a placement by issuing 13,256,520 shares at a price of GBP0.10 per share arranged through its broker, Pareto.

On 4 July 2018, the Company concluded a placement by issuing 104,701,135 shares at a price of GBP0.10 per share arranged through its broker, Stifel.

On 4 July 2018, the Company concluded a placement by issuing 17,038,798 shares at a price of GBP0.10 per share arranged through its broker, Stockdale.

On 1 November 2018, 40,557 shares were awarded to an employee upon exercise of Awards under the Group's Plan, with an exercise price per share of \$0.01.

Significant Events after Reporting Date

On 12 April 2019, the Company applied for two-year extensions on its Blocks IV and V PSCs. The current terms for both Blocks expire on 29 July 2019. Approval of the applications by MRPAM would extend the PSCs to 29 July 2021. \$1 million in new commitments in each Block has been offered in the extended period.

On 16 April 2019, the Company announced it has signed drilling contracts with DQE International to drill the Heron 1 and Gazelle 1 wells in the north of Block XX and with Daton Petroleum Engineering and Oilfield Service LLC to drill the Red Deer 1 well in the south of Block XX. Drilling is expected to commence in July 2019.

Dividends

No dividends have been paid or are proposed in respect of the year 2018 (2017: 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
17 June 2019



Directors' Statement



SUMMARY

The Company successfully raised funds in two rounds in the first half of 2018 in order to execute a multi-well drilling programme spread over two years (2018 and 2019). In the first placing, in January 2018, a total of 186.6 million new shares were placed with new and existing institutional investors, and certain Directors and senior management of the Company, raising gross proceeds of US\$16.8 million at 6.5 pence per share. Petro Matad's major shareholder, Petrovis Matad Inc. was the single largest participant in this raise.

The second raise, in June 2018, resulted in a total of 136.8 million new shares being placed with new and existing institutional investors, and certain Directors and senior management of the Company. The placing was conducted at a price of 10 pence per share and raised gross proceeds of US\$18.1 million.

With funds in hand, the Company moved quickly to complete all necessary permitting and operational preparations for drilling and was able to complete the two wells during the 2018 drilling season. Activities were focused on Blocks IV and V in the previously undrilled Valley of the Lakes Basin of central western Mongolia and involved the drilling of Snow Leopard 1 in Block V and Wild Horse 1 in Block IV, both of which were drilled within budget and without any safety or environmental incidents. While the wells did not discover commercial hydrocarbons, they did provide excellent data to allow the calibration of the geology with the seismic and other data sets in these frontier blocks, which has enhanced the Company's understanding and has helped to formulate plans for the next phase of exploration. The results of Snow Leopard 1 in particular have high graded the potential of prospects defined in Block V which are now the subject of further study to mature them to drillable status.

Having re-established the Company's operating capability in 2018, preparations are in hand for a four well campaign in 2019 focusing initially on Block XX in the east of Mongolia adjacent to oil fields in production.

2018 REVIEW

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 2018 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 with environmental policies. There were no environmental incidents during the Company's field activities in 2018.

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 as part of all activities performed.

Operations

The 2018 work programme was primarily focused on preparation and execution of exploration drilling in Blocks IV and V. The Company also planned to drill in Block XX during the year but delays in securing a rig in advance of the winter drilling shut down resulted in the Block XX programme being postponed until 2019. This additional time before drilling in Block XX allowed for seismic reprocessing, re-mapping and ranking of prospects to be completed ahead of target selection for 2019 drilling.

The 2018 exploration drilling activities began with the spudding in early July of the Snow Leopard 1 well in the Taats Basin in Block V. The well was drilled into granitic basement to a total measured depth of 2,930 metres. No sands were encountered at the shallower of the two primary targets of the well although drilling gases (C1 to C5) and oil in the drilling mud were observed across the interval. The gases are indicative of an active petroleum system in the basin and the oil observed in the mud is suspected to have entered the well from one of the prospect bounding faults which may be acting as a conduit for migrating oil. The deeper objective of the well was encountered in line with the pre-drill depth prognosis with good development of sandstones in an overall gross interval of more than 400 metres. However, no oil or gas shows were observed while drilling through these sediments and subsequent logging confirmed them to be water bearing. The well was plugged and abandoned and the post-well evaluation has confirmed that the well penetrated a thick sequence of organically rich oil prone source rocks of Late Jurassic to Early Cretaceous age. The presence of thick source rocks and an active petroleum system in Snow Leopard 1 has high graded the potential of other prospects in the Taats Basin and the adjacent Tugrug Basin immediately to the east. Of particular interest is the Raptor trend, an inversion anticline with three four-way dip closed culminations approximately 7 km to the south of Snow Leopard 1. Work is underway to mature a prospect on the Raptor trend to the drillable status and to rank it against other targets in the Taats and Tugrug Basins with a view to high grading it for the 2019 programme.

Upon completion of drilling operations at Snow Leopard 1 the contracted Sinopec rig was moved westwards into Block IV and spudded the Wild Horse 1 well in late October. Wild Horse 1 was drilled into granitic basement to a total measured depth of 1,490 metres. In line with the pre-drill prognosis, the well encountered interbedded sands and shales throughout the prospective section from 650 metres to total depth (TD) but no oil shows were observed, and background gas readings were generally low. Basement was encountered several hundred metres

shallower than had been prognosed reflecting the frontier nature of the well which was more than 200 km away from any other exploration well. Post-well analyses are ongoing, and a small amount of oil was extracted from well cuttings just above basement suggesting that elsewhere within the Baatsagaan Basin there may be an active source rock although one was not penetrated at the Wild Horse 1 location.

The results of the two wells drilled in 2018 and the post-well analyses have been used to design work programmes for the next exploration phases of Blocks IV and V and these plans have been submitted to MRPAM as part of the PSC extension applications.

The delay in Block XX drilling in 2018 allowed the Company to conduct seismic reprocessing and to secure access to an existing 3D seismic survey, facilitating the re-interpretation and remapping of high graded areas of the Block XX in order to refresh the risk ranking and resource assessments of the prospect inventory. This work has generated a number of attractive prospects, three of which will be targeted in the 2019 Block XX drilling campaign.

Production Sharing Contracts

As the current terms of the Blocks IV and V Production Sharing Contracts (PSCs) expire on 29 July 2019, the Company has applied for two-year extensions in each PSC, which, if approved, will enable the Company to retain the Blocks until 29 July 2021. As cumulative financial expenditure in both Blocks exceeds the cumulative commitments to the end of the current terms, no issues are expected in obtaining the extensions other than agreeing with the regulator the appropriate work programme for the next phases of exploration.

The exploration period of the Block XX PSC runs until July 2020. In the event of commercial success in the 2019 exploration drilling programme, the PSC provides for a relatively quick transition to development and production status and the exploitation phase of the PSC runs for 25 years (extendable by a further ten-year period).

Governance

The Company was pleased to welcome Ms. Shinezaya Batbold to the Board, following the retirement of Ms. Oyungerel Janchiv. Ms. Oyungerel was a founder of the Company, served on the Board for many years and made an invaluable contribution to Petro Matad.

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 all other relevant authorities. Company staff participate 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. Representatives from the Community Relations team are stationed at site during all operational activities.

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

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

2019 OPERATIONS AND OUTLOOK

To fulfil the multi-well drilling programme for which the Company raised funds in 2018, two drilling rigs have been contracted for the 2019 campaign.

The Company has contracted with DQE International, Mongolia's most experienced and active drilling

operator, for its Rig 40105, to drill the Heron 1 and Gazelle 1 wells in the north of Block XX. The contract gives the Company the option to drill an additional well to allow for immediate appraisal of any discovery made during the 2019 drilling programme. Any discovery will be tested using a separate workover rig. DQE's rig was drilling in neighbouring Block XIX up until the end of the last drilling season, so mobilisation is expected to be short and logistically straightforward.

The second rig contract is with Daton Petroleum Engineering and Oilfield Service LLC, for their Rig DXZ1, to drill the Red Deer 1 well in the south of Block XX. The contract gives Petro Matad the option to drill a second well, to either appraise any discovery made in Red Deer 1 or for drilling in Block V in western Mongolia. Any testing operations will be performed by a separate workover rig. Daton's rig was working until the end of 2018 and is currently located approximately 125 km east of the Red Deer location, so mobilisation to Block XX is relatively short.

The Company expects to spud Heron 1 in early July. The well will be drilled to a planned TD of 3,050 metres and will take approximately 40 days to drill and log. The Heron Prospect is the southerly extension of the proven oil-bearing structure drilled by the T19-46-3 discovery well in adjacent Block XIX. The latest mapping based on reprocessed 2D and newly accessed 3D seismic shows the majority of the structure, including the crest of the trap, lying in Block XX. The Heron Prospect is estimated to have mean recoverable prospective resource potential of 25 MMbo. Heron 1 will be located 1.1 km south of the T19-46-3 oil well and is prognosed to encounter the top of the primary reservoir targets at approximately 2,800 metres.

On completion of operations at Heron 1, the rig will immediately move to the Gazelle 1 location. The planned TD of Gazelle 1 is 2,500 metres and the well is expected to take approximately 35 days to drill and log. The Gazelle Prospect is located on the south-western flank of the Tamsag Basin, which is the primary source kitchen charging the Block XIX

discoveries. The Gazelle 1 well will be drilled 5 km west of Heron 1 and 4.5 km southwest of the T19-46-1 oil well in Block XIX. The mean prospective recoverable resource assessment for the Gazelle Prospect is 13 MMbo.

The Red Deer 1 well will be drilled with the Daton rig and is expected to spud later in July and is forecast to take 35 days to drill and log. The planned TD of the well is 2,100 metres. The Red Deer 1 well will target a basin centre, fault bounded, structural closure in the southern part of Block XX. The mean prospective recoverable resource assessment for the Red Deer Prospect is 48 MMbo. On completion of drilling and depending on the success of the well, the Company will then take the decision to whether to drill a further well at Red Deer, move the rig to drill a well in Block V, or focus on activities in the north of Block XX.

Running two rigs, with a separate workover rig for any testing operations, should give the Company sufficient time to complete its 2019 drilling campaign before the winter operational shutdown in late Q4 2019.

ACKNOWLEDGEMENTS

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 is fully committed to creating shareholder value and would 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

Хоёр жилийн турш үргэлжлэх (2018, 2019 онуудад) өрөмдлөгийн хөтөлбөрийг хэрэгжүүлэх зорилгоор компани 2018 оны эхний хагаст хоёр удаа амжилттайгаар санхүүжилт босгож чадсан байдаг. 2018 оны 1-р сард эхний удаад нийт 186.6 сая шинэ хувьцааг ширхэгийг нь 6.5 пенсийн үнэлгээтэйгээр шинэ болон өмнө байсан байгууллагын хөрөнгө оруулагчдад, түүнчлэн зарим ТУЗ-ийн гишүүд, компанийн дээд шатны удирдлагуудад арилжаалж нийт 16.8 сая ам.долларын хөрөнгө босголоо. Петро Матадын гол хувьцаа эзэмшигч болох Петровис Матад компани энэхүү арилжааны хамгийн том оролцогч нь байв.

2018 оны 6-р сард хоёр дах удаагийн хөрөнгө босголтын үеэр нийт 136.8 сая шинэ хувьцааг шинэ болон өмнө байсан байгууллагын хөрөнгө оруулагчдад, мөн зарим ТУЗ-ийн гишүүд, компанийн дээд шатны удирдлагуудад арилжаалсан. Тэдгээр хувьцаануудыг ширхэгийг нь 10 пенсээр үнэлсэн бөгөөд ийнхүү компани өөрийн хөрөнгөө 18.1 сая ам. доллараар нэмэгдүүлсэн юм.

Ингээд хангалттай санхүүжилттэйгээр компани өрөмдлөг хийхэд шаардагдах зөвшөөрөл болон үйл ажиллагаатай холбоотой бүхий л бэлтгэл ажлыг түргэн шуурхай хангаж, 2018 оны өрөмдлөгийн улиралд хоёр цооног өрөмдөж чадсан билээ. Бид үйл ажиллагаагаа Монгол улсын төвийн баруун бүсийн хэсэгт Нууруудын хөндийд байрлах IV ба V талбайд төвлөрүүлж, IV талбайд Тахь-1, V талбайд Ирвэс-1 цооногуудыг хоёуланг нь төлөвлөсөн төсвийн хүрээнд багтаан аюулгүй байдал, байгаль орчны аливаа асуудал гаргалгүй өрөмдсөн юм. Хэдийгээр эдийн засгийн үр ашигтай нүүрсустөрөгч илрээгүй боловч эдгээр фронтир талбайнуудын геологийн мэдээллийг чичирхийллийн болон бусад өгөгдөлтэй

уялдуулан калибрац хийх боломжийг бүрдүүлсэн маш хэрэгтэй өгөгдлүүд гарсан нь компанийн талбайн талаарх ойлголтыг өргөжүүлж, хайгуулын дараагийн үе шатны төлөвлөгөөг боловсруулахад өндөр ач холбогдол үзүүлж байна. Ялангуяа Ирвэс-1 цооногийн үр дүн V талбайн боломжит проспектуудын зэрэглэлийг өсгөсөн ба одоогоор тэдгээрийг өрөмдөхөд бэлэн зэрэглэлтэй болгохын тулд үргэлжлүүлэн судалж байна.

Ийнхүү 2018 онд компанийн үйл ажиллагааны чадавхыг дахин сэргээн, 2019 онд хийгдэх 4 цооногийн кампанит ажлын бэлтгэл ажлыг эхлүүлээд байгаа ба энэ нь эхний ээлжинд газрын тос олборлож буй талбайнуудтай зэргэлдээ, Монгол улсын зүүн хязгаарт орших XX талбайд төвлөрч байна.

2018 ОНЫ ТОЙМ

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 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.

2018 оны үйл ажиллагааны явцад компани болон туслан гүйцэтгэгчдийн аль аль нь бүх заасан горим, дүрэм журмыг даган мөрдөж, цаг мөч бүрт хууль дүрмийн дагуу эрх зүйн хэрэгжилтийг бүрэн хангаж ажиллав. Суурь судалгаа болон байгаль орчны нөлөөллийн үнэлгээ хийлгэх, компанийн байгаль орчны чиг бодлогын биелүүлэлтэн дээр хараат бус үнэлгээ тайлан гаргуулах зэрэгт байгаль орчны мэргэжлийн байгууллагууд гэрээлж ажиллуулсан. 2018 онд компанийн талбай дээрх үйл ажиллагааны явцад ямарваа нэгэн байгаль орчинтой холбоотой асуудал гараагүй болно.

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

Үйл ажиллагаа

2018 оны ажлын хөтөлбөр нь юун түрүүнд IV, V талбайнуудад хайгуулын өрөмдлөгийн бэлтгэл ажлыг хангах, түүнийг хийж гүйцэтгэхэд төвлөрч байв. Компани мөн 2018 онд XX талбай дээр өрөмдлөг хийхээр төлөвлөж байсан ч өвлийн өрөмдлөг зогсолтоос өмнө өрмийн цамхгийг гэрээлэх үйл явц сунжирснаар тус ажлыг 2019 он хүртэл хойшлуулах шаардлагатай болсон юм. Ийнхүү хойшлуулсан нь XX талбай дээр өрөмдөхөөс өмнө нэмэлт цаг хугацааг гаргаж өгсөн ба түүнийг чичирхийллийн судалгааны өгөгдлийг дахин боловсруулах, 2019 онд өрөмдөхөөр зорьж буй хэтийн төлөвтэй талбайнуудыг шинэчлэн зураглах, дахин эрэмбэлэх зэрэг ажлуудад оновчтой ашиглаж чадлаа.

2018 оны хайгуулын өрөмдлөгийн үйл ажиллагаа 7-р сарын эхээр V талбайн Таацын сав газарт Ирвэс-1 цооногийн өрөмдлөгийн ажлыг эхлүүлснээр эхэлсэн юм. Тус цооногийг боржин ул чулуунд нэвтэртэл нийт 2930 метрийн гүнтэй өрөмдсөн. Цооногийн үндсэн хоёр зорилтот үеийн гүехнийг нь өрөмдөж байхад C1-C5 хийнүүд, түүнчлэн угаалгын шингэнд тос ажиглагдаж байсан ч элсний үеүд таараагүй. Тэрхүү хийнүүд нь тус сав газарт петролеумын идэвхтэй систем байгааг илтгэж байгаа бол угаалгын шингэнд ажиглагдсан тос нь проспектыг тусгаарлагч хагарлуудын аль нэгнээс орж ирсэн байх боломжтой гэж таамаглаж байгаа бөгөөд тэр нь газрын тос нүүн шилжих боломжийг бүрдүүлж байж болох юм. Цооногийн хоёр дах буюу илүү гүн дэх үндсэн зорилтот үе нь өрөмдлөгийн өмнө тооцоолж байсан гүнд таарсан ба нийт 400 гаруй метрийн интервалд

элсэн чулууны үеүд сайн бүрэлдэж тогтсон байв. Гэхдээ эдгээр тунамал хурдсуудыг өрөмдөх явцад тос эсхүл хийн илэрц ажиглагдаагүй бөгөөд дараа нь хийсэн каротажийн судалгаа нь тэдгээрийг ус агуулсан болохыг нотолсон юм. Тус цооногийг битүүлж, үйл ажиллагааг дуусгавар болгосон бөгөөд өрөмдлөгийн дараах судалгаануудаар тухайн цооног нь Хожуу Юраас Түрүү Цэрдийн насны органик агууламж өндөртэй тос үүсгэмтгий үүсгэгч чулуулгуудын зузаан давхаргыг нэвтэрсэн байна гэдгийг баталгаажуулсан байдаг. Ирвэс-1 цооногт зузаан үүсгэгч чулуу, петролеумын идэвхтэй систем байгаа нь Таац болон зэргэлдээ зүүн зүгт орших Төгрөгийн сав газрууд дах бусад хэтийн төлөвтэй талбайнуудын зэрэглэлийг ахиулах боломжийг олголоо. Ялангуяа Ирвэс-1 цооногоос урагш 7 км орчмын зайд байрших Рапторын бүс гэж нэрлээд байгаа дөрвөн талаасаа налуугаар хаагдсан гурван өргөгдөл сонирхол ихээр татаж байгаа билээ. Рапторын бүсийн хэтийн төлөвтэй талбайг өрөмдөхөд бэлэн түвшинд аваачих, түүнийгээ Таац болон Төгрөгийн сав газрын бусад зорилтот талбайнуудтай харьцуулан эрэмбэлж, 2019 оны хөтөлбөрт багтаах зорилготой ажил одоогоор хийгдэж байна.

Ирвэс-1 дээрх өрөмдлөгийн үйл ажиллагаа дуусмагц Синопек компанийн гэрээт өрмийн цамхгийг баруун тийш IV талбай руу нүүлгэн, Тахь-1 цооногийн өрөмдлөгийн ажлыг 10-р сарын сүүлээр эхлүүлсэн. Тус цооногийг боржин ул чулуунд нэвтэртэл нийт 1490 метрийн гүнтэй өрөмдсөн. Өрөмдлөг хийхээс өмнө дэвшүүлсэн прогностой нийцэж, тус цооногт 650 метрийн гүнээс нийт гүн (НГ) хүртэл элс, занар харилцан үелсэн давхаргууд бүхий найдлага төрүүлэм зузаалаг таарч байсан ч тосны илэрц ажиглагдаагүйгээс гадна дэвсгэр хийн бичиглэлийн хэмжээ өрөнхийдөө бага байв. Ул чулуу нь тооцоолж байснаас хэдэн зуун метрийн гүехэн гүнд тохиосон ба энэ нь хайгуулын ямарваа нэг цооногоос 200 илүү километр хол зайд өрөмдөгдсөн уг цооногийн фронтир шинж чанарыг илтгэж байгаа хэрэг. Өрөмдлөгийн дараах судалгаанууд одоогоор хийгдэж байгаа бөгөөд ул чулуун дээхэнд авсан үйрмэг дээжүүдээс багахан хэмжээний тос гаргаж авсан нь хэдийгээр Тахь-1 цооногийн байршил дээр таараагүй ч Баацагааны сав газрын хаа нэгтээ идэвхжилтэй үүсгэгч чулуу байж болзошгүйг илтгэж байна.

2018 онд өрөмдсөн хоёр цооногийн үр дүн хийгээд өрөмдлөгийн дараах судалгаа шинжилгээнүүд дээр тулгуурлан IV, V талбайн хайгуулын дараагийн үе шатны ажлын хөтөлбөрийг боловсруулж, БХГ-ний хугацаа сунгуулах хүсэлтийн нэг хэсэг болгон АМГТГ-т хүргүүлээд байна.

2018 онд ХХ талбайд төлөвлөөд байсан өрөмдлөг хойшлогдсон нь компанид чичирхийллийн судалгааны мэдээллийг дахин боловсруулах, өмнө хийгдсэн байсан 3 хэмжээст чичирхийллийн судалгааны өгөгдлөөс олж авч ашиглах боломж гарч, ингэснээр тухайн талбайн зэрэглэл өндөртэй хэсгүүдэд дахин тайлал, зураглал хийн, проспектуудын эрсдэлийн эрэмбэ, баялгийн үнэлгээ зэргийг шинэчлэхэд өндөр үр нөлөөтэй байв. Энэхүү ажлын үр дүнд хэд хэдэн сонирхол татсан хэтийн төлөв бүхий талбайнууд бий болсон бөгөөд эдгээрээс гурав дээр нь 2019 оны ХХ талбайн өрөмдлөгийн кампанит ажлын хүрээнд өрөмдлөг хийх зорилт тавиад байна.

Бүтээгдэхүүн Хуваах Гэрээнүүд

IV, V талбайн Бүтээгдэхүүн хуваах гэрээ (БХГ)-нүүдийн одоогийн хүчинтэй хугацаа 2019 оны 07-р сарын 29-ний өдөр дуусгавар болохоор байгаа тул компани БХГ-нүүд тус бүрийн хугацааг хоёр жилээр сунгуулах хүсэлт гаргасан байгаа бөгөөд энэхүү хүсэлтийн дагуу хугацаа нь сунгагдвал компани талбайнууд дээр 2021 оны 07-р сарын 29-ний өдөр хүртэл үйл ажиллагаа явуулах эрхтэй үлдэх юм. Хоёр талбайн хоёулангийнх нь хувьд нийт зарцуулаад байгаа зардал нь хайгуулын одоогийн хугацааг дуусахад зарцуулсан байх үүрэгт зардлаас давсан байгаа тул тусгай зөвшөөрлийн хугацаа сунгахтай холбоотойгоор ямар нэгэн асуудал гарахгүй гэж үзэж байгаа бөгөөд компани төрийн захиргааны байгууллагатай зөвхөн хайгуулын дараагийн үе шатанд хэрэгжих зохих ажлын хөтөлбөрийн талаар л зөвшилцөх шаардлагатай байгаа юм.

ХХ талбайн хайгуулын хугацаа 2020 оны 07-р сар хүртэл үргэлжилнэ. 2019 оны хайгуулын өрөмдлөгийн хөтөлбөр эдийн засгийн үр ашгийн үүднээс амжилттай байх тохиолдолд БХГ-ний дагуу харьцангуй түргэвчилсэн байдлаар үйлдвэрлэл, бүтээн байгуулалтын үе шат руу шилжих боломжтой бөгөөд ашиглалтын үе шат 25 жил үргэлжлэх юм (цаашид 10 жилээр сунгах боломжтой).

Засаглал

Хатагтай Ж.Оюунгэрэл ТУЗ-ийн үүрэгт ажлаа өгсний дараагаар хатагтай Б.Шинэзаяа ТУЗ-д томилогдон ажиллах болсонд компани их баяртай байна. Хатагтай Оюунгэрэл нь тус компанийн үүсгэн байгуулагч бөгөөд олон жилийн турш ТУЗ-д байж, Петро Матад компанид үлэмж их хувь нэмэр оруулсан нэгэн юм.

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 болох Ашигт малтмал, газрын тосны газар (АМГТГ) болон бусад бүх холбогдох төрийн байгууллагуудаас авч ажилладаг. Компанийн ажилтнууд төлөвлөсөн үйл ажиллагаагаа танилцуулж, хэлэлцэх зорилготойгоор дээрх агентлаг болон орон нутгийн засаг захиргаа, төлөөлөгчдийн 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 суурин газрын захиргааны байранд зохион байгуулдаг. Мөн компанийн төлөөлөгчид үйл ажиллагаа явуулахаар төлөвлөсөн газарт ойролцоо амьдардаг эсвэл нутагладаг нүүдэлчин малчидтай уулзалт хийнэ. Түүнчлэн компанийн олон нийтийн харилцаа хариуцсан ажилтнуудын төлөөлөл бүхий л үйл ажиллагааны явцад талбай дээр байршиж ажилладаг.

Үйл ажилагаа явуулж байгаа газруудад олон нийтэд чиглэсэн хөтөлбөрүүдийг авч хэрэгжүүлдэг ба эдгээр ажлуудыг орон нутгийн засаг захиргаатай хамтран зохион байгуулдаг.

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

2019 ОНЫ ҮЙЛ АЖИЛЛАГАА БА ТӨЛӨВ

Олон цооног өрөмдөх хөтөлбөр хэрэгжүүлэх зорилгоор компани 2018 онд хөрөнгө босгосон бөгөөд 2019 оны өрөмдлөгийн кампанит ажилд зориулан хоёр өрмийн цамхаг гэрээлээд байна.

Тус компани нь ХХ талбайн хойд хэсэгт байрлах Цэн тогоруу-1 болон Цагаан зээр-1 цооногуудыг өрөмдөхөөр Монгол улсад хамгийн туршлагатай бөгөөд идэвхтэй үйл ажиллагаа явуулж байгаа өрмийн оператор компани болох ДиКюИ Интернэйшнл компанитай тэдний 40105 өрмийн цамхгийг ашиглах гэрээ байгуулсан. Энэхүү гэрээний дагуу компани мөн 2019 оны өрөмдлөгийн хөтөлбөрийн явцад хийгдэх аливаа нээлт дээр нэн даруй үнэлгээ хийх боломжийг бүрдүүлэх нэмэлт цооног өрөмдөх эрхтэй байгаа. Нээлт тогтоогдвол тусдаа үйлчилгээний цамхаг ашиглан туршилт хийх болно. ДиКюИ компанийн өрмийн цамхаг нь зэргэлдээ орших XIX талбайд өнгөрсөн өрөмдлөгийн улирлыг дуустал өрөмдлөг хийж байсан тул

нүүлгэн шилжүүлэх ажиллагаа богино хугацаанд, логистикийн хувьд хялбар явагдах боломжтой юм.

Өрөмдлөгийн нөгөө гэрээг Датон Петролеум Инжиниринг энд Ойлфилд Сервис ХХК-тай тус компанийн ДиЭксЗий1 өрмийн цамхгийг ХХ талбайн урд хэсэгт байрлах Халиун буга-1 цооногийг өрөмдөхөд ашиглахаар байгууллаа. Тус гэрээ нь Халиун буга-1 цооноогоор нээлт тогтоогдвол үнэлгээ хийх зорилгоор эсхүл Монголын баруун бүсэд орших V талбайд өрөмдлөг хийх зорилгоор хоёр дах цооног өрөмдөж болох боломжийг Петро Матадад мөн л олгож байгаа юм. Туршилтын аливаа үйл ажиллагааг тусдаа үйлчилгээний цамхагаар гүйцэтгэнэ. Датон компанийн цамхаг 2018 оны эцэс хүртэл ажилтай байсан бөгөөд одоогоор Халиун бугын байршлаас зүүн тийш ойролцоогоор 125 км-ийн зайд байгаа. Иймд ХХ талбай руу нүүлгэн шилжүүлэхэд харьцангуй богино хугацаа шаардагдана.

Компани Цэн тогоруу-1 цооногийн өрөмдлөгийн ажлыг 07-р сард эхлүүлэхээр төлөвлөж байна. Цооногийн нийт гүнийг 3050 метр байхаар төлөвлөсөн бөгөөд өрөмдөж, каротажийн хэмжилт хийхэд ойролцоогоор 40 хоног зарцуулна. Цэн тогоруу проспект нь зэргэлдээ XIX талбайн Т19-46-3 нээлтийн цооноогоор газрын тостой гэдэг нь батлагдсан структурын урагшаах үргэлжлэл юм. Дахин боловсруулсан 2 хэмжээст чичирхийлэл болон шинээр олж авсан 3 хэмжээст чичирхийллийн өгөгдөлд суурилан хамгийн сүүлд гаргасан зураглал нь хураагуурын оройн хэсгийг оруулаад структурын дийлэнх хэсэг нь ХХ талбайд оршиж буйг харуулж байгаа юм. Цэн тогоруу проспектийн олборлож болохуйц хэтийн төлөвт газрын тосны дундаж хэмжээг 25 сая баррель байхаар тооцоолж байгаа. Цэн тогоруу-1 цооног нь Т19-46-3 тосны цооноогоос урагш 1.1 км зайд байрлах бөгөөд үндсэн зорилтот резервуаруудын дээд хил ойролцоогоор 2800 метрийн гүнд тохионо гэж тооцоолж байна.

Цэн тогоруу-1 цооногийн үйл ажиллагаа дуусмагц цамхгийг даруй Цагаан зээр-1 цооногийн байршил руу нүүлгэнэ. Цагаан зээр-1 цооногийн төлөвлөсөн нийт гүн нь 2500 метр байх бөгөөд цооногийг өрөмдөж, каротажийн хэмжилтийг хийхэд ойролцоогоор 35 хоног зарцуулахаар байна. Цагаан зээр проспект нь Тамсагийн сав газрын баруун урд үзүүрт орших бөгөөд Тамсагийн сав газар нь XIX талбайд хийгдсэн нээлтүүдийн гол тос үүсгэгч гал зуух нь болдог. Цагаан зээр-1 цооногийг Цэн тогоруу-1 цооноогоос баруун тийш 5 километрийн зайд, XIX талбайн Т19-46-1 тосны цооноогоос баруун урагш 4.5 километрийн зайд өрөмдөнө. Цагаан зээр проспектийн олборлож болохуйц хэтийн төлөвт газрын тосны дундаж хэмжээг 13 сая баррель

байхаар тооцоолж байгаа.

Халиун буга-1 цооногийг Датон компанийн өрмийн цамхагаар 07-р сарын сүүлээр өрөмдөж эхлэхээр төлөвлөж байгаа бөгөөд өрөмдлөг болон каротажийн хэмжилтийн ажлыг 35 хоногт хийх хүлээлттэй байна. Тус цооногийн төлөвлөсөн нийт гүн нь 2100 метр. Халиун буга-1 цооног нь бассейны төв хэсэгт хагарлаар тусгаарлагдсан структур төрлийн хураагуурыг онилон, ХХ талбайн урд хэсэгт өрөмдөгдөх юм. Халиун буга проспектийн олборлож болохуйц хэтийн төлөвт газрын тосны дундаж хэмжээ 48 сая баррель байх тооцоотой. Өрөмдлөг дуусах үед цооногийн үр дүн, ололтоос шалтгаалж компани нь Халиун буга дээр удаах цооногийг өрөмдөх эсхүл өрмийн цамхгийг V талбайд өрөмдлөг хийхээр нүүлгэн шилжүүлэх эсхүл ХХ талбайн хойд хэсгийн үйл ажиллагаандаа төвлөрөх эсэх дээр шийдвэр гаргах болно.

Өрмийн хоёр цамхаг ажиллуулахаас гадна туршилтын үйл ажиллагаанд зориулан тусдаа үйлчилгээний цамхаг ашиглах нь компанид 2019 оны 4-р улирлын эцсээр үйл ажиллагааг зогсоох хүртэл тус оны өрөмдлөгийн кампанит ажлыг бүрэн дуусгах хангалттай хугацааг олгох юм.

ТАЛАРХАЛ

ТУЗ-ийн зүгээс бүтэн жилийн турш урам зориг, хичээл зүтгэлтэй ажиллаж ирсэн техникийн болон техникийн бус ажилтан, ажиллагсдаа талархаж буйгаа илэрхийлэхийг хүсэж байна. Петро Матадын баг хамт олны бүрэн дүүрэн, уйгагүй хичээл зүтгэл дээр дөрөөлөн гайхалтай цаг үеийг угтана гэдэгтээ бид итгэлтэй байна. ТУЗ нь хувьцаа эзэмшигчид өгөх үнэ цэнийг бий болгох үүрэг хариуцлагаа бүрэн дүүрэн хүлээж ажилладгаа илэрхийлэхийн сацуу компанийн үйл ажиллагааг үргэлж дэмжиж ирсэн хувьцаа эзэмшигчдэдээ талархаж буйгаа илэрхийлье.

ТУЗ-ийн гишүүд



Health, Safety, Security and Environment



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

Petro Matad continues to develop and update its HSSE-MS to align with International Oil and Gas Procedure (IOGP) 511 which outlines Operational Management System Guidelines. The HSSE-MS is a dynamic document and will continue to be updated as new and revised policies and procedures are released by IOGP.

An essential and fundamental part of Petro Matad's HSSE culture is shaped by the Company's HSSE-MS. It provides practical and real time guidance for all of the Company's operations and activities. It provides a framework to ensure operations are conducted in accordance with international standards, as well as ensuring compliance with Mongolian laws and regulations. Further, the Company's HSSE-MS adheres to guidelines set out in: International Association of Oil and Gas Producers (IOGP), ISO 14001, Environmental Management System Guidelines, OSHA 18001 Occupational Health and Safety Management System Guidelines, International Association of Drilling Contractors (IADC), and International Association of Geophysical Contractors. It allows for instant access to industry standards facilitating the Company's ability to quickly apply best in class operating procedures, which will always be in line with Mongolian legislation.

Petro Matad's Observation Programme follows guidelines set out in IOGP and these are incorporated into our HSSE-MS. The Observation Programme records and categorises all Unsafe Acts, Near Misses and Unsafe Conditions. In addition, it acknowledges best practices in all field operations and Company offices in Ulaanbaatar. All learnings from the Observation Programme are cascaded throughout the Company to ensure corrective and preventative actions are taken to ensure mitigating measures are implemented.

Operations

Petro Matad is fully committed to accurately measuring and reporting HSSE metrics in accordance with best practice and international standards.

In 2018, the Company undertook exploration drilling programmes in Blocks IV and V. The drilling programme was planned and executed under IOGP and IADC guidelines for the management of HSSE. Petro Matad ensured that its Contractor and Sub-Contractors operated within the requirements as defined in IOGP and IADC. During the drilling programme, members of Petro Matad's senior management continually monitored and undertook multiple inspections on the main drilling Contractor. The purpose of the inspections was to:

- Evaluate the Contractor's and their Sub-Contractor's operational capacity and commitment to HSSE in the field;
- Ensure compliance to Mongolian National Standards;
- Evaluate the Contractor's HSSE Plan and its execution during drilling operations; and
- Evaluate the Contractor's compliance to guidelines set out by IOGP and IADC.

The Inspection findings concluded that the Contractor was operating satisfactorily under the guidelines set out in IOGP, IADC, Mongolian National Standards and as a Mode 2 Contractor, which is where the Contractor executes all aspects of the contract under its 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 the Company's and the Contractor's HSSE-MS are seamlessly compatible. With the strong Petro Matad HSSE presence in the field and the dedication of the Contractor, the 2018 drilling programme concluded with no Lost Time Injuries (LTI), with a total of 251,751 manhours recorded. In 2018, the Petro Matad Group's Total Recordable Incident Rate (TRIR), which is one of the Company's Key Performance Indicators was Zero. Contributing to this successful outcome was the use of Leading and Lagging Indicators which allowed for

proactive information gathering so that both Petro Matad and its Contractor were able to analyse trends that could have otherwise led to a potential incident occurring.

Continuing management commitment and rigorous application of safety systems and procedures, combined with ongoing training, have driven progress in non-injuries and LTI's to three consecutive years of zero LTI's.

Health, Safety, Security and Environmental Policy

Petro Matad's Health, Safety, Security and Environmental Policy demonstrates that executive management and all employees of the Company are committed to the welfare of all and it further requires that Contractors conduct their services in line with the Company's Policies. The Company understands that its people are its greatest asset and success can only be achieved by ensuring their welfare and wellbeing.

The specific objectives of Petro Matad's 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 a minimal environmental footprint in all activities;
- Provide a continuous programme of education and development to ensure that the Company's 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; and
- Comply with relevant occupational Health & Safety laws, regulations, guidelines, and project requirements.

The success of the Company's 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 employees and contractors are totally committed to achieving objectives;
- Ensure that open and honest communication exists between management and all employees; and
- Minimizing impact upon the environment and to conserve and protect the environment in all 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, comprise detailed plans on 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, water source management, and environmental restoration.

During the Company's 2018 drilling programme, the Company continued its excellent record of compliance to environmental regulations. All required permits were obtained and submitted as stipulated by Ministry of Environment and District (Aimag) Environmental Departments. Petro Matad engaged specialist contractors during the 2018 drilling programme to ensure compliance with all environmental laws of Mongolian. Additionally, an environmental company was contracted to

ensure that all due diligence and legal compliance were undertaken by Petro Matad in obtaining the Detailed Environmental Impact Assessments (DEIA) approval of which is required before any operations can take place. This enabled Petro Matad to provide to the Ministry of Environment an Environmental Management Plan demonstrating full commitment to take all reasonable measures to protect the environment as per Mongolian law.

Additionally, a specialist environmental monitoring company was contracted to conduct environmental monitoring (before, during and after operations) on the drilling locations. Monitoring provided detailed analysis of any adverse effects to both flora and fauna from which recommendations for future drilling operations were developed.

To ensure legal compliance in all areas, an Environmental Audit was conducted by an external audit company for the period covering 2015-2017 including the seismic operations on the Company's Blocks IV and V PSCs.

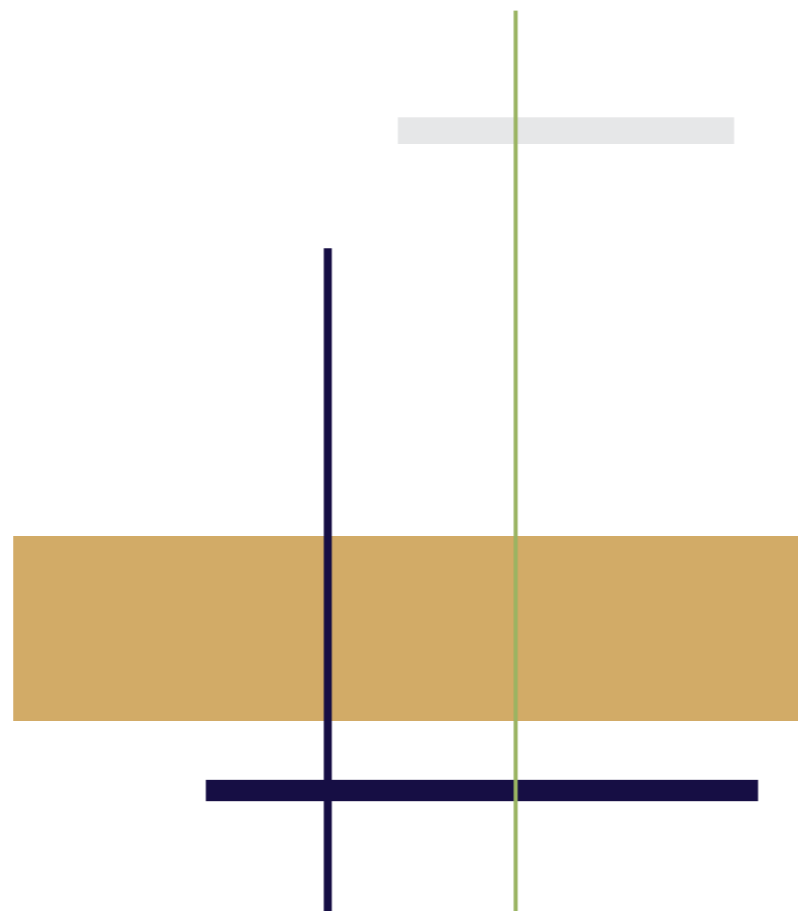
Petro Matad takes all comments received from the local community seriously, investigates as required and ensures that issues are addressed and rectified as soon as reasonably practical. After the 2018 drilling programme, the areas of operations were inspected by local authorities to ensure that appropriate efforts to remediate the land were undertaken, taking into account any comments and recommendations made by the local authorities. Recommendations from the 2018 programme have been incorporated into the planning and execution of the Company's 2019 operations. In addition to studies conducted in 2015, complete and detailed Archeological, Paleontological and Ethnographic studies were conducted on Blocks IV, V and XX by the Mongolian Science Academy of Archeology and Paleontology departments in 2018.

Air Quality

To ensure that national and international regulatory parameters are adhered to on emissions. Petro Matad conducts emission tests before, during and after operations. This ensures parameters are adhered to and accurate information is recorded for future emission estimations, enabling optimization of the implementation of future emission reduction measures.

Summary

Enshrined in all of Petro Matad's operations are safeguards that ensure its HSSE standards are paramount and foremost in all activities undertaken by the Company and its Contractors. Pre work planning and risk analysis before operations commence are focused on ensuring standards are maintained and enforced. This approach ensures that the Company's license to operate remains in good standing while constantly striving to improve standards while protecting the environment and the safety of all personnel in the operating areas.



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



05



**Corporate
Social
Responsibility**

Corporate Social Responsibility/Community Relations 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;
- Support HSSE in monitoring environmental impacts during planned operations;
- 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 2018, Petro Matad undertook community and

stakeholder engagement ahead of its drilling programme with the objectives of:

- Introducing the project, its background and status, and provision of information on current and planned activities to the local officials and community members in the areas where drilling operations were to be conducted;
- Gaining the support of herders and other stakeholders for the proposed drilling 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 drilling programme and other related 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 in 2015 and continues to this day for all work programme activities undertaken by the Company.

The Company's stakeholder engagement initiatives were implemented during the 2018 drilling operations in Block IV (Baatsagaan Soum) and Block V (Guchin-Uus Soum). At the commencement of operations in Guchin-Uus Soum herders in the area raised objections which were generally due to initial misunderstandings. These were efficiently and effectively dealt with by the Company's CSR team through engagement with Soum and Aimag officials and directly with the herder families. Additionally, a delegation consisting of the Ministry of Mining, Ministry of Environment, State Inspection Agency and MRPAM assisted in community engagement to explain that the operations of the Company were sanctioned by the Mongolian Government and fully compliant with all legislation.

In Block IV, Baatsagaan Soum drilling operations were conducted without any community issues,

which was the direct result of effective and timely community engagement and the relationships that were established with Soum and Aimag Government offices. The lessons learned in Block V operations, particularly the need for local engagement immediately ahead of equipment mobilization were applied successfully in Block IV.

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 the Company's exploration and drilling activities in Blocks IV, V and XX. Through transparent and 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. The 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 2018, under the Company's Social Development Policy and Social Action Plans, the following projects were implemented after consultation with Community Reference Groups formed in each Soum:

Guchin-Uus Soum, Uvurkhangai Aimag:

- Funded the drilling of a fully equipped water well in the 3rd Bagh using up to date technology for sustainable future use by herders and their livestock.
- Funded the clean-up of a Soum landfill.
- Funded the purchase of a front-end loader for use by the Soum's administration and residents.
- Funded the installation of a fully equipped children's playground, and restored an existing basketball court and fence around the children's recreational park in the Soum centre.
- Funded the construction of a disinfectant bath for the livestock of 3rd Bagh herders.

Bayankhongor Aimag:

- Contributed towards various arts and sports events, sponsorship in the form of tuition fees for students from vulnerable family backgrounds as well as treatment expenses for residents undergoing major surgeries.

Baatsagaan Soum, Bayankhongor Aimag:

- Supplied feed for animals in the area which were observed to be lacking food due to harsh winter conditions.
- Funded the installation of streetlights and CCTV cameras in the Soum centre.
- Funded the drilling of a fully equipped water well in the 5th Bagh using up to date technology for sustainable future use by herders and their livestock.
- Funded the purchase of a dump truck for use by the Soum's administration.
- Funded the purchase of musical instruments and equipment for the Soum's cultural centre.
- Funded the purchase of new furniture for the Soum's school dormitory.
- Funded the purchase of bio-toilets for the Soum's kindergarten.
- Made a contribution to the local Herder's Sports Open Day.



Corporate Governance Statement

Corporate Governance at Petro Matad Limited

Since 2010 the Company has followed the QCA Corporate Governance Guidelines for AIM Companies (QCA Code), and the Board, to the extent considered applicable, has ensured that the Company was in compliance with that Code. 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.

Following the changes to the Alternative Investment Market (AIM) rules which now require AIM-listed businesses to adopt a recognised corporate governance code, the Company is pleased to report that the Board has chosen to continue to follow the QCA Code and is applying the 2018 QCA Code.

Enkhmaa Davaanyam, Non-Executive Chairperson

Strategy and Business Model Promoting Long-Term Value

The Petro Matad Group's strategy is focused on oil exploration in Mongolia and the Group will continue to pursue exploration projects within high-graded exploration areas in Mongolia. Shareholder value will be realised with the development and production of any commercial discoveries made by the Company. Petro Matad will also look at risk diversification measures such as farmouts should a favourable opportunity arise.

The Company is focused on high-grading exploration areas by accessing and applying state of the art technical resources to maximise the probability of identifying the best opportunities for making hydrocarbon discoveries.

As an exploration company, funding its exploration work programme is critical. The Board reviews funding requirements closely and is focused on ensuring that the Company will be able to fund planned future work programmes.

Board of Directors and Composition

The Board is currently comprised of two Non-Executive Directors (who are shareholder representatives), one Independent Non-Executive Director and two Executive Directors.

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

- The principle of having at least one Independent Director on the Board to oversee the interests of the Company and all shareholders is maintained
- The Board has appropriate skills, experience and expertise
- Appropriate representation for the Company's major shareholder Petrovis Matad Inc. (Petrovis)
- 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)
- Shinezaya Batbold, 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.

Each Director brings different skillsets and capabilities to the Board, resulting in a balanced Board with the necessary blend of relevant experience, skills and personal qualities to deliver the strategy of the Company.

On an ongoing basis the Board reviews the expertise required on its Board to ensure it is fully capable to determine and implement the Company's strategy. Board additions or replacements are made with the Company's current outlook and business development stage in mind, and candidates are

considered on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

The Company will ensure, where necessary, that all Directors receive the necessary updates and training to keep their skill sets up to date.

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.

Board Performance Evaluation

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. Performance of all Executive Directors is monitored on a continual and ongoing basis in order to assess their effectiveness.

All Directors stand for re-election on a rotational basis whereby one third of the Directors of the Company are required to retire from office at each annual general meeting of the Company and may submit themselves for re-election at each annual general meeting of the Company. All Directors are evaluated on an ongoing basis before being proposed for re-election to ensure that their performance is and continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role.

While the Board has plans to add a second independent Non-Executive Director it also evaluates requirements in relation to succession planning taking into account the required skill set and plans and performance of incumbent Directors.

Board Processes

The Company is controlled by the Board of 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.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. All Directors have direct access to the advice and services of the Company's Corporate Manager and are able to take independent professional advice in the furtherance of the duties, if necessary, at the Company's expense. The Board through a combination of meetings and conference calls regularly reviews operations and implementation of strategy. Board meetings and discussions in 2018 were attended by all Directors a large majority of the time. Non-Executive Directors are closely involved and updated with regular information flows and are expected to spend at least circa 3-4 weeks of their time each year on Petro Matad matters.

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 2018 and to the date of this report, are as follows:

Chair

Enkhmaa Davaanyam

Members

Timothy Bushell

Shinezaya Batbold (appointed 7 June 2019)

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 2018 and to the date of this report are as follows:

Chair

Timothy Bushell

Members

Enkhmaa Davaanyam

Shinezaya Batbold (appointed 7 June 2019)

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 45 to 51.

Corporate Governance, Social Action and Environmental (CGSAE) Committee

The members of the CGSAE Committee in 2018 and to the date of this report are as follows:

Chair

Oyungerel Janchiv

(retired from the Board on 20 September 2018)

Shinezaya Batbold (appointed 7 June 2019)

Members

Enkhmaa Davaanyam

Timothy Bushell

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 2018, 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.

Business Conduct and Ethics

Business conduct and ethics are key factors for the Company and the Board.

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 participates in the transparency report prepared by the Mongolian government.

Anti-Bribery and Corruption Policy (ABCP)

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. 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.

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 Board is committed to applying best practice technical, commercial and financial solutions to mitigate risks as much as possible, while always maintaining a proper control environment to ensure all laws and regulations are followed. 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

Shareholder and Investor Relations

The Board remains committed to maintaining communication with its shareholders. The Company encourages two-way communication with both its institutional and private investors and responds quickly to all queries received. The CEO talks regularly with the Group's major shareholders and ensures that their views are communicated fully to the Board.

The Board recognizes the AGM as an important opportunity to meet private shareholders. The Directors are available to listen to the views of shareholders informally immediately following the AGM. The Company's Articles of Association were amended at the September 2018 AGM to enable the Company to potentially hold AGMs in the United Kingdom in the future, in recognition of Petro Matad Limited being listed on AIM, where a substantial number of the Company's private investors are based. Where voting decisions are not in line with the company's expectations the Board will engage with those shareholders to understand and address any issues. The Company's Executive Management is the main point of contact for such matters and the Company has established an email address for this purpose: admin@petromatadgroup.com.

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.

The Company has also engaged FTI Consulting in 2017 to enhance investor relations. In order to provide more informational updates on operations, the Company started a Twitter account with an aim to provide continual operational updates to its investors and shareholders.

Stakeholder Engagement and Corporate Social Responsibilities

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 socioeconomic context, identifies the key stakeholders and associated consultation process, community grievance management mechanism, social investment strategy and commitments including the required resources and budget.

This is evidenced and underpinned by our vision and values including ongoing engagement with stakeholders at all levels.

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. For more information please see the Corporate Social Responsibility Statement on pages 33 to 35.

The Company liaises closely with the Mongolian regulator, Mineral Resources and Petroleum Authority of Mongolia in bringing forward issues in the conduct of business and operations within the Mongolian oil industry and also to comply with its obligations under the Production Sharing Contracts.

The Petro Matad Group conducts regular reviews on the effectiveness of stakeholder engagement and is committed to improve in areas where deficiencies are recognised. The Petro Matad Group encourages feedback from all stakeholders and reacts accordingly in line with guidelines on stakeholder engagement. The Company has established an email address for this purpose: admin@petromatadgroup.com. The Company's public relations firm FTI responds to general enquiries on behalf of the company, recognising that price sensitive information will not be divulged.

Please go to <https://www.petromatadgroup.com/corporate/corporate-governance/> for further details on how the Company complied with the QCA Code.

07



**Remuneration
Report**
(unaudited)



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

The Remuneration Committee has been comprised of the following members during the year and until the date of this report. Directors were in office for this entire year unless otherwise stated.

Timothy Paul Bushell (Chairperson)
 Oyungerel Janchiv (Retired 20 September 2018)
 Enkhmaa Davaanyam
 Shinezaya Batbold (Appointed 7 June 2019)

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 QCA 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 2017 and 2018, 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	Retired 20 September 2018
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 22 November 2017
Shinezaya Batbold	Non-Executive Director	Appointed 20 September 2018

(b) Compensation of Directors

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Short-term employee benefits	1,075	1,176
Post-employment benefits	-	-
Share based payment expense	205	11
	1,280	1,187

Directors	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Oyungerel Janchiv	24	31
Enkhmaa Davaanyam	54	52
Philip Arthur Vingoe	-	6
Timothy Paul Bushell	88	59
Amarzul Tuul	-	170
John Rene Henriksen	315	279
Mehmed Ridvan Karpuz	-	481
Michael James Buck	586	98
Shinezaya Batbold	8	-
Total	1,075	1,176

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 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
Directors				
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

Balance at 31 December 2018 or if applicable at the date of resignation	Balance as at 01-Jan-18	Acquired and (Disposed)	Options & Awards Exercised	Balance as at 31-Dec-18
Directors				
Oyungerel Janchiv****	13,267,946	(1,000,000)	77,284	12,345,230
Enkhmaa Davaanyam	4,888,400	747,775	500,000	6,136,175
John Rene Henriksen	1,083,258	481,955	500,000	2,065,213
Timothy Paul Bushell^	-	561,538	500,000	1,061,538
Michael James Buck^^	-	3,270,006	1,000,000	4,270,006
Shinezaya Batbold^^^	2,000,000	-	-	2,000,000
Total	21,239,604	4,061,274	2,577,284	27,878,162

*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.

**** Oyungerel Janchiv retired from the Board of Petro Matad Limited on 20 September 2018.

^ Timothy Paul Bushell was appointed to the Board of Petro Matad Limited on 10 March 2017.

^^ Michael James Buck was appointed to the Board of Petro Matad Limited on 22 November 2017.

^^^ Shinezaya Batbold was appointed to the Board of Petro Matad Limited on 20 September 2018 and held a shareholding of 2,000,000 shares in the Company at the time of appointment.

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 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
Directors							
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	-	-	-	-	-	-	-
Total	1,558,500	-	(189,000)	(150,000)	1,219,000	-	1,219,000

For the year ended 31 December 2018	Balance as at 01-Jan-18	Granted as Remu- neration	Options Exercised	Options Lapsed	Balance as at 31-Dec-18	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv****	412,500	-	-	(187,500)	225,000	-	225,000
Enkhmaa Davaanyam	150,000	-	-	-	150,000	-	150,000
John Rene Henriksen	100,000	-	-	-	100,000	-	100,000
Timothy Paul Bushell^	-	-	-	-	-	-	-
Michael James Buck^^	-	-	-	-	-	-	-
Shinezaya Batbold^^^	-	-	-	-	-	-	-
Total	662,500	-	-	(187,500)	475,000	-	475,000

*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.

**** Oyungerel Janchiv retired from the Board of Petro Matad Limited on 20 September 2018.

^ Timothy Paul Bushell was appointed to the Board of Petro Matad Limited on 10 March 2017.

^^ Michael James Buck was appointed to the Board of Petro Matad Limited on 22 November 2017.

^^^ Shinezaya Batbold was appointed to the Board of Petro Matad Limited on 20 September 2018.

(e) Conditional Share Awards holdings of Directors

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
Directors							
Oyungerel Janchiv****	475,000	-	-	-	475,000	475,000	-
Enkhmaa Davaanyam	150,000	-	-	-	150,000	150,000	-
Philip Arthur Vingoe*	150,000	-	-	-	150,000	150,000	-
Amarzul Tuul**	503,000	-	-	-	503,000	503,000	-
John Rene Henriksen	100,000	-	-	-	100,000	100,000	-
Mehmed Ridvan Karpuz***	150,000	-	-	-	150,000	150,000	-
Timothy Paul Bushell	-	-	-	-	-	-	-
Michael James Buck	-	-	-	-	-	-	-
Total	1,528,000	-	-	-	1,528,000	1,528,000	-

For the year ended 31 December 2018	Balance as at 01-Jan-18	Granted as Remu- neration	Awards Exercised	Awards Lapsed	Balance as at 31-Dec-18	Not Vested & Not Exercisable	Vested & Exercisable
Directors							
Oyungerel Janchiv****	475,000	77,284	(77,284)	-	475,000	475,000	-
Enkhmaa Davaanyam	150,000	500,000	(500,000)	-	150,000	150,000	-
John Rene Henriksen	100,000	500,000	(500,000)	-	100,000	100,000	-
Timothy Paul Bushell^	-	500,000	(500,000)	-	-	-	-
Michael James Buck^^	-	1,000,000	(1,000,000)	-	-	-	-
Shinezaya Batbold^^^	-	-	-	-	-	-	-
Total	725,000	2,577,284	(2,577,284)	-	725,000	725,000	-

*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.

**** Oyungerel Janchiv retired from the Board of Petro Matad Limited on 20 September 2018.

^ Timothy Paul Bushell was appointed to the Board of Petro Matad Limited on 10 March 2017.

^^ Michael James Buck was appointed to the Board of Petro Matad Limited on 22 November 2017.

^^^ Shinezaya Batbold was appointed to the Board of Petro Matad Limited on 20 September 2018.



Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	Consolidated	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Continuing operations			
Revenue			
Interest income	4(a)	583	203
Other income	4(a)	8	7
		591	210
Expenditure			
Consultancy fees		(97)	(55)
Depreciation and amortisation		(277)	(271)
Employee benefits expense	4(b)	(3,830)	(2,845)
Exploration and evaluation expenditure	4(c)	(11,466)	(4,416)
Other expenses	4(d)	(3,359)	(2,553)
(Loss)/Profit from continuing operations before income tax		(18,438)	(9,930)
Income tax expense	5	-	-
(Loss)/Profit from continuing operations after income tax		(18,438)	(9,930)
Net (loss)/profit for the year		(18,438)	(9,930)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations, net of income tax of \$Nil (2017: \$Nil)		(62)	18
Other comprehensive (loss)/income for the year, net of income tax		(62)	18
Total comprehensive (loss)/income for the year		(18,500)	(9,912)
(Loss)/Profit attributable to owners of the parent		(18,438)	(9,930)
Total comprehensive (loss)/income attributable to owners of the parent		(18,500)	(9,912)
(Loss)/Earnings per share (cents per share)			
Basic (loss)/earnings per share	6	(3.2)	(3.2)
Diluted (loss)/earnings per share	6	(3.2)	(3.2)

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 2018

	Note	Consolidated	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	2,111	5,090
Trade and other receivables	8	9	6
Prepayments	9	202	220
Financial assets	10	19,161	3,010
Inventory	11	213	254
Total Current Assets		21,696	8,580
Non-Current Assets			
Exploration and evaluation assets	12	15,275	15,275
Property, plant and equipment	13	340	604
Total Non-Current Assets		15,615	15,879
TOTAL ASSETS		37,311	24,459
LIABILITIES			
Current Liabilities			
Trade and other payables	14	1,286	3,389
Total Current Liabilities		1,286	3,389
TOTAL LIABILITIES		1,286	3,389
NET ASSETS		36,025	21,070
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	143,174	109,769
Reserves	16	2,660	2,980
Accumulated losses		(109,809)	(91,679)
TOTAL EQUITY		36,025	21,070

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 2018

	Note	Consolidated	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities			
Payments to suppliers and employees		(20,187)	(7,677)
Interest received		583	203
Farm-out proceeds		-	5,000
Net cash flows (used in)/provided by operating activities	7	(19,604)	(2,474)
Cash flows from investing activities			
Purchase of property, plant and equipment		(65)	(81)
Purchase of financial assets		(16,151)	(3,010)
Proceeds from the sale of property, plant and equipment		17	-
Net cash flows used in investing activities		(16,199)	(3,091)
Cash flows from financing activities			
Proceeds from issue of shares		35,195	4,186
Capital raising cost		(2,309)	(15)
Net cash flows from financing activities		32,886	4,171
Net (decrease)/increase in cash and cash equivalents		(2,917)	(1,394)
Cash and cash equivalents at beginning of the year		5,090	6,479
Net foreign exchange differences		(62)	5
Cash and cash equivalents at the end of the year	7	2,111	5,090

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 2018

	Note	Consolidated			
		Attributable to equity holders of the parent			
		Issued capital \$'000	Accumulated Losses \$'000	Other Reserves Note 16 \$'000	Total \$'000
As at 1 January 2017		106,150	(83,396)	4,109	26,863
Net loss for the year		-	(9,930)	-	(9,930)
Other comprehensive income		-	-	18	18
Total comprehensive gain/(loss) for the year		-	(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)	-
As at 31 December 2017		109,769	(91,679)	2,980	21,070
Net loss for the year		-	(18,438)	-	(18,438)
Other comprehensive income		-	-	(62)	(62)
Total comprehensive gain/(loss) for the year		-	(18,438)	(62)	(18,500)
Issue of share capital	15	35,195	-	-	35,195
Cost of capital raising	15	(2,309)	-	-	(2,309)
Share-based payments	15 & 16	-	-	569	569
Exercise of Awards	15, 16 & 17	519	-	(519)	-
Expiry of Options	16 & 17	-	308	(308)	-
As at 31 December 2018		143,174	(109,809)	2,660	36,025

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

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1 CORPORATE INFORMATION

The financial report of Petro Matad Limited (Company) for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the Directors dated 13 June 2019, which was approved on 14 June 2019.

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 22.06% of the shareholding at the year end of 2018.

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 \$18.44 million (2017: \$9.93 million loss) and experienced net cash outflows from operating activities of \$19.60 million (2017: \$2.47 million outflow). 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 \$9.00 million with further commitments of \$11.60 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 2019 work programme the ability of the Company and the Consolidated Entity to continue as a going concern beyond 2019 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 2019.

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.

A second fundraise was announced in June 2018, which resulted in a total of 136,842,892 New Ordinary Shares in Petro Matad Limited being placed with new and existing institutional investors and certain Directors and senior management of the Company. The placing raised gross proceeds of US\$18.1 million.

With the two successful fundraises in 2018, the Company secured financing for not only its planned exploration drilling programme in 2018, but also the planned 2019 programme. 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.

Cumulative expenditures in Block IV to the end of 2018 had exceeded financial obligations for the initial ten-year exploration period ending July 2019, by \$6.68 million. An application for a further two-year extension to July 2021 has been lodged with MRPAM, with a proposed new commitment of \$1 million for the two-year extended period.

Cumulative expenditures in Block V to the end of 2018 had exceeded financial obligations for the initial ten-year exploration period ending July 2019, by \$4.83 million. An application for a further two-year extension to July 2021 has been lodged with MRPAM, with a proposed new commitment of \$1 million for the two-year extended period.

Expenditures in Block XX were \$20.60 million below cumulative expenditure requirements at the end of 2018. As the 2019 work programme includes three Block XX wells, the outstanding commitment will be substantially reduced by end 2019, to circa \$7 million.

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 2019 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

Accounting Standards that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2018.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- IFRS 9 Financial Instruments and related amending Standards
- IFRS 15 Revenue from Contracts with Customers and related amending Standards

IFRS 9 Financial Instruments and related amending Standards

In the current year, the Group has applied IFRS 9 Financial Instruments (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives however there was no material impact on adoption of the standard.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures.

In summary, IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

IFRS 15 Revenue from Contracts with Customers and related amending Standards

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to

revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

There was no material impact on adoption of the standard and no adjustment made to current or prior period amounts.

New Accounting Standards for application in future periods

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

IFRS 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 IAS 17: Leases and related Interpretations. IFRS 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 IAS 16: 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 IFRS 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with IAS 8 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 IFRS 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 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 instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instruments. For Financial assets, this is equivalent to the date that the Company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instruments is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and Subsequent Measurement

Financial instruments are subsequently measure at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the price that would be received to sell an asset or paid to transfer a

liability in orderly transaction between market participants at the measurement date. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as (i) the amount at which the financial asset or financial liability is measured at initial recognition; (ii) less principal repayments; (iii) plus or minus the cumulative amortization of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (iv) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carry amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss. The Group does not designate any interest in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial statements.

(i) Financial assets at fair value through profit and loss or through other comprehensive Income
Financial assets are classified at 'fair value through profit or loss' or 'Fair value through Other comprehensive Income' when they are either held for trading for purposes of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss if electing to choose 'fair value through profit or loss' or other comprehensive income if electing 'Fair Value through other comprehensive income'.

(ii) Financial Liabilities
The Group's financial liabilities include trade and other payables, loan and borrowings, provisions for cash bonus and other liabilities which include deferred cash consideration and deferred equity consideration for acquisition of subsidiaries & associates.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, and payables, net of directly attributable transaction costs.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Derecognition

Financial assets are derecognised where the contractual rights to receipts of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risk and benefits associated with the asset. Financial Liabilities are recognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(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 2018 \$'000	31 Dec 2017 \$'000
(a) Revenue		
Interest Income	583	203
Other income:		
Other income	8	7
	591	210
(b) Employee benefits expense		
Included in employee benefits expense are the following:		
Wages and salaries	2,735	2,101
Non-Executive Directors' fees (including Directors of affiliates)	174	148
Consultancy fees	352	646
Share-based payments	569	(50)
	3,830	2,845
(c) Exploration and evaluation expenditure		
Exploration and evaluation expenditure relates to the following PSCs:		
Block XX	121	49
Blocks IV and V	11,345	4,367
	11,466	4,416
(d) Other expenses		
Included in other expenses are the following:		
Administration costs	2,217	1,432
PSC administration costs	758	754
Audit fees	85	79
Travel expenses	299	288
	3,359	2,553

5 INCOME TAX

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'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 2018 \$'000	31 Dec 2017 \$'000
Net (loss)/profit for the year		(18,438)	(9,930)
Income tax benefit calculated at 10%	(i)	1,844	993
Effect of different tax rates on entities in different jurisdictions	(ii)	(425)	(280)
Change in unrecognised deferred tax assets		(1,419)	(713)
		-	-

(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 2018 cents per share	31 Dec 2017 cents per share
Basic (loss)/earnings per share	(3.2)	(3.2)
Diluted (loss)/earnings per share	(3.2)	(3.2)
	\$'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	(18,438)	(9,930)
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share (in thousands)	571,762	308,465
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share (in thousands)	571,762	308,465

7 CASH AND CASH EQUIVALENTS

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash at bank and in hand	2,111	5,090
	2,111	5,090

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 \$2,111,000 (2017: \$5,090,000) 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 2018 \$'000	31 Dec 2017 \$'000
Net (loss)/gain after tax	(18,438)	(9,930)
<i>Adjustments for:</i>		
Depreciation and amortisation	277	271
Net (profit)/loss on disposal of property, plant and equipment	16	-
Share based payments	569	(50)
Unrealised foreign exchange (gains)/ losses	19	-
<i>Changes in assets and liabilities</i>		
Decrease/(increase) in trade and other receivables	(3)	5,149
Decrease/(increase) in prepayments	18	2
Decrease/(increase) in inventory	41	47
Increase/(decrease) in trade and other payables	(2,103)	2,037
Net cash flows used in operating activities	19,604	2,474

Non-cash investing and financing activities

There were no non-cash investing or financing activities undertaken in the 2018 financial year or prior year, other than the exercise of Awards of \$0.574 million (2017: \$0.106 million).

8 TRADE AND OTHER RECEIVABLES

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Current		
Other debtors	9	6
	9	6

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

9 PREPAYMENTS

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Prepayments	202	220
	202	220

10 FINANCIAL ASSETS

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Long Term Deposits	19,161	3,010
	19,161	3,010

The Group holds term deposits with an average weighted interest rate of 5.4%. 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 2018 \$'000	31 Dec 2017 \$'000
Raw materials	213	254
	213	254

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

12 EXPLORATION AND EVALUATION ASSETS

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'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 2018 \$'000	31 Dec 2017 \$'000
Plant and equipment at cost	966	1,250
Accumulated depreciation and impairment	(626)	(646)
	340	604

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

	Plant and equipment Total \$'000
As at 1 January 2017 (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
Additions	65
Disposals	(32)
Foreign exchange	(20)
Depreciation charge for the year	(277)

As at 31 December 2018 (net of accumulated depreciation)	340
--	-----

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 2018 \$'000	31 Dec 2017 \$'000
Trade payables	1,286	3,389
	1,286	3,389

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

15 ISSUED CAPITAL

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Ordinary Shares 662,196,306 shares issued and fully paid (2017: 333,258,252)	143,174	109,769
	143,174	109,769

Movements in ordinary shares on issue:

	Number of Shares	Issue Price \$	\$'000
As at 31 January 2017	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
Direct subscription shares on 9 February 2018 (note (j))	59,167,335	\$0.090	5,340
Placement shares through Pareto on 9 February 2018 (note (k))	19,708,520	\$0.090	1,779
Placement shares through Stifel on 9 February 2018 (note (l))	67,057,398	\$0.090	6,052
Placement shares through Stockdale on 9 February 2018 (note (m))	40,654,376	\$0.090	3,669
Exercise of Bonus Share Awards on 3 April 2018 (note (n))	2,598,911	\$0.010	26
Exercise of Bonus Share Awards on 16 April 2018 (note (o))	2,868,065	\$0.010	29
Direct subscription shares on 4 July 2018 (note (p))	1,846,439	\$0.134	247
Placement shares through Pareto on 4 July 2018 (note (q))	13,256,520	\$0.134	1,773
Placement shares through Stifel on 4 July 2018 (note (r))	104,701,135	\$0.134	14,002
Placement shares through Stockdale on 9 February 2018 (note (s))	17,038,798	\$0.134	2,278
Exercise of Bonus Share Awards on 1 November 2018 (note (t))	40,557	\$0.010	-
Capital raising cost			(2,309)
Exercise of Awards			519
As at 31 December 2018	662,196,306		143,174

- (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.
- (j) On 9 February 2018, the Company issued 59,167,335 shares through direct subscriptions at a price of GBP0.065 per share.
- (k) 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.
- (l) 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.
- (m) 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.
- (n) 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.
- (o) 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.
- (p) On 4 July 2018, the Company issued 1,846,439 shares through direct subscriptions at a price of GBP0.10 per share.
- (q) On 4 July 2018, the Company concluded a placement by issuing 13,256,520 shares at a price of GBP0.10 per share arranged through its broker, Pareto.
- (r) On 4 July 2018, the Company concluded a placement by issuing 104,701,135 shares at a price of GBP0.10 per share arranged through its broker, Stifel.
- (s) On 4 July 2018, the Company concluded a placement by issuing 17,038,798 shares at a price of GBP0.10 per share arranged through its broker, Stockdale.
- (t) On 1 November 2018, 40,557 shares were awarded to an employee upon exercise of Awards under the Group's Plan, with an exercise price per share of \$0.01.

16 RESERVES

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

	Merger reserve	Equity benefits reserve	Foreign currency translation	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 January 2017	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
Currency translation differences	-	-	(62)	(62)
Expiry of Options	-	(308)	-	(308)
Exercise of Awards	-	(519)	-	(519)
Share based payments	-	569	-	569
As at 31 December 2018	831	3,018	(1,189)	2,660

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 2019;
- 25% vest on the first production of oil on a commercial scale, estimated by management as being by 31 December 2021; and
- 50% vest on the Company achieving the sale of 1 million barrels of oil, estimated by management as being by 31 December 2022.

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 2017 and 2018.

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 2018 is 0.82 (2017: 0.62).

Consolidated	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
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

Consolidated	Opening balance at 1 Jan 2018	Granted during the year	Forfeited during the year	Exercised during the year	Closing balance as at 31 Dec 2018	Exercisable as at 31 Dec 2018
Grant of Options on 3 June 2008	380,000	-	(380,000)	-	-	-
Grant of Options on 8 April 2009	18,750	-	-	-	18,750	18,750
Grant of Options on 9 July 2010	620,400	-	(144,000)	-	476,400	476,400
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	23,600	-	-	-	23,600	23,600
Grant of Options on 25 Apr 2012	400,000	-	(300,000)	-	100,000	100,000
Grant of Options on 16 Jul 2012	24,000	-	-	-	24,000	24,000
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
	1,867,750	-	(824,000)	-	1,043,750	1,043,750
Weighted Average Exercise Price (cents per option)	76.42	-	60.04	-	89.36	89.36

(d) Share Options contractual life

The weighted average remaining contractual life of outstanding share Options is 2.3 years (2017: 2.8 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 2017.

The following Table summarizes Conditional Share Awards granted during 2018, along with relevant details in relation to the grant.

	(1) 13 Feb 18
Conditional Share Awards granted	5,507,533
Share price at grant date	\$0.1006
Expected Volatility (%)	68
Risk-free interest rates (%)	0.50
Expected life (years)	10
Exercise Price	\$0.01
Estimated fair value of each Conditional Share Award at the grant date	\$0.0942

Items (1): Conditional Share Awards vested immediately.

(f) Movement in Conditional Share Awards

The weighted average fair value for all awards in existence as at 31 December 2018 is 0.81 (2017: 0.81)

Consolidated	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	Exercisable as at 31 Dec 2017
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	-	-	(115,000)	2,478,600	-
Weighted Average Exercise Price (cents per award)	1.00	-	-	1.00	1.00	-

Consolidated	Opening balance at 1 Jan 2018	Granted during the year	Exercised during the year	Forfeited during the year	Closing balance as at 31 Dec 2018	Exercisable as at 31 Dec 2018
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	550,000	-	-	-	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	-
Grant of Performance Share Awards on 13 Feb 2018	-	5,507,533	(5,507,533)	-	-	-
	2,478,600	5,507,533	(5,507,533)	-	2,478,600	-
Weighted Average Exercise Price (cents per award)	1.00	1.00	1.00	1.00	1.00	-

(g) Conditional Share Awards contractual life

The weighted average remaining contractual life of outstanding Conditional Share Awards is 9.5 years (2017: 10.5 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 2018 \$'000	31 Dec 2017 \$'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	569	(50)
		569	1,184

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 2018.

The Group has committed to warehouse lease in Mongolia in the amount of \$7,000 for 2019.

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Operating Leases:		
Within one year	7	-
After one year but not more than five years	-	-
Greater than five years	-	-
	7	-

(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 2018 \$'000	31 Dec 2017 \$'000
Production Sharing Contract Fees:		
Within one year	485	869
After one year but not more than five years	75	606
Greater than five years	-	-
	560	1,475
Minimum Exploration Work Obligations:		
Within one year	8,997	9,846
Greater than one year but no more than five years	11,600	18,800
Greater than five years	-	-
	20,597	28,646

(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	
		2018 %	2017 %
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 22.06% of the shareholding at year end of 2018.

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 2017 and 2018, 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	Retired 20 September 2018
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 22 November 2017
Shinezaya Batbold	Non-Executive Director	Appointed 20 September 2018

(b) Compensation of Directors

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Short-term employee benefits	1,075	1,176
Post-employment benefits	-	-
Share based payment expense	205	11
	1,280	1,187

(c) Other key management personnel transactions

There were no other key management personnel transactions during the year (2017: 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 2018 \$'000	31 Dec 2017 \$'000
Financial Assets			
Cash and cash equivalents	0.89%	2,111	5,090
*Other financial assets	1.61%	19,161	3,010
		21,272	8,100
Trade and other receivables	0%	9	6
		21,281	8,106
Financial Liabilities			
Trade and other payables	0%	1,286	3,389
		1,286	3,389
Net exposure		19,995	4,717

*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 2017 and 2018 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	
	2018	2017	2018	2017
USD				
Mongolian Tugrug (MNT) 1	2,472.17	2,439.40	2,642.92	2,427.13
Australian Dollar (AUD) 1	1.341186	1.305155	1.417654	1.281089
Great British Pound (GBP) 1	0.749780	0.776810	0.785200	0.741150

Sensitivity Analysis

A 5% strengthening/weakening of the MNT against USD at 31 December 2017 and 2018 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 2018 \$'000	31 Dec 2017 \$'000
Financial Assets			
Trade and other receivables	8	9	6
Net exposure		9	6

Impairment Losses

None of the Group's receivables are past due at 31 December 2018 (2017: 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	0.89%	2,111	-	-	-	2,111
Trade and Other Receivables	-	9	-	-	-	9
Financial Assets	1.61%	19,161	-	-	-	19,161
As at 31 December 2018		21,281	-	-	-	21,281
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

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

	Note	Consolidated	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
6 months or less		1,286	3,389
6-12 months		-	-
1-5 years		-	-
over 5 years		-	-
		1,286	3,389

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 2018			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Trade and other receivables	-	9	-	9
Total	-	9	-	9

	Fair Value Hierarchy as at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial Liabilities				
Trade and other payables	-	1,286	-	1,286
Total	-	1,286	-	1,286

	Fair Value Hierarchy as at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Trade and other receivables	-	6	-	6
Total	-	6	-	6

	Fair Value Hierarchy as at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial Liabilities				
Trade and other payables	-	3,389	-	3,389
Total	-	3,389	-	3,389

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 12 April 2019, the Company applied for two-year extensions on its Blocks IV and V PSCs. The current terms for both Blocks expire on 29 July 2019. Approval of the applications by MRPAM would extend the PSCs to 29 July 2021. \$1 million in new commitments in each Block has been offered in the extended period.

On 16 April 2019, The Company announced it has signed drilling contracts with DQE International to drill the Heron 1 and Gazelle 1 wells in the north of Block XX and with Daton Petroleum Engineering and Oilfield Service LLC to drill the Red Deer 1 well in the south of Block XX. Drilling is expected to commence in July 2019.

24 AUDITORS' REMUNERATION

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

	Consolidated	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Amounts received or due and receivable by Bentleys (WA) Pty Ltd :		
- an audit or review of the financial report of the entity and any other entity in the Group	45	39
- other services in relation to the entity and any other entity in the Group	-	-
	45	39
Amounts received or due and receivable by Deloitte Onch Audit LLC:		
- an audit or review of the financial report of subsidiary entities	40	40
- other services in relation to the subsidiary entities	-	-
	40	40
	85	79

25 OTHER INFORMATION

Registered Office:

Victory House
Douglas
Isle of Man
IM1 1EQ

Directors' Declaration

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

In the opinion of the Directors:

- the financial statements and notes of the Group give a true and fair view of the Group's financial position as at 31 December 2018 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
- 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
17 June 2019

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Independent Auditor's Report



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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 2018, 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 2018 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 \$18.44 million during the year ended 31 December 2018. 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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- Advisors
- Accountants
- Auditors

Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)



Basis for Opinion

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

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Exploration and evaluation \$15.28 million</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 2018) and to determine whether there are any indicators that the asset is impaired and therefore not recoverable under <i>IFRS 6 "Exploration for and Evaluation of Mineral Resources"</i>.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> For Block XX, we assessed the Consolidated Entity's rights to tenure by corroborating to government registries. Reviewed budgeted exploration expenditure on Block XX to ensure it will satisfy the capital commitment required under the Production Sharing Agreement; We assessed Block XX for one or more of the following circumstances that may indicate impairment of the capitalised expenditure and concluded no issues: <ul style="list-style-type: none"> the licenses for the right to explore expiring in the near future or are not expected to be renewed; substantive expenditure for further exploration in the specific area is neither budgeted or planned'

Independent Auditor's Report

To the Members of Petro Matad Limited (Continued)



Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> decision or intent by the Consolidated Entity to discontinue activities in the specific area of interest due to lack of commercially viable quantities of resources; and data indicating that, although a development in the specific area is likely to proceed, the carrying amount of the exploration asset is unlikely to be recorded in full from successful development or sale.
<p>Share based payments \$0.57 million</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 <i>IFRS 2 "Share-based Payments"</i>.</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"> Obtaining a reconciliation of outstanding options and conditional share awards. Enquired with Management whether there have been any new options or shares issued during the year. Enquired with Management whether any Shares or Options vested during the year. Reviewed the current probabilities and estimated vesting dates assigned to the performance conditions attached to Share Awards being met to ascertain whether they are reasonable. For Awards issued during the year, evaluated management's Black-Scholes Valuation Models and assessed the assumptions and inputs used; For equity-settled share based payments we assessed the valuations against supporting documentation and assessed key inputs such as grant date. Ensured disclosure is complete and accurate.
<p>Exploration and Expenditure Commitments</p> <p>Production Sharing Contract Fee: \$0.56 million</p> <p>Minimum Exploration Work Obligations: \$20.60 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"> Obtaining the Petroleum Sharing Agreements for each block and agreeing the contract fees and work obligations to the relevant calculations. Recalculating the disaggregation of total amounts due and comparing to the breakdown disclosed of amounts due in each subsequent period. Ensuring amounts disclosed represent future obligations and that no present obligations at year end are included. Cross referencing of internal budgets and forecasts to ensure they are consistent with the obligations disclosed.

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 2018, 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
Partner

Dated at Perth this 17th day of June 2019





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