

## **Petro Matad Limited ("Petro Matad" or the "Company") Operational Update**

Petro Matad provides an update on its operations at the Davsan Tolgoi Project, part of the Company's Production Sharing Contract (PSC) on Block XX in eastern Mongolia.

This update is summarised as follows:

- No oil was recovered during the testing of the Davsan Tolgoi 11 well (DT-11)
- The oil shows that were encountered and reported during the drilling of DT-11 are now considered to be residual oil
- Oil observed in the Tsagaantsav reservoirs in DT-1, DT-2 and DT-3, along the crest of the Davsan Tolgoi anticline is also now interpreted as residual oil
- Four wells drilled at a lower elevation to the crest of Davsan Tolgoi, or on separate structures are still considered valid candidates for further testing and possible stimulation
- The drilling programme to date has proven the fundamentals of a petroleum system on Block XX, and exploration works will continue
- Detailed seismic interpretation is developing new valid leads and prospects in the greater Davsan Tolgoi area, and maturing previously identified targets
- As a result of the year's drilling and seismic programme, the resource calculations published on March 21, 2011 will be revised, with results to be announced in the coming months
- The processing and interpretation of the 2011 2D seismic programme on the six sub-basins of Block XX is continuing

### ***DT-11 Test Results***

The Company has completed the analysis of test results for the Davsan Tolgoi 11 well (DT-11).

The DT-11 well was designed as a replacement borehole to provide a valid production test of the primary reservoir zone originally encountered in DT-1. DT-1 had been abandoned as the result of problems across the primary objective at the top of the Uppermost Tsagaantsav Formation, likely due to incomplete cementation issues.

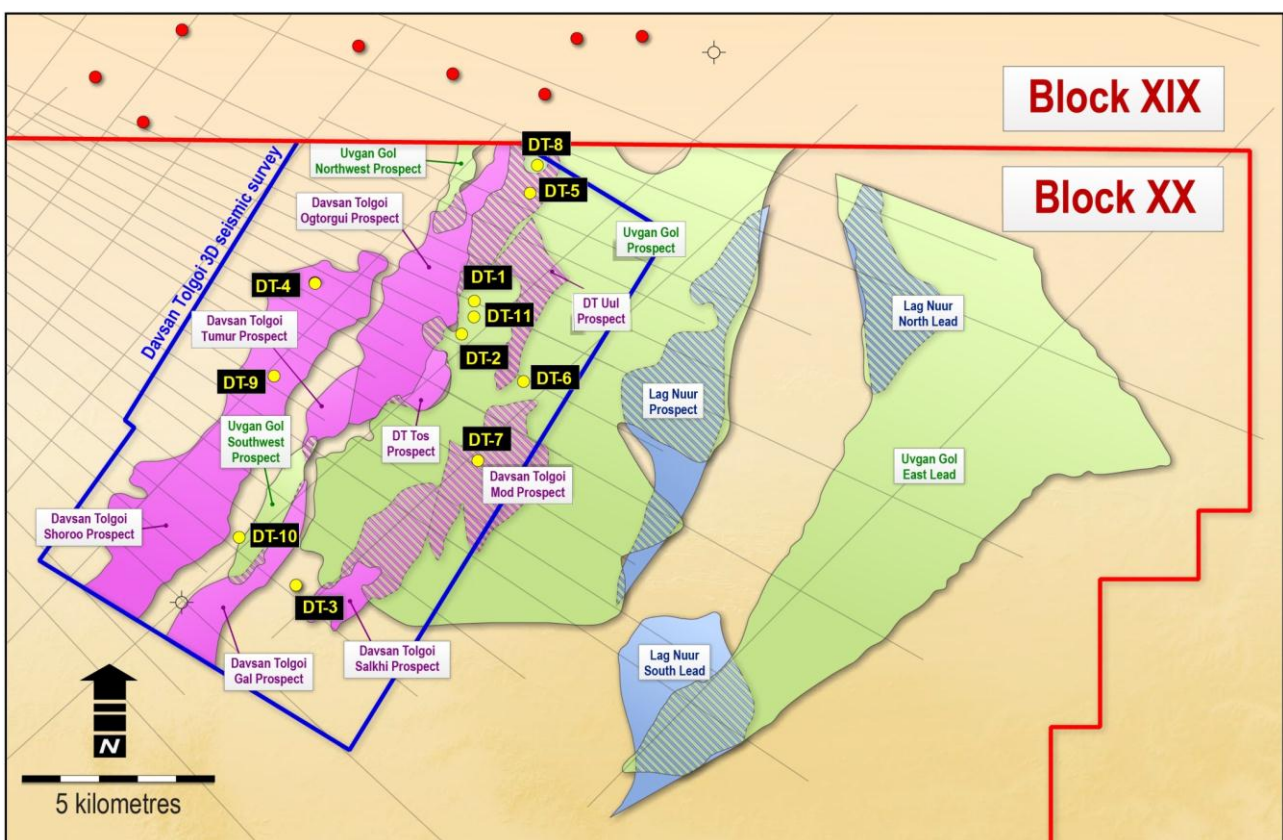
Three zones in the Uppermost Tsagaantsav Formation were tested, including a primary interval at 1,076-1,084m and two secondary intervals at 1,127-1,134m and 1,100-1,103m. The two secondary objectives were tight and produced only small amounts of water. The primary zone produced water at an extrapolated rate of 525bbl/day, based on a four day test with two shut-in periods. The results are consistent with recovery of formation water from a breached oil field that retains high residual oil saturation.

The DT-11 well had encountered oil shows at 1,074m depth during drilling at the top of the Uppermost Tsagaantsav Formation, and core recovered from 1,078.6 to 1,083.4m consisted of oil stained sandstone with hydrocarbon odour, streaming cut and fluorescence. Initial petrophysical analysis from this zone indicated hydrocarbon saturations near 50%, but as reported above, subsequent test results have revealed that the saturations represent immovable residual oil. The oil staining and residual oil in DT-11 are interpreted as the remnants of a former oil field that was subsequently flushed of moveable hydrocarbons during breaching of the structural and stratigraphic trap along the crest of Davsan Tolgoi anticline.

### **Relationship to DT-1, DT-2 and DT-3 Wells along the Davsan Tolgoi Crest**

The DT-11 well was located 225m south of DT-1 and 712m north of DT-2. All three wells lie within an independent structural closure along the crest of the Davsan Tolgoi anticline, and all shared the same primary objective at the top of the Uppermost Tsagaantsav. The three wells all exhibit similar petrophysical characteristics drawing us to conclude that the DT-11 test results confirm that only residual or marginally productive hydrocarbon saturations remain within this structural closure. In conjunction with results from the DT-3 well, the DT-11 test results demonstrate that a breaching event has in fact affected both structural and stratigraphic traps along the crest of the Davsan Tolgoi anticline. No further completion operations are planned for DT-1, DT-2 and DT-11. However, the 750m to 765m zone of the Upper Zuunbayan formation remains a completion candidate in DT-3.

### **Implications for the Greater Davsan Tolgoi Area**



*Location map for Davsan Tolgoi area prospects, leads, and wells*

The drilling results from Davsan Tolgoi and reprocessing of the Davsan Tolgoi 3D contribute to a revised interpretation for the history of hydrocarbon traps in the greater Davsan Tolgoi area. The Davsan Tolgoi anticline is the southern part of a 30km long feature which includes the Tolson Uul oilfield on the adjacent Block XIX to the north, where a 1.2 billion bbl STOIP reserve has been announced by the operator, Petro China subsidiary Daqing Tamtsag Mongolia.

Residual hydrocarbon saturations in cuttings, core, and logs from DT-1, DT-2, DT-3, and DT-11 demonstrate that the Davsan Tolgoi anticlinal crest was the focus of early oil migration and entrapment, most likely at the same time as trapping at the Tolson Uul fields. However the Tolson Uul fields remained deeply buried, whereas the Davsan Tolgoi anticline was more recently uplifted to relatively shallow depths. This uplift was accompanied by reactivation of faults along the anticlinal crest, allowing the trapped hydrocarbons to escape.

The Davsan Tolgoi anticline was the obvious focal point for regional migration within the northern part of Block XX, and a significant portion of the 2010-2011 drilling campaigns was designed to test the largest prospect defined along its crest. Logistical challenges associated with Mongolia's underdeveloped oil and gas industry precluded testing of those wells until the second half of 2011.

Wells that have been drilled at a lower elevation to the Davsan Tolgoi crest and on other structures at greater depths exhibit important differences from DT-1, 2, 3 and 11. First and most importantly, the oil remains in place, presumably because the greater pressure at depth keeps the faults tightly sealed so that the reservoirs are not breached and flushed. Secondly, oils from the deeper wells are lighter, with 32° API oil recovered from DT-8 and 42° API oil recovered from DT-4.

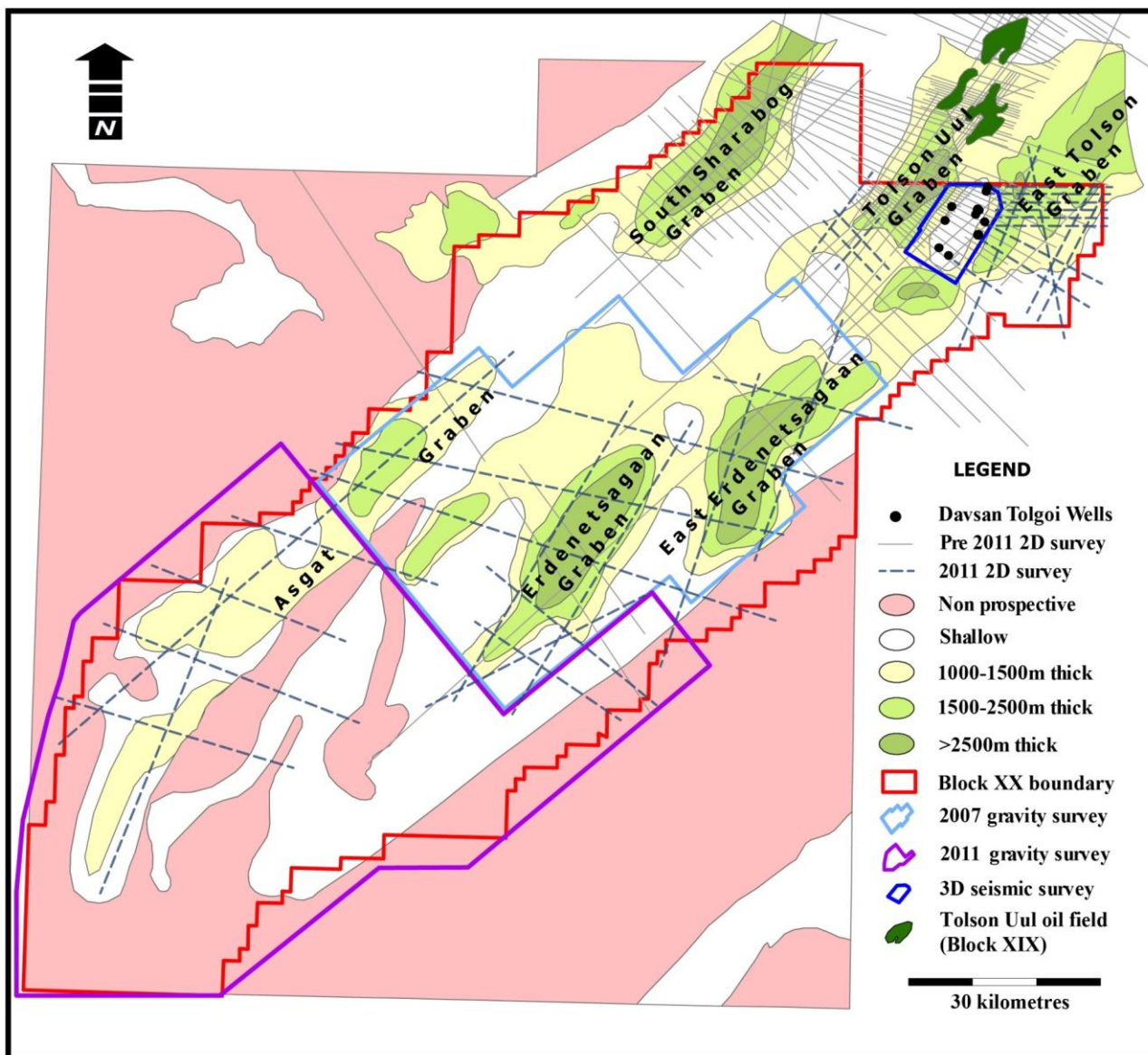
The down-dip wells exhibit reservoir characteristics that are more typical of Tsagaantsav reservoirs in Tolson Uul field. In all but a few exceptions, fracture stimulation is required for commercial production on that field.

DT-4, DT-5, DT-7, and DT-8 are currently scheduled for further completion, stimulation, and/or offset drilling when field operations resume in 2012.

Reprocessing of the Davsan Tolgoi 3D has provided an inventory of deeper prospects along the western and eastern flanks of Davsan Tolgoi anticline where the early trap development, current depth, and the faulting history compare favourably to proven traps at Tolson Uul field. The improved stratigraphic resolution of the reprocessed data has also identified Uppermost Tsagaantsav and Lower Tsagaantsav stratigraphic plays that are being advanced to prospect status.

That reprocessing and interpretation is continuing and as well as providing a revised register of leads and prospects, will also be used to re-calculate the volumes and resources of Davsan Tolgoi and the greater Davsan Tolgoi area.

## Implications for Block XX Exploration



*Block XX sub-basins and geophysical programmes*

Petro Matad's 2010/2011 drilling programme was carried out exclusively within the 133 km<sup>2</sup> greater Davsan Tolgoi area that was subject to a 2008 3D seismic survey, and was concentrated on the crest of Davsan Tolgoi anticline. The 3D survey area represents 1.2% of the Block XX area. The remainder of the 10,340km<sup>2</sup> Block contains other identified leads and prospects from previous 2D seismic surveys in the immediate vicinity of Davsan Tolgoi, as well as other substantial, separate sub-basins.

Although the structural and stratigraphic trap elements of northern Block XX are more complex than could have been determined prior to drilling, the Davsan Tolgoi well results have reinforced the strength of fundamental petroleum system elements for the southern Tamtsag Basin. Many of these elements can be extrapolated throughout Block XX, most notably:

- Sandstone reservoir facies were encountered in Zuunbayan and Tsagaantsav intervals in all Davsan Tolgoi wells
- High-quality source rocks were encountered in all Davsan Tolgoi wells and have been extrapolated by their distinctive seismic stratigraphic character to all sub-basins within Block XX

- The average geothermal gradient measured in the Davsan Tolgoi wells is c.33C/km, suggesting that hydrocarbon generation should be going on today at depths below c.3km, with earlier hydrocarbon generation occurring at perhaps 2km depth. Relatively long-range oil migration (up to 10km) from the edge of hydrocarbon kitchens to basin margin traps is proven by oil shows in DT-1, DT-2, DT-11, and DT-3
- Light, high-quality oil was found in shallow through moderate depth basin-margin traps in DT-1, DT-8, and DT-4. *Note* – oil recovered from DT-1 was initially tested and announced with an API of 21°, but subsequent tests have returned values of between 25° and 30°.

Petro Matad has delineated four undrilled sub-basins within Block XX that have sufficient depth and internal stratigraphy to have generated and trapped significant hydrocarbon volumes. Two more sub-basins (Tolson Uul and East Tolson) have proven productive in Block XIX, but are undrilled in Block XX.

Of the total of six, only the Tolson Uul and South Sharabog basins were appreciably covered by the 3,189km 2D seismic database acquired prior to 2011.

The Asgat, Erdenetsagaan and East Erdenetsagaan basins, which lie wholly within Block XX were the main focus of a 1,256km 2D seismic acquisition program during the first half of 2011. The Asgat and Erdenetsagaan grabens are the site of the current acquisition of a 4,000 station gravity survey to extend the 6,141 station proprietary gravity survey conducted by the Company in 2007.

The East Tolson sub-basin in Block XIX is immediately adjacent to Block XX, and extends into an area to the east of Davsan Tolgoi on Block XX. Additional 2D seismic surveys were also shot over this area in 2011 and are currently being processed and mapped.

Petro Matad is currently integrating the 2011 2D seismic data, 2011 reprocessing of 3D seismic data with the 2011 drilling results and existing gravity and 2D seismic database to provide the first comprehensive resource determination for all sub basins of Block XX.

Commenting on the analysis of the results from DT-11, Petro Matad CEO Doug McGay said “We are disappointed that the test results from DT-11 have revealed that the crest of Davsan Tolgoi anticline does not contain commercial oil. However it is important to note that the focus on the prospect on the crestal area is only one component of Davsan Tolgoi and there is still scope for the development of other parts of the prospect. In addition there remains advanced exploration potential in the area around Davsan Tolgoi and the other basins in Block XX are developing into promising plays.

“These results are viewed by the Company as part of the systematic exploration of Block XX and whilst the crestal area has not proved to be commercial on testing we are encouraged by the positives arising from our broader exploration programme.

“Both the DQE International drilling rig and the workover rig are on standby on site, awaiting an early start to the 2012 drilling season. The Company had also identified and had successful contract negotiations with an international company that will supply stimulation (fracking) services, and whilst this programme has been placed on standby for the current time, it is envisaged that stimulations programmes will be run on a selection of the existing wells in 2012 following the winter stand-down.

“We look forward to advising our shareholders and the market of the complete results of our 2011 exploration programmes, including our revised resource base; the remapping of the greater Davsan Tolgoi area and environs; and the conclusions from the extensive 2D seismic programme over the many other prospective areas of Block XX.

“In view of our recent exploration results and the successful commercial exploitation of oil finds of similar basins in the region we remain very positive about the prospects of success for our on-going exploration programmes.

“Other aspects of the Company’s 2011 exploration programmes are also entering the assessments and reporting stage. Namely, the fieldwork on Blocks IV and V is drawing to a close after a busy year. We look forward to providing shareholders with an update on the provisional results, conclusions and forward work programme for those two Blocks.”

Analytical values reported in this news release were provided by Amber LLC, a laboratory based in Ulaanbaatar Mongolia and accredited by the Mongolian Accreditation System.

Technical information in this news release has been reviewed by the Company's Exploration Manager, Dr James Coogan. Dr Coogan is a petroleum geologist with 30 years of experience in North American and international exploration and development. He is a member of the American Association of Petroleum Geologists and the Geological Society of America.

#### About Petro Matad Limited

Petro Matad is the parent company of a group focussed on oil exploration, as well as future development and production in Mongolia. The Group holds the sole operatorship of three Production Sharing Contracts with the Government of Mongolia. Block XX has an area of 10,340km<sup>2</sup> in the far eastern part of the country. Blocks, IV and V are located in central Mongolia. Block IV covers approximately 29,000km<sup>2</sup> and Block V approximately 21,150km<sup>2</sup>.

Petro Matad Limited is incorporated in the Isle of Man under company number 1483V. Its registered office is at Victory House, Prospect Hill, Douglas, Isle of Man, IM1 1EQ.

Further information:

Petro Matad Limited  
Douglas J. McGay - CEO  
+976 11 331099

Westhouse Securities Limited  
Richard Baty/Petre Norton  
+44 (0)20 7601 6100