

**Petro Matad Limited**  
**Preliminary results for year ended 31 December 2010**

Petro Matad Limited ('Petro Matad' or 'the Company'), the AIM quoted Mongolian oil explorer, announces its audited results for the year ended 31 December 2010.

**Highlights:**

- 5 wells to-date drilled on Davson Tolgoi each of which has encountered hydrocarbons
- Full drilling and testing programme scheduled for Davson Tolgoi during 2011
- Exploration continues elsewhere on Block XX and on Blocks IV and V
- Headcount increased from 26 to 80 including in-house exploration and engineering expertise
- Broadened shareholder register with an aggregate of c.\$54 million raised since last Annual Report

**Petro Matad Limited**

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**CHIEF EXECUTIVE OFFICER'S STATEMENT**

I wish to thank our Co-Chairs, Mme Oyungerel and Mr Gordon Toll for granting me the privilege of presenting the Company's Annual Report for the financial year ended 31 December 2010. This occasion provides a valuable opportunity to reflect upon an important period in Petro Matad's development on behalf of our Co-Chairs and the Board, and to communicate current developments and plans.

Petro Matad has had an eventful year since the publication of its last Annual Report.

The Company welcomed the European Bank for Reconstruction and Development ("EBRD") to its share register in February 2010. A further, larger placing in September 2010 broadened the Company's share register and has provided the funding to enable an acceleration of our exploration efforts. It was pleasing to note that all significant shareholders participated, and some prestigious institutions also joined our share register.

In conjunction with the aforementioned EBRD subscription, in May 2010 Petro Matad welcomed the appointment of Mary Ellen Collins as a non-executive Director. At the same time major shareholder Petrovis LLC ("Petrovis") nominated Ms Davaanyam Enkhchimeg to the Board. Ms Enkhchimeg resigned in May 2011, to be replaced by another Petrovis nominee Ms Davaanyam Enkhmaa. These non-executive directors' appointments were focussed towards ensuring effective liaison between Petro Matad and its two largest shareholders. Ms Collins has skills and extensive experience gained from working with companies in emerging markets. Ms Enkhmaa's appointment has ensured that we continue to enjoy a strong relationship with our largest shareholder and can also benefit from her expertise in high level international commerce.

It is worthy of note that Petro Matad has one of the few gender-balanced Board of Directors in the international corporate world. It is also truly representative of our shareholding base with Mongolian, Australian and British board members.

The most significant event for the Company was the discovery of oil in our first exploration well in Davsan Tolgoi, on Block XX in July 2010. The Company completed a further two wells in 2010 and made significant progress on a fourth. Each of the three wells encountered hydrocarbons. In 2011 we have continued drilling and to the date of this report have completed a further two wells, (DT-4 and DT-5) that also encountered hydrocarbons. Drilling

continues on the Davsan Tolgoi Prospect with a full programme ahead of us. Results to-date have greatly improved Petro Matad's understanding of the geology of the Davsan Tolgoi Prospect, with the February 2011 announcement of new "plays" and an increased resource estimate.

Well testing is scheduled to commence shortly on the five wells drilled to date. The workover rig and testing equipment have been contracted to the end of calendar year 2011, and testing will continue on successive wells through the year. The logistics of importing and operating the workover rig are well advanced.

In addition to the on-going drilling programme in the north-eastern part of Block XX, the company has made big advances in the earlier-stage exploration of the rest of the block. We have recently completed a major 2D seismic acquisition programme focusing mainly on the five unexplored basins located in the central and southern portions of the block. Some of that 2D survey also acquired fill-in lines over the other known leads and prospects in the northern part of the Block, and should provide us with new insights into those plays.

In 2010 we mounted a very aggressive exploration programme on the frontier Blocks IV and V. These blocks had never before been seriously explored for oil and gas, and there was no subsurface information of any description. We now have gravity coverage, surface geological studies, seismic profiles and a 1,600m drill hole for stratigraphic and correlation purposes. The results from these endeavours are highly encouraging. We consider we now have conclusive documentation that the basins have good to excellent source rocks, high quality reservoir rocks and numerous trap styles.

A second seismic programme has already started, with contracts let to both Mongolian and international contractors for a total of over 1,750km. One of the primary goals is to confirm a four-way closure in Tsagaantsav-equivalent rocks in an area with great thicknesses of rift-related strata at depths to as much as 5,000m. The remainder of the seismic profiles will be more reconnaissance in nature, and will enhance our knowledge of the vast area covered by these basins in central Mongolia.

Operationally the Company made great strides with the recruitment of its exploration and engineering teams. We now have an in-house capability that would be the envy of oil exploration companies many times our size, with longer history and operating in more developed countries. This team has delivered significant results to date and no doubt will continue to add value to our operations and assets as time progresses.

Petro Matad's prime focus since inception has been to progress the Company's assets towards petroleum discovery, so as to add real value to the Company. To that end we have maintained our main office in Ulaanbaatar and recruited the aforementioned technical team to live and operate in country alongside their Mongolian colleagues.

Dr James Coogan has been previously reported upon as heading up our Exploration Department. In early 2011 Messrs Mark Zebrowitz and Earl Edmonds joined us to create our drilling management team. All of these energetic and experienced gentlemen have succeeded in recruiting, placing and training their teams of co-professionals. They head teams containing a variety of international personnel as well as the cream of Mongolian petroleum industry talent.

During the period upon which we are reporting, we have also paid attention to the corporate and community aspects of our company.

In 2010 we established a "Corporate Governance, Social Action and Environmental Committee" at Board level, chaired by non-executive Director Mary Ellen Collins. At the same time we created a Legal and Corporate Governance Division adding to the existing Divisions of Technical, Corporate and Administration.

In January 2011 Pierre Montpeyroux, a highly experienced international corporate lawyer was charged with the creation and supervision of the new Legal and Corporate Governance

Division, and is bringing an even higher level of corporate governance and compliance to our Company.

The Corporate Division has also been strengthened with the addition of three appropriately qualified Mongolian personnel.

An international-standard environmental team has been established, with a Mongolian manager. An international Health and Safety Manager has also been employed, and heads a team dedicated to international best practices. A Community Relations Manager supervises a very active and meaningful Social Action Programme, ensuring that Petro Matad interacts positively with our local communities.

At the same time the Company has recruited the best Mongolian talent for the Administration Division under Administration Manager Ms T Amarzul. They are expertly managing what is an increasingly complex enterprise.

It is with pleasure that I report that our relationship with our partner, the Government of Mongolia is flourishing through the good offices of both the Ministry of Energy and Resources and the Petroleum Authority of Mongolia. The Government has mooted amendments to the current 1992 Petroleum Law at some time in 2011. We welcome this initiative and are hopeful that the new amendments will improve the industry and attract more investment and development.

Petro Matad has grown from 26 employees one year ago to 80 as of the time of this report. As we have grown, we have maintained our corporate philosophy of involving our management and staff in share purchase schemes. Both our international staff and, importantly, our Mongolian nationals are all sharing in the Company's success. This is creating a corporate culture that is unique in Mongolia.

In the coming year Petro Matad will continue an aggressive programme of drilling, completion and testing of Davsan Tolgoi, on Block XX. This may lead to adding one additional drilling rig and an expansion in the engineering and supervisory staff. We have already seen a dramatic improvement in drilling performance with the change to our current drilling contractor DQE International, from about three weeks per well in 2010 to about two weeks per well so far this year.

We have a commitment from the drill contractor to fully winterise at least one rig so that we will be able to maintain drilling operations year-round, and thus avoid the long shutdowns we have experienced over the past two winters. In addition, the Company is currently at an advanced stage of negotiations to import a state of the art winterised western drilling rig staffed by personnel with year-round western operational experience. If this eventuates, the Company hopes to dramatically increase the rate of drilling wells, which will be ideal as exploration gives way to appraisal.

At the same time we will advance our knowledge of the nearby leads and prospects as well as other grabens in Block XX. That may lead to non-Davsan Tolgoi drilling later in the year, depending on seismic results. We will also continue an aggressive exploration programme on Blocks IV and V.

Even with the above full schedule, your Company will continue to evaluate other opportunities in the petroleum sector of Mongolia. This all reflects the Company's intended shift from being a grass roots explorer to an exploration and production company.

We recently celebrated the third anniversary of Petro Matad's admission to AIM. Whilst the Company remains loyal to its genesis with a significant Mongolian shareholding and a steadfast commitment to share its successes with the citizens of Mongolia, we are delighted with the growth that has been achieved and the broadening of our shareholder register from its original Mongolian/Australian base. Petro Matad is now truly a global company in terms of both its share registry and its management.

As you would imagine, the above-related activity is intense and non-relenting. It would not be achievable if not for the efforts of our dedicated management and loyal, hardworking staff, whom I herewith sincerely thank on behalf of the Board of Directors and all of our stakeholders.

Our efforts and achievements would not have been possible without the support of you, our shareholders. Thus, on behalf of the Board of Directors and the management, I thank you all.

Douglas J. McGay  
CEO

20 June 2011

### **Notes to Editors**

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. The principal asset is the PSC for Block XX, a petroleum block of 10,340km<sup>2</sup> in the far eastern part of the country. The two other Blocks, IV and V are located in central Mongolia and jointly cover 71,040km<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.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Consolidated		Parent	
	31 Dec 2010 \$'000	31 Dec 2009 \$'000	31 Dec 2010 \$'000	31 Dec 2009 \$'000
<b>Continuing operations</b>				
<b>Revenue</b>				
Interest income	48	73	1	-
	<b>48</b>	73	<b>1</b>	-
<b>Expenditure</b>				
Consultancy fees	104	562	86	552
Depreciation and amortisation	56	22	13	4
Employee benefits expense	4,110	1,594	3,578	1,189
Exploration and evaluation expenditure	9,579	1,567	4	23
Other expenses	2,278	1,408	895	468
<b>Loss from continuing operations before income tax</b>	<b>(16,079)</b>	(5,080)	<b>(4,575)</b>	(2,236)
Income tax expense/(benefit)	-	-	-	-
<b>Loss from continuing operations after income tax</b>	<b>(16,079)</b>	(5,080)	<b>(4,575)</b>	(2,236)
<b>Net loss for the year</b>	<b>(16,079)</b>	(5,080)	<b>(4,575)</b>	(2,236)
<b>Other comprehensive income</b>				
Exchange rate differences on translating foreign operations	(68)	(76)	-	-
<b>Other comprehensive loss for the year, net of income tax</b>	<b>(68)</b>	(76)	-	-
<b>Total comprehensive loss for the year</b>	<b>(16,147)</b>	(5,156)	<b>(4,575)</b>	(2,236)
Loss attributable to owners of the parent	<b>(16,079)</b>	(5,080)	<b>(4,575)</b>	(2,236)
Total comprehensive loss attributable to owners of the parent	<b>(16,147)</b>	(5,156)	<b>(4,575)</b>	(2,236)
<b>Loss per share (cents per share)</b>				
Basic and diluted loss per share	10.5	4.7	-	-

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010**

	Consolidated		Parent	
	31 Dec 2010 \$'000	31 Dec 2009 \$'000	31 Dec 2010 \$'000	31 Dec 2009 \$'000
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	51,690	5,215	29,063	1,198
Trade and other receivables	88	34	-	32
Prepayments and other assets	354	103	6	81
<b>Total Current Assets</b>	<b>52,132</b>	<b>5,352</b>	<b>29,069</b>	<b>1,311</b>
<b>Non-Current Assets</b>				
Trade and other receivables	-	-	42,574	12,944
Exploration and evaluation assets	15,275	15,275	-	-
Property, plant and equipment	450	199	67	13
Investment in subsidiaries	-	-	19,163	19,163
<b>Total Non-current assets</b>	<b>15,725</b>	<b>15,474</b>	<b>61,804</b>	<b>32,120</b>
<b>TOTAL ASSETS</b>	<b>67,857</b>	<b>20,826</b>	<b>90,873</b>	<b>33,431</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Trade and other payables	1,421	796	127	663
<b>Total Current Liabilities</b>	<b>1,421</b>	<b>796</b>	<b>127</b>	<b>663</b>
<b>TOTAL LIABILITIES</b>	<b>1,421</b>	<b>796</b>	<b>127</b>	<b>663</b>
<b>NET ASSETS</b>	<b>66,436</b>	<b>20,030</b>	<b>90,746</b>	<b>32,768</b>
<b>EQUITY</b>				
<b>Equity attributable to owners of the parent</b>				
Issued capital	95,466	35,115	95,659	35,308
Reserves	3,900	1,766	3,213	1,011
Accumulated losses	(32,930)	(16,851)	(8,126)	(3,551)
<b>TOTAL EQUITY</b>	<b>66,436</b>	<b>20,030</b>	<b>90,746</b>	<b>32,768</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010**

	Consolidated		Parent	
	31 Dec 2010 \$'000	31 Dec 2009 \$'000	31 Dec 2010 \$'000	31 Dec 2009 \$'000
<b>Cash flows from operating activities</b>				
Payments to suppliers and employees	(13,390)	(4,079)	(2,881)	(1,184)
Interest received	48	73	1	-
<b>Net cash flows from/(used in) operating activities</b>	<b>(13,342)</b>	<b>(4,006)</b>	<b>(2,880)</b>	<b>(1,184)</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(307)	(124)	(67)	(4)
Proceeds from the disposal of plant and equipment	-	-	-	-
<b>Net cash flows from/(used in) investing activities</b>	<b>(307)</b>	<b>(124)</b>	<b>(67)</b>	<b>(4)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares	61,960	6,431	61,960	6,431
Capital raising costs	(1,518)	(258)	(1,518)	(258)
Loans to related parties	-	-	(32,972)	(4,302)
Proceeds from loans to related parties	-	-	3,342	500
<b>Net cash flows from/(used in) financing activities</b>	<b>60,442</b>	<b>6,173</b>	<b>30,812</b>	<b>2,371</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>46,793</b>	<b>2,043</b>	<b>27,865</b>	<b>1,183</b>
Cash and cash equivalents at beginning of the year	5,215	3,248	1,198	15
Net foreign exchange differences	(318)	(76)	-	-
<b>Cash and cash equivalents at the end of the year</b>	<b>51,690</b>	<b>5,215</b>	<b>29,063</b>	<b>1,198</b>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	<b>Consolidated</b>			
	<i>Attributable to equity holders of the parent</i>			
	Issued capital  \$'000	Accumul- ated Losses  \$'000	Other Reserves Note 15  \$'000	Total  \$'000
<b>As at 1 January 2009</b>	<b>28,928</b>	<b>(11,771)</b>	<b>1,240</b>	<b>18,397</b>
Net loss for the year	-	(5,080)	-	(5,080)
Other comprehensive income	-	-	(76)	(76)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(5,080)</b>	<b>(76)</b>	<b>(5,156)</b>
<b><i>Transactions with owners in their capacity as owners</i></b>				
Issue of share capital	6,431	-	-	6,431
Cost of capital raising	(244)	-	-	(244)
Share-based payments	-	-	602	602
<b>As at 31 December 2009</b>	<b>35,115</b>	<b>(16,851)</b>	<b>1,766</b>	<b>20,030</b>
Net loss for the year	-	(16,079)	-	(16,079)
Other comprehensive income	-	-	(68)	(68)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(16,079)</b>	<b>(68)</b>	<b>(16,147)</b>
<b><i>Transactions with owners in their capacity as owners</i></b>				
Issue of share capital	61,960	-	-	61,960
Cost of capital raising	(1,609)	-	-	(1,609)
Share-based payments	-	-	2,202	2,202
<b>As at 31 December 2010</b>	<b>95,466</b>	<b>(32,930)</b>	<b>3,900</b>	<b>66,436</b>

  

	<b>Parent</b>			
	<i>Attributable to equity holders of the parent</i>			
	Issued capital  \$'000	Accumul- ated Losses  \$'000	Other Reserves Note 15  \$'000	Total  \$'000
<b>As at 1 January 2009</b>	<b>29,121</b>	<b>(1,315)</b>	<b>409</b>	<b>28,215</b>
Net loss for the year	-	(2,236)	-	(2,236)
Other comprehensive income	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(2,236)</b>	<b>-</b>	<b>(2,236)</b>
<b><i>Transactions with owners in their capacity as owners</i></b>				
Issue of share capital	6,431	-	-	6,431
Cost of capital raising	(244)	-	-	(244)
Share-based payments	-	-	602	602
<b>As at 31 December 2009</b>	<b>35,308</b>	<b>(3,551)</b>	<b>1,011</b>	<b>32,768</b>
Net loss for the year	-	(4,575)	-	(4,575)
Other comprehensive income	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(4,575)</b>	<b>-</b>	<b>(4,575)</b>
<b><i>Transactions with owners in their capacity as owners</i></b>				
Issue of share capital	61,960	-	-	61,960
Cost of capital raising	(1,609)	-	-	(1,609)
Share-based payments	-	-	2,202	2,202
<b>As at 31 December 2010</b>	<b>95,659</b>	<b>(8,126)</b>	<b>3,213</b>	<b>90,746</b>

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

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

### **1. CORPORATE INFORMATION**

The financial report of Petro Matad Limited for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 17 June 2011.

The financial report covers the consolidated entity of Petro Matad Limited and its controlled entities.

Petro Matad Limited is a company incorporated in the Isle of Man on 30 August 2007, which has four wholly owned subsidiaries, Capcorp Mongolia LLC and Petro Matad LLC (both incorporated in Mongolia), and Central Asian Petroleum Corporation Limited ("Capcorp") and Petromatad Invest Limited (both incorporated in the Cayman Islands). Together collectively referred to as the "Group".

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Basis of preparation**

The financial report is a general purpose financial report, which complies with Australian Accounting Standards ("AAS") as issued by the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This financial report has been prepared on a historical cost basis, except where otherwise stated.

#### **(b) Statement of compliance**

This general purpose financial report has been prepared in accordance with the requirements of all applicable AAS and Australian Accounting Interpretations and other authoritative pronouncements of the AASB that have a material effect. IFRS form the basis of the AAS adopted by the AASB. Compliance with AAS ensures that the financial statements and notes to the financial statements comply with IFRS. No other applicable Accounting Standards or other authoritative pronouncements of the AASB have been applied.

Certain AAS and Australian Accounting Interpretations have recently been issued or amended but are not yet effective. These standards have not been adopted by the Group for the year ended 31 December 2010 and would not have a material effect on the Group's current accounting policies.

#### **(c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. 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.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Petro Matad Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

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.

### 3. LOSS PER SHARE

The following reflects the income and share data used in the total operations basic and diluted loss per share computations:

	<b>Consolidated</b>	
	<b>31 Dec 2010</b> cents per share	31 Dec 2009 cents per share
Basic loss per share	<b>10.5</b>	4.7
Diluted loss per share	<b>10.5</b>	4.7
	<b>\$'000's</b>	\$'000's
The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:		
Net loss attributable to ordinary shareholders	<b>16,079</b>	5,080
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>153,558</b>	106,975

Share options and Performance Share Awards could potentially dilute basic loss per share in the future, however they have been excluded from the calculation of diluted loss per share because they are anti-dilutive for both years presented.

There have been further transactions involving ordinary shares since the reporting date and before the completion of these financial statements, details of these can be found in Note 22 Events after the reporting date.

### 4. TIMETABLE AND DISTRIBUTION OF ACCOUNTS

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009. The statutory accounts for the year ended 31 December 2010 have been finalised on the basis of the financial information presented by the directors in this preliminary announcement.

The Company's statutory annual report and accounts will be dispatched electronically to shareholders tomorrow and will be posted to shareholders who have elected to receive hard copies of the Annual Report in the next few days. Additional copies of the Annual Report and Accounts may be requested directly from the Company and an electronic copy will be available on the Company's website [www.petromatad.com](http://www.petromatad.com).