

Petro Matad Limited ("Petro Matad" or the "Company")
Operational Update – DT-9 testing

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

The testing programme on the Company's DT-9 well has been completed, with only water being produced from the most promising interval of the well in a valid test of reservoir fluids. The water produced is approximately five times fresher than that normally observed in the Tsagaantsav Formation, and it is believed that this phenomenon led to the incorrect estimation of net pay from the pre-test wireline logs which were announced by the Company on 22 August.

The DT-9 well reached its total depth of 1,766m on 16 August. The well encountered live oil shows at the top of the Lower Tsagaantsav and wireline logs identified a principal calculated pay zone between 1,639 and 1,651m depth that was accompanied by oil stain in samples and slightly elevated gas readings.

At that time, high apparent hydrocarbon saturations were calculated from the DT-9 wireline logs using a reservoir water salinity of 8,550 ppm NaCl equivalent. This salinity is consistent with measured salinity of the Tsagaantsav waters that were recovered from initial testing of DT-1. That benchmark is also within the 4,700 – 14,000 ppm range of wireline log salinities for the Davsan Tolgoi area, as calculated in-house and corroborated by two independent petrophysical consultants. Water salinities reported in 2005 by SOCO International from Block XIX Tsagaantsav reservoirs are also within that range. The actual formation waters recovered from DT-9 were approximately 1,700 ppm NaCl equivalent. This unprecedented fresh water occurrence in the local Tsagaantsav reservoir is currently considered to be the likely cause of the error in the original estimate of net pay from the pre-test wireline logs.

Unlike DT-1 water recoveries, as detailed in a contemporaneous News Release, the DT-9 waters represent a valid test of formation waters that were recovered at a rate of 200 barrels per day from a 14 hour swab test across from a zone of good bonding and zone isolation on the cement bond log. Water production from the DT-1 test is compromised by non-Tsagaantsav sources due to mechanical complications of the cementing job, as reported in the Company's other News Release of this time.

Geological and 3D seismic reviews confirm that DT-9 well was drilled on a small fold closure that was superimposed on a larger hanging wall fault trap that is isolated from other Shoroo Prospect drilling targets and from the other DT well series drilled to date. The live oil shows from 1,597-1,601m in DT-9 indicates that the fold closure at the top of the Lower Tsagaantsav objective formed a small but effective trap. However, the reservoir quality of this interval did not merit testing.

In contrast, the deeper, thicker, and more porous 1,639-1,651m test interval in DT-9 relied on a hanging wall fault seal of the Tsagaantsav against highly fractured footwall basement rocks across a large displacement fault. DT-9 is the first well the Company has drilled to test this trap style. Block XIX analyses demonstrate that waters from fractured basement rocks are exceedingly fresh. Thus the conclusion at this stage is that footwall basement fractures are the likely source of the waters tested in DT-9. Accordingly, when assessing future drilling locations higher risk will be assigned to any that rely on hanging wall traps against footwall basement rocks.

Petro Matad CEO Doug McGay said "While very disappointing, DT-9 was in both a separate structure and a different reservoir than previously drilled locations on Davsan Tolgoi. Thus the test failure is not seen as an adverse judgement on the overall Davsan Tolgoi complex.

“The inaccurate results of the petrophysical calculations of the net pay zone as originally announced are regrettable but understandable, given the factor of the presence of unprecedented fresh water.”

“The Company views the DT-9 results a part of our growing understanding of the Davsan Tolgoi complex, in which we maintain faith as a viable exploration and appraisal project.”

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. The principal asset is the PSC for Block XX, a petroleum block of 10,340km² in the far eastern part of the country. The two other Blocks, IV and V are located in central Mongolia and jointly cover 71,040km².

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