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Petro Matad Interview 21st December 2009.mp3

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Harry Norman: Hello this is Harry Norman, for Proactive Investors and welcome to another Proactive audio interview. Today is 21st December 2009 and I am talking with Doug McGay CEO of Petro Matad listed on the AIM market, oil and gas producers sector. Stock ticket; MATD, share price 16p; market cap 20.05million pound sterling; web address petromatad.com.

Doug, thank you very much for joining us for this interview.

Doug McGay: No worries Harry.

Harry Norman: Please give investors a brief introduction to Petro Matad.

Doug McGay: Yes my pleasure. Petro Matad in fact is a little bit unique. It's the first majority owned Mongolian company to list on an international stock exchange. That was the AIM in 2008. We've got a main contract out in the East of Mongolia about 14,000 square kilometres – production sharing contract that is. It's only 100 kilometres from the Chinese border and adjacent to producing oil fields. We've done about 3,000 kilometres of 2D seismic survey on this prospect and we've come up with an unrisked prospective resource of about

555 million barrels based on the 2D with possible even success between 4% and 21% on the various leads and prospects.

We viewed in only on the most prospective, that's an area called Davsan Tolgoi with 145 square kilometres of 3D and we estimate that there's 147 million barrels of unrisked prospective resource there and it's got a possibility of success between 37% and 48% according to ISIS petroleum consultants out of Australia. We've got unexplored grabens on Block 20 still to go.

The economic study that we did during 2009 has proved pretty robust for Davsan Tolgoi. If we find oil it will be economic at about $40 to $50 per barrel. We've also got two more exploration blocks in Central Mongolia, that's 73,000 square kilometres. They are very promising basins, but I must emphasise that they are in frontier territory.

Last year the Board approved a three-hole drilling programme on Davsan Tolgoi, subsequent to that we've gone and raised the money to do so and now the drilling programme and our other exploration programmes for the next year are fully funded.

Finally we let a drilling contract in about October of this year and we mobilised the drill to site, out there in the East of Mongolia on Block 20 and we're onsite and ready to go in Spring.

Harry Norman: What are your thoughts on operating in Mongolia, Doug?

Doug McGay: Well Harry, needless to say it's challenging, but it's also exciting and you get the sense that anything is achievable here, just generally speaking. In particular, I'm originally from Western

Australia and I lived through some pretty exciting times of development there in the 60s, 70s and 80s and you get a similar feeling here, there's excitement and potential growth in the air. The country is pretty well irreversible as a democratic nation and while there's still some institution building going on, it's still an exciting and a "can do" place to be.

In specific terms Harry, our PSC on Block 20 sits around about, equivalent to places like Australia on government take, just approximately around about 60% total government take. Some of the later PSCs are a little bit below that, but they're still competitive in world terms.

Harry Norman: Petro Matad listed on the AIM with 100% ownership of a production sharing contract over Block 20 which covers 14,250 square kilometres, how prospective is Block 20, Doug?

Doug McGay: As I said in the summary at the beginning Harry, officially we've got a possibility of success between 37% and 48% on Davsan Tolgoi, now that's pretty dry figures and it's more dramatically illustrated by us saying that just to the north of us we adjoin the PetroChina Block 19 and other blocks and we're in the same graben. On that block there's been 500 holes drilled, 500 plus holes with a 95% success rate. They start only 300 metres from our common boundary and they stretch up to 16 kilometres away.

As I said, all on the same basin and with the same kitchen source – it's unlikely that the oil from that source just migrated north into their block. We are getting that it comes south into Block 20 as well.

We've also got the rest of our 2D targets to advance on Block 20, plus the separate grabens that I've already mentioned, but have only been lightly explored to date. So in a nutshell we think that Block 20 is as prospective as it can get without actually drilling a hole. But as always, as exploration with snow, the truth lies at the end of the drill bit. We'll see.

Harry Norman: Your recent announcement that drilling at your maiden well at Davsan Tolgoi on Block 20, "We're shutting for the winter", seemed to surprise the market. Did you expect to suspend operations this early and when will drilling resume, Doug?

Doug McGay: Two answers to your questions. We always expected that we'd have to suspend operations – that's what happens in Mongolia, Harry. You just don't work through winter here. The rigs aren't winterised either ours or PetroChinas'. What we weren't expecting was quite so early winter. We thought we'd get one drill hole completed by the end of November. At the end of October there was a very, very early cold snap which caught both us and PetroChina by surprise and stopped operations in the whole area.

As I said, it was expected, it's built into the contract. The roads, cellars, pits, camps, all the erections, everything's been done and everything is on standby out there now. It's being cared for by four very cold caretakers – they live out there on site. But anyway, as Spring comes, we expect in April, they should hear the sounds of our crews approaching over the steppe.

Harry Norman: How significant is it that Petro Matad has been awarded two new production sharing contracts covering 71,000 square kilometres?

Doug McGay: We think it's extremely significant within Petro Matad, Harry. We also think that generally it hasn't been recognised, the significance by the market and observers of our company. We are now the largest PSC holder in Mongolia, if you add this 70,000 square kilometres to our Block 20, we're up around 87,000 square kilometres of Mongolia under exploration.

But more significantly these Blocks 4 and 5 have been studied by academics, commercial interests, Russian and Mongolian joint ventures for decades. No-one ever wrote them off – quite the opposite. They always got good reviews but no-one ever took it to the next step and pulled all the strands together, designed the seismic, applied for the blocks. We've taken everything that's happened out there to date to the final step.

I'd add that we are finding some very interesting material as we pull all those strands together on our desktop studies. In fact, our explorationists just can't wait to get out there and start work once again, probably next April.

Harry Norman: Petrovis built a stake of nearly 46% in Petro Matad stock. Who are Petrovis and how have other investors reacted to Petrovis' stake building, Doug?

Doug McGay: I'll just correct the figure, Harry. As of now, they are about to dilute down below 45% with the incoming investors that we will chat about in a while. Petrovis are the largest importer and distributor of petroleum products in Mongolia. In fact, they are one of the top five private companies in Mongolia. And thirdly, they are a very, very good company to have as your shareholder. I would rate them personally as one of the more advanced companies in Mongolia to lead us in the free market and a terrific shareholder to have.

With respect to reaction from other shareholders, Harry, we haven't had any negative reaction that I know of. As a matter of fact quite the opposite, all of our shareholders are perfectly happy to have a very strong local national company on our share registry, it brings all sorts of benefits to the company.

Harry Norman: The European Bank of Reconstruction and Development has just invested $6 million for a 17.5% stake in Petro Matad. Where does this leave Petro Matad's financial situation going forward, Doug?

Doug McGay: Well in a word, quite satisfactory. That's exactly what we're aiming for, that covers our budget for the next year, Harry, financially speaking.

More importantly there's quite a few positives to be got from EBRD investment. They're going to be our second largest shareholder and when you add that to the value of Petrovis and some of our other existing shareholders; we've got a very strong share registry. The EBRD didn't undertake the investment in Petro Matad lightly and so once again it's an indication that so far, it's an endorsement of the company's progress.

Harry Norman: What news flow can investors expect from Petro Matad over the next 12 to 18 months, Doug?

Doug McGay: The obvious major news flow is going to be results from the drilling programme that we're about to undertake in 2010. However, there will also be exploration results from Blocks 4, 5 and other efforts that we're doing. There won't be any lack of news particularly starting in roughly April 2010, Harry.

Harry Norman: Remember Proactive Investors is not an investment advice service. Make sure you register at proactiveinvestors.co.uk for our weekly newsletter which will keep you informed about articles, interviews and events. Thank you for listening.

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