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petro_matad_interview_30th_november_2010_v2.mp3

05/12/2010

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Duration: 0:09:42

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Harry Norman: Hello. This is Harry Norman for Proactive Investors, and welcome to another Proactive audio interview. Today is 30th November 2010 and I'm talking with Doug McGay, CEO of Petro Matad, listed on the AIM Market Oil and Gas Producers Sector. Stock ticker MATD, share price 95.5 pence, market cap £177.39 million. Web address: petromatad.com.

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

Doug McGay: Oh you're welcome Harry, it's nice to talk to you again.

Harry Norman: Please give investors a brief introduction to Petro Matad, and what sets the company apart from the crowd.

Doug McGay: Well, I think the listeners should be aware that we're listed on the London Stock Exchange, on the AIM market, and listed there in May 2008. We're an oil exploration company who operates in Mongolia. In fact, we're proudly Mongolian in a number of ways, and I guess that's one of the main ways that sets us apart from the crowd.

We were the first Mongolian company to list on an international stock exchange. Our major shareholder, the Petrovis Group, is Mongolian. They are the largest importer and distributor of petroleum products in Mongolia.

We've got a number of Mongolian individuals and other companies as shareholders. In fact, probably about 35% of the company is Mongolian owned. And the majority of the employees are Mongolian.

Combined with all of that Mongolian uniqueness, we're a bit international as well. A lot of our technical team are Americans. They live in Mongolia. And, in addition, myself and the CFO are Australian. The Board of Directors comprises three Australians, three Mongolians, an Englishman and an American. And it's uniquely gender balanced, as a matter of fact, with four ladies and four gents. So I guess that's unique as well!

I think we're a rather unique company, Harry.

Harry Norman: During the course of this year, Petro Matad has drilled its first three wells on the Davsan Tolgoi Prospect on Block XX. How successful do you consider these wells to be, and what did these wells show you, Doug?

Doug McGay: Well, we consider them to be very successful. In actual fact, Harry, mission accomplished! They all succeeded and performed well in line, or exceeded expectations. DT-1, that's the first well, discovered 71 metres of oil shows, elevated gas levels, and it had live oil with a total of 16 metres of net pay zones.

The reservoir itself had great porosity and terrific permeability and high oil saturation. And this will be tested, as will the others, early next year.

DT-2, which was 800 metres away from DT-1, encountered hydrocarbons, 4.5 metres of net pay, once again with high porosity

in the reservoir. And, in actual fact, it had 100 metres of hydrocarbon column.

And while DT-3 had little oil in the main formations, it had 53 metres of net reservoir and 20% average porosity, plus a low hydrocarbon saturation.

All of what I've just discussed was in the main target formation that's called the Tsagaantsav. They all encountered hydrocarbons in another, higher up formation called the Zuunbayan. And this was not a target of our doing, or calculated in the original resource estimates, so that was a bonus.

In summary, the wells shows us that oil has migrated through the Davsan Tolgoi Anticline. It's resident in formations with very good reservoir characteristics, and that bodes well for future exploration of this region, or collective, which is what we're calling Davsan Tolgoi.

There's a lot of work to be done though. It's still early exploration days, and that has to be understood about Petro Matad. We plan to test these wells early next year, as I've already mentioned, to establish flow rates and oil quality. But we've got a very good analogue with the 1 billion barrel PetroChina field just 8km north of us, and we have a fair bit of data on that.

They've drilled 600 wells there, and with a great deal of success. So, all going well, we should expect to at least equal the performance and the parameters of those fields.

Harry Norman: Having located a semi-winterised rig, you are now drilling well DT-4 under Davsan Tolgoi West prospect, on Block XX.
What are your expectations of this well, Doug?

Doug McGay: Davsan Tolgoi number 4, DT-4, is drilling a separate closure to the Davsan Tolgoi Anticline. This is known as Davsan Tolgoi West, and it's got an estimated recoverable resource of 20 million barrels. And as long as this semi- winterised rig can keep operating; and I've got to tell you though, they have been battling some pretty horrible temperatures. It's been cold in London, but it's been horrible out there in the east of Mongolia. We'd expect them to complete this well by December 15th. After that it would just be too cold to operate any longer.

Harry Norman: What is left to explore on Block XX, and what are your plans for the rest of Block XX, Doug?

Doug McGay: The question isn't 'What?', it's 'How much?', Harry! There's 10,000 square kilometres left to explore. To put that into context, the Davsan Tolgoi Anticline that I've just been talking about covers approximately 100 square kilometres. Within a few kilometres of Davsan Tolgoi we've got another 13 leads and prospects that we want to chase up. We'll be starting to do that in a few weeks' time with a very large winterproof to do the seismic survey programme. You actually can do seismic survey in winter, even though drilling can't be done until we get our fully winterised rigs next year. And this 1,200 km programme will extend into the more remote parts of Block XX, where we've identified another five sub-basins that we want to explore.

We figure that we're in elephant country, so we may as well go and try and bag some elephants.

Harry Norman: How does the result of your drilling programme so far this year affected your thinking about possible reserves and resources at Davsan Tolgoi?

Doug McGay: Well, our technical team has got no doubts that the risking of Davsan Tolgoi, which was previously 37% possibility of success, has now been dramatically decreased as a result of those first three wells. Some of the unknowns have been eliminated, or almost eliminated, so that on average the prospect has a far better chance of success.

And secondly, with our new found knowledge, we're re-mapping the original 3D survey with a view to refining the actual volume that we've got there at the moment of 121 million barrels of estimated recoverable resource.

That will take the boys a few months, and we really don't know where it will end up at this stage, but probably not too far different from now (that's the 121), with the added upside of the aforementioned Zuunbayan formation being added. But all of that's a little bit too early to be anywhere near definitive, and time will tell.

Harry Norman: Block XX is in Eastern Mongolia. How could you commercialise oil or gas discovered on Block XX?

Doug McGay: I think the simple answer to that question is to point out that we're only 150km from the Chinese border. And China imports 5 million barrels of oil per day from all over the world. So I think we've got a ready commercial market right on our doorstep.

But we've got longer-term plans. Mongolia currently imports all of its petroleum products, and, being a national company, we've got a little bit of pride. And we'd like to see the setting up of a refinery, hopefully with our oil, and to be refining products for the Mongolian market. So, Mongolian oil for Mongolian cars.

But that's a long way off yet.

Harry Norman: What are your plans for Blocks IV and V, which cover about 71,000 square kilometres of central Mongolia?

Doug McGay: Well we've got big plans. It's a lot of country, isn't it, by the time you add that 10,000 kilometres to the 71,000 kilometres. Anyway, we've just completed the first year's exploration out that on Blocks IV and V. There was a 380 line kilometre seismic survey, and that's the first that has ever been out in that area.

We also found source rocks. We established that the basins were deep enough to form oil and gas, from our seismic and our gravity surveys. And we've identified a number of different possible trapping mechanisms from those seismic surveys.

So we're doing further surveys over those blocks in winter. We're doing some stratigraphic boreholes, and we're doing further studies of all descriptions.

If all the pennies come up heads, Harry, we'll try to put a drill or two down in Blocks IV and V sometime in 2011.

Harry Norman: On September 24th, Petro Matad raised US\$54 million with the European Bank for Reconstruction and Development, maintaining

its 17.4% stake in the company by subscribing for shares at £1.34 each.

Where does this leave Petro Matad's financial situation going forward?

Doug McGay: Very sound. But I must point out that not only the EBRD maintained their position, all of the other major institutions that are on our books subscribed as well, including Petrovis, and we picked up some valuable new shareholders as well.

But we're undergoing an expansion phase now. We're expanding corporately, we're expanding in technical areas. So, growth is always a big challenge for any business, and we're currently undertaking some explosive growth.

As I've mentioned, we're going to be doing seismic surveys this winter, we've got a number of initiatives that we can afford to pursue. And then we're designing a very exciting appraisal programme for Davsan Tolgoi next year.

So there's plenty of places that we can wisely spend our investors' money, Harry.

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

Doug McGay: News flow will be constant, even during winter, on a number of exciting fronts. I mentioned the 2D seismic survey. There's the stratigraphic holes, etc, etc.

And then we'll be heading into Spring with that previously described drilling appraisal programme on Davsan Tolgoi. Plus, drilling on

other parts of Block XX and, as I mentioned, hopefully on Blocks IV and V.

So I certainly hope that investors can experience as much excitement and achievement as they experienced in the last 12 to 18 months, 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 our articles, interviews and events. Thank you for listening.

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