REKA

DRILLING

Annual Report 2016

CONTENTS

2016 HIGHLIGHTS

OPERATIONAL HIGHLIGHTS:

- 33 wells were drilled in 2016 (2015: 62 wells), of which
  - 5 (includes a Radius Band) wells drilled in China (2015: 53 wells)
  - 28 wells drilled in India (2015: 9 wells)
  - 5 wells drilled for Green Dragon Gas Ltd ("Green Dragon Gas") (2015: 51 wells)
  - 28 wells drilled for Essar (2015: 11 wells for other clients: Essar - 9 wells; PetroChina - 2 wells)

- A total of 39,552.9 metres were drilled in 2016 (2015: 76,690 metres)
  - 6,071.9 metres were drilled in China
  - 33,481 metres were drilled in India
  - 13.2% of the metres involved the use of in house MWD directional tools (i.e. were lateral or directional wells using measurement-while-drilling)

FINANCIAL HIGHLIGHTS:

- Annual revenue of US$7.2m (2015: US$29.9m)
- Losses before tax widened to US$9.6m (2015: loss before tax US$7.5m) due to lack of workload resulting in a gross loss of US$1m (2015: gross profit of US$6.0m) partly offset by a decrease in administrative expenses
- Year-end cash and bank deposits of US$2.1m (2015: US$2.4m including restricted cash)

CHAIRMAN'S STATEMENT

The past year was the most challenging year since the inception of the Company in 2007. In China our main client Green Dragon Gas reduced its work load significantly due to pending partner issues which were being resolved. Notwithstanding this shortcoming, Greka Drilling China won the bidding for a contract from PetroChina Huabei, while Greka Drilling India won a day rate contract with Essar, a first for the Company.

The industry downturn created fierce competition between the service companies, and tender wins in both China and India from state-owned industry giants PetroChina and ONGC alongside corporates Green Dragon and Essar, confirm Greka Drilling's leadership within the CBM sector. The contracts are affirmations of Greka Drilling's advanced rig technology and experienced crews. The Company launched a strategy in 2013 to diversify its geographic footprint as well as its client base. This strategy progressed well during 2016 as demonstrated by the meterage drilled in India for a third party client Essar. The diversification strategy demonstrated its merits and will continue to be followed.

During 2016, we made a concerted effort to reduce ongoing fixed costs. A restructuring exercise has led to a materially enhanced cost structure with principally variable costs. We were able to reduce our fixed cost and optimize our staff to keep only the highest skilled manpower through the Company. Similarly, our G&A had significant reduction compared with 2015, following the same concept. Notwithstanding the tough conditions and headcount reductions, our drilling performance, speed and quality were all enhanced with the survival. These organic enhancements have made Greka Drilling far more efficient which will improve the profitability of the recurring contract wins in both China and India.

In March and September 2016, we secured US$5million and US$3million loan financing for working capital purposes. These two timely loans provided flexibility and support during a difficult period.

The Chinese Government has had a long-standing policy to provide incentives for the development, under market principles, of the complex but abundant gas trapped within its coal seams. This policy has now been adopted in India where for the first time a natural resource – CBM - has been declared to be subject to market conditions rather than regulated by the government. This has prompted many domestic gas developers to focus on the CBM assets. This development is welcomed by us and has resulted in our Indian business development team being very busy with RFQ's. Greka Drilling intends to take full advantage of this macro trend during 2017.

In conclusion, we are happy to see 2016 close and excited about our prospects for 2017 and beyond. In 2017 to date, we have won a bidding competition for a drilling campaign with ONGC and are drilling for PetroChina under a contract awarded in late 2016 while in discussions with both Green Dragon and Essar for implementing their respective drilling campaigns. The number of active drilling campaigns and tender awards in both China and India demonstrate abundant opportunity for Greka Drilling.

Finally, I want to thank the hard-working personnel within the group who have sustained their commitment through a very difficult year and are now focused on the successes that lie ahead.

Randeep S. Grewal
Chairman
27 April 2017

BUSINESS REVIEW

RESULTS OVERVIEW

Our 2016 financial and operating results include:

- Loss per share of US$0.0194, compared with loss per share of US$0.0184 in 2015
- Gross margin -14%, compared with 20% in 2015
- Cash and bank deposits of US$2.1m (FY 2015: US$2.4m including restricted cash of US$2.0m)
- US$3.6m of bank loans and US$7.3m of promissory notes compared with US$5.8m of bank loans at 31 December 2015

OPERATIONAL

- There were 3 principal contracted counterparties: Green Dragon Gas Ltd and PetroChina Huabei in China, and ESSAR Oil Limited in India
- 33 wells drilled in 2016, of which 5 wells were drilled in China and 28 wells in India
- Greka Drilling continues to emphasise training with 4,584 man-hours of training conducted in 2016 for staff in India and China (2015: 27,624 man-hours). The decline is a result of reduction in drilling activity and number of employees in the year
- Strong HSE focus, no Lost Time Injuries occurred in 2016
- Renewed all business licenses, safety licenses and compliance certificates in China and India

DRILLING

- The average drilling time for LiFaBriC lateral wells in China from spud to completion was 27.5 days in 2016 compared with 32.3 days in 2015
- The average drilling time for Directional wells in India from spud to completion was 12.9 days in 2016 compared with 16.1 days in 2015
- A total of 3 successful intersections completed with the Company's own Rotating Magnet Ranging Systems ("RMRS")
- Company has developed LiFaBriC completion with a 3 ½" steel liner for Green Dragon Gas's LiFaBriC Optimization program

BUSINESS DEVELOPMENT

- Signed day rate contract with ESSAR to drill in the Raniganj block
- In negotiations with oil and gas operators in Central India for new contracts, has been informed by Oil and Natural Gas Corporation that Greka India is the winning 'L1 bidder' of a 3-year contract tender
- Secured Horizontal wells contract from CNPC for one year period
- Completed reviews of drilling opportunities with clients

FINANCIAL REVIEW

RESULTS FOR THE YEAR

The Group recorded a revenue of US$7.2 million (2015: US$29.9million) and a loss of US$7.7million (2015: loss of US$7.3 million) for the year ended 31 December 2016. Revenue decreased as a result of decline in drilling activity in China in the year, resulting in a gross loss of US$1.0 million (2015: gross profit of US$6.0 million). Foreign exchange losses in 2016 were US$1.5 million (2015: US$3.6 million).

The general and administrative expenses amounted to US$6.2 million (2015: US$9.2million). Loss per share was US$0.0194 (2015: loss per share US$0.0184).

LIQUIDITY AND CAPITAL

As at 31 December 2016, the Group had total assets of US$92.1million (2015: US$98.3million) and liabilities and shareholders' equity of US$36.8million and US$55.3million respectively (2015: US$32.8million and US$65.5 million respectively).

As at 31 December 2016, the Group's cash and bank balance was US$2.1 million (2015: US$2.4million, including restricted cash) with total borrowings of US$10.9million (2015: US$5.8million).

The Company has raised US$3.6 million of bank loans through the mortgage of office buildings. These bank loans have a one year term with an average interest rate of 6.86%.

The Company further raised US$8.0 million through loan facilities of US$5 million and US$3 million with Guaranty Finance Investors LLC during the year. These loans have a three year term with an interest rate of 7%.

BOARD OF DIRECTORS

EXECUTIVE DIRECTOR

Randeep S. Grewal, Chairman and CEO

Randeep Grewal has been Chairman and Chief Executive Officer of Greka since its inception in 1999 and Green Dragon Gas Ltd since inception in 2006. He is also Chairman and Chief Executive Officer of Greka Integrated Inc., a US-based heavy oil and gas transportation, refining and real estate business with interests in oil and gas properties and refining assets. From April 1997 to September 1997, Mr. Grewal served as Chairman and Chief Executive Officer of Horizontal Ventures Inc., an oil and gas horizontal drilling technology company. In August 1997, Horizontal Ventures merged with Petro Union Inc. and Mr. Grewal became Chairman and Chief Executive Officer of the reorganised company. This Company merged in turn with Saba Petroleum Corporation in March 1999 to form Greka Energy Corporation. From 1993 to 1996, Mr. Grewal was Corporate Vice President for the Rada Electronic Industries Ltd with principal responsibility for its global expansion and related operations. He has also been involved in various joint ventures, acquisitions, mergers and reorganisations since 1986 in the United States, Europe and the Far East with a range of businesses. Mr. Grewal has a Bachelor of Science Degree in Mechanical Engineering from Northrop University.

NON-EXECUTIVE DIRECTORS

David Turnbull, Non-Executive Director

David Turnbull has been the Executive Chairman of Pacific Basin Shipping Limited since July 2008 after serving as a non-executive director in the company for two years. Mr. Turnbull spent 30 years with the Swire Group where he held various senior management positions. He was the Chairman of Swire's Hong Kong-listed companies Swire Pacific, Cathay Pacific Airways and Hong Kong Aircraft Engineering Company. He is also Chairman of Seabury Aviation and Aerospace – Asia, and non-executive director of The Wharf (Holdings) Limited. Mr. Turnbull has a Master of Arts Degree in Economics from Cambridge University.

Bryan Smart, Non-Executive Director

Bryan Smart is a Chartered Accountant with over 40 years of experience in finance both in professional and commercial roles for organisations including Deloitte. He presently holds non-executive director roles in AB Dynamics plc, a company that designs and manufactures robotic test equipment for the automotive industry. From 1996 to 2014, he held non-executive directorships of the Supervisory Board of CarboTech AG, a company based in Salzburg which manufactures carbon fibre components for the automotive industry. Prior to that, he has worked for Daimler Chrysler (UK) Ltd rising from internal auditor to financial controller in 1985 and was appointed CFO in 1996. During this period, he completed the acquisition and assimilation of Chrysler Jeep in the UK, Lex Autosales and all Mercedes Benz dealers in metropolitan areas and also served on the board of Brunel University. He also acts as a consultant for Greenoaks Ltd, a Mercedes dealer group and is a trustee of Brooklands Museum.

BOARD OF DIRECTORS (continued)

Richard Day, Non-Executive Director

Richard Day is a qualified Solicitor, with diverse and successful management experience and extensive knowledge of public markets, fund raisings and corporate governance across a range of sectors. From 2015, Mr. Day has been non-executive director of combined district heating and power generation company Cogenpower plc, which is listed on AIM. He is an Advisory Board Member of Lighthouse which provides advice and support to management teams and he is also a director of Pelatro Limited, a Big Data analytics company which helps telcos service their customers, and RJD Corporate Limited. During 2002 to 2015, Mr. Day was a founding partner and Head of Corporate Finance at institutional stockbroker Arden Partners plc, which was listed on AIM in 2006. From 1990 to 2002, he was Senior Corporate Finance Executive at Cazenove & Co. Prior to this, Mr. Day worked as a Solicitor in private practice with various law firms including Simmons & Simmons and Charles Russell in the UK.

Mr. Day has a BA (Hons) in English Literature and Language from the University of Central England in Birmingham. He is also a Chartered Member of the Chartered Institute for Securities & Investment (CISI).

Sean Mulhearn, Non-Executive Director

Mr. Mulhearn has over 30 years' experience in the financial industry in Australia, Asia, Europe, and the Americas.

He commenced his career at Citibank where he worked for 20 years in Australia, London and New York in numerous positions including co-Head of Commodity Finance, Head of Commodity Sales, Head of Asian Commodities and Head of Australian Fixed Income and Derivatives.

Sean worked for Merrill Lynch (New York) in the Structured Finance department before moving to Asia in 2006 where he worked for Standard Chartered Bank (Singapore), JPMorgan Asia (Singapore) and ANZ (Singapore) where he led the development of the commodity and structured commodity finance activities.

He founded Jacaranda Capital Partners, a boutique advisory and corporate training firm with offices in Sydney and Singapore, and is a partner of Rock Elm Capital Management also based in Sydney.

DIRECTORS' REPORT

The Directors of Greka Drilling Limited have the pleasure in submitting their Report of the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Group are providing drilling services for Coal Bed Methane companies in China and India. Greka Drilling Limited was incorporated in the Cayman Islands on 1 February 2011 and was registered as a Public Company on 8 March 2011. It acts as a holding company and provides financing and management services to its subsidiaries. The company is domiciled in the Cayman Islands.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

A summary of the Group's main business developments for the year ended 31 December 2016 and potential future developments is contained within the Chairman's Statement, Business Review and Financial Review.

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the EU, refer to note 2 in the financial statements).

SHARE CAPITAL AND RESERVES

Details of the Group's authorised and issued share capital and reserves as at 31 December 2016 and 2015 are contained in note 23 and the statement of changes in equity of the financial statements respectively.

RESULTS AND DIVIDENDS

An overview of the Group's results, covering the years ended 31 December 2016 and 2015, is provided in the Financial Review on page 4. Detailed financial information is included from page 12 to page 43 of the report. The Directors do not propose the payment of cash dividends until the Group is profitable.

DIRECTORS REMUNERATION

See note 9 to the financial statements.

DIRECTORS AND THEIR INTERESTS

The table below sets out the interests of the Directors in Greka Drilling Limited as at 31 December 2016.

Directors	Number of ordinary shares	% of issued share capital
Mr. Randeep S. Grewal (including holdings through GDGH Ltd)	264,919,233	66.52%
David Turnbull	6,000	0.002%

SUBSTANTIAL SHAREHOLDINGS

The Group is aware of the following beneficial shareholdings, representing 10 per cent or more of the issued ordinary share capital of the Group, as at 31 December 2016.

	Number of ordinary shares	% of issued share capital
GDGH Ltd	262,205,082	65.84%

Mr. Randeep S. Grewal is the ultimate controlling party of GDGH Ltd.

THE BOARD

The Board of Directors is composed of five members: one Executive Director, who is also the Executive Chairman, and four Non-Executive Directors. The Board has established Audit and Remuneration Committees with formally delegated duties, responsibilities and written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues as and when the need arises.

AUDIT COMMITTEE

The Audit Committee helps the Board discharge its responsibilities regarding financial reporting, external and internal Audits, and controls, as well as reviewing the Group's annual financial statements. It also assists by reviewing and monitoring the extent of non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Group's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and financial statements and the half-yearly reports remains with the Board. The Audit Committee consist of Richard Day, David Turnbull and Bryan Smart.

After taking all reasonable succession steps BDO had unforeseen changes in the senior member of the audit team and in light of this combined with the challenging operating environment the Audit Committee has requested that the current audit partner extend his tenure by a further period and BDO have agreed to this.

REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration. This includes making recommendations to the Board on the Group's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level. The Remuneration Committee comprises two Non-Executive Directors and one Executive Director (Bryan Smart, Sean Mulhearn and Randeep Grewal).

RELATIONS WITH SHAREHOLDERS

The Directors attach importance to the provision of clear and timely information to shareholders and the broader investment community. Information about the company is available on its website (www.grekadrilling.com). The Group's annual and interim reports will also be sent to shareholders and be made available through the Group's website.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Group has in place a Directors and Officers insurance policy to cover relevant individuals against claims arising from their work on behalf of the Company. The Board intends to keep the level of cover provided under annual or more frequent review, as appropriate.

GOING CONCERN

Based on the Group's budgets and cash flow projections for 2017, the Directors are satisfied that the Group has adequate resources to continue its operations and meet its commitments for the foreseeable future.

AUDITORS

BDO LLP has expressed its willingness to continue in office as auditors and a resolution for their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board

Randeep S. Grewal
Chairman and Chief Executive Officer

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' report and the financial statements for the Group. The Directors have prepared the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

The Directors have chosen to use the International Financial Reporting Standards ("IFRS") as adopted by the European Union in preparing the Group's financial statements.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements.

Financial information is published on the Company's website. The maintenance and integrity of this website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may occur to the financial statements after they are initially presented on the website.

Legislation in the Cayman Islands governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF GREKA DRILLING LIMITED

We have audited the group financial statements of Greka Drilling Limited for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's Directors, as a body in accordance with our engagement letter dated 14 February 2017. Our audit work has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Directors as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss for the year ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union.

BDO LLP
Chartered Accountants
London
United Kingdom

27 April 2017

Consolidated Statement of Comprehensive Income

	Note	Year Ended 31 December 2016 US$'000	Year Ended 31 December 2015 US$'000
Revenue	4	7,154	29,916
Cost of sales		(8,168)	(23,951)
Gross (loss)/profit		(1,014)	5,965
Administrative expenses		(6,167)	(9,256)
Loss from operations	5	(7,181)	(3,291)
Finance income	6	73	3
Finance costs	7	(2,451)	(4,241)
Loss before income tax		(9,559)	(7,529)
Income tax credit	11	1,815	228
Loss for the year		(7,744)	(7,301)
Other comprehensive expense, net of tax:			
Exchange differences on translation of foreign operations*		(2,402)	(88)
Total comprehensive income for the year		(10,146)	(7,389)
(Loss)/Profit for the period attributable to:			
- Owners of the company		(7,838)	(7,246)
- Non-controlling interests		94	(55)
		(7,744)	(7,301)
Total comprehensive (expense)/ income attributable to:			
- Owners of the company		(10,212)	(7,476)
- Non-controlling interests		66	87
		(10,146)	(7,389)
Earnings per share			
- Basic and diluted (in US$)	10	(0.0194)	(0.0184)

*Items that may be reclassified to profit or loss

Consolidated Statement of Financial Position

	Note	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Assets			
Non-current assets			
Property, plant and equipment	12	79,601	84,962
Intangible assets	13	292	388
Deferred tax assets	22	377	-
		80,270	85,350
Current assets			
Inventories	14	5,981	7,138
Trade and other receivables	15	3,759	3,363
Cash and bank balances (including restricted cash)	16	2,135	2,421
		11,875	12,922
Total assets		**92,145**	**98,272**
Liabilities			
Current liabilities			
Trade and other payables	17	25,045	25,165
Loans and borrowings	18	3,604	5,852
Provisions	20	**-**	**585**
		28,649	**31,602**
Non-current liabilities			
Loan and borrowings	18	7,298	-
Deferred tax liabilities	22	-	1,184
Derivative financial liability	19	858	-
		8,156	**1,184**
Total Liabilities		**36,805**	**32,786**
Net assets		**55,340**	**65,486**
Capital and reserves			
Share capital	23	4	4
Share premium account		77,186	77,186
Invested capital		(1,533)	(1,533)
Reserve fund		917	917
Foreign exchange reserve		(1,519)	855
Retained (deficit)		(19,492)	(11,654)
Total equity attributable to owners of the Company		**55,563**	**65,775**
Non-controlling interests		(223)	(289)
Total equity		**55,340**	**65,486**

The financial statements were authorised and approved by the Board on April 27th, 2017 and signed on their behalf by:

Randeep S. Grewal
Director

Consolidated Statement of Changes in Equity

	Share capital US$'000	Share premium US$'000	Invested capital US$'000	Reserve fund US$'000	Foreign exchange reserve US$'000	Retained (deficit)/ earnings US$'000	Equity attributable to owners of the Company US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2015	4	77,186	(1,533)	917	1,085	(4,408)	73,251	(376)	72,875
Profit for the year						(7,246)	(7,246)	(55)	(7,301)
Other comprehensive expense									
- Exchange difference on translation of foreign operations	-	-	-	-	(230)	-	(230)	142	(88)
Total comprehensive (expense)/income for the year	-	-	-	-	(230)	(7,246)	(7,476)	87	(7,389)
At 31 December 2015	**4**	**77,186**	**(1,533)**	**917**	**855**	**(11,654)**	**65,775**	**(289)**	**65,486**
Loss for the year						(7,838)	(7,838)	94	(7,744)
Other comprehensive income:									
- Exchange difference on translation of foreign operations	-	-	-	-	(2,374)	-	(2,374)	(28)	(2,402)
Total comprehensive (expense)/income for the year	-	-	-	-	(2,374)	(7,838)	(10,212)	66	(10,146)
At 31 December 2016	**4**	**77,186**	**(1,533)**	**917**	**(1,519)**	**(19,492)**	**55,563**	**(223)**	**55,340**

The following describes the nature and purpose of each reserve within owners' equity.

Share capital: Amount subscribed for share capital at nominal value.
Share premium: Amount subscribed for share capital in excess of nominal value.
Invested capital: Amount represents the difference between the nominal value of the Company's share of the paid-up capital of the subsidiaries acquired and the Company's cost of acquisition of the subsidiaries under common control.
Reserve fund: The rules and regulations of the People's Republic of China require that one tenth of profits as determined in accordance with China Accounting Standards for Business Enterprises in each period be reserved for making good previous years' losses, expanding business, or for bonus issues, provided that the balance after such issue is not less than 25% of the registered capital. The amount is non-distributable.
Foreign exchange reserve: Foreign exchange differences arising on translating the financial statements of foreign operations into the reporting currency.
Retained (deficit)/earnings: Cumulative net gains and losses recognised in profit or loss.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Operating activities			
Loss before income tax		(9,559)	(7,529)
Adjustments for:			
Depreciation		2,445	5,647
Amortisation of other intangible assets		71	75
Loss on disposal of property, plant and equipment		152	356
Finance loss		1,482	3,629
Finance income		(73)	(3)
Finance costs		969	612
Operating cash flows before changes in working capital		(4,513)	2,787
Decrease/ (increase) in inventories		1,157	(777)
Decrease in trade and other receivables		396	2,292
Decrease in trade and other payables		(1,014)	(2,713)
Cash generated from operations		(3,974)	1,589
Income tax payment		(216)	(225)
Net cash from operating activities		**(4,190)**	**1,364**
Investing activities			
Payments for purchase of property, plant and equipment		(318)	(359)
Payments for intangible assets		-	-
Movement in restricted cash		2,068	3,849
Interest received		59	-
Net cash generated from investing activities		**1,809**	**3,490**
Financing activities			
Proceeds from promissory notes		8,000	-
Proceeds of short term loan		3,604	5,852
Repayment of short term loan		(5,852)	(11,242)
Finance costs paid		(738)	(565)
Net cash used in financing activities		**5,014**	**(5,955)**
Net increase/(decrease) in cash and cash equivalents		2,633	(1,101)
Cash and cash equivalents at beginning of the year		353	1,737
		2,986	636
Effect of foreign exchange rate changes		(851)	(283)
Cash and cash equivalents at end of year		**2,135**	**353**

1 GENERAL

Greka Drilling Limited (the "Company") was incorporated in the Cayman Islands on 1 February 2011 under the Companies Law (2010 Revision) of the Cayman Islands. The registered office and principal place of business of the Company are located at PO Box 472, Harbour Place 2nd Floor, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands and 29th Floor, Landmark Plaza, No. 1 Business Outer Ring Road, Central Business District, Henan Province, Zhengzhou 450000, PRC respectively.

The Company was established as an investment holding company for a group of companies whose principal activities consist of the provision of coal bed methane drilling services in China and India. The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

The financial statements are presented in United States dollars which is same as the functional currency of the Company. The functional currencies of the subsidiaries are Renminbi (RMB) for China and Rupee for India.

2 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with IFRS as adopted by the European Union, that are effective for accounting periods beginning on or after 1 January 2016. The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared under the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 to the financial statements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

Going concern

Based on the Group's budgets and cash flow projections, the Directors are satisfied that the Group has adequate resources to continue its operations and meet its commitments for the foreseeable future and at least for the next 12 months from the date of the approval of the financial statements.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Business combinations

Accounting for the Company's acquisition of the controlling interest in Greka Technical Service Limited.

On 1 February 2011, the Company was incorporated as a wholly-owned subsidiary of Green Dragon Gas Ltd and on 8 March 2011 the Company acquired the entire share capital of a fellow wholly-owned subsidiary of Green Dragon Gas Ltd, Greka Technical Service Limited. The Company's controlling interest in Greka Technical Service Limited was acquired through a transaction under common control. The Directors note that transactions under common control are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions.

FRS 6 (and US GAAP) does include guidance for accounting for group reconstructions of this nature. Having considered the requirements of IAS 8 and the related UK and US guidance the transaction by which the company acquired its controlling interest in Greka Technical Service Limited was accounted for on a merger or pooling of interest basis as if both entities had always been combined. The combination was accounted for using book values, with no fair value adjustments made nor goodwill created.

The subsidiaries of Greka Technical Service Limited have been consolidated using the acquisition method.

New Accounting Standards

There were no new standards, interpretations and amendments to published standards effective in the year which had a significant impact on the Group.

The International Accounting Standards Board (IASB) has issued the following new and revised standards, amendments and interpretations to existing standards that are not effective for the financial year ending 31 December 2016 and have not been adopted early. The Group is currently assessing the impact of these standards on the financial statements.

	Effective date
New Standards	
IFRS 15 Revenue from Contracts with Customers	01-Jan-18
IFRS 9 Financial Instruments	01-Jan-18
IFRS 16 Leases*	01-Jan-19
Amendments to Existing Standards	
Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)*	01-Jan-17
Disclosure Initiative: Amendments to IAS 7*	01-Jan-17
Clarifications to IFRS 15 revenue from Contracts with Customers*	01-Jan-18
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*	01-Jan-18

* Not yet adopted by European Union

The Directors have not fully assessed the impact of all standards.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currency translation

Transactions entered into by any of the group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the exchange rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated statement of comprehensive income in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statement of comprehensive income for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the rate approximating to those ruling when the transactions took place is used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of foreign operations at actual rate are recognised directly in equity (the "foreign exchange reserve").

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. Property, plant and equipment are depreciated so as to write off their costs net of expected residual value over their estimated useful lives on a straight-line basis or units of production basis, depending on the nature of the asset. The useful lives and residual value are reviewed, and adjusted if appropriate, at each reporting date. The methods of property, plant and equipment depreciation are as follows:

Buildings and structures:	20 - 30 years straight line basis
Motor vehicles:	5 years straight line basis
Fixtures, fittings and equipment:	3 - 10 years, for drilling equipment according to units of production
Rigs:	Units of production

The units of production calculation multiplies the asset net book value by the ratio of the drilling activity relative to the estimate total drilling activity over the life of the asset based on design capacity and empirical norms.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Construction in progress is stated at cost less impairment losses. Cost comprises direct cost of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated statement of comprehensive income as consumed.

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the consolidated statement of comprehensive income on disposal.

Impairment of property plant and equipment

The Group reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that these assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets

Intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of comprehensive income as incurred and included in administrative expenses.

Amortisation is recognised in the consolidated statement of comprehensive income on a straight line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Software – 10 years

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Inventories

Inventories include materials and consumable tools and spare parts which are expected to be used within 12 months. Inventory is initially recognised at cost, and subsequently measured at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Inventories of ancillary materials, spare parts and small tools used in providing services are stated at cost less impairment losses for obsolescence.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the Board of Directors.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs to its tax base, except for differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis; or
- to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Revenue recognition

Revenue is recognised when services are provided and the amount of the revenue and associated costs incurred in respect of the relevant transaction can be reliably measured.

Revenues generated on a metre rate-basis from drilling contracts, labour contracts and management services are recognised as services are performed. Rig mobilisation fees are recognised over the period in which drilling services are delivered.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Financial instruments

(i) Financial assets

<u>Loans and receivables</u>

The Group's loans and receivables comprise trade and other receivables, and cash and cash equivalents.

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are principally trade and other receivables and also incorporate other types of contractual monetary asset. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the asset will not be collectible in full according to the original terms of the instruments. Significant financial difficulties of the customers, probability that the customers will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loans and receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income. When loans and receivables are uncollectible, they are written off against the allowance account for loans and receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income, subject to a restriction that the carrying amount of the asset at the date the impairment is

2 PRINCIPAL ACCOUNTING POLICIES (continued)

reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash includes cash on hand and demand deposits with any bank or other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value and have an original maturity of less than 3 months.

(ii) Financial liabilities

Financial liabilities held at amortised cost

Trade payables and other short-term monetary liabilities are recognised initially at fair value and subsequently carried at amortised cost using the effective interest rate method.

Loan and borrowings are initially recognised at fair value being the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Financial liabilities at fair value through profit or loss

This category comprises only warrants instruments classified as derivative financial liability. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any other financial liabilities as being at fair value through profit or loss.

Fair value measurement hierarchy

The Group classifies its financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (note 28). The fair value hierarchy has the following levels:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within the financial liability is determined on the basis of the lowest level input that is significant to the fair value measurement.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract has been discharged, cancelled or expired.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Employee *benefits*

(i) Defined contribution pension plan

Contributions to defined contribution pension plan are recognised as an expense in the consolidated statement of comprehensive income as the services giving rise to the company's obligations are rendered by the employees.

The employees of the operations in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions payable are charged to the consolidated statement of comprehensive income when they become payable in accordance with the rules of the central pension scheme and are disclosed under Employer's national social security contributions in note 8.

(ii) Other benefits

Other benefits, being benefits in kind, are charged to the consolidated statement of comprehensive income in the period to which they relate.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Leases

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to profit or loss on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purpose of lease classification.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3 CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk or cause a material adjustment to the carrying amounts of assets and liabilities during the years are as follows:

Impairment of property plant and equipment

Management reviews the carrying amounts and useful economic lives of property, plant and equipment at each reporting date to determine whether there is any indication that these assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased using the criteria detailed in note 2.

Circumstances that could indicate a potential impairment include significant adverse changes in industry trends, economic climate, legal factors, and an adverse action or assessment by a regulator. More specifically, significant adverse changes in industry trends include significant declines in revenue rates, utilisation rates, natural gas market prices and industry rig counts for drilling rigs. In performing an impairment evaluation, management estimate the future discounted value of net cash flows from the use and eventual disposition of property plant and equipment grouped at the lowest level that cash flows can be identified. If the sum of the estimated future discounted value of net cash flows is less than the carrying amount of the property plant and equipment for these asset grouping levels as detailed in note 12, then an impairment charge is recognised. The amount of an impairment charge would be measured as the difference between the carrying amount and the fair value of these assets. We did not record an impairment charge on any property plant and equipment for any of the years ended 31 December 2016 or 2015. The key estimates made include the demand for drilling, estimated rig life, future prices, cost levels, long term growth rates and discount rates. The assumptions used in the impairment evaluation for property plant and equipment are inherently uncertain and require management judgment.

3 CRITICAL ACCOUNTING ESTIMATES (continued)

Valuation of derivative financial liability

The company granted warrants instruments to Guaranty Finance Investors LLC as part of a financing agreement. The warrants are exchangeable into a variable number of new ordinary shares. The Directors have estimated the fair value of the warrants using Black Scholes Model, as described in note 19.

Depreciation

The Group depreciates drilling rigs and associated equipment on units of production basis. This requires estimates of the total drilling life of these assets. These estimates, derived in conjunction with the Group's engineers, are inherently judgmental. Refer to note 12 for details of depreciation charge.

4 REVENUE AND SEGMENT INFORMATION

The Group determines its operating segment based on the reports reviewed by the chief operating decision-makers ("CODMs") that are used to make strategic decisions.

The Group reports its operations as two reportable segments: the provision of contract drilling services in the PRC and India. The division of contract drilling operations into two reportable segments is attributable to how the CODMs manage the business.

The accounting policies of the reportable segments are the same as those described in the summary of principal accounting policies (see Note 2). We evaluate the performance of our operating segments based on revenues from external customers and segmental profits.

Drilling services revenue and management services revenue represent the net invoiced value of contracted drilling services and management services provided to two major customers, one in the PRC (who is a related party) and the other in India. 100% of revenue in India was derived from one single customer. Please refer to note 24 for details of the revenue derived from the related party customer.

For the Year Ended 31 December 2016

	PRC	India	Intercompany	Consolidated
	US$'000	US$'000	US$'000	**US$'000**
Revenue	3,433	3,913	(192)	7,154
Cost of sales	(5,504)	(2,856)	192	(8,168)
Gross (loss)/profit	(2,071)	1,057	-	(1,014)
Depreciation	2,194	251	-	2,445
Amortisation	71	-	-	71

For the Year Ended 31 December 2015

	PRC	India	Intercompany	Consolidated
	US$'000	US$'000	US$'000	**US$'000**
Revenue	25,911	4,230	(225)	29,916
Cost of sales	(17,385)	(6,791)	225	(23,951)
Gross profit/(loss)	8,526	(2,561)	-	5,965
Depreciation	5,484	163	-	5,647
Amortisation	75	-	-	75

As at 31 December 2016

	PRC	India	Intercompany	Consolidated
Segment assets	86,613	19,699	(14,167)	92,145
Segment liabilities	9,517	4,096	23,192	36,805
PPE	62,929	16,672	-	79,601
PPE additions	44	274	-	318

As at 31 December 2015

	PRC	India	Intercompany	Consolidated
Segment assets	94,180	19,504	(15,412)	98,272
Segment liabilities	11,492	3,973	17,321	32,786
PPE	68,830	16,132	-	84,962
PPE additions	802	-	-	802

5 LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	2016 US$'000	2015 US$'000
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the annual financial statements	127	127
Fees payable to the Company's auditors for the review of the interim results	15	15
Cost of inventories recognised as expense	1,231	8,163
Staff costs (note 8)	5,294	9,622
Depreciation of property, plant and equipment	2,445	5,647
Operating lease expense (property)	900	627
Amortisation of intangible assets	71	75
Loss on disposal of property, plant and equipment	152	356

6 FINANCE INCOME

	2016 US$'000	2015 US$'000
Bank interest	59	3
Decrease in fair value of warrants (Note 19)	14	-
	73	3

7 FINANCE COSTS

	2016 US$'000	2015 US$'000
Foreign exchange losses	(1,482)	(3,629)
Interest expense on loans	(969)	(612)
	(2,451)	(4,241)

8 STAFF COSTS

	2016 US$'000	2015 US$'000
Staff costs, including directors' remuneration (note 9) comprise:		
Wages and salaries	4,088	7,877
Employer's national social security contributions	1,102	1,564
Other benefits	104	181
	5,294	9,622

9 DIRECTORS' AND KEY MANAGEMENT PERSONNEL REMUNERATION

The remuneration of Directors is set as follows:

Executive directors	Fees and Salaries US$'000	Social Security Contribution US$'000	2016 US$'000	2015 US$'000
Randeep Grewal	600	-	600	600
Lisa He	-	-	-	80
Sub-total	600		600	680
Non-executive directors				
Bryan Smart	52	-	52	59
David Turnbull	49	-	49	56
Richard Day	49	-	49	14
Sean Mulhearn	49	-	49	14
Stewart John	-	-	-	44
Sub-total	199	-	199	187
Total	799		799	867

In 2015, Stewart John and Lisa He retired as Non-executive and Executive Directors respectively.

10 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2016 US$'000	2015 US$'000
Loss for the year	(7,744)	(7,301)
Number of shares	398,245,758	398,245,758
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands)	398,246	398,246
Weighted average number of ordinary shares for the purposes of diluted earnings per share (thousands)	398,246	398,246
Basic and diluted loss per share (US$)	(0.0194)	(0.0184)

There were 56,000,000 warrants outstanding at the end of the year that could potentially dilute basic earnings per share in the future. As the Group is in a loss making position, the potential ordinary shares are anti-dilutive and therefore a diluted loss per share has not been calculated. No additional potentially dilutive instruments have been issued between 31 December 2016 and the date of the approval of these financial statements.

11 TAXATION

	2016 US$'000	2015 US$'000
Current tax charge	(162)	-
Deferred tax credit	1,977	228
Tax credit recognised in the income statement	1,815	228

The reasons for the difference between the actual tax charge for the years and the standard rate of corporation tax in the PRC applied to the loss for the year are as follows:

	2016 US$'000	2015 US$'000
Loss before income tax	(9,559)	(7,529)
Expected tax charge based on the standard rate of corporation tax in the PRC of 25% (2015: 25%)	(2,390)	(1,882)
Effect of:		
Income tax in overseas jurisdictions	575	1,707
Tax losses and other temporary differences not recognised	-	403
Income tax credit	(1,815)	228

Taxation for the Group's operations in the PRC is provided at the applicable current tax rate of 25% on the estimated assessable profits for the year. Taxation for operations in India is taxed at 4.326% of gross revenue.

Refer to note 22 for details of deferred tax and unrecognised tax losses and other deductible temporary differences.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures US$'000	Motor vehicles US$'000	Fixtures, fittings and equipment US$'000	Total US$'000
Cost				
At 1 January 2015	12,483	3,868	107,611	123,962
Additions	664	-	138	802
Disposals			(442)	(442)
Exchange Differences	(719)	(280)	(4,944)	(5,943)
At 31 December 2015	12,428	3,588	102,363	118,379
Additions	-	-	318	318
Disposals	(106)	(62)	(204)	(372)
Exchange differences	(794)	(230)	(5,194)	(6,218)
At 31 December 2016	11,528	3,296	97,283	112,107
Depreciation				
At 1 January 2015	4,155	2,518	24,326	30,999
Charge for the year	1,589	532	3,526	5,647
Eliminated upon disposals	-	-	(86)	(86)
Exchange differences	(237)	(196)	(2,710)	(3,143)
At 31 December 2015	5,507	2,854	25,056	33,417
Charge for the year	885	407	1,153	2,445
Eliminated upon disposals	-	(51)	(169)	(220)
Exchange differences	(352)	(182)	(2,602)	(3,136)
At 31 December 2016	6,040	3,028	23,438	32,506
Net book value				
At 31 December 2016	5,488	268	73,845	79,601
At 31 December 2015	6,921	734	77,307	84,962
At 1 January 2015	8,328	1,350	83,285	92,963

Bank loans of US$3.6 million are secured by properties included in buildings and structures with a carrying amount US$4,855,342 (2015: US$5,851,916).

13 INTANGIBLE ASSETS

	Software US$'000
Cost	
At 1 January 2015	**796**
Additions	**-**
Exchange differences	**(46)**
At 31 December 2015	**750**
Additions	**-**
Exchange differences	**(48)**
At 31 December 2016	**702**
Amortisation	
At 1 January 2015	**304**
Charge for the year	**75**
Exchange differences	**(17)**
At 31 December 2015	**362**
Charge for the year	**71**
Exchange differences	**(23)**
At 31 December 2016	**410**
Net book value	
At 31 December 2016	**292**
At 31 December 2015	**388**
At 1 January 2015	**492**

14 INVENTORIES

	2016 US$'000	2015 US$'000
Raw materials and consumables	5,981	7,138
	5,981	7,138

Details of cost recognised in the consolidated statement of comprehensive incomes in respect of inventories are included in note 5.

15 TRADE AND OTHER RECEIVABLES

	2016 US$'000	2015 US$'000
Trade receivables	1,415	1,190
Prepayments	902	1,103
Other receivables	1,442	1,070
	3,759	3,363

The fair values of trade and other receivables approximate their respective carrying amounts at the end of each reporting period due to their short maturities. There is no allowance for impairment of receivables.

The ageing analysis of trade receivables prepared based on allowed credit terms that are past due but not impaired as of the end of the reporting period is set out below. The debtors are not considered to be impaired given post year end receipts.

	2016 US$'000	2015 US$'000
Less than 60 days past due	1,415	1,190

16. CASH AND BANK BALANCES

	2016 US$'000	2015 US$'000
Cash and cash equivalents	2,135	353
Restricted bank balance*	-	2,068
	2,135	2,421

* The restricted bank balance in 2015 represented deposits placed in financial institutions to secure bills payable of an equivalent amount related to trade payables.

17 TRADE AND OTHER PAYABLES

	2016 US$'000	2015 US$'000
Trade payables	8,557	12,939
Other current liabilities	3,561	2,426
Amounts due to related parties (note 22a)	12,927	9,800
	25,045	25,165

Trade and other payables are expected to be settled within one year. The fair values approximate their respective carrying amounts at the end of each reporting period due to their short maturities.

18 LOANS AND BORROWINGS

	2016 US$'000	2015 US$'000
Current liabilities		
Bank loans (1)	3,604	5,852
Non-current liabilities		
Promissory notes (2)	7,298	-
Total loans and borrowings	10,902	5,852

(1) Bank loans

The banks loans are all secured. The detailed information regarding loan maturity dates and interest rates are below:

Bank name	Balance as at Dec 31,2016		Expiry Date	Balance as at Dec 31,2015		Expiry Date
	Interest rate	USD		Interest rate	USD	
CITIC Bank	6.600%	1,729,854	11-May-2017	7.000%	2,771,960	29-Apr-2016
SPD Bank	6.960%	1,874,009	17-Jan-2017	7.280%	3,079,956	8-Jan-2016
Total		**3,603,863**			**5,851,916**	

Loan due to SPD Bank has been renewed post year end.

(2) Promissory notes

During the year, Greka Drilling Limited secured US$5 million and US$3 million in loan financing from Guaranty Finance Investors LLC ("GFI"). The promissory notes are repayable on 30 March 2019 and 30 September 2019 respectively. The notes bear an interest of 7% per annum and are unsecured. On initial recognition, financing costs of US$872,000 were deducted from the promissory notes balance as detailed in note 19.

19 DERIVATIVE FINANCIAL LIABILITY

	2016 US$'000	2015 US$'000
Derivative financial liability	**858**	**-**

During the year ended 31 December 2016, 35,000,000 and 21,000,000 warrants, at a subscription price of 5 pence per share, were granted to Guaranty Finance Investors LLC as part of the financing agreements entered into in March 2016 and September 2016 respectively. The warrants have an exercise period of 2 years from 1 April 2017 to 31 March 2019 and 30 September 2017 to 30 September 2019 respectively.

The fair values on the grant date and reporting date were determined using the Black Scholes Model. The fair value was based on the following assumptions:

Share price	0.035
Expected volatility	83%
Option life	2
Expected dividends	0
Risk free rate	0.18%

The fair value of the 35,000,000 and 21,000,000 warrants on the grant date was US$605,000 and US$267,000 respectively. On initial recognition the warrants' cost was deducted from the promissory notes balance as it represents the cost of obtaining the financing. Subsequent changes in the fair value of the warrants are recognised through profit or loss. The warrants were valued at US$858,000 at year end with the change of fair value of US$14,000 recognised through profit or loss (note 6).

20. PROVISIONS

	2016 US$'000	2015 US$'000
Opening balance at 1 January	585	-
Provision in the year	-	585
Payments	(585)	-
Closing balance at 31 December	-	585

Provisions for last year related to a lawsuit initiated against the Group by a contractor in China. The lawsuit was settled and paid in April 2016.

21 SUBSIDIARIES

The principal subsidiaries of the Company as at 31 December 2016, all of which have been included in the consolidated financial statements, are as follows:

Name	Country of Incorporation	Percentage of ownership Direct	Percentage of ownership Indirect	Principal activities
Greka (Zhengzhou) Technical Service Co. Ltd	People's Republic of China	-	100%	Drilling and related services
Greka Technical Service Limited	British Virgin Islands	100%	-	Investment holding
Pace Mitchell Drilling Co Ltd	British Virgin Islands	-	50%*	Investment holding
Greka Drilling India Ltd	British Virgin Islands	100%	-	Provision of drilling services
Greka (Zhengzhou) Drilling Technical Consult Service Co Ltd	People's Republic of China	-	100%	Provision of drilling services

* Notwithstanding the ownership interest of 50%, the Company controls the financial and operating policies of this company. Therefore, the Company is considered to be a subsidiary of the Group.

22 DEFERRED TAXATION

The following table summarises the movement in the deferred tax balance:

	2016 US$'000	2015 US$'000
Opening balance at 1 January	1,184	1,369
Tax losses recognised	(3,372)	(1,441)
Temporary difference change	1,395	1,256
Foreign exchange adjustment	416	-
Closing balance at 31 December	(377)	1,184

Operations in the PRC have recorded taxable losses during the year. Deferred tax assets have been recognised in respect of all tax losses giving rise to deferred tax assets where the directors believe it is probable that the assets will be recovered. The deferred tax asset on these taxable losses has been offset against the deferred tax liability arising on the difference in the tax base and net book value of the Group's drilling assets as they are depreciated on a unit of production basis.

A deferred tax asset of US$337,000 has been recognised (2015: deferred tax liabilities of US$1,184,000). There are no other sources of deferred tax assets or liabilities. The Group has not offset deferred tax assets and liabilities across different jurisdictions. Unrecognized Cayman Island losses of US$2,120,554 (2015: US$2,618,000) do not expire under current tax legislation. Recognized PRC tax losses of US$3,371,620 (2015: $1,467,750) expire after 5 years.

23 SHARE CAPITAL

	Authorised		Issued and fully paid	
	No. of shares	US$	No. of shares	US$
At 31 December 2015 and 2016	5,000,000,000	50,000	398,245,758	3,982

The shares have a par value of US$0.00001

24 RELATED PARTY TRANSACTIONS

(a) Amounts due from/to related parties and corresponding transactions

The related parties of the Group include companies that are subsidiaries of Green Dragon Gas Ltd, Greka Engineering and Technology Limited and Henan Greka Weino Alcohol Trading Limited. All the related parties are under common management and control of Mr. Randeep Grewal.

As at 31 December 2016, the Group had the following balances due to/from companies under common control of Mr. Randeep Grewal.

- Net payable to the Green Dragon Gas group of US$12.7m (2015: US$9.6m), which represents prepayments on drilling services to be provided.
- Net payable to the Greka Engineering and Technology group of US$206,940 (2015: US$180,000)

These balances are unsecured, interest-free and repayable on demand and represent receivables/payables for drilling and pre-well services.

Related party transactions during the year comprise of

- Drilling services provided to the Green Dragon Gas group of US$2,574,000 (2015: US$23,912,000)
- Leasing income from the Green Dragon Gas group of US$507,000 (2015: US$651,000), Greka Engineering and Technology group of US$130,000 (2015: US$52,000) and from Henan Greka Weino Alcohol Trading Limited of US$2,000 (2015: US$2,000)
- Electricity provided from Greka Engineering and Technology group of US$56,000 (2015: US$123,000)

The lease term was 1 year from 1 January 2016 to 31 December 2016 and 1 January 2015 to 31 December 2015 respectively.

25 RELATED PARTY TRANSACTIONS (continued)

(b) Subsidiary companies

Transactions and balances among the Company and its subsidiaries have been eliminated on combination and consolidation and are not disclosed in the consolidated financial statements.

(c) Key management personnel

Other than the Directors' remuneration disclosed in note 9 to the consolidated financial statements, there were no other transactions with key management personnel during the years ended 31 December 2016 and 2015.

26 OPERATING LEASES

At the end of the reporting period, the Group had commitments, as lessee, for future minimum lease payments under a non-cancellable operating lease in respect of land and buildings which fall due as follows:

	2016 US$'000	2015 US$'000
No later than 1 year	54	27
Later than 1 year and no later than 5 years	13	12
	67	39

At the end of the reporting period, the Group had the right to the following minimum lease payments, as a lessor, under operating leases in respect of equipment, vehicle and land and buildings as a lessor

	2016 US$'000	2015 US$'000
No later than 1 year	562	723
	562	723

27 CAPITAL COMMITMENTS

	2016 US$'000	2015 US$'000
Capital expenditure contracted but not provided for in respect of		
Acquisition of property, plant and equipment	1,224	1,239
	1,224	1,239

28 FINANCIAL INSTRUMENTS

	2016 US$'000	2015 US$'000
Financial assets		
Loans and receivables:		
Cash and bank balances	2,135	2,421
Trade and other receivables	2,546	2,260
Amounts due from related parties	-	-
	4,681	4,681
Financial liabilities		
At amortised cost:		
Trade and other payables	11,071	15,950
Amounts due to related parties	12,927	9,800
Loans and borrowings	10,902	5,852
	34,900	31,602
At fair value through profit or loss:		
Derivative financial liability	858	-
	35,758	31,602

(a) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has not entered into any cash flow interest rate hedging contracts or any other derivative financial instruments for hedging purposes. However, management closely monitors the Group's exposure to future cash flow as a result of changes in market interest rates, and will consider hedging such changes should the need arise.

The interest rate profile of the Group's financial assets at the end of each reporting periods was as follows:

	2016 US$'000	2015 US$'000
Cash and cash equivalents		
US dollars (Floating rate)	1,224	111
HK dollars (Floating rate)	-	-
RMB (Floating rate)	418	2,239
Rupee (Floating rate)	493	71
Other financial assets		
RMB (Non-interest bearing)	458	1,604
US dollars (Non-interest bearing)	-	144
Rupee (Non-interest bearing)	2,088	512
	4,681	4,681

The weighted average interest rate earned was 0.10% p.a. for the year (2015: 0.10% p.a.) on floating rate US dollar cash balances, and 0.35% p.a. (2015: 0.35% p.a.) on floating rate RMB balances.

28 FINANCIAL INSTRUMENTS (continued)

(a) Interest rate risk (continued)

The interest rate profile of the Group's financial liabilities at the end of the reporting period was as follows:

	2016 US$'000	2015 US$'000
Bank loans		
RMB (Fixed rate)	3,604	5,852
Promissory notes		
US dollars (Fixed rate)	7,298	-
Other financial liabilities		
US dollars (Non-interest bearing)	2,108	1,680
RMB (Non-interest bearing)	18,841	20,097
Rupee (Non-interest bearing)	3,049	3,973
	34,900	31,602

The weighted average interest rate bank loans for the year was 6.86% p.a. (2015: 7.15% p.a.). If all interest rates had been 50 basis points higher, with all other variables held constant, post-tax profit and equity would have been US$151,000 lower.

b) Foreign currency risk

The Group's active subsidiaries undertake transactions principally in RMB and Rupee. While the Group continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risks. The Directors consider the foreign currency exposure to be limited.

	In RMB US$'000	In Rupee US$'000
As at 31 December 2016		
Financial assets		
Cash and cash equivalents	418	493
Trade and other receivables	458	2,088
Amount due from related parties	-	-
	876	2,581
Financial liabilities		
Trade and other payables	5,914	3,049
Loans and borrowings	3,604	-
Amount due to related parties	12,927	-
	22,445	3,049

28 FINANCIAL INSTRUMENTS (continued)

b) Foreign currency risk (continued)

	In RMB US$'000	In Rupee US$'000
As at 31 December 2015		
Financial assets		
Cash and cash equivalents	2,239	71
Trade and other receivables	785	512
Amount due from related parties	-	-
	3,024	583
Financial liabilities		
Trade and other payables	10,297	3,973
Loans and borrowings	5,852	
Amount due to related parties	9,800	-
	25,949	3,973

A 5% (2015: 5%) increase or decrease in the US dollar/RMB exchange rate would result in reported profit and net assets for the year US$409,000 (2015: US$241,000) higher or lower respectively.

(c) Liquidity risk

The liquidity risk of each group entity is managed centrally by the group treasury function. The investment budgets and work plans are set by the operating teams in the PRC and agreed by the board annually in advance, enabling the Group's cash requirements to be anticipated. Where facilities of group entities need to be increased, approval must be sought from the board.

All surplus cash is held centrally to maximise the returns on deposits through economies of scale while required cash will be remitted to the PRC based on a monthly cash-call basis.

28 FINANCIAL INSTRUMENTS (continued)

The maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted payments is summarised below:

	Six months or less US$'000	Six months to one year US$'000	More than one year US$'000	Undiscounted payments US$'000 (note i)	Carrying value US$'000 (note iii)
At 31 December 2016					
Trade and other payables and other current liabilities	7,074	3,997	-	11,071	11,071
Amounts due to related parties	12,927	-	-	12,927	12,927
Loans and borrowings	3,604	-	7,298	10,902	10,902
	23,605	3,997	7,298	10,902	34,900
At 31 December 2015					
Trade and other payables and other current liabilities	12,570	3,380	-	15,950	15,950
Amounts due to related parties	9,800	-	-	9,800	9,800
Loans and borrowings	5,852	-	-	5,852	5,852
	28,222	3,380	-	31,602	31,602

Notes:

(i) Undiscounted payments are drawn up based on the earliest date on which the Group can be required to pay. They include both principal and interest cash outflows.

(ii) Adjustments in relation to the bank loans represent the possible future interest payment based on the effective interest rate prevailing at the reporting date.

(iii) Carrying value represents the balance at the reporting date shown on the consolidated statement of financial position.

28 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk

The Group's credit risk is primarily attributable to its cash and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, the Group has adopted a credit policy to monitor and mitigate credit risk arising from trade and other receivables. The credit assessment focus on the customer's past due record, trading history and financial condition.

The Group does not hold any collateral as security and the Group does not hold any significant provision in the impairment account for trade and other receivables as they mainly relate to receivables with no default history.

The Group's cash balance is held with large reputable banks and management monitors the spread of funds and any credit risk regularly.

(e) Capital risk management

The Company considers its capital to comprise its ordinary share capital, share premium and retained earnings as well as the invested capital reserve.

The Group's objectives when managing capital are to ensure the ability of the entities in the Group to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain the capital structure, the Group considers the macro-economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generated from operations and may adjust the amount of dividends paid or payable to shareholders, raise funding through capital markets or seek additional borrowings as necessary. No changes were made to the objectives or policies during the years ended 31 December 2016 and 2015.

(f) Fair value

The fair values of the Group's financial assets and liabilities are considered equal to the book value.

The Group measures the fair value of its financial assets and liabilities in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Warrant instruments measured at fair value through the profit or loss have been deemed to be Level 2 liabilities under the fair value hierarchy. The valuation methodology and inputs are described in note 19.

29 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on April 27th, 2017

DIRECTORS, COMPANY SECRETARY AND ADVISERS

DIRECTORS

Randeep S. Grewal
Executive Director, Chairman and CEO

Richard Day
Non-Executive Director

David Turnbull
Non-Executive Director

Sean Mulhearn
Non-Executive Director

Bryan Smart
Non-Executive Director

REGISTERED OFFICE

PO Box 472
Harbour Place 2nd Floor
103 South Church Street
George Town
Grand Cayman KY1-1106
Cayman Islands

Principal Corporate Office
29th Floor, Landmark Plaza,
No.1 Business Outer Ring Road,
Business District,
Henan Province,
Zhengzhou, 450000, PRC

Share Registrar
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

COMPANY SECRETARY

International Corporation Services Ltd

NOMINATED ADVISER

Smith & Williamson Corporate Finance Limited
25 Moorgate
London EC2R 6AY

AUDITORS

BDO LLP
55 Baker Street
London W1U 7EU

LEGAL ADVISERS

As to Chinese Law
Guantao Law Firm
17/F, Tower 2,
Yingtai Centre, NO. 28
Finance Street, Lichen District
Beijing 100140, PRC

As to Cayman Islands & BVI Law
Thorp Alberga
2606 The Centrium
60 Wyndham Street
Central, Hong Kong