



Interim Results

June 2012



HIGHLIGHTS

Greka Drilling Limited (AIM: GDL), the largest independent and specialized unconventional gas driller in China is pleased to announce its unaudited interim results for the half year ended 30 June 2012.

FINANCIAL HIGHLIGHTS

- Revenue increased to US\$28.3m in H1 2012, compared with US\$17.1m in the same period of 2011, a 65.5% increase over the same period last year
- US\$0.7m net profit in H1 2012, compared with US\$0.4m net profit in the same period last year, a 75% increase
- US\$0.002 earnings per share in H1 2012; unchanged from the same period last year
- Capital Expenditure increased to US\$89.9m for H1 2012 versus US\$43.2m to December 2011 (US\$17.6m for H1 2011)
- Raised US\$21.2m in working capital from loans
- US\$7.3m cash in hand at 30 June 2012

OPERATIONAL HIGHLIGHTS

- 57,997 meters drilled in H1 2012 compared with 26,435 meters drilled in the same period last year, an increase of 119% year-on-year
- LiFaBriC wells averaged 3,897 total meters in H1 2012 compared with 3,691 total meters during the same period year-on-year (H1 2011)
- The longest LiFaBriC lateral section was 5,454 meters in H1 2012 (5,297 meters in H1 2011), a 3% increase
- The longest measured depth (“MD”) of a single LiFaBriC section, surface to intersect, was 1,809 meters in H1 2012 (1,668 meters in H1 2011), an 8% increase
- The longest total vertical depth (“TVD”) of a single vertical well was 1,414 meters in H1 2012 (1,233 meters in H1 2011), a 15% increase

CORPORATE HIGHLIGHTS

- All new rigs have now arrived at our Shanxi Base Camp as planned, increasing the fleet from 7 rigs to 32 rigs, with ISO 9001 certification on all 25 new GD75 rigs being attained
- The Company has completed the commissioning and integration of what is currently the single largest fleet of Electromagnetic MWD (Measurement While Drilling) tools available within the People’s Republic of China (“PRC”)
- The first of the new fleet of rigs was fitted with equipment that allowed the rig to be monitored remotely via the Supervised Control and Data Acquisition system (“SCADA”) from a centralized Zhengzhou control facility. This control system will be added to all the other rigs in the fleet
- Company personnel increased to 715 at end of H1 2012 versus 520 in December 2011 (325 at end of H1 2011)
- 639 personnel received internal training for a total of 73,684 man hours in H1 2012
- In line with improving overall efficiency and reacting to operational events, the Operational Control Centre (“OOC”) saw the creation of positions for both Well Planning/Modeling and Production Planning Engineers. These positions give a 24/7 coverage of our operations, providing decisions into the field within 1-2 hours up to 8 hours
- Construction of the Shanxi Base Camp was completed in H1 2012 with a total resident headcount of over 450 personnel
- The Company website provides photographs of the site which is a first of its kind in China

OUTLOOK

- Drilling meterage expected to accelerate substantially in second half of this year
- Maintain technological lead in unconventional gas drilling
- Committing to third party drilling contracts
- Establishing Singapore as the regional headquarters
- Evaluating expansion beyond China

CHAIRMAN'S STATEMENT



I am delighted to report that we have grown the business on time and within plan. In this half year we have completed our first phase of rig fleet growth by adding the 25 specialized rigs. The first phase involved the design, construction and commissioning of a fleet of 25 rigs. These rigs, purpose built for unconventional gas drilling, were co-designed with the manufacturer, made in Italy and are the first of its kind imported in to China and have all been successfully commissioned. The single rig type provides a wide range of benefits within our daily operations such as a single rig skilled workforce and common spare parts to name a couple.

This entire business plan was conceived and executed within a year, a material milestone for a young company. This timely execution provides a credible insight into our capabilities.

The Company, which prides itself in many technological firsts within our niche, believes it has one of the largest

directional drilling teams in China of any independent. In coping with the geological difficulties that exist in unconventional gas production, the Company looks forward to providing our customers with the necessary skill sets to enable successful unconventional gas drilling. The number of interested clients within China and other Asian countries is an indication of the demand for such skilled expertise.

Today the Company is drilling at greater depths and successfully geo-steer more precisely farther. The directional wells are reaching a measured depth of 1,800 meters while the vertical wells targeting unconventional gas reservoirs at depths over 1,400 meters. A clear demonstration of the continued capability expansion meeting the customers demand to explore farther.

In addition to the significant increase in operations, the management team was concurrently expanded. The current management includes career veterans from Haliburton and Weatherford and bring with them the skill



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2012 US\$'000 Unaudited	Six months ended 30 June 2011 US\$'000 Unaudited	Year ended 31 December 2011 US\$'000 Audited
Revenue	3	28,255	17,076	43,834
Cost of sales	3	(21,986)	(14,099)	(34,235)
Gross profit		6,269	2,977	9,599
Foreign exchange (losses)/gains		(183)	117	671
Other administrative expenses		(4,100)	(2,027)	(5,581)
Total administrative expenses		(4,283)	(1,910)	(4,910)
(Loss)/profit from operations		1,986	1,067	4,689
Finance income	4	4	5	12
Finance costs	5	(631)	(50)	(85)
(Loss)/profit before income tax		1,359	1,022	4,616
Income tax	6	(689)	(617)	(1,812)
(Loss)/profit for the year from continuing operations		670	405	2,804
Other comprehensive income:				
Exchange differences on translation foreign operations		68	524	825
Total comprehensive (loss)/income for the year		738	929	3,629
(Loss)/profit for the year attributable to:				
— Owners of the company		670	736	2,790
— Non-controlling interests		—	(331)	14
		670	405	2,804
Total comprehensive (loss)/income attributable to:				
— Owners of the company		738	1,269	3,627
— Non-controlling interests		—	(340)	2
		738	929	3,629
Basic and diluted (Loss)/profit per share attributable to equity holders of the parent (US\$)	7	0.002	0.002	0.007

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2012 US\$'000 Unaudited	As at 30 June 2011 US\$'000 Unaudited	As at 31 December 2011 US\$'000 Audited
Assets				
Non-current assets				
Property, plant and equipment	8	89,924	17,595	43,219
Intangible assets		595	181	524
Deferred tax asset	9	—	241	—
		90,519	18,017	43,743
Current assets				
Inventories	10	11,159	5,963	9,155
Trade and other receivables	11	14,045	20,238	28,930
Cash and cash equivalents		7,290	38,545	6,559
		32,494	64,746	44,644
Total assets		123,013	82,763	88,387
Liabilities				
Current liabilities				
Trade and other payables	12	17,065	5,592	8,994
Loans and borrowings	13	10,672	1,514	1,984
Notes payable	14	2,617	—	—
Current tax liabilities		580	1,231	283
		30,934	8,337	11,261
Non-current liabilities				
Long term payable	15	1,284	—	—
Working facility	16	12,931	—	—
		14,215	—	—
Total net assets		77,864	74,426	77,126
Capital and reserves				
Share capital		4	—	4
Capital reserve		77,186	77,190	77,186
Merge reserve		(1,533)	(1,533)	(1,533)
Reserve fund		595	102	595
Foreign exchange reserve		1,667	1,052	1,599
Retained earnings		334	259	(336)
Total equity attributable to equity holders of the parent		78,253	77,070	77,515
Non-controlling interests		(389)	(2,644)	(389)
		77,864	74,426	77,126

CONDENSED 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 US\$'000	Equity attributable to owners of the Company US\$'000	Non- controlling interests US\$'000	Total US\$'000
At 31 December 2010	—	—	(1,533)	102	519	(477)	(1,389)	(2,304)	(3,693)
Total comprehensive income for the period	—	—	—	—	533	736	1,269	(340)	929
New issue of ordinary shares	4	49,996	—	—	—	—	50,000	—	50,000
Capital contribution	—	27,190	—	—	—	—	27,190	—	27,190
At 30 June 2011	4	77,186	(1,533)	102	1,052	259	77,070	(2,644)	74,426
Profit for the year	—	—	—	—	—	2,054	2,054	354	2,408
Other comprehensive income:									
— Exchange difference on translation of foreign operations	—	—	—	—	304	—	304	(12)	292
Total comprehensive income for the year	—	—	—	—	304	2,054	2,358	342	2,700
Adjustments arising upon acquisition of additional interests in subsidiaries	—	—	—	—	243	(2,156)	(1,913)	1,913	—
Transfer of reserve fund	—	—	—	493	—	(493)	—	—	—
At 31 December 2011	4	77,186	(1,533)	595	1,599	(336)	77,515	(389)	77,126
Profit for the year	—	—	—	—	—	670	670	—	670
Other comprehensive income:									
— Exchange difference on translation of foreign operations	—	—	—	—	68	—	68	—	68
Total comprehensive income for the year	—	—	—	—	68	670	738	—	738
At 30 June 2012	4	77,186	(1,533)	595	1,667	334	78,253	(389)	77,864

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Year ended 30 June 2012 US\$'000 Unaudited	Year ended 30 June 2011 US\$'000 Unaudited	Year ended 31 December 2011 US\$'000 Audited
Operating activities:			
(Loss)/profit before income tax	1,359	1,022	4,616
Adjustments for:			
Depreciation	3,533	1,383	2,941
Amortization of other intangible assets	32	11	37
Loss on disposal of property, plant and equipment	—	—	10
Finance income	(4)	(5)	(12)
Finance costs	631	50	85
Cash flows before changes in working capital	5,551	2,461	7,677
Increase in inventories	(2,039)	(1,609)	(4,801)
Increase in accounts receivable	(6,036)		
Increase in other receivables	20,979	5,319	(3,396)
Increase in trade and other payables	11,989	(21,728)	(18,783)
Cash generated from operations	30,444	(15,557)	(19,303)
Income tax payment	(387)	(617)	(1,976)
Net cash from operating activities	30,057	(16,174)	(21,279)
Investing activities:			
Payments for purchase of property, plant and equipment	(50,392)	(2,165)	(28,671)
Payments for intangible assets	(105)	(12)	(363)
Cash acquired with subsidiary undertaking	—	—	16
Interest received	4	5	12
Net cash used in investing activities	(50,493)	(2,172)	(29,006)
Financing activities			
Proceeds from the issue of share capital	(0)	50,000	50,000
Proceeds of loan	21,196	—	1,984
Repayment of short term loan	—	—	(1,555)
Finance costs paid	(158)	(50)	(85)
Net cash (used in)/from financing activities	21,038	49,950	50,344
Net (decrease)/increase in cash and cash equivalents	602	31,604	59
Cash and cash equivalents at the beginning of the year	6,559	6,383	6,383
	7,161	37,987	6,442
Effect of foreign exchange rate changes	129	558	117
Cash and cash equivalents at end of year	7,290	38,545	6,559

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The consolidated unaudited interim financial information set out in this report is based on the consolidated financial statements of Greka Drilling and its subsidiary companies (together referred to as the “Group”). The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board except for IAS 34. The financial statements of the Group for the 6 months ended 30 June 2012 were approved and authorized for issue by the Audit Committee and the Board on 31 August 2012.

2. ACCOUNTING POLICIES

The condensed financial information for the six months ended 30 June 2012 and 30 June 2011 is unaudited and does not constitute the Group’s statutory financial statements for those periods. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRSs as adopted by the European Union.

Basis of preparation

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed financial statements.

The financial information is presented in United States dollars and all values are rounded to the nearest thousand dollars (US\$’000) except when otherwise indicated.

International Financial Reporting Standards as adopted by the European Union (“IFRSs”) do not provide for the preparation of combined financial information and accordingly in preparing the combined financial information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departures from IFRSs. In other respects IFRSs have been applied.

The combined financial information has been prepared by aggregating the assets, liabilities, results share capital and reserves of the relevant entities, after eliminating intercompany transactions, balances and unrealized gains on transactions between the combined entities. Consequently it is not meaningful for the Company to present share capital. Instead “Capital reserve” is presented which represents the aggregated share capital and share premiums and capital reserves of the companies making up the Group.

The combined financial information has been prepared in accordance with the requirements of the AIM Rules for Companies and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared in accordance with IFRSs except as described above.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

Except as described above, the financial information has been prepared in accordance with IFRSs as adopted by the European Union, that are effective for accounting periods beginning on or after 1 January 2012. The principal accounting policies adopted in the preparation of the financial information are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial information in conformity with IFRSs 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 financial information are disclosed in note 2 to the financial information. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

3. REVENUE AND SEGMENTAL INFORMATION

The Group has one reportable segment as set out below. The operating results are regularly reviewed by the Group's chief operating decision-makers ("CODMs") that are used to make strategic decisions.

Drilling services revenue represents the net invoiced value of contract drilling services provided to one customer. The amounts of each significant category of revenue recognized during the periods ended 30 June 2012, 31 December 2011 and 30 June 2011 are as follows:

	Six months ended 30 June 2012 US\$'000 Unaudited	Six months ended 30 June 2011 US\$'000 Unaudited	Year ended 31 December 2011 US\$'000 Audited
Segment revenue	28,255	17,076	43,834
Cost of sales	(21,986)	(14,099)	(34,235)
Gross profit	6,269	2,977	9,599

4. FINANCE INCOME

	Six months ended 30 June 2012 US\$'000 Unaudited	Six months ended 30 June 2011 US\$'000 Unaudited	Year ended 31 December 2011 US\$'000 Audited
Bank interest	4	5	12

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

5. FINANCE COSTS

	Six months ended 30 June 2012 US\$'000 Unaudited	Six months ended 30 June 2011 US\$'000 Unaudited	Year ended 31 December 2011 US\$'000 Audited
Interest expense on short term loans	198	50	85
Interest expense on loans from GDG	433	—	—
	631	50	85

6. TAXATION

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 period.

	Six months ended 30 June 2012 US\$'000 Unaudited	Six months ended 30 June 2011 US\$'000 Unaudited	Year ended 31 December 2011 US\$'000 Audited
Current tax			
Charges for current period	610	328	1,812
Under provision in prior year	79	289	—
Deferred tax	—	—	—
(Credit)/charge for the period	—	—	—
Total tax (credit)/charge	689	617	1,812

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

6. TAXATION (continued)

The reasons for the difference between the actual tax charge for the periods and the standard rate of corporation tax in the Cayman Islands applied to the (loss)/profit for the periods are as follows:

	Six months ended 30 June 2012 US\$'000 Unaudited	Six months ended 30 June 2011 US\$'000 Unaudited	Year ended 31 December 2011 US\$'000 Audited
(Loss)/profit before income tax	1,359	1,022	4,616
Expected tax charge based on the standard rate of corporation tax in the Cayman Islands of 0%	—	—	—
Effect of:			
Different tax rates applied in overseas jurisdictions	340	256	1,154
Tax effect of revenue not taxable for tax purposes	—	(21)	(71)
Tax effect of expenses not deductible for tax purposes	270	93	56
Tax losses not recognized	—	—	574
Under/(over) provision in respect of prior year	79	289	99
Income tax (credit)/charge	689	617	1,812

7. EARNINGS PER SHARE

	Six months ended 30 June 2012 US\$'000 Unaudited	Six months ended 30 June 2011 US\$'000 Unaudited	Year ended 31 December 2011 US\$'000 Audited
Earnings for the purpose of basic (loss)/profit per share	670	736	2,790
Weighted average number of ordinary shares	398,245,758	398,245,758	398,245,758

Basic earnings per share is based on the profit for the period US\$670,649 (first half 2011: profit for the period, US\$405,000) and the weighted average number of 398,245,758 ordinary shares in issue during each period.

In accordance with IAS 33 the weighted average number of shares for prior periods has been adjusted as if the Group reconstruction occurred at 1 January 2010.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately US\$51,661,809 on additions to plant and equipment (30 June 2011 — US\$2,165,663, 31 December 2011 — US\$29,704,086).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

9. DEFERRED TAXATION

	As at 30 June 2012 US\$'000 Unaudited	As at 30 June 2011 US\$'000 Unaudited	As at 31 December 2011 US\$'000 Audited
Deferred tax assets at the beginning of the year	—	—	301
Additional temporary differences	—	241	—
Reversal of temporary differences	—	—	(301)
At the end of the period	—	241	—

There were no unrecognized deferred tax assets or liabilities in the period.

10. INVENTORIES

	As at 30 June 2012 US\$'000 Unaudited	As at 30 June 2011 US\$'000 Unaudited	As at 31 December 2011 US\$'000 Audited
Raw materials and consumables	11,046	5,963	9,122
Work-in-progress	113	—	33
	11,159	5,963	9,155

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2012 US\$'000 Unaudited	As at 30 June 2011 US\$'000 Unaudited	As at 31 December 2011 US\$'000 Audited
Trade receivables from related parties	9,031	7,506	2,975
Prepayments	4,590	12,490	25,755
Other receivables	424	242	200
	14,045	20,238	28,930

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

12. TRADE AND OTHER PAYABLES

	As at 30 June 2012 US\$'000 Unaudited	As at 30 June 2011 US\$'000 Unaudited	As at 31 December 2011 US\$'000 Audited
Trade payables	14,954	4,844	8,015
Other payables	2,111	748	979
Amount due to related parties	—	—	—
	17,065	5,592	8,994

13. LOANS AND BORROWINGS

	As at 30 June 2012 US\$'000 Unaudited	As at 30 June 2011 US\$'000 Unaudited	As at 31 December 2011 US\$'000 Audited
Bank loans — secured	10,672	1,514	1,984

Bank loans breakdown for 2012 as below:

Loan bank	Period	Amount US\$'000	Interest rate	Repayment date	Mortgage
Loan A	One year	1,976	7.54%	8-Dec-12	Building
Loan B	One year	2,372	7.54%	14-Mar-13	Building
Loan C	6 months	3,162	7.54%	24-Nov-12	5 rigs
Loan D	6 months	3,162	7.3%	10-Dec-12	5 rigs
Total		10,672			

14. NOTES PAYABLE

The company issued US\$2,617,252 of seven pages 6-months period of bank notes to suppliers for purchasing drilling equipment with same money security.

15. LONG TERM PAYABLE

US\$ 1,284,440 has been recorded into long term payable, it belongs to the warranty to DRILLMEC for the over 1-year term's rig purchasing.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

16. WORKING FACILITIES

On 27 January 2012, GDL borrowed US\$ 12,500,000 working facility loan with two years' period and 8% yearly interest rate from Greka China Limited under the agreement signed on 11 February 2011.

17. RELATED PARTY TRANSACTIONS

Save as disclosed in notes 11, 12 and 16, there were no other related party transactions that are required to be disclosed. Transactions between the Company and its subsidiary undertakings which are related parties, have been eliminated on consolidation and are not disclosed in this note.