# ANNUAL REPORT **2013**

GREKA DRILLING

# CONTENTS


| | |
|---|---|
| VISION | 4 |
| QUALIFICATION | 6 |
| EXPANSION | 7 |
| HIGHLIGHTS | 8 |
| CHAIRMAN'S STATEMENT | 10 |
| BUSINESS REVIEW | 12 |
| FINANCIAL REVIEW | 16 |
| BOARD OF DIRECTORS | 17 |
| DIRECTORS' REPORT | 19 |
| STATEMENT OF DIRECTORS' RESPONSIBILITIES | 23 |
| INDEPENDENT AUDITORS' REPORT | 24 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 25 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 26 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 27 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 28 |
| NOTES FORMING PART OF THE FINANCIAL STATEMENTS | 29 |
| DIRECTORS, COMPANY SECRETARY AND ADVISERS | 60 |


REKA

# VISION

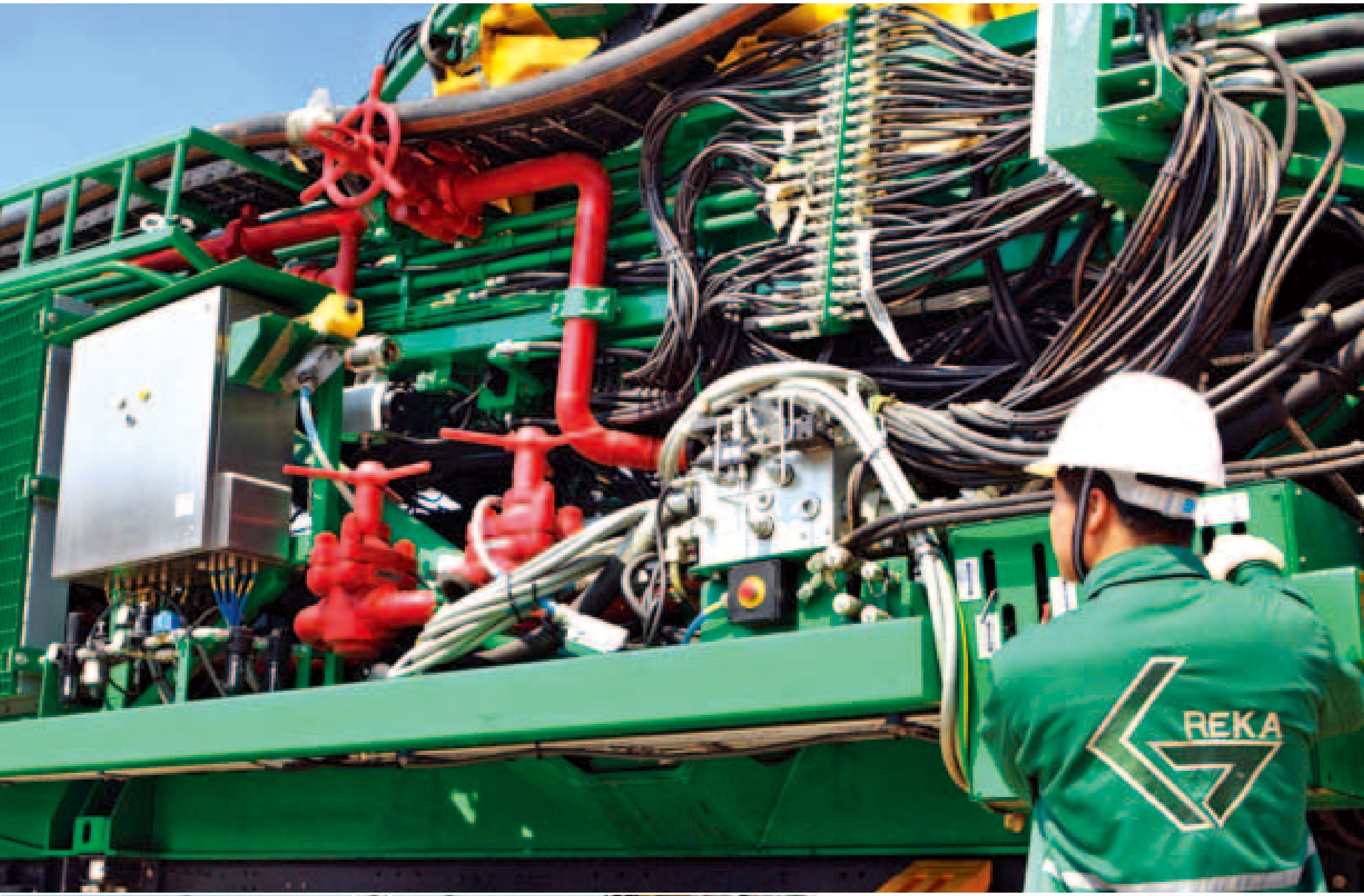
GREKA DRILLING is the largest independent and specialized unconventional oil & gas driller in Asia.

We are your comprehensive technical partner to an environmentally progressive technically advanced and economically viable production complemented by state of the art drilling rigs.

Our vision is to be recognized globally as the market leader for the provision of drilling services in unconventional oil & gas and be the technical partner to our customers and help grow their production. We intend to achieve our vision by utilising our 22 years of niche experience while continually enhancing this technologically.

Our proprietary LiFaBriC drilling technology delivers production requiring fewer sites and without damaging chemicals or Fracking.

Greka Drilling continues to work on improving quality assurance and safety at our rig sites to ensure you have the best opportunity to get the optimal production from your Hydro-Carbon Reserve.


REKA

# QUALIFICATION

We make sure everything on our sites is safe, documented and supported by quality checks.

Ensuring safe and optimal operations with the best equipment operated by the right people.


## BEST-IN-CLASS TEAMS

To ensure consistency our in-house training school ensures crews receive comprehensive training

## QUALITY ASSURANCE DOCUMENTS

- Drilling Standard Operation Procedures Index
- Directional Standard Operation Procedures Index
- Material Safety Data Sheet Index
- Operations Forms Index
- Technical Alert Index

## POLICY DOCUMENTS

- Health Safely Environment Policy and Rules

# EXPANSION

2013 is a very exciting year for Greka Drilling. We have successfully developed the LiFaBriC technology.

We have added new state-of-the-art automated rigs to our fleet and with the growing demand for our LiFaBriC wells we continue to expand domestically and now internationally to India by H2/2014.

Drilling programs evolve as more successful methods are found. LiFaBriC Drilling technology proves its results with a longer productive Well Life and being able to deal with the complex drilling conditions common in China. We will leverage the success in China to India and SE Asia.

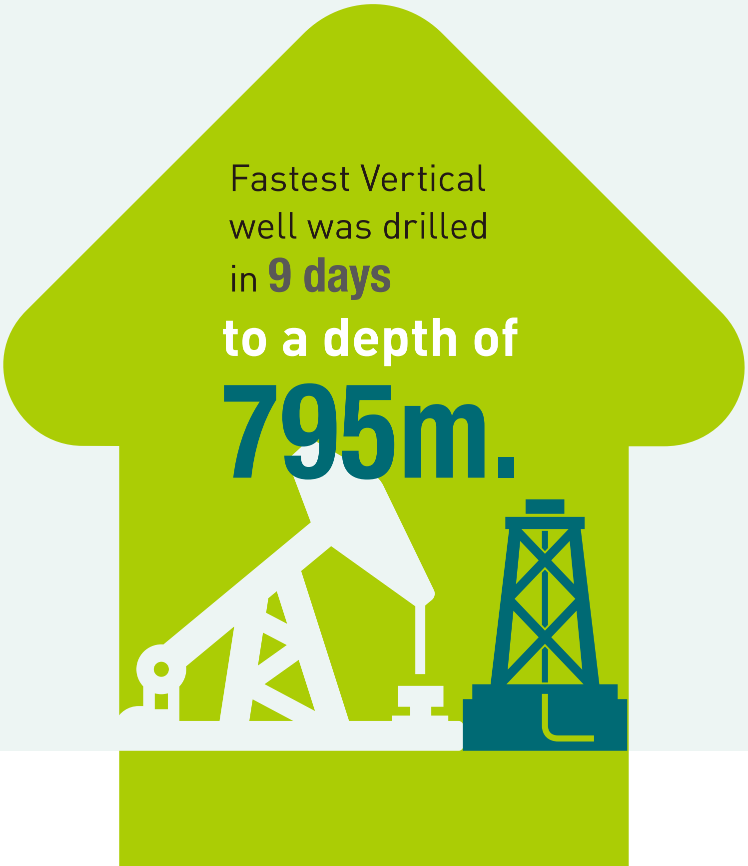
Greka Drilling has been expanding their field of operations to include India in H2/2014.

# HIGHLIGHTS



## *OPERATIONAL HIGHLIGHTS*

- 7 contracted counterparties: Green Dragon Gas, CNPC Huabei, CNPC Jincheng, Petroking, Sinopec(Bofa), ESSAR and Guangdong Bureau of Coal Geology;
- Expansion into Indian market with 100 wells contracted by Essar Oil Ltd.;
- 50 wells drilled in 2013 compared with 90 wells drilled in 2012;

- Fastest vertical well was drilled in 9 days to a depth of 795m. Vertical wells drilled in 2013, on average, had a TD of 840m and needed 22 days from spud to completion, compared with 37 days in 2012;
- Fastest directional well was drilled in 7 days to a depth of 752m. Directional wells drilled in 2013, on average, had a TD of 1,077m and completion in 9 days from spud. No directional wells were drilled in 2012;
- Fastest LiFaBriC well was drilled in 36 days to 1883m MD (TVD 862m). Average 88 days to complete LifaBriC wells for 2012;
- In Q4 2013 the Company prepared five of Greka Drilling's existing GD75 rigs and all related ancillary equipment for transfer to India for our awarded Essar drilling programme. The rigs moved to the port city of Tianjin and were prepped for shipping.


## *FINANCIAL HIGHLIGHTS:*

- Total Assets increased by US$16.5m to US$130.6m an increase of 14.5% year on year;
- EPS of US$0.0008, compared with US$0.005 in same period last year;
- Cash and bank deposits of US$16.1m.

# CHAIRMAN'S STATEMENT

**This is the third anniversary of the Company becoming an independent operating entity and I am pleased to highlight, in line with the Company's strategy, the Company continues to grow on a diversified client base and service strata.**

During this year, our main client, Green Dragon Gas elected to substantially reduce its drilling plan for the year, which linearly reduced our revenues. Concurrent to this workload reduction, the Company successfully diversified its client base and secured contracts with other clients so as to expand its core client base and avoid such material changes in annual revenues by a single client.

In China, contracts were successfully executed on projects for all the large on-shore national energy companies, including CNPC, PetroChina and Sinopec as well as Guangdong Bureau of Coal Geology. This client diversification further diversified our services substantially. We have now demonstrated successful drilling capability on vertical, directional, horizontal and LiFaBriC wells within traditional oil & gas strata and shale in addition to Coal Bed Methane. This successful diversification provides long term stability and greater growth potential.

Most importantly, this diversification has been achieved with commendable performance letters being received from clients proving a well managed and executed service. Additionally, this successful performance is coupled with drilling efficiencies. The fastest vertical well was drilled in 9 days, directional well in 7 days and LiFaBriC well in 36 days. These records have been further improved since year end.

In addition to the client diversification within China, the Company succeeded in expanding its business to India and signed a 100 well contract with ESSAR Oil Ltd. This contract has been recently mobilized. As a result five of our GD75 Rigs and all related ancillary equipment are ready for transfer to India for this program. We look forward to expanding our agreement with Essar and other clients in India in due course.

The Company's flexible cost structure is demonstrated by this year's results. Notwithstanding the material reduction in our clients mobilization orders, the Company executed the actual workload with a gross margin of 28%, by successfully reducing its operating and carrying costs. This high level of flexibility is another material asset for the Company and is achievable as a result of the asset ownership complemented with the flexible employee compensation structure. As a result, the Company has a low fixed carrying cost and maintains a predominately variable cost structure burdened only by the mobilized workload.

We concluded the year with a backlog of US$97m in contracted work load. This inventoried revenue will be realized in the future when our clients provide the mobilization orders giving us the instructions and confirmation of their readiness to proceed with the contracted drilling program. Our business development teams continue to negotiate additional contracts so as to add to this backlog.

## Randeep S. Grewal

**Founder & Chairman**

Whilst our expansion plans during 2013/2014 focused on China and India, we continue to respond to service demands from potential clients across Asia and Europe. The Company will continue to monitor and evaluate these demands and expects to see further operational expansion geographically in 2015. The Company intends to focus and capitalize on its unique competency and successful track record within the unconventional E&P sector. The Company expects to establish its corporate headquarters in Singapore so as to optimally manage the group's expanding business.

Finally, I would like to thank the management team and employees for their agility and flexibility in successfully dealing with the challenges while maintaining the vision, performance and objectives of Greka Drilling this year. We look forward to monetising this core strength as we continue our diversified expansion in China and onto India.

**Randeep S. Grewal**
*Chairman*

# BUSINESS REVIEW

Greka Drilling Limited is the largest independent and specialized unconventional oil & gas driller in Asia. In 2013, the year of the Snake, our major client Green Dragon Gas reduced its operation in China due to their title issue. Greka Drilling Limited continued to expand its business with other clients while also focusing on internal development through providing skill-sets training to the drilling crew. This resulted in several contracts being signed in 2013 which included two with leading oil and gas dealers in China, CNPC and Sinopec, as well as receiving awards for our outstanding performance from all clients. Internally, our drilling teams were optimized from a technical, quality control and cost management perspective. The Management team of Greka Drilling Limited is confident the company is well positioned to become the leading operator within the China drilling industry.

## OVERVIEW

Our 2013 financial and operating results include:

- Total Assets increased by US$16.5m to US$130.6m an increase of 14.5% year on year.
- EPS of US$0.0008, compared with US$0.005 in same period last year.
- Cash and bank deposits of US$16.1m.
- Gross margin 28%, compared with 20% in same period last year.

## EQUIPMENT

- Introduced the new Solids Control System for the PetroKing project. A major factor of the new systems is the reduced environmental impact of drilling in tight oil environments. Adding this equipment to our 75t Drillmec rigs that are designed for the unconventional gas drilling market in China has added to our service offering thenby expanding our customer reach.

## HUMAN RESOURCES

- In August 2013 forty four (44) of our key staff including management staff, office staff, field rig managers, field tool-pushers and field logistics, warehouse and maintenance supervisors all attended our group team building camp. The results of which was the tightening of our team approach, refocusing us towards our common goals and reiterated our commitment to investing in our people for the future.

- A significant increase in drilling performance and reduction in operating costs due to implementation of performance based policy and procedures.


## *DRILLING*

- A 100% successful intersection rate completed with the Company's own Rotating Magnet Ranging Systems ("RMRS").
- The maximum meters drilled in a single LiFaBriC well was 4,554m in 2013 (5,454m in 2012).
- The longest MD of a single LiFaBriC section, surface to intersect, was 1,917.47m in 2013 (1,809m in 2012), an 6% increase;.
- The deepest TVD of a directional was 1,280.9m (and 1,351m MD). No directional were drilled in 2012.
- Experimental horizontal well Anping 1 drilled to a MD of 1,867.05m (max TVD 1,059.7m), the deepest horizontal well drilled by GTS to date.
- LiFaBriC well Qin U11-12-63H, drilled to a MD of 1,917 (TVD 1,036m) for CNPC, the first LiFaBriC well drilled for a client other than GDG.
- Updip well WB2P43 drilled to a MD of 1,668m (max TVD 796m) for Petroking. No updip wells were drilled in 2012.


## *BUSINESS DEVELOPMENT*

- Expanded internationally into India and signed a contract with Essar oil to drill 100 wells in West Bengal.

- The company focused on diversifying the client base in line with corporate strategy. During 2013 GDL conducted, among others, drilling programs for 2 of China's largest energy companies, CNPC and Sinopec. During these programs we were recognized for drilling performance and received awards from the clients.

- Built up close relationship with CNPC Jincheng Branch, Changzhi Branch and Sinopec Huadong Bureau, Shanxi Energy Group which intends to be greatly beneficial to BD performance in 2014.

# FINANCIAL REVIEW

## RESULTS FOR THE YEAR

The Group recorded revenue of US$30.5 million (2012: US$60.9 million) and a profit attributable to equity holders of US$0.3 million (2012: US$1.8 million) for the year ended 31 December 2013. The general and administrative expenses amounted to US$9.0 million (2012: US$8.0 million). Earnings per share were US$0.0008 (2012: US$0.005).

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2013, the Group has total assets of US$130.6 million (2012: US$114.1 million) and liabilities and equity holders' equity of US$52.3 million and US$78.3 million respectively (2012: US$35.1 million and US$79.0 million respectively).

As at 31 December 2013, the Group's cash and bank balance was US$16.1 million (2012: US$3.1 million) with total borrowings of US$26.2 million (2012: US$11.9 million).

The Company has raised US$26.2 million of bank loan through the mortgage of office buildings and 25 rigs. These bank loans have a one year term with an average interest rate of 7.59%.

# BOARD OF DIRECTORS

## *EXECUTIVE DIRECTOR*

### Randeep S. Grewal, Chairman & CEO

Randeep Grewal has been Chairman and Chief Executive Officer of the Greka Group 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 reorganizations 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.

### Lisa He, Chief Financial Officer

Lisa He joined Green Dragon Gas Ltd. on 1 February 2008 as Chief Accounting Officer and is now also Chief Financial Officer at Greka Drilling Limited. She has 21 years of experience in accounting and financial management. Prior to joining Greka, she worked for AES Wanfang Company as Chief Financial Controller from 2004 to 2007. From 2007 to 2008, she was Chief Accounting Officer for Xinyuan Real Estate Group and was a key member of the Account and Finance team involved in listing the company on the New York Stock Exchange. Ms He is a Certified Public Accountant and Certified Tax Agent in China, and holds a Masters degree in Business Administration at Xi'an Jiaotong University.

## *NON-EXECUTIVE DIRECTORS*

### David Turnbull, Non-Executive Director

David Turnbull, is Executive Chairman of Pacific Basin Shipping Limited, a Hong Kong publicly listed company, since 1st July 2008. He has been an independent non-executive director of the Company since May 2006. Mr Turnbull has been appointed as an independent non-executive director of The Wharf (Holdings) Limited, a Hong Kong publicly listed company, in November 2013. Mr Turnbull is also an independent non-executive director of Sands China Ltd., a Hong Kong publicly listed company, since October 2009. Mr Turnbull is also an Independent non-executive director of Green Dragon Gas Ltd (since Jul 2006) and Greka Drilling Ltd (since Feb 2011), both companies listed on the Alternative Investment Market, a sub-market of the London Stock Exchange. Mr Turnbull graduated from Cambridge University in 1976 with a Bachelor of Arts (subsequently Master of Arts) degree with Hons in Economics. He joined the Swire Group upon graduation and held a variety of senior management positions with international responsibilities covering aviation, shipping and property during his 30 years with the Swire Group. He was appointed a director of Cathay Pacific in 1994 and took up the positions of Deputy Managing Director in 1994, Managing Director in 1996 and Deputy Chairman and Chief Executive in 1998 before his appointment to Chairman in January 2005. He is also the former chairman of Swire Pacific Limited from January 2005 to January 2006, and of Hong Kong Aircraft Engineering Company Limited from March 1995 to August 2006.

### Stewart John – OBE, Non-Executive Director

Stewart John has over 50 years of experience in the aviation industry, half of which in Hong Kong. He worked for Cathay Pacific and British Airways for 17 and 22 years respectively. Mr. John was Deputy Chairman of Hong Kong Aircraft Engineering Company and has served as non-executive director of Rolls-Royce Commercial Aero Engines, British Aerospace Aviation Services, Airlines of Britain Holdings, HK Aero Engine Services Ltd, Aviation Exposure Management and Newall Aerospace. He is currently a non-executive director of Taikoo Aircraft Engineering Co., Technical Director of Aviation Exposure Management and a trustee of Brooklands Museum.

### Bryan Smart, Non-Executive Director

Bryan spent 25 years at DaimlerChrysler (UK) Limited, where he worked initially in internal audit before moving up from Financial Controller to Chief Financial Officer. He resigned from DaimlerChrysler in 2006 having overseen turnover increase from £1.3 billion in 1995 to over £3.0 billion in 2006 and managing the acquisition, assimilation and reorganisation of Chrysler & Jeep in the UK. He remains Trustee Director of DaimlerChrysler Pension Fund.

Since leaving DaimlerChrysler, Bryan has advised a number of public and private companies. Between 2006 and 2010, he was Chairman of the supervisory board of CarboTech AG, a Salzburg-based designer and manufacturer of complex carbon fibre structures for automotive and industrial use. Bryan is a Non-Executive Director and member of the audit and remuneration committees of Greka Engineering & Technology Ltd and, until recently, held the same positions at SCOTTY Group SE and was a Non-Executive Director of Rangers International Football Club plc. Bryan is a fellow of the Institute of Chartered Accountants in England and Wales.

The Directors of Greka Drilling Limited have pleasure in submitting their Report with the audited financial statements for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

Greka Drilling Limited is the ultimate holding company and the indirect parent company of Greka (Zhengzhou) CBM Technical Services Co. Ltd, a company incorporated in the PRC and the operating company through which the Group holds its rigs in China. The principal activities of the Group are providing CBM drilling services. Greka Drilling Limited was incorporated in the Cayman Islands on 1 Feb 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 & FUTURE DEVELOPMENTS

A summary of the Group's main business developments for the year ended 31 December 2013 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 note 2 to the financial statements).

## SHARE CAPITAL AND RESERVES

Details of the Group's authorised and issued share capital and reserves as at 31 December 2013 and 2012 are contained in note 21 of the financial statements respectively.

## RESULTS AND DIVIDENDS

An overview of the Group's results, covering the years ended 31 December 2013 and 2012, is provided in the Financial Review on page 16. Detailed financial information is included from page 25 to page 59 of the report. The Directors do not propose the payment of a dividend in respect of 2013.

## 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 2013.

| Directors | Number of ordinary shares | % of issued share capital |
|---|---|---|
| Mr.Randeep S. Grewal | 264,919,233 | 66.52% |
| Stewart John OBE | 7,800 | 0.002% |
| 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 2013.

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

## THE BOARD

The Board of Directors is composed of five members, two Executive Directors, who are also the Executive Chairman and Chief Financial Officer and three 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 comprises all three Non-Executive Directors.

## 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, Stewart John 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 2014, the Directors are satisfied that the Group has adequate resources to continue its operations and meet its commitments for the foreseeable future.

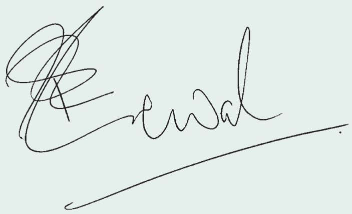
## ANNUAL GENERAL MEETING

The 2014 Annual General Meeting will be held at 10:00am on Thursday, 17 July 2014, at the office of Smith & Williamson located at 25 Moorgate, London EC2R 6AY. The Notice of Meeting, together with an explanation of the items of special business, is provided separately to shareholders with this report.

## *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 CEO*
10 June 2014

# 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 IFRSs 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 IFRSs, 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 MEMBERS OF GREKA DRILLLNG LLMITED*

We have audited the financial statements of Greka Drilling Limited for the year ended 31 December 2013 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 a summary of significant accounting policies and other explanatory information. 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 members, as a body in accordance the terms of our engagement letter. Our audit work has been undertaken so that we might state to the company's members 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 members 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 which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (as issued by the International Federation of Accountants (IFAC)). Those standards require us to comply with the UK Financial Reporting Council's (FRC'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 2013 and of its loss for the year then ended and have been properly prepared in accordance with IFRSs as adopted by the European Union.

**BDO LLP**
Chartered Accountants
London
United Kingdom

10 June 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | **Year Ended 31 December 2013 US$'000** | Year Ended 31 December 2012 US$'000 |
|---|---|---|---|
| Revenue | 4 | **30,528** | 60,918 |
| Cost of sales | | **(21,863)** | (48,459) |
| **Gross profit** | | **8,665** | 12,459 |
| Administrative expenses | | **(8,966)** | (8,047) |
| **(Loss)/Profit from operations** | 5 | **(301)** | 4,412 |
| Finance income | 6 | **2,992** | 367 |
| Finance costs | 7 | **(1,605)** | (1,322) |
| **Profit before income tax** | | **1,086** | 3,457 |
| Income tax charge | 11 | **(778)** | (1,625) |
| **Profit for the year** | | **308** | 1,832 |
| Other comprehensive expense, net of tax: | | | |
| Exchange differences on translation of foreign operations | | **(949)** | (8) |
| **Total comprehensive income for the year** | | **(641)** | 1,824 |
| Profit for the period attributable to: | | | |
| — Owners of the company | | **175** | 1,831 |
| — Non-controlling interests | | **133** | 1 |
| | | **308** | 1,832 |
| Total comprehensive (expense)/income attributable to: | | | |
| — Owners of the company | | **(574)** | 1,824 |
| — Non-controlling interests | | **(67)** | — |
| | | **(641)** | 1,824 |
| **Earnings per share** | | | |
| — Basic and diluted (in US dollar) | 10 | **0.0008** | 0.0046 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2013 US$'000 | Restated As at 31 December 2012 US$'000 | Restated As at 1 Jan 2012 US$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 12 | **96,651** | 98,955 | 47,819 |
| Intangible assets | 13 | **564** | 581 | 524 |
| | | **97,215** | 99,536 | 48,343 |
| **Current assets** | | | | |
| Inventories | 14 | **7,770** | 6,369 | 4,555 |
| Trade and other receivables | 15 | **9,514** | 5,016 | 28,930 |
| Cash and bank balances (including restricted cash) | 16 | **16,077** | 3,139 | 6,559 |
| | | **33,361** | 14,524 | 40,044 |
| **Total assets** | | **130,576** | 114,060 | 88,387 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 17 | **25,009** | 22,491 | 8,994 |
| Loans and borrowings | 18 | **26,160** | 11,932 | 1,984 |
| Current tax liabilities | | **—** | 234 | 283 |
| | | **51,169** | 34,657 | 11,261 |
| **Non current liabilities** | | | | |
| Deferred tax liabilities | 20 | **1,098** | 453 | — |
| | | **1,098** | 453 | — |
| **Total Liabilities** | | **52,267** | 35,110 | 11,261 |
| **Net assets** | | **78,309** | 78,950 | 77,126 |
| **Capital and reserves** | | | | |
| Share capital | 21 | **4** | 4 | 4 |
| Share premium account | | **77,186** | 77,186 | 77,186 |
| Invested capital | | **(1,533)** | (1,533) | (1,533) |
| Reserve fund | | **917** | 917 | 595 |
| Foreign exchange reserve | | **843** | 1,592 | 1,599 |
| Retained earnings/(deficit) | | **1,348** | 1,173 | (336) |
| **Total equity attributable to owners of the Company** | | **78,765** | 79,339 | 77,515 |
| Non-controlling interests | | **(456)** | (389) | (389) |
| **Total equity** | | **78,309** | 78,950 | 77,126 |

The financial statements were authorised and approved by the Board on 10 June 2014 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 2012 | 4 | 77,186 | (1,533) | 595 | 1,599 | (336) | 77,515 | (389) | 77,126 |
| Profit for the year | — | — | — | — | — | 1,831 | 1,831 | 1 | 1,832 |
| Other comprehensive expense | | | | | | | | | |
| — Exchange difference on translation of foreign operations | — | — | — | — | (7) | — | (7) | (1) | (8) |
| Total comprehensive (expense)/ income for the year | — | — | — | — | (7) | 1,831 | 1,824 | — | 1,824 |
| Transfer of reserve fund | — | — | — | 322 | — | (322) | — | — | — |
| At 31 December 2012 | 4 | 77,186 | (1,533) | 917 | 1,592 | 1,173 | 79,339 | (389) | 78,950 |
| Profit for the year | — | — | — | — | — | 175 | 175 | 133 | 308 |
| Other comprehensive expense: | | | | | | | | | |
| — Exchange difference on translation of foreign operations | — | — | — | — | (749) | | (749) | (200) | (949) |
| Total comprehensive (expense)/ income for the year | — | — | — | — | (749) | 175 | (574) | (67) | (641) |
| **At 31 December 2013** | **4** | **77,186** | **(1,533)** | **917** | **843** | **1,348** | **78,765** | **(456)** | **78,309** |

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 recognized in profit or loss.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2013 US$'000 | Restated Year ended 31 December 2012 US$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before income tax | | **1,086** | 3,457 |
| Adjustments for: | | | |
| Depreciation | | **5,643** | 9,204 |
| Amortization of other intangible assets | | **76** | 68 |
| Loss on disposal of property, plant and equipment | | **25** | 435 |
| Finance gains | | **(2,953)** | |
| Finance income | | **(39)** | (53) |
| Finance costs | | **1,605** | 1,322 |
| Operating cash flows before changes in working capital | | **5,443** | 14,433 |
| Increase in inventories | | **(1,401)** | (1,814) |
| Increase in trade and other receivables | | **(4,497)** | (1,776) |
| Increase in trade and other payables | | **2,518** | 13,497 |
| Cash generated from/(used in) operations | | **2,063** | 24,340 |
| Income tax payment | | **(392)** | (1,229) |
| **Net cash from/(used in) operating activities** | | **1,671** | 23,111 |
| **Investing activities** | | | |
| Payments for purchase of property, plant and equipment | | **(751)** | (34,595) |
| Acquisition of subsidiaries | | | |
| Payments for intangible assets | | **(41)** | (123) |
| Proceeds from disposal of property, plant and equipment | | **16** | — |
| Interest received | | **39** | 53 |
| **Net cash used in investing activities** | | **(737)** | (34,665) |
| **Financing activities** | | | |
| Transfer to restricted cash | | **(11,106)** | (977) |
| Proceeds of short term loan | | **26,160** | 18,296 |
| Repayment of short term loan | | **(12,301)** | (8,353) |
| Finance costs paid | | **(1,605)** | (1,478) |
| **Net cash from financing activities** | | **1,148** | 7,488 |
| Net (decrease)/increase in cash and cash equivalents | | **2,082** | (4,066) |
| Cash and cash equivalents at beginning of the year | | **2,162** | 6,559 |
| | | **4,244** | 2,493 |
| Effect of foreign exchange rate changes | | **(250)** | (331) |
| **Cash and cash equivalents at end of year** | | **3,994** | 2,162 |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 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. 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.

## 2 PRINCIPAL ACCOUNTING POLICIES

### Basis of preparation

The financial statements have been prepared in accordance with IFRSs as adopted by the European Union, that are effective for accounting periods beginning on or after 1 January 2013. 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 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 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. As the Company's controlling interest in Greka Technical Service Limited was acquired through a transaction under common control, as defined in IFRS 3 Business Combinations. 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

The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2013. Except as noted, the implementation of these standards did not have a material effect on the Group:

| Standard | Impact on initial application | Effective date |
|---|---|---|
| IAS 1 (Amendment) | Presentation of items of other comprehensive income | 1 July 2012 |
| IFRS 13 | Fair value measurement | 1 January 2013 |
| IAS 19 (Amendment 2011) | Employee benefits | 1 January 2013 |
| IFRS 7 (Amendment 2011) | Disclosures — offsetting financial assets and financial liabilities | 1 January 2013 |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | 1 January 2013 |
| IAS 12 (Amendment) | Deferred Tax: Recovery of Underlying Assets | 1 January 2013 |
| IAS 16, IAS 1 IAS 32, IFRS 1 | Annual Improvements to IFRSs (2009-2011 Cycle) | 1 January 2013 |

Except as described below, the Group does not expect the new standards and interpretations to have a material impact on the Group's earnings or shareholders' funds.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 2 *PRINCIPAL ACCOUNTING POLICIES* (continued)

### New Accounting Standards (continued)

#### Amendment to IAS 16

The IAS 16 amendment, applicable to periods commencing 1 January 2013, requires inventory items such as spare parts, stand-by equipment and servicing equipment to be reclassified to property, plant and equipment when they meet the definition of property, plant and equipment. The specific criteria for meeting the definition of property, plant and equipment are that the assets are expected to be used during more than one period. Management have undertaken an exercise during the year to assess drilling equipment and spare parts and have reclassified those items which will are expected to be used over more than one period to property, plant and equipment. The reclassified items have been depreciated on units of production basis. Given the material nature of the reclassification and the impact on the opening position of the comparative period, the prior year property, plant and equipment have been restated and a third statement of financial position has been presented in accordance with IAS 8. The reclassification did not affect prior year profit, equity or total assets.

The impact of the prior year restatement ("PYA") is shown in the table below

| | Previous result | After PYA | Impact of PYA |
|---|---|---|---|
| **2012** | | | |
| Property, plant and equipment | 93,135 | 98,955 | 5,820 |
| Inventory | 12,189 | 6,369 | -5,820 |
| **2011** | | | |
| Property, plant and equipment | 43,219 | 47,819 | 4,600 |
| Inventory | 9,155 | 4,555 | -4,600 |

There was no net impact on the profit for the year in 2012 or 2011 from the reclassification as the Group historically held the inventory at net realisable value which was calculated allowing for the drilling activity usage relative to the drilling life, in a miner similar to a units of production basis applied to the assets under the Group's property, plant and equipment.

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### New Accounting Standards (continued)

#### Amendment to IAS 16 (continued)

b) Standards, amendments and interpretations that are not yet effective and have not been early adopted:

| Standard | Impact on initial application | Effective date |
|---|---|---|
| IAS 32 (Amendment 2011) | Offsetting financial assets and financial liabilities | 1 January 2014 |
| IFRS 11 | Joint arrangements | 1 January 2014 |
| IFRS 10 | Consolidated financial statements | 1 January 2014 |
| IFRS 12 | Disclosure of interest in other entities | 1 January 2014 |
| IAS 27 (Amendment 2011) | Separate financial statements | 1 January 2014 |
| IAS 28 (Amendment 2011) | Investments in associates and joint ventures | 1 January 2014 |
| IFRIC 21 | Levies | 1 January 2014 |
| IFRS 9 | Financial instruments | n/a |

### 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, in which cases, the exchange differences are also recognised directly in equity.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 2 *PRINCIPAL ACCOUNTING POLICIES* (continued)

### Foreign currency translation (continued)

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 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.

Construction in progress is stated at cost less impairment losses. Cost comprises direct cost of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization 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.

## 2 *PRINCIPAL ACCOUNTING POLICIES* (continued)

### Property, plant and equipment (continued)

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

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 2 *PRINCIPAL ACCOUNTING POLICIES* (continued)

### Inventories

Inventories, which includes materials and consumable tools and spare parts which are expected to 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. 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)

### Taxation (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 meter rate-basis from drilling contracts, labour contracts and management services are recognised as services are performed.

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

### Financial instruments

#### (i) Financial assets

*Loans and receivables*

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.

## 2 *PRINCIPAL ACCOUNTING POLICIES* (continued)

### Financial instruments (continued)

#### (i) Financial assets (continued)

*Loans and receivables* (continued)

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 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.

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### Financial instruments (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 is discharged, cancelled or expires.

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.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 2 *PRINCIPAL ACCOUNTING POLICIES* (continued)

### 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 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.

### 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.

Greka Drilling
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## 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.

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, oil and 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, 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 2013 or 2012. The key estimates made include the demand for drilling, 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 judgement.

### 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.

## 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 a single reportable segment: the provision of contract drilling services in the People's Republic of China (the "PRC"). The consolidation of our contract drilling operations into one reportable segment is attributable to how the CODMs manage the business.

We evaluate the performance of our single operating segment based on revenues from external customers and the associated profit.

Drilling services revenue and management services revenue represent the net invoiced value of contract drilling services and management services provided substantially to one customer in the PRC (who is a related party) and the rest to other customers from each of whom less than 10% of total revenue is derived in 2012 and 2013. Please refer to note 22 for details of the revenue derived from the related party customer. The amounts of each significant category of revenue recognised during the year are as follows:

| | **2013**<br>**US$'000** | 2012<br>US$'000 |
|---|---|---|
| Drilling services | **29,918** | 60,325 |
| Management services | **610** | 593 |
| | **30,528** | 60,918 |

All the non-current assets and operations of the Group are located in the PRC.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 5 PROFIT FROM OPERATIONS

Profit from operations is stated after charging/(crediting):

| | **2013** **US$'000** | 2012 US$'000 |
|---|---|---|
| Auditors' remuneration: | | |
| Fees payable to the Company's auditors for the audit of the annual financial statements | **124** | 119 |
| Fees payable to the Company's auditors for the review of the interim results | **41** | 10 |
| | **—** | — |
| Cost of inventories recognized as expense | **6,938** | 24,070 |
| Staff costs (note 8) | **9,927** | 13,604 |
| Depreciation of property, plant and equipment | **5,643** | 9,204 |
| Operating lease expense (property) | **374** | 201 |
| Amortization of intangible assets | **76** | 68 |
| Loss on disposal of property, plant and equipment | **25** | — |
| Government grant* | **—** | (135) |

* This mainly represents an amount received from the Henan Government by a subsidiary. The amount was a one-off receipt and recognized fully to profit and loss since the attaching conditions were fulfilled in 2012.

## 6 FINANCE INCOME

| | **2013** **US$'000** | 2012 US$'000 |
|---|---|---|
| Foreign exchange gains | **2,953** | 314 |
| Bank interest | **39** | 53 |
| | **2,992** | 367 |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 7 FINANCE COSTS

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Interest expense on short term loans | **1,605** | 631 |
| Interest expense on loans from a related company | **—** | 847 |
| Less: Interest expenses capitalized* | **—** | (156) |
| | **1,605** | 1,322 |
| * Interest expenses was capitalized in construction in progress at the following rates per annum | **N/A** | 7.22% |

## 8 STAFF COSTS

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Staff costs (including directors' remuneration (note 9)) comprise: | | |
| Wages and salaries | **7,435** | 10,969 |
| Employer's national social security contributions | **2,148** | 2,301 |
| Other benefits | **344** | 334 |
| | **9,927** | 13,604 |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 9 DIRECTORS' REMUNERATION

The remuneration of directors for the year ended 31 December 2013 is set as follows:

| Executive directors | Fees and Salaries US$'000 | Social Security Contribution US$'000 | 2013 US$'000 | 2012 US$'000 |
|---|---|---|---|---|
| Randeep Grewal | 600 | — | **600** | 600 |
| Lisa He | 97 | 9 | **106** | 96 |
| Sub-total | 697 | 9 | **706** | 696 |
| **Non executive directors** | | | | |
| Bryan Smart | 64 | — | **64** | 64 |
| David Turnbull | 59 | — | **59** | 59 |
| Stewart John OBE | 64 | — | **64** | 48 |
| Sub-total | 187 | — | **187** | 171 |
| **Total** | 884 | 9 | **893** | 867 |

## 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:

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Profit for the year | **308** | 1,832 |
| 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 earnings per share (US$) | **0.0008** | 0.0046 |
| Diluted earnings per share (US$) | **0.0008** | 0.0046 |

There were no potentially dilutive instruments are issued in 2013 and 2012. No potentially dilutive instruments have been issued between 31 December 2013 and the date of the approval of these financial statements.

## 11 TAXATION

| | **2013 US$'000** | 2012 US$'000 |
|---|---|---|
| Current tax (credit)/charge | **(69)** | 1,172 |
| Deferred tax charge | **847** | 453 |
| Tax charge recognized in the income statement | **778** | 1,625 |

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 profit for the year are as follows:

| | **2013 US$'000** | 2012 US$'000 |
|---|---|---|
| Profit before income tax | **1,086** | 3,457 |
| Expected tax charge based on the standard rate of corporation tax in the PRC of 25% (2012: 25%) | **271** | 864 |
| Effect of: | | |
| Tax losses not recognized | **429** | 682 |
| Under provision of prior year | **78** | 79 |
| Income tax charge | **778** | 1,625 |

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.

Refer to note 20 for details of deferred tax and unrecognized tax losses and other deductible temporary differences.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 12 PROPERTY, PLANT AND EQUIPMENT

| | Buildings and structures US$'000 | Motor vehicles US$'000 | Fixtures, fittings and equipment US$'000 | Construction in process US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2012 — restated | 7,524 | 2,470 | 46,168 | 2,274 | 58,436 |
| Additions | 41 | 1,450 | 56,711 | 2,238 | 60,440 |
| Transfer of construction-in-progress upon completion | 1,063 | — | — | (1,063) | — |
| Disposals | — | — | (465) | — | (465) |
| Exchange differences | 24 | 53 | 853 | 11 | 941 |
| At 31 December 2012 — restated | 8,652 | 3,973 | 103,267 | 3,460 | 119,352 |
| Additions | — | — | 686 | 65 | 751 |
| Transfer of Construction-in-progress upon completion | 3,525 | — | — | (3,525) | — |
| Disposals | (9) | (183) | (61) | — | (253) |
| Exchange differences | 376 | 125 | 2,862 | — | 3,363 |
| At 31 December 2013 | 12,544 | 3,915 | 106,754 | 0 | 123,213 |
| **Depreciation** | | | | | |
| At 1 January 2012 — restated | 698 | 691 | 9,228 | — | 10,617 |
| Charge for the year | 414 | 627 | 8,163 | — | 9,204 |
| Eliminated upon disposals | — | — | (30) | — | (30) |
| Exchange differences | 4 | 45 | 557 | — | 606 |
| At 31 December 2012 — restated | 1,116 | 1,363 | 17,918 | — | 20,397 |
| Charge for the year | 1,404 | 681 | 3,558 | — | 5,643 |
| Eliminated upon disposals | (3) | (160) | (35) | | (198) |
| Exchange differences | 57 | 51 | 612 | | 720 |
| At 31 December 2013 | 2,574 | 1,935 | 22,053 | | 26,562 |
| **Net book value** | | | | | |
| At 31 December 2013 | 9,970 | 1,980 | 84,702 | — | 96,651 |
| At 31 December 2012 | 7,536 | 2,610 | 85,349 | 3,460 | 98,955 |
| At 1 January 2012 | 6,826 | 1,779 | 36,940 | 2,274 | 47,819 |

Loans and borrowings are secured by drilling equipment included in fixtures, fittings and equipment and properties included in buildings and structures with a carrying amount US$20,419,000 (2012: US$6,364,000) and US$5,741,000 (2012: US$5,568,000) respectively (note 18). Please refer to note 2 for details of the restatement.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 13 INTANGIBLE ASSETS

| | Software US$'000 |
|---|---|
| **Cost** | |
| At 1 January 2012 | **600** |
| Additions | **123** |
| Exchange differences | **2** |
| At 31 December 2012 | **725** |
| Additions | **41** |
| Exchange differences | **23** |
| At 31 December 2013 | **789** |
| **Amortization** | |
| At 1 January 2012 | **76** |
| Charge for the year | **68** |
| Exchange differences | **—** |
| At 31 December 2012 | **144** |
| Charge for the year | **76** |
| Exchange differences | **5** |
| At 31 December 2013 | **225** |
| **Net book value** | |
| At 31 December 2013 | **564** |
| At 31 December 2012 | **581** |

## 14 INVENTORIES

| | 2013 US$'000 | Restated 2012 US$'000 | Restated 2011 US$'000 |
|---|---|---|---|
| Raw materials and consumables | **7,770** | 6,369 | 4,555 |
| | **7,770** | 6,369 | 4,555 |

Refer to note 2 for details of the restatement. Details of cost recognised in the consolidated statement of comprehensive incomes in respect of inventories are included in note 5.

Greka Drilling
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## 15 TRADE AND OTHER RECEIVABLES

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Trade receivables | **1,531** | 636 |
| Prepayments | **867** | 1,200 |
| Other receivables | **833** | 392 |
| Amounts due from related parties (note 22a) | **6,283** | 2,788 |
| | **9,514** | 5,016 |

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.

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Less than 60 days past due | **1,531** | 636 |

## 16. CASH AND BANK BALANCES

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Cash and cash equivalents | **3,994** | 2,162 |
| Restricted bank balance* | **12,083** | 977 |
| | **16,077** | 3,139 |

* The restricted bank balance represents deposits placed in financial institutions to secure bills payable of an equivalent amount related to trade payables of US$1.3m and bank loans of US$10.7m (note 17).

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 17 TRADE AND OTHER PAYABLES

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Trade payables | **23,029** | 21,201 |
| Other current liabilities | **1,936** | 1,146 |
| Amounts due to related parties (note 22a) | **44** | 144 |
| | **25,009** | 22,491 |

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

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Bank loans | **26,160** | 11,932 |

The banks loans are all secured with the exception of a loan from Mr Randeep Grewal of $164,000. The detailed information regarding loan maturity dates and interest rate as below:

| | **Balance as at Dec 31, 2013** | | | Balance as at Dec 31, 2012 | | |
|---|---|---|---|---|---|---|
| **Bank name** | **Interest rate** | **USD** | **Expire Date** | Interest rate | USD | Expire Date |
| CITIC Bank | **6.900%** | **2,460,267** | **4/Mar/2014** | 7.544% | 2,386,445 | 1/Mar/2013 |
| SPD Bank | **7.200%** | **3,280,356** | **25/Dec/2014** | 6.9% | 3,181,927 | 20/Dec/2013 |
| SPD Bank | **8.000%** | **6,559,891** | **5/Mar/214** | 6.9% | 6,363,853 | 8/Mar/2013 |
| Yunnan International Trust CO., LTD | **5.900%** | **4,100,444** | **26/Mar/2014** | N/A | N/A | N/A |
| Ping An Bank | **7.200%** | **8,200,889** | **13/Jan/2014** | N/A | N/A | N/A |
| Ping An Bank | **6.000%** | **1,394,151** | **21/May/2014** | N/A | N/A | N/A |
| Randeep Grewal | **9.000%** | **164,018** | **30/Dec/2014** | N/A | N/A | N/A |
| **Total** | | **26,160,016** | | | 11,932,225 | |

Refer to note 22 for details of related party loans.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 19 SUBSIDIARIES

The principal subsidiaries of the Company as at 31 December 2013, 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) CBM 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 Drilling Co. | Cayman | — | 100% | Investment holding |
| Pace Mitchell Drilling Co Ltd. | British Virgin Islands | — | 50%* | Investment holding |
| Greka Mitchell Drilling 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.

## 20 DEFERRED TAXATION

Under the PRC law, withholding tax is imposed on dividends declared in respect of profits earned by subsidiaries in the PRC from 1 January 2008 onwards.

The following table summarises the movement in the deferred tax balance

| | **2013 US$'000** | 2012 US$'000 |
|---|---|---|
| Opening balance at 1 January | **453** | — |
| Tax losses recognised | **(1,070)** | — |
| Temporary difference change | **1,715** | 453 |
| Closing balance at 31 December | **1,098** | 453 |

The Group has not recognised potential deferred tax assets of US$160,000 (2012: US$170,000) arising on unrecognised losses due to insufficient expected taxable income in the relevant jurisdiction. The Group has not offset deferred tax assets and liabilities across different jurisdictions. Cayman Island losses of US$2,370,000 (2012: US$1,465,000) do not expire under current tax legislation. PRC tax losses of US$640,000 (2012: $680,000) expire after 5 years.

## 21 SHARE CAPITAL

| | **Authorised** | | **Issued and fully paid** | |
|---|---|---|---|---|
| | **No. of shares** | **US$** | **No. of shares** | **US$** |
| At 31 December 2012 and 2013 | 5,000,000,000 | 50,000 | 398,245,758 | 3,982 |

## 22 RELATED PARTY TRANSACTIONS

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

The related parties of the Group, which are noted below, included companies that are subsidiaries of Green Dragon Gas Ltd. a company which are under common management and control of Mr. Randeep Grewal.

Amounts due from/to related parties comprise:

| | 2013<br>US$'000 | 2012<br>US$'000 |
|---|---|---|
| Amounts due from related companies (note i): | | |
| — Zhengzhou Greka Gas Co. Limited ("GGD") | **—** | 40 |
| — Greka Energy (International) B.V ("GBV") (note ii). | **2,700** | 1,236 |
| — Asiacanada Energy Inc ("ACE") (note ii) | **3,581** | 1,438 |
| — Henan Gongyi Greka Transportation Co. Ltd ("GTI") | **—** | 74 |
| — Henan Greka Weino Alcohol Trading Limited("GWA") | **2** | — |
| Total of the above which is included in trade and other receivables (note 15) | **6,283** | 2,788 |

| | 2013<br>US$'000 | 2012<br>US$'000 |
|---|---|---|
| Amounts due to related companies (note i): | | |
| — Zhengzhou Greka Gas Co. Limited ("GGD") | **11** | |
| — Zhengzhou Greka Technology Co Ltd ("GTC") | | |
| — Zhengzhou Greka Petro-Equipment Co Ltd ("GMC") (note iii) | | 42 |
| — Henan Gongyi Greka Transportation Co. Ltd (note v) | **33** | 102 |
| Total of the above which is included in trade and other payables (note 17) | **44** | 144 |

Notes:

(i) These balances are unsecured, interest-free and repayable on demand.

(ii) The balance represent amounts receivable from GBV and ACE for providing drilling service.

(iii) The balance represent amounts payable to GMC for supplying gas dispensers.

(v) The balance represent amounts payable to GTI for providing pre-well services.

## 22 RELATED PARTY TRANSACTIONS (continued)

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

Related party transactions comprise:

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| Drilling services to related companies: | | |
| — Greka Energy (International) B.V. | **26,233** | 57,697 |
| — Asiacanada Energy Inc | **2,071** | 1,992 |
| Leasing income from related companies: | | |
| — Greka Energy (International) B.V. | **356*** | 328* |
| — Zhengzhou Greka Gas Co. Limited | **219*** | 141* |
| — Gongyi Greka Transport Company Limited | **63*** | 124* |
| — Henan Greka Weino Alcohol Trading Limited | **2** | — |
| Interest expense on loans paid to a related company: | | |
| — Greka China Limited | **—** | 847 |
| Drilling services expense from a related company: | | |
| — Gongyi Greka Transport Company Limited | **135** | 179 |

* The lease term was 1 year from 1 January 2013 to 31 December 2013 and 1 January 2012 to 31 December 2012 respectively.

### (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 and the loan noted below in (d), there were no other transactions with key management personnel during the years ended 31 December 2013 and 2012.

### (d) Loans

Loans and borrowings include US$164,000 payable to Randeep Grewal, majority shareholder and Director of the Company. Refer to note 18.

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 23 OPERATING LEASES

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

| | **2013** **US$'000** | 2012 US$'000 |
|---|---|---|
| No later than 1 year | **180** | 24 |
| Later than 1 year and no later than 5 years | **71** | 73 |
| | **251** | 97 |

At the end of the reporting period, the Group had 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

| | **2013** **US$'000** | 2012 US$'000 |
|---|---|---|
| No later than 1 year | **586** | 576 |
| | **586** | 576 |

## 24 CAPITAL COMMITMENTS

| | **2013** **US$'000** | 2012 US$'000 |
|---|---|---|
| Capital expenditure contracted but not provided for in respect of | | |
| Acquisition of property, plant and equipment | **7,372** | 7,440 |
| | **7,372** | 7,440 |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS

## 25 FINANCIAL INSTRUMENTS

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables: | | |
| Cash and bank balances | **16,077** | 3,139 |
| Trade and other receivables | **2,364** | 1,025 |
| Amounts due from related parties | **6,283** | 2,788 |
| | **24,724** | 6,952 |
| **Financial liabilities** | | |
| At amortized cost: | | |
| Trade and other payables | **24,965** | 22,347 |
| Amounts due to related parties | **44** | 144 |
| Loans and borrowings | **26,160** | 11,932 |
| | **51,169** | 34,423 |

### (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, the management closely monitors its exposure to future cash flow as a result of changes in market interest rates, and will consider hedging such changes should the need arise.

## 25 FINANCIAL INSTRUMENTS (continued)

### (a) Interest rate risk (continued)

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

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| US dollars (Floating rate) | **49** | 309 |
| HK dollars (Floating rate) | **27** | |
| RMB (Floating rate) | **16,001** | 2,830 |
| **Other financial assets** | | |
| RMB (Non-interest bearing) | **8,503** | 2,520 |
| US dollars (Non-interest bearing) | **144** | 1,293 |
| | **24,724** | 6,952 |

The weighted average interest rate earned was 0.10% p.a. for the year (2012: 0.10% p.a.) on floating rate US dollar cash balances, and 0.36% p.a. (2012: 0.36% p.a.) on floating rate RMB balances. At the reporting date, the Group had restricted cash on short-term deposit for six months, which are restricted to settle certain liabilities expiring after six months.

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

| | 2013 US$'000 | 2012 US$'000 |
|---|---|---|
| **Bank loans** | | |
| RMB (Fixed rate) | **26,160** | 11,932 |
| **Other financial liabilities (including related party balances)** | | |
| US dollars (Non-interest bearing) | **20,703** | 5,574 |
| RMB (Non-interest bearing) | **4,306** | 17,061 |
| | **51,169** | 34,567 |

## 25 FINANCIAL INSTRUMENTS (continued)

### (a) Interest rate risk (continued)

The weighted average interest rates on bank loans and loans from a related company for the year was 7.59% p.a. (2012: 7.084% 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$163,000 lower.

### b) Foreign currency risk

The Group's active subsidiaries undertake transactions principally in RMB. 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 USD<br>US$'000 | In RMB<br>US$'000 | Total in USD<br>US$'000 |
|---|---|---|---|
| **As at 31 December 2013** | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 76 | 16,001 | 16,077 |
| Trade and other receivables | 144 | 2,220 | 2,364 |
| Amount due from related parties | — | 6,283 | 6,283 |
| | 220 | 24,504 | 24,724 |
| **Financial liabilities** | | | |
| Trade and other payables | 4,262 | 20,703 | 24,965 |
| Loans and borrowings | — | 26,160 | 26,160 |
| Amount due to related parties | — | 44 | 44 |
| | 4,262 | 46,907 | 51,169 |

## 25 FINANCIAL INSTRUMENTS (continued)

### b) Foreign currency risk (continued)

| | In USD | In RMB | Total in USD |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| **As at 31 December 2012** | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 309 | 2,830 | 3,139 |
| Trade and other receivables | 144 | 884 | 1,025 |
| Amount due from related parties | 1,149 | 1,636 | 2,788 |
| | 1,602 | 5,350 | 6,952 |
| **Financial liabilities** | | | |
| Trade and other payables | 5,574 | 16,917 | 22,491 |
| Loans and borrowings | — | 11,932 | 11,932 |
| | 5,574 | 28,849 | 34,432 |

A 5% (2012: 5%) increase or decrease in the US dollar/RMB exchange rate would result in reported profit and net assets for the year US$203,000 (2012: US$1,152,000) 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.

## 25 *FINANCIAL INSTRUMENTS* (continued)

### (c) Liquidity risk (continued)

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

| | Six months or less US$'000 | Six months to one year US$'000 | Undiscounted payments US$'000 (note i) | Adjustments US$'000 (note ii) | Carrying value US$'000 (note iii) |
|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | |
| Trade and other payables and other current liabilities | **24,863** | **102** | **24,965** | **—** | **24,965** |
| Amounts due to related parties | **44** | **—** | **44** | **—** | **44** |
| Loans and borrowings | **23,102** | **3,567** | **26,669** | **(509)** | **26,160** |
| | **48,009** | **3,669** | **51,678** | **(509)** | **51,169** |
| **At 31 December 2012** | | | | | |
| Trade and other payables and other current liabilities | 9,277 | 13,070 | 22,347 | — | 22,347 |
| Amounts due to related parties | 144 | — | 144 | — | 144 |
| Loans and borrowings | 9,072 | 3,285 | 12,357 | (425) | 11,932 |
| | 18,493 | 16,355 | 34,848 | (425) | 34,423 |

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.

## 25 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.

Cash balance are held with large reputable banks and Management monitor 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 earning 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 owners and 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 owners, 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 2013 and 2012.

### (f) Fair value

The carrying value of significant financial assets and liabilities approximate their respective fair values as at 31 December 2013 and 2012. The fair values are categorised within Level 3 of the fair value hierarchy and have been calculated by reviewing discounted cash flow forecasts.

## 26 APPROVAL OF FINANICAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 10 June 2014.

# DIRECTORS, COMPANY SECRETARY AND ADVISERS

## DIRECTORS

Randeep S. Grewal
*Executive Director, Chairman and CEO*

Lisa He
*Executive Director, Chief Financial Officer*

David Turnbull
*Non-Executive Director*

Stewart John, OBE
*Non-Executive Director*

Bryan Smart
*Non-Executive Director*

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