GREKA DRILLING

INTERIM REPORT **2017**

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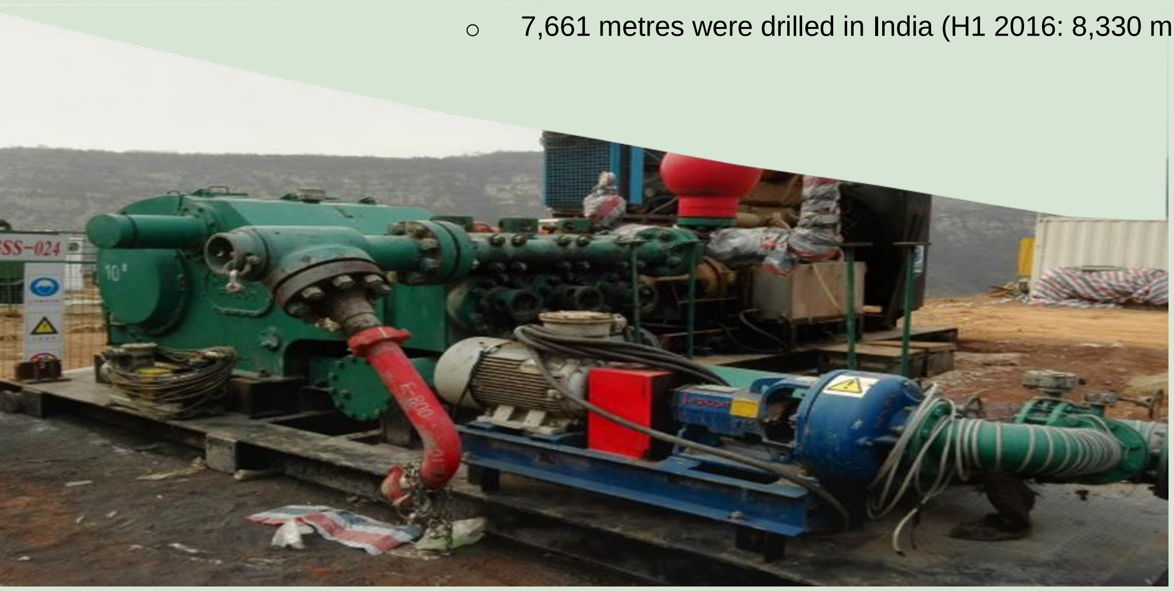
HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Revenue of US$3.6 million (H1 2016: US$2.6 million), an increase of 38%
- Loss of US$1.1 million (H1 2016: loss of US$5.5 million)
- US$2.7 million of cash (US$2.6 million is restricted) as at 30 June 2017

OPERATIONAL HIGHLIGHTS

- 12 wells were drilled in the first 6 months this year compared to 10 wells in the same period last year, of which:
  - 5 wells drilled in China (PetroChina - 3; Green Dragon Gas –1; other – 1), compared with 3 wells drilled in H1 2016 (all for Green Dragon Gas)
  - 7 wells drilled in India for Essar (2016 H1: 7 wells, all for Essar)
- A total of 15,625 metres were drilled, compared to 12,458 metres in the same period last year, an increase of 25%, of which:
  - 7,964 metres were drilled in China (H1 2016: 4,128 metres)
  - 7,661 metres were drilled in India (H1 2016: 8,330 metres)



CHAIRMAN STATEMENT

We are very pleased to see that the service sector in China and India has turned the corner following three years of stagnation. Both governments' steadfast support for the development of CBM resources is the catalyst to enable the revitalisation of the sector of which Greka Drilling stands to be a natural beneficiary as the only CBM drilling specialist in both jurisdictions.

During the six months under review, the Company made progress in several areas including attaining more drilling contracts, improving performance and efficiency. As a result, I am pleased to report H1 revenue increased 28% to US$3.6 million and losses decreased to US$1.4 million, a 75% reduction compared to the same period of last year with gross margin rising to 19%.

The Company spud the first well for PetroChina Huabei in February under the 5 horizontal wells drilling contract with a value of US$2 million signed in November 2016. To date, five wells have been successfully completed, while an additional sixth is currently being drilled. The clients satisfaction our advanced rig technology and experienced crews, was well demonstrated by two new drilling contracts this year. These two drilling contracts have an aggregate value of at least US$2 million.

CHAIRMAN STATEMENT

Furthermore, in India, in addition to the completed 7 wells for Essar, the Company has been awarded a Letter of Award (LOA) for a three-year drilling contract by Oil & Natural Gas Corporation Limited ("ONGC"). Under this contract, the Company will drill 73 wells over the next three years using our state-of-the-art rig which has a proven track record of drilling in similar geological conditions. The project, which remains subject to contract and to the issue of a performance bond, will entail the provision of drilling and mud services along with the provision of associated equipment and is estimated to generate total revenues of US$15 million over the three-year period. We expect to spud the first well prior to year-end.

Among the significant number of state-owned drilling companies, Greka Drilling stands out as the only independent foreign drilling contractor sustainably providing services within the CBM sector in China and India to the state-owned CNPC and ONGC. The contracted drilling services are recognition of the niche drilling expertise within the Company.

I look forward to providing further updates of the Company's continued progress.

Randeep S. Grewal
Chairman

26 September 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2017 US$'000 Unaudited	Six months ended 30 June 2016 US$'000 Unaudited	Year ended 31 December 2016 US$'000 Audited
Revenue	3	3,590	2,610	7,154
Cost of sales		(2,896)	(3,921)	(8,168)
Gross profit		694	(1,311)	(1,014)
Administrative expenses		(1,694)	(3,898)	(6,167)
Total administrative expenses		(1,694)	(3,898)	(6,167)
Loss from operations		(1,000)	(5,209)	(7,181)
Finance income	4	372	84	73
Finance costs	5	(692)	(1,756)	(2,451)
Loss before income tax		(1,320)	(6,881)	(9,559)
Income tax charge	6	175	1,353	1,815
Loss for the period		(1,145)	(5,528)	(7,744)
Other comprehensive income/(expense):				
Items that may be reclassified to profit or loss:				
Exchange differences on translation of foreign operations		1,282	7	(2,402)
Total comprehensive income / (expense) for the period		137	(5,521)	(10,146)
(Loss)/profit for the period attributable to:				
- Owners of the company		(1,206)	(5,615)	(7,838)
- Non-controlling interests		61	87	94
		(1,145)	(5,528)	(7,744)
Total comprehensive (expense)/income attributable to:				
- Owners of the company		105	(5,549)	(10,212)
- Non-controlling interests		32	28	66
		137	(5,521)	(10,146)
Earnings per share				
- Basic and diluted (in US dollar)	7	(0.0029)	(0.0139)	(0.0194)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2017 US$'000 Unaudited	As at 31 December 2016 S$'000 Audited
Assets			
Non-current assets			
Property, plant and equipment	8	79,634	79,601
Intangible assets		263	292
Deferred tax assets	9	781	377
Other non-current assets		471	
		81,149	80,270
Current assets			
Inventories	10	5,875	5,981
Trade and other receivables	11	5,069	3,759
Cash and bank balances	12	2,721	2,135
		13,665	11,875
Total assets		94,814	92,145
Liabilities			
Current liabilities			
Trade and other payables	13	28,453	25,045
Loans and borrowings	14	2,952	3,604
Provisions		-	-
		31,405	28,649
Non-current liabilities			
Loans and borrowings	14	7,445	7,298
Financial Liability	15	487	858
		7.932	8,156
Total liabilities		39,337	36,805
Total net assets		55,477	55,340
Capital and reserves			
Share capital		4	4
Share premium		77,186	77,186
Invested capital		(1,533)	(1,533)
Reserve fund		917	917
Foreign exchange reserve		(208)	(1,519)
Retained(deficit)		(20,698)	(19,492)
Total equity attributable to owners of the Company		55,668	55,563
Non-controlling interests		(191)	(223)
Total Equity		55,477	55,340

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$'000	Share premium US$'000	Invested capital US$'000	Reserve fund US$'000	Foreign exchange reserve US$'000	Retained deficit US$'000	Equity attributable to owners of the Company US$'000	Non-controlling interests US$'000	Total US$'000
At 01 January 2016 - audited	4	77,186	(1,533)	917	855	(11,654)	65,775	(289)	65,486
Loss for the period	-	-	-	-	-	(5,615)	(5,615)	87	(5,528)
Other comprehensive income:									
- Exchange difference on translation of foreign operations	-	-	-	-	66	-	66	(59)	7
Total comprehensive income/(expense) for the period	-	-	-	-	66	(5,615)	(5,549)	28	(5,521)
At 30 June 2016 - unaudited	4	77,186	(1,533)	917	921	(17,269)	60,226	(261)	59,965
At 01 January 2017 - audited	4	77,186	(1,533)	917	(1,519)	(19,492)	55,563	(223)	55,340
(Loss)/profit for the period	-	-	-	-	-	(1,206)	(1,206)	61	(1,145)
Other comprehensive income/(expense):							-		-
- Exchange difference on translation of foreign operations	-	-	-	-	1,311	-	1,311	(29)	1,282
Total comprehensive income/(expense) for the period	-	-	-	-	1,311	(1,206)	105	32	137
At 30 June 2017– unaudited	4	77,186	(1,533)	917	(208)	(20,698)	55,668	(191)	55,477

CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended 30 June 2017 US$'000 Unaudited	6 months ended 30 June 2016 US$'000 Unaudited	Year ended 31 December 2016 US$'000 Audited
Operating activities:			
(Loss)/profit before income tax	(1,320)	(6,881)	(9,559)
Adjustments for:			
Depreciation	1,908	1,619	2,445
Amortization of other intangible assets	36	38	71
Loss on disposal of property, plant and equipment	-	-	152
Finance (loss)/gains	126	1,329	1,482
Finance income	(372)	(84)	(73)
Finance costs	566	427	969
Operating cash flows before changes in working capital	944	(3,552)	(4,513)
Decrease/(increase) in inventories	106	835	1,157
(Increase)/decrease in trade and other receivables	(1,780)	(192)	396
Increase/(decrease) in trade and other payables	649	6,301	(1,014)
Cash (utilized by)/generated from operations	(81)	3,392	(3,974)
Income tax payment	(229)	(43)	(216)
Net cash from operating activities	(310)	3,349	(4,190)
Investing activities:			
Payments for purchase of property, plant and equipment	(8)	98	(318)
Payments for intangible assets			-
Movement in restricted cash	(2,657)	(4,395)	2,068
Interest received	-	1	59
Net cash (used in)/from investing activities	(2,665)	(4,296)	1,809
Financing activities			
Proceeds from promissory note		5,000	8,000
Proceeds of short term loan	5,452	3,770	3,604
Repayment of short term loan	(3,604)	(5,852)	(5,852)
Finance costs paid	(161)	(268)	(738)
Net cash from/(used in) financing activities	1,687	2,650	5,014
Net/increase/(decrease) in cash and cash equivalents	(1,288)	1,703	2,633
Cash and cash equivalents at start of year	2,135	353	353
	847	2,056	2,986
Effect of foreign exchange rate changes	(783)	(437)	(851)
Cash and cash equivalents at end of year	64	1,619	2,135

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The consolidated unaudited interim financial information set out in this report is based on the consolidated financial statements of Greka Drilling and its subsidiary companies (together referred to as the "Group").

2. ACCOUNTING POLICIES

The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union except for IAS 34. The financial statements of the Group for the 6 months ended 30 June 2017 were approved and authorized for issue by the Audit Committee and the Board on 26 Sep 2017.

The interim financial statements have been prepared in accordance with the accounting policies that are consistent with the December 2016 financial statements and the same policies are expected to apply for the year ended 31 December 2017. The financial information for the six months to 30 June 2017 does not constitute audited accounts of the Company or the Group. The comparative financial information for the year ended 31 December 2016 in this interim report does not constitute statutory accounts for that year. The auditors' report on those accounts was unqualified and did not draw attention to any matters by way of emphasis.

Basis of preparation

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

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

The consolidated financial information has been prepared in accordance with the requirements of the AIM Rules for Companies and in accordance with IFRS as adopted by the European Union. The consolidated financial information have been prepared using the accounting policies which will be applied in the Group's financial statements for the year ended 31 December 2016.

The preparation of consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial information are disclosed in note 2 to the financial information in the 31 December 2016 annual report. Actual results may differ from these estimates.

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

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENTAL INFORMATION

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

The Group reports its operations as two reportable segments: the provision of contract drilling services in the PRC and India. The division of contract drilling operations into two reportable segments is attributable to how the CODMs manage the business. Intercompany eliminations and corporate balances are included in the "other" column.

Drilling services revenue and management services revenue represent the net invoiced value of contracted drilling services and management services provided to two major customers, one in the PRC (who is a related party) and the other in India.

	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
	US$'000	US$'000	US$'000
	Unaudited	Unaudited	Audited
China	2,536	1,959	3,241
India	1,054	651	3,913
	3,590	2,610	7,154

	As at 30 June 2017	As at 31 December 2016
	US$'000	US$'000
	Unaudited	Audited
Segmental assets		
China	90,833	86,613
India	19,416	19,699
Intercompany	(15,435)	(14,167)
	94,814	92,145
Segmental liabilities		
China	13,072	9,517
India	4,012	4,096
Intercompany	22,477	23,192
	39,561	36,805

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. FINANCE INCOME

	Six months ended 30 June 2017 US$'000 Unaudited	Six months ended 30 June 2016 US$'000 Unaudited	Year ended 31 December 2016 US$'000 Audited
Change in FV of derivative	372	83	14
Bank interest	-	1	59
	372	84	73

5. FINANCE COSTS

	Six months ended 30 June 2017 US$'000 Unaudited	Six months ended 30 June 2016 US$'000 Unaudited	Year ended 31 December 2016 US$'000 Audited
Interest expense on short term loans	(418)	(373)	(800)
Foreign exchange loss	(126)	(1,329)	(1,482)
Amortization of warrant costs	(148)	(54)	(169)
	(692)	(1,756)	(2,451)

6. TAXATION

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

7. EARNINGS PER SHARE

	Six months ended 30 June 2017 US$'000 Unaudited	Six months ended 30 June 2016 US$'000 Unaudited	Year ended 31 December 2016 US$'000 Audited
Earnings for the purpose of basic and diluted loss per share	(1,145)	(5,528)	(7,744)
Weighted average number of ordinary shares	398,245,758	398,245,758	398,245,758

Warrants were outstanding at the end of the period that could potentially dilute basic earnings per share in the future. However, due to losses incurred during the current period, the impact of these share incentives would not be dilutive.

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred US$336,740 on additions to plant and equipment (31 December 2016 — US$318,000).

9. DEFERRED TAXATION

	As at 30 June 2017	As at 31 December 2016
	US$'000	US$'000
	Unaudited	Audited
Deferred tax liabilities		
Opening balance	(377)	1,184
Tax losses recognized	(862)	(3,372)
Temporary difference charge	638	1,395
Foreign exchange adjustment	(180)	416
At the end of the period	**(781)**	**(377)**

The Group has not offset deferred tax assets and liabilities across different jurisdictions. Cayman Island losses of US$14,079,420 (2016: US$13,390,404) do not expire under current tax legislation. PRC tax losses of US$8,688,141 (2016: $7,791,657) expire after 5 years.

10. INVENTORIES

	As at 30 June 2017	As at 31 December 2016
	US$'000	US$'000
	Unaudited	Audited
Raw materials and consumables	5,875	5,981

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017	As at 31 December 2016
	US$'000	US$'000
	Unaudited	Audited
Account receivable	3,294	1,415
Prepayments	412	902
Other receivables	1,363	1,442
	5,069	3,759

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. CASH AND CASH EQUIVALENTS

	As at 30 June 2017	As at 31 December 2016
	US$'000	US$'000
	Unaudited	Audited
Cash and Cash Equivalents(Unrestricted)	64	2,135
Cash and Cash Equivalents(Restricted)	2,657	-
	2,721	2,135

The restricted bank balance represents deposits placed in financial institutions to secure bills payable of an equivalent amount related to bank loans of US$2,657,062.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2017	As at 31 December 2016
	US$'000	US$'000
	Unaudited	Audited
Trade payables and others	8,491	8,557
Banks Notes payable	2,657	-
Other current liabilities	4,461	3,561
Amount due to related parties	12,844	12,927
	28,453	25,045

14. LOANS AND BORROWINGS

Bank name	**Period**	**Balance as at Dec 31,2016**	**Interest rate**	**Repayment**		**New loan**		**Balance as at June 30,2017**
		US$'000		**Date**	**Amount US$'000**	**Date**	**Amount US$'000**	US$'000
CITIC Bank	1 year	1,730	6.60%	11/5/2017	1,730	16/5/2017	1,476	1,476
SPD Bank	1 year	1,874	6.96%	17/1/2017	1,874	18/1/2017	1,476	1,476
Total for Short term loan		**3,604**			**3,604**		**2,952**	**2,952**
Guaranty finance investors, LLC	3 years	4,514	7.00%	30/3/2019				4,622
Guaranty finance investors, LLC	3 years	2,783	7.00%	30/9/2019				2,823
Total for Long term loan		**7,298**						**7,445**

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. Financial Liability

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

16. RELATED PARTY TRANSACTIONS

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

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

As at 30 June 2017, the Group had the following balances due to/from companies under common control of Randeep Singh Grewal, the chairman & CEO.

- Net payable to the Green Dragon Gas group of US$9.8m (2016: net payable: US$ 12.7m)
- Net payable to the Greka Engineering and Technology group of US$518,041 (2016: US$206,940)

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

- The company has secured a US$2.5 million loan provided by GRECAP Limited , the Loan is at an interest rate of 7.0% per annum and is repayable (principal and accrued interest) on 30 November 2018 or, at the option of the lender (the “Option”), between 1 January 2018 and 31 May 2018 through the transfer of the ownership held by the Company of the leases of the 28th and 29th floors of the office building in Zhengzhou, PRC where its Chinese operational headquarters are based. The net book value of these properties at 31 December 2016 was US$4.9 million and there are bank loans of approximately US$2.9 million secured on these properties. The Company has the option of repaying the Loan prior to the exercise of the Option, thereby redeeming the Option. The proceeds of the Loan will be used as to US$2.0m to pay creditors and US$0.5 million for working capital purposes.

Related party transactions during the period comprise of

- Drilling services provided to the Green Dragon Gas group of US$850,856 (2016: US$1,541,000)
- Leasing income from the Green Dragon Gas group of US$228,260 (2016: US$327,000m), Greka Engineering and Technology group of US$27,422 (2016: US$25,000)

The lease term was 1 year from 1 January 2017 to 31 December 2017 and 1 January 2016 to 31 December 2016 respectively.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

DIRECTORS

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

David Turnbull
Non-Executive Director

Bryan Smart
Non-Executive Director

Richard Day
Non-Executive Director

Sean Mulhearn
7EU Non-Executive Director

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REKA

DRILLING