Greka Drilling

Annual Report 2011

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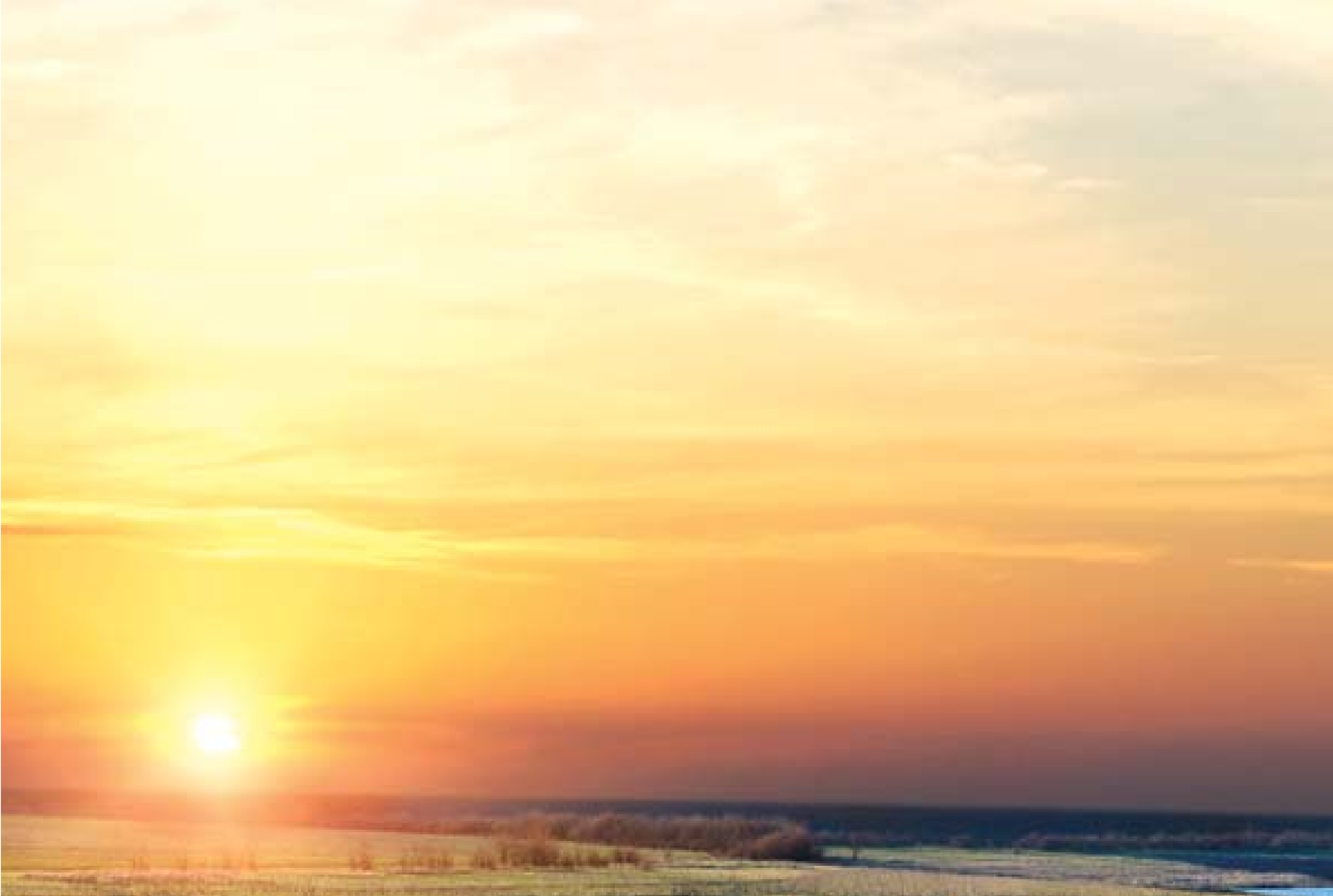
HIGHLIGHTS

CORPORATE HIGHLIGHTS

- Successful 100% demerger from Green Dragon Gas Ltd.
- Admitted to the London Stock Exchange AIM market in March 2011
- Personnel grew from 216 to 520, an increase of 141% year on year
- Newly constructed camp site size of 9,760 square meters with capacity for 1,000 personnel
- Fleet increased from 7 rigs to 16 rigs over the period, an increase of 129% year-on-year
- Established directional drilling and maintenance and logistics divisions



OPERATIONAL HIGHLIGHTS

- 88,224 meters drilled, compared to 59,807 drilled in 2010, a 47.5% increase
- Vertical wells averaging 37 days
- Horizontal wells averaging 51 days, including exploration drilling days

FINANCIAL HIGHLIGHTS

- Revenue US$43.8m, an 80% increase over same period last year
- Net profit US$2.8m, compared with US$2.0m in same period last year, a 39% increase year on year
- EPS US$0.006, compared with US$0.005 in same period last year
- Cash on hand of US$6.6m, compared to US$6.4m in 2010
- Unused US$12.5m revolving working capital facility

CHAIRMAN'S STATEMENT

Greka Drilling Limited (AIM: GDL), the largest independent and specialised unconventional gas driller in China, is pleased to announce that net profits in the year to December 2011 increased by 39% on revenues of US$43.8 million (2010: US$24.3 million).

In the first year as an independently listed and managed Company following the successful demerger from Green Dragon Gas Ltd. via a dividend in specie on March 8, 2011, as described in note 2 to the financial statements. The company has focused on the commissioning of its 'state of the art' rig fleet and the staffing of its senior engineers and crew. The LiFaBriC drilling methodology is an environmentally positive game changer, as this method avoids the need for fracking the coals to induce desorption.

The new fleet was ordered in the summer of 2011. The drilling rig manufacturer was assisted in the specification of the purpose built fleet by the Company's senior engineers. The tight delivery schedule was complimented by a tremendous and well implemented increase in senior personnel and headcount. In March 2012, the first entrants into the purposely built Site Camp for drilling crews and supervisors in Shizhuang South, Shanxi Province commenced. The Site Camp currently comprises 8 buildings covering a floor space of 9,760 square meters.

The Company has focused on production drilling at Shizhuang South for its client Green Dragon Gas Ltd.. It has also drilled in the exploration blocks where drilling days vary greatly.

The pattern of drilling has radically changed. Crew sizes are 18 per rig (shift work) and operate around the clock. A rig supervisor overseas 5 rigs and fleets move in formations to new locations led by the supervisor. The production drilling fleet is controlled via digital feeds to the Company's central SCADA operation control centre in Zhengzhou, where the skilled supervision team controls the execution and performance.

Greka Drilling has a significant first mover advantage in the application of specialist LiFaBriC horizontal drilling methodology in the exploitation of CBM in China.

FINANCIALS

Earnings per share increased to US$0.006 from US$0.005. Greka Drilling remains well-positioned financially, with US$6.6 million cash on hand (2010: US$6.4M) and US$12.5m unused working capital facility for operations and growing business.

OUTLOOK

The Company has set its sights firmly on third party contracts both in China and further afield. To this end, we have added divisions within the business to include maintenance and directional drilling. The latter is to push the technology and methodologies curve even further so as to maintain the competitive advantage. Chinese third party contracts are within our reach. The decision on the international push will be made during the coming year. The focus on the balance sheet remains, with debt being added to fund expansion. The option that we have to expand the fleet further is being concurrently evaluated through the anticipated addition of new customers.

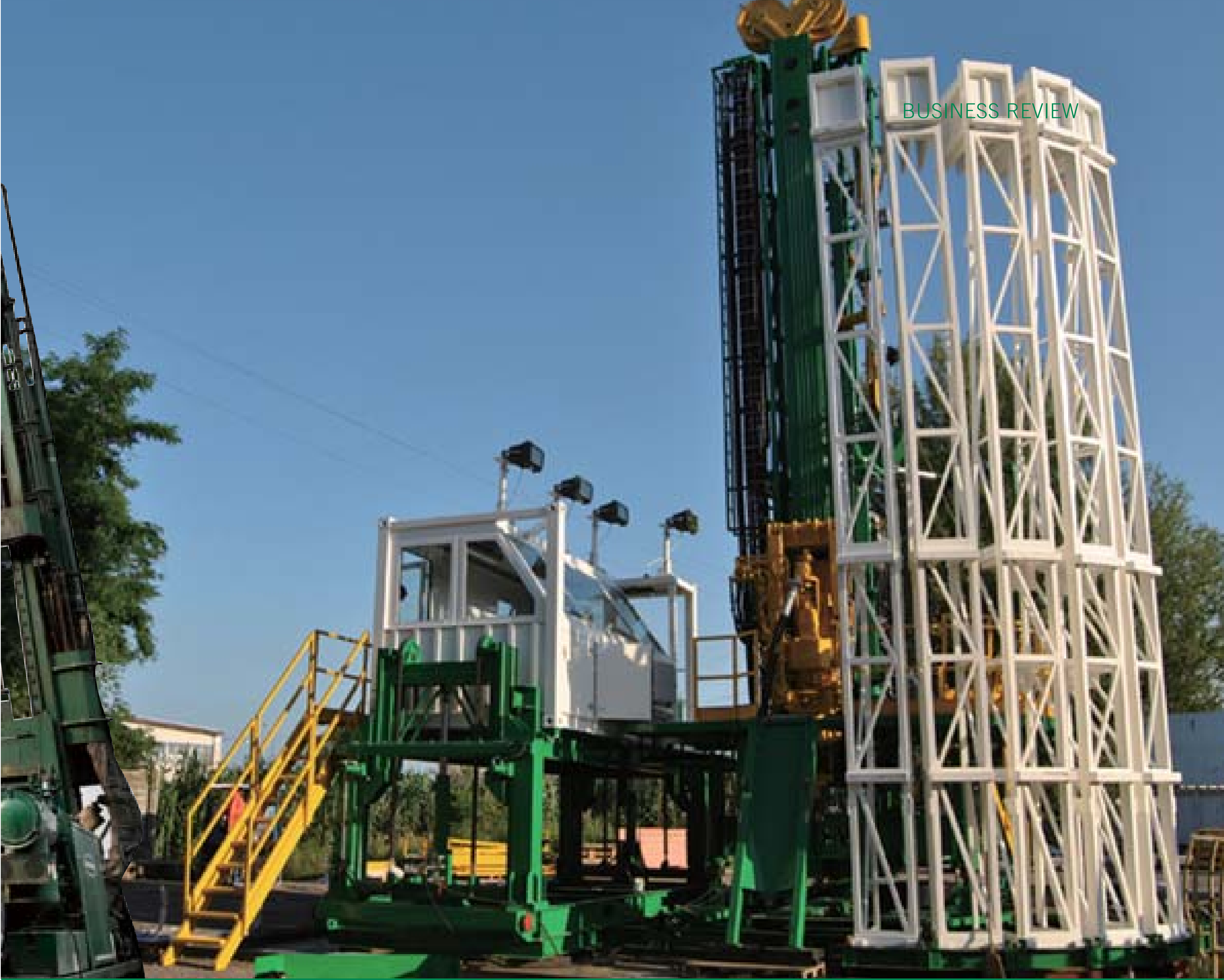
Randeep S. Grewal
Founder & Chairman
8 April 2011

Greka Drilling Limited is one of the largest independent and specialized unconventional gas drillers in China. In 2011, the year of Rabbit, and the Company's first of independence from Green Dragon Gas Ltd., the Company placed one of the largest drilling rig contracts globally and witnessed a metamorphosis in its operating business environment. As with previous years, the drilling contract between the Company and its client Green Dragon Gas Ltd. was concluded on an arm's length basis. The company signed a 25 rig purchase contract with Drillmec with an option to increase the number of rigs by a further 125. Management was strengthened in tandem with the task of a rapidly growing and leading drilling service company.

OVERVIEW

Our 2011 financial and operating results include:

- Net profit US$2.8m, compared with US$2.0m in same period last year, 39% increase year on year.
- EPS US$0.006, compared with gain per share of US$0.005 in same period last year.
- Meter drilled increased by 47.5% from 59,807 for 2010 to 88,224 for 2011.
- Total rigs grew to 16 from 7 from the previous year.



FLEET

- Of the 7 rig fleet size in 2010, 5 were originally equipped for drilling Vertical Wells. These were converted and equipped to drill LiFaBriC directional Wells to join the 2 existing directional rigs.

- GDL signed the contract with Drillmec to purchase 25 new GD-75 rigs. By the end of Dec, 2011, 9 new rigs arrived on site and related accessory drilling equipment for these 9 rigs was also purchased.

- In order to improve efficiency, 5 new rigs will be treated as one team, with a team supervisor. The 5 rig formation will consist of 2 rigs drilling verticals and 3 drilling laterals. All rigs can drill directional, horizontals and or/ verticals

PERSONNEL

- During 2011, HR recruited 9 new drilling crews in connection with the expansion of the number of rigs, the rigs aim to drill 24/7, 365 days a year.

- Reduced drilling crews from 25 staff to 18 staff.

- In order to meet our planned drilling business expansion, the company revised and augmented its organization by adding Directional department\ HSE department\ OCC which supervisor drilling activity timely\ Maintenance and logistics department.

- Worked out and executed "Drilling Team Performance Evaluation Policy", to improve the productivity of drilling crews.

TRAINING

- Set up a training school to train new staff.
- Organized 20 training modules which included Greka culture training\ drilling theory training\ rig drilling training\ HSE training\ Equipment maintenance training and Directional drilling training.

CAMP

- Obtained a long-term lease for 23,000m2 of land for the construction of a Site Camp.
- Constructed 8 buildings on a total land area of 9760 square meters to accommodate 1,000 employees.
- The buildings include management dorms, staff dorms, workshops, warehouse, field offices, etc.

DIRECTIONAL DRILLING

- The application of innovative solutions starts with GDL's growing Engineering Department which houses Directional Drilling and Engineering Divisions. With a key focus on improving productivity, these divisions develop and implement our in-house directional drilling techniques. GDL ensures its team members deliver the consistent application of specialized in-house techniques and methodologies. This ensures that current and future growth is viable without reliance on external resources.

- Perfected the utilization of RMRS (Rotating Magnet Ranging System) technologies which significantly reduces the number of intersection attempts required per well. Historically, LiFaBric lateral lateral well has taken on average four attempts to achieve intersection, although with the implementation of RMRS, GDL has reduced this to achieve intersection with a single attempt.

- The LiFaBriC method continues to deliver consistent and reliable results. GDL combines cutting edge drilling technology with a program of continuous development to deliver an enhanced CBM completions technique. Together with developments in applying enhanced geo-steering techniques through MWD (Measurement While Drilling) and LWD (Logging While Drilling) technologies, GDL has been able to continue to improve upon the success of the LiFaBriC methodology.

MAINTENANCE:

- Maintenance department launched in June 2011.

- In total 7 technicians, were sent to Drillmec to take senior training and conduct quality control of the GD 75 rigs.

- Successfully commissioned the first GD 75 rig in October 2011. Not considering the commissioning period of the new equipment, rig breakdown time was maintained below 3%.

- After the theoretical training and operational practice, engineers and mechanics are able to troubleshoot and repair the mechanical, hydraulic and electrical failures on the rigs.

RESULTS FOR THE YEAR

The Group recorded a revenue of US$43.8 million (2010: US$24.3million) and a profit attributable to equity holders of US$2.8million (2010: US$1.8 million) for the year ended 31 December 2011. The general and administrative expenses amounted to US$5.6million (2010: US$2.8 million). Earnings per share were US$0.006 (2010: US$0.005).

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2011, the Group has total assets of US$88.4 million (2010: US$53.2 million) and current liabilities and equity holders' equity of US$11.3 million and US$77.1 million respectively (2010: US$56.9 million and a deficit of US$3.7 million respectively).

As at 31 December 2011, the Group's cash and cash equivalents balance was US$6.6 million (2010: US$6.4 million) with total borrowings of US$2.0 million (2010: US$1.5 million).

The Company has raised a US$1.98 million bank loan through the mortgage of an office building. This bank loan has a one year term from 9 December 2011 to 9 December 2012 with an interest rate of 7.544%.

EXECUTIVE DIRECTORS

Randeep S. Grewal, Chairman & CEO

Randeep Grewal has been Chairman and Chief Executive Officer of Greka since its inception in 1999, Green Dragon Gas since inception in 2006 and Greka Drilling since its inception in 2007. 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 is to act as Chief Financial Officer of Greka Drilling Limited. She joined Greka Technical Services on 1 February 2008 as Chief Accounting Officer and since that time has been responsible for financial matters in relation to the drilling business, as well as wider financial matters within the Greka Group. She has 18 years experience in accounting and financial management. Prior to joining the Greka Group, 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 master degree in Business Administration at Xi'an Jiaotong University.

NON-EXECUTIVE DIRECTORS

David Turnbull, Non-Executive Director

David Turnbull is the Executive Chairman of Pacific Basin Shipping Limited since 1 July 2008. Previously he has been an independent non-executive director of Pacific Basin Shipping Limited since May 2006.

Mr Turnbull joined Seabury Aviation & Aerospace as Chairman of Seabury Asia in November 2008. Mr Turnbull worked for the Swire Group for 30 years from 1976 to 2006 where he was the immediate past Chairman of Swire Pacific Ltd, Cathay Pacific Airways Ltd (January 2005 to January 2006) and Hong Kong Aircraft Engineering Company Ltd (HAECo) (March 1995 to August 2006). He also served as a non-executive director of the Hong Kong and Shanghai Banking Corporation (HSBC) (January 2005 to Dec 2005), Hysan Development Co Ltd (May 2005, Jan 2006) and Air China Ltd (May 2005 to Dec 2005). He was appointed a director of Cathay Pacific in 1994 and took up the position 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.

Mr Turnbull has a Master of Arts Degree in Economics from Cambridge University.

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 Smart has over 35 years of experience in finance both in professional and commercial roles. Until recently he was Chairman of The Supervisory Board of CarboTech AG and is currently a non-executive director of SCOTTY Group PLC, executive director of Tradelinens Ltd, executive director of Brooklands Museum Trust and a trustee director of DaimlerChrysler Pension Fund since 2006. From 1981 to 2006, Mr. Smart held various positions at DaimlerChrysler(UK) Ltd, from internal auditor in 1981, to finance controller in 1985, and was appointed as CFO in the year of 1996. During this period, Mr. Smart completed the acquisition and assimilation of Chrysler Jeep in the UK, Lex Autosales and all Mercedes Benz dealers in metropolitan areas and also served on the board of Brunel University. From 1975 to 1981, Mr. Smart worked in Deloitte Touche as a chartered accountant in both external auditor and management consultancy roles.

The Directors of Greka Drilling Limited have pleasure in submitting their Report with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

Greka Drilling Limited is the ultimate holding company and the indirect parent company of Greka (Zhengzhou) 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 drilling services of CBM. 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 2011 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 statement).

SHARE CAPITAL AND RESERVES

Details of the Group's authorised and issued share capital and reserves as at 31 December 2011 and 2010 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 2011 and 2010, is provided in the Financial Review on page 7. Detailed financial information is included from page 15 to page 43 of the report. The Directors do not propose the payment of cash dividends until the Group is in production and generating revenue and profit.

DIRECTORS REMUNERATION

	Fees US$'000	Salaries US$'000	2011 Total US$'000	2010 Total US$'000
Executive directors				
Randeep Grewal	—	539	539	—
Lisa He	6	78	84	83
subtotal	**6**	**617**	**623**	**83**
Non-Executive Directors				
Bryan Smart	—	55	55	—
David Turnbull	—	52	52	—
Stewart John OBE	—	56	56	—
subtotal	—	163	163	—
Total	**6**	**780**	**786**	**83**

DIRECTORS AND THEIR INTERESTS

The table below sets out the interests of the Directors in Greka Drilling Limited as at 31 December 2011.

Directors	Number of ordinary shares	% of issued share capital
Mr. Randeep S. Grewal	264,919,233	68.25%
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 2011.

	Number of ordinary shares	% of issued share capital
Green Dragon Gas (Holdings) Ltd.	264,000,000	66.29%

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 the 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 2011, 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 2011 Annual General Meeting was held at 3:30 pm on Thursday, 12 July 2012, 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 April, 2012

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 DRILLING LIMITED

We have audited the group financial statements of Greka Drilling Limited for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes. The Financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's directors, as a body in accordance with our engagement letter dated 23 January 2012. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's directors as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit 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

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 2011 US$'000**	Year ended 31 December 2010 US$'000
Revenue	4	**43,834**	24,317
Cost of sales		**(34,235)**	(19,430)
Gross profit		**9,599**	4,887
Foreign exchange (losses)/gains		**671**	959
Administrative expenses		**(5,581)**	(2,829)
Total administrative expenses		**(4,910)**	(1,870)
Profit from operations	5	**4,689**	3,017
Finance income	6	**12**	3
Finance costs	7	**(85)**	(266)
Profit before income tax		**4,616**	2,754
Income tax charge	11	**(1,812)**	(732)
Profit for the year		**2,804**	2,022
Other comprehensive income:			
Exchange differences on translation of foreign operations		**825**	154
Total comprehensive income for the year		**3,629**	2,176
Profit for the period attributable to:			
— Owners of the company		**2,790**	1,826
— Non-controlling interests		**14**	196
		2,804	2,022
Total comprehensive income attributable to:			
— Owners of the company		**3,627**	2,136
— Non-controlling interests		**2**	40
		3,629	2,176
Earnings per share			
— Basic and diluted (in US dollar)	10	**0.006**	0.005

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 December 2011 US$'000**	As at 31 December 2010 US$'000
Assets			
Non-current assets			
Property, plant and equipment	13	**43,219**	16,738
Intangible assets	14	**524**	181
Deferred tax asset	20	**—**	—
		43,743	16,919
Current assets			
Inventories	15	**9,155**	4,354
Trade and other receivables	16	**28,930**	25,534
Cash and cash equivalents		**6,559**	6,383
		44,644	36,271
Total assets		**88,387**	53,190
Liabilities			
Current liabilities			
Trade and other payables	17	**8,994**	54,967
Loans and borrowings	18	**1,984**	1,480
Current tax liabilities		**283**	436
		11,261	56,883
Total net assets /(liabilities)		**77,126**	(3,693)
Capital and reserves			
Share capital	21	**4**	—
Share premium account		**77,186**	—
Invested capital		**(1,533)**	(1,533)
Reserve fund		**595**	102
Foreign exchange reserve		**1,599**	519
Retained deficit		**(336)**	(477)
Total equity/(deficit) attributable to owners of the Company		**77,515**	(1,389)
Non-controlling interests		**(389)**	(2,304)
Capital deficiency		**77,126**	(3,693)

The financial statements were authorised and approved by the Board on 10 April 2012 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$'000	Retained deficit US$'000	Equity attributable to owners of the Company US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2010	—	—	(1,533)	—	209	(2,201)	(3,525)	(2,344)	(5,869)
Profit for the year	—	—	—	—	—	1,826	1,826	196	2,022
Other comprehensive income: — Exchange difference on translation of foreign operations	—	—	—	—	310	—	310	(156)	154
Total comprehensive income for the year	—	—	—	—	310	1,826	2,136	40	2,176
Transfer of reserve fund	—	—	—	102	—	(102)	—	—	—
At 31 December 2010	—	—	(1,533)	102	519	(477)	(1,389)	(2,304)	(3,693)
Profit for the year	—	—	—	—	—	2,790	2,790	14	2,804
Other comprehensive income: — Exchange difference on translation of foreign operations	—	—	—	—	837	—	837	(12)	825
Total comprehensive income for the year	—	—	—	—	837	2,790	3,627	2	3,629
Adjustments arising upon acquisition of additional interests in Greka Mitchell Drilling Co. Ltd. (see note 19)	—	—	—	—	243	(2,156)	(1,913)	1,913	—
Transfer of reserve fund	—	—	—	493	—	(493)	—	—	—
New issue of ordinary shares	4	49,996	—	—	—	—	50,000	—	50,000
Capital contribution — waiver of amounts owed to Green Dragon Gas Ltd. (note 22 (a))	—	27,190	—	—	—	—	27,190	—	27,190
At 31 December 2011	4	77,186	(1,533)	595	1,599	(336)	77,515	(389)	77,126

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 10 per cent of profits in each period be reserved for future development and employee's benefit. The amount is non-distributable.

Foreign exchange Reserve: Foreign exchange differences arising on translating into the reporting currency.

Retained deficit: Cumulative net gains and losses recognized in the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Operating activities			
Profit before income tax		**4,616**	2,754
Adjustments for:			
Depreciation	13	**2,941**	2,083
Amortization of intangible assets	14	**37**	18
Loss on disposal of property, plant and equipment		**10**	491
Finance income	6	**(12)**	(3)
Finance costs	7	**85**	266
Operating cash flows before changes in working capital		**7,677**	5,609
Increase in inventories		**(4,801)**	(2,208)
Increase in trade and other receivables		**(3,396)**	(18,632)
(Decrease)/increase in trade and other payables		**(18,783)**	22,747
Cash (used in)/generated from operations		**(19,303)**	7,516
Income tax payment		**(1,976)**	(5)
Net cash (used in)/from operating activities		**(21,279)**	7,511
Investing activities			
Payments for purchase of property, plant and equipment	13	**(28,671)**	(3,108)
Payments for intangible assets	14	**(363)**	(38)
Proceeds from disposal of property, plant and equipment		**16**	—
Interest received		**12**	3
Net used in investing activities		**(29,006)**	(3,143)
Financing activities			
Proceeds from the issue of share, net of issue costs		**50,000**	—
Proceeds of short term loan		**1,984**	1,480
Repayment of short term loan		**(1,555)**	(1,171)
Finance costs paid		**(85)**	(266)
Net cash from financing activities		**50,344**	46
Net increase in cash and cash equivalents		**59**	4,411
Cash and cash equivalents at the beginning of the year		**6,383**	2,261
		6,442	6,672
Effect of foreign exchange rate changes		**117**	(289)
Cash and cash equivalents at end of year		**6,559**	6,383

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 2011. The principal accounting policies adopted in the preparation of the 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 except that any derivative financial assets and liabilities are stated at fair value.

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 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.

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.

IFRS does not contain specific guidance on the accounting for common control transactions. However, 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 has been accounted for on a merger or pooling of interest basis as if both entities had always been combined. Consequently, the corresponding figures for the prior year reflect the results of the combined entities. The combination has been 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

New and amended standards adopted by the Group

The following new standards and amendments to standards are effective for financial year beginning 1 January 2011 that are relevant to the Group. Except as noted, the implementation of these standards and amendments did not have a material effect on the Group.

Standard	Description	Effective date
Improvements to IFRSs (2010)	The Improvements clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. The Improvements did not have any impact on the current or prior years' financial statements.	1 January 2011
IAS 24 (Revised) — Related Party Disclosures	The revised standard provides a revised definition of a related party. The structure of definition of related party has been simplified and inconsistencies eliminated. While adopted by the Group in the current year, no significant impact of related party disclosures is expected.	1 January 2011

New and amended standards issued but not effective and not early adopted by the Group

Standards, amendments and interpretations effective for reporting periods beginning after the date of these financial statements, which are relevant to the Group but have not been adopted early, are as follows:

Standard	Description	Effective date
Amendments to IFRS 7	Disclosures — Transfers of Financial Assets	1 July 2011
Amendments to IFRS 1*	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
Amendments to IAS 12*	Deferred Tax — Recovery of Underlying Assets	1 January 2012
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 10*	Consolidated Financial Statements	1 January 2013
IFRS 11*	Joint Arrangements	1 January 2013
IFRS 12*	Disclosures of Interests in Other Entities	1 January 2013
IFRS 13*	Fair Value Measurement	1 January 2013
Amendments to IAS 27*	Separate Financial Statements	1 January 2013
Amendments to IAS 28*	Investments in Associates and Joint Ventures	1 January 2013
Amendments to IFRS 7*	Disclosures, Offsetting Financial Assets and Liabilities	1 January 2013
IAS 32*	Offsetting Financial Assets and Liabilities	1 January 2014
IFRS 9*	Financial Instruments	1 January 2015

* Not yet endorsed by the European Union.

The Group has not yet assessed the impact of IFRS 9. Except for this, the above new standards, amendments and interpretations are not expected to materially affect the Group's reporting or reported numbers.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currency translation

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

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

On consolidation, the results of overseas 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 overseas 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 overseas 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 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. The useful lives and residual value are reviewed, and adjusted if appropriate, at each reporting date. The useful lives of property, plant and equipment are as follows:

Buildings and structures:	20 - 30 years
Motor vehicles:	5 years
Fixtures, fittings and equipment:	3 - 10 years

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 incurred.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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

Inventories

Inventories, which includes materials and consumable tools (drilling bits, drilling pipes and drilling collars etc.), are initially recognised at cost, and subsequently 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.

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 Chief Executive Officer, the Chief Financial Officer and non-executive Board Members.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

Tax on the profit or loss for the period 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.

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 day 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

Other financial assets include prepayments paid to acquire property plant and equipment.

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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Leases

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

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

Provisions and contingent liabilities

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

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

3 CRITICAL ACCOUNTING ESTIMATES

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

Impairment of property plant and equipment

Management reviews the carrying amounts and useful economic lives of property, plant and equipment 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 undiscounted 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 undiscounted 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 our contract drilling segments for any of the years ended 31 December 2011 or 2010. The assumptions used in the impairment evaluation for property plant and equipment are inherently uncertain and require management judgement.

Power to exercise control

Where the Group holds 50% of the voting rights in entities, but by virtue of the operational and financing structure, the Group is able to control these entities and these entities are consolidated into these financial statements as a subsidiary of the Group. Details of these entities are given in note 19.

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 operating segment based on revenues from external customers and segment profit.

Drilling services revenue and management services revenue represents the net invoiced value of contract drilling services and management services provided to one customer. The amounts of each significant category of revenue recognised during the year are as follows:

	2011 US$'000	2010 US$'000
Drilling services	43,102	23,727
Management services	732	590
	43,834	24,317

5 PROFITS FROM OPERATIONS

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

	2011 US$'000	2010 US$'000
Cost of inventories recognized as an expense		
Staff costs (note 8)	7,931	4,791
Depreciation of property, plant and equipment	2,941	2,083
Operating lease expense (property)	132	58
Amortization of intangible assets	37	18
Loss on disposal of property, plant and equipment	10	491
Foreign exchange losses/(gains)	(671)	(959)

6 FINANCE INCOME

	2011 US$'000	2010 US$'000
Bank interest	12	3

7 FINANCE COSTS

	2011 US$'000	2010 US$'000
Interest expense on short term loans	85	67
Interest expense on loans from a related company	—	199
	85	266

8 STAFF COSTS

	2011 US$'000	2010 US$'000
Staff costs (including directors' remuneration (note 9)) comprise:		
Wages and salaries	**6,756**	3,949
Employer's national social security contributions	**912**	441
Other benefits	**263**	401
	7,931	4,791

9 DIRECTORS AND KEY MANAGEMENT PERSONNEL'S REMUNERATION

	2011 US$'000	2010 US$'000
Fee and salaries	**780**	78
National social security contributions	**6**	5
	786	83

Key management personnel of the Group are the directors.

10 EARNINGS PER SHARE

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

	2011 US$'000	2010 US$'000
Profit for the year	**2,790**	1,826
Number of shares	**431,359,038**	398,245,758
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands)	**431,359**	368,423
Weighted average number of ordinary shares for the purposes of diluted earnings per share (thousands)	**431,359**	368,423
Basic earnings per share (US$)	**0.006**	0.005
Diluted earnings per share (US$)	**0.006**	0.005

There were no potentially dilutive instruments.

11 TAXATION

	2011 US$'000	2010 US$'000
Current tax		
— Charges for current year	**1,812**	431
Deferred tax		
— (Credit)/charge for the year	**—**	301
Income tax charge	**1,812**	732

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

	2011 US$'000	2010 US$'000
Profit before income tax	**4,616**	2,754
Expected tax charge based on the standard rate of corporation tax in the Cayman Islands of 0% (2010: 0%)	**—**	—
Effect of:		
Different tax rates applied in overseas jurisdictions	**1,154**	689
Tax effect of revenue not taxable for tax purposes	**(71)**	(233)
Tax effect of expenses not deductible for tax purposes	**56**	276
Tax losses not recognized	**574**	—
Under/(over) provision in respect of prior year	**99**	—
Income tax charge	**1,812**	732

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.

12 UNRECOGNISED TAXABLE TEMPORARY DIFFERENCES ASSOCIATED WITH INVESTMENTS AND INTERESTS

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized are attributable to the following.

	2011 US$'000	2010 US$'000
PRC subsidiaries	**795**	—
	795	—

13 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 2010	2,221	917	14,999	—	18,137
Additions	86	318	2,703	—	3,107
Disposals	—	(53)	(633)	—	(686)
Exchange differences	69	29	459	—	557
At 31 December 2010	2,376	1,211	17,528	—	21,115
Additions	5,027	1,242	20,109	2,293	28,671
Disposals	—	(45)	—	—	(45)
Exchange differences	121	62	902	(19)	1,066
At 31 December 2011	7,524	2,470	38,539	2,274	50,807
Depreciation					
At 1 January 2010	191	225	1,965	—	2,381
Charge for the year	142	190	1,751	—	2,083
Eliminated upon disposals	—	(21)	(174)	—	(195)
Exchange differences	1	11	96	—	108
At 31 December 2010	334	405	3,638	—	4,377
Charge for the year	331	292	2,318	—	2,941
Eliminated upon disposals	—	(34)	(1)	—	(35)
Exchange differences	33	27	245	—	305
At 31 December 2011	698	690	6,200	—	7,588
Net book value					
At 31 December 2011	6,826	1,780	32,339	2,274	43,219
At 31 December 2010	2,042	806	13,890	—	16,738
At 31 December 2009	2,030	692	13,034	—	15,756

14 INTANGIBLE ASSETS

	Software US$'000
Cost	
At 1 January 2010	172
Additions	38
Exchange realignment	7
At 31 December 2010	217
Additions	363
Exchange realignment	20
At 31 December 2011	600
Amortization	
At 1 January 2010	17
Charge for the year	18
Exchange realignment	1
At 31 December 2010	36
Charge for the year	37
Exchange adjustment	3
At 31 December 2011	76
Net book value	
At 31 December 2011	524
At 31 December 2010	181
At 31 December 2009	155

15 INVENTORIES

	2011 **US$'000**	2010 US$'000
Raw materials and consumables	**9,122**	4,025
Work-in-progress	**33**	329
	9,155	4,354

16 TRADE AND OTHER RECEIVABLES

	2011 US$'000	2010 US$'000
Prepayments	**25,755**	927
Other receivables	**200**	91
Amounts due from related parties (note 22)	**2,975**	24,516
	28,930	25,534

The fair values of trade and other receivables approximate their respective carrying amounts at the end of each reporting periods due to their short maturities. There is no allowance for impairment of receivables. Prepayments mainly comprise payments in advance for purchasing materials, rigs, equipment and drilling tools.

17 TRADE AND OTHER PAYABLES

	2011 US$'000	2010 US$'000
Trade payables	**8,015**	2,677
Other current liabilities	**979**	841
Amounts due to related parties (note 22)	**—**	51,449
	8,994	54,967

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

18 LOANS AND BORROWINGS

	2011 US$'000	2010 US$'000
Bank loans — secured	**1,984**	1,480

Bank borrowings of RMB12,500,000 have a one year term from 9 December 2011 to 9 December 2012, with an interest rate of 7.544%. This amount is required to be fully repaid in RMB and is secured on the Group's building situated in Zhengzhou.

19 SUBSIDIARIES

The principal subsidiaries of the Company as at 31 December 2011, all of which have been included in this consolidated financial statement, 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.	Barbados	—	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 is only 50%, the company controls the financial and operating policies of this company. Therefore, they are considered as subsidiaries of the Group.

** On 20th December 2011, the Company acquired the remaining 50% ownership interest of this company for a nominal consideration.

20 DEFERRED TAXATION

	2011 US$'000	2010 US$'000
Deferred tax assets		
At the beginning of the year	—	301
Origination of temporary differences	—	—
Reversal of temporary differences	—	(301)
At the end of the year	—	—

There were no unrecognised deferred tax assets or liabilities in any year.

The deductible temporary differences and domestic tax losses do not expire under current tax legislation. Foreign tax losses expire after 5 years. The Group has not offset deferred tax assets across different jurisdictions.

21 SHARE CAPITAL

	Authorised No. of shares	US$	Issued and fully paid No. of shares	US$
At 1 January 2010 and 2011	—	—	—	—
Issue of an ordinary share as subscriber share upon incorporation of the Company of US$0.00001 each	5,000,000,000	50,000	1	1
Placement of shares of 431,359,037 on 8 March 2011	—	—	431,359,037	4,313
At 31 December 2011	5,000,000,000	50,000	431,359,038	4,314

The authorised share capital of the Company on incorporation was US$50,000 divided into 5,000,000,000 ordinary shares of US$0.00001 each, of which one share was issued to the subscriber of the memorandum of association.

On 8 March 2011, the one subscriber's share was transferred, and an additional 431,359,037 ordinary shares were issued to Green Dragon Gas Ltd., credited as fully paid.

22 RELATED PARTY TRANSACTIONS

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

The related parties of Cayman Co, which are noted below, are companies that are all fellow subsidiaries of Green Dragon Gas Ltd. which are under common management and control of Mr. Randeep Grewal before and afterwards.

Amounts due from/to related parties comprise:

	2011 US$'000	2010 US$'000
Amounts due from related companies (note i):		
— Zhengzhou Greka Petro-Equipment Co Ltd	**—**	357
— Zhengzhou Nanhai Gas Ltd	**—**	3,132
— Greka Energy (International) B.V(note ii).	**2,816**	18,160
— Asiacanada Energy Inc	**—**	1,068
— Henan Gongyi Greka Transportation Co. Ltd (note iii)	**159**	1,655
— Mitchell Drilling International Pty Ltd	**—**	144
— Greka China Limited (GCL)	**—**	—
Total of the above which is included in trade and other receivables (note 16)	**2,975**	24,516

22 RELATED PARTY TRANSACTIONS (continued)

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

	2011 US$'000	2010 US$'000
Amounts due to related companies:		
— Asiacanada Energy Inc	—	9,567
— Giant Power International Investment Ltd	—	273
— Greka China Limited	—	41,111
— Mitchell Energy Services Pty Ltd	—	498
— Greka Energy (International) B.V.	—	—
Total of the above which is included in trade and other payables(note 17)	—	51,449

Notes:

(i) These balances are unsecured, interest-free and have no fixed terms of repayment.

(ii) The balance represents receivable from GBV for providing drilling service.

(iii) The balance represents receivable from GTI for providing vehicle rental.

Related party transactions comprise:

	2011 US$'000	2010 US$'000
Drilling services to related companies:		
— Greka Energy (International) B.V.	44,441	21,072
— Asiacanada Energy Inc	5	2,655
Management services to related companies:		
— Greka Energy (International) B.V.	662	526
— Asiacanada Energy Inc	67	64
— Gongyi Greka Transport Company Limited	71	—
Interest expense on loans from a related company:		
— Asiacanada Energy Inc	—	196
Drilling services expense from a related company:		
— Mitchell Energy Services Pty Ltd	—	1,728
— Gongyi Greka Transport Company Limited	2,240	—

On 8 March 2011, the outstanding payables and receivables owed between the Group and Green Dragon Gas Ltd. and its subsidiaries were settled by offset and any remaining amounts due to Green Dragon Gas Ltd. and its subsidiaries (US$ 27,190,000) were waived.

22 RELATED PARTY TRANSACTIONS (continued)

(b) Subsidiary companies

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on combination and are not disclosed in this note. Details of transactions between the Group and other related parties are described above.

(c) Key management personnel

Other than the directors' remuneration disclosed in note 9 to the financial statements, there were no other transactions with key management personnel during the years ended 31 December 2011 and 2010.

23 OPERATING LEASE COMMITMENTS

At the end of each reporting periods, 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:

	2011 **US$'000**	2010 US$'000
Within one year	**47**	9
Within two to five years	**135**	65
	182	74

24 CAPITAL COMMITMENTS

	2011 **US$'000**	2010 US$'000
Capital expenditure contracted but not provided for in respect of		
Acquisition of property, plant and equipment	**8,760**	1,234
Construction of Property	**1,738**	—
	10,498	1,234

25 FINANCIAL INSTRUMENTS

	2011 US$'000	2010 US$'000
Financial assets		
Loans and receivables:		
Cash and cash equivalents	**6,559**	6,383
Other receivables	**200**	91
Amounts due from related parties	**2,975**	24,516
	9,734	30,990
Financial liabilities		
At amortized cost:		
Trade and other payables	**8,994**	3,518
Amounts due to related parties	**—**	51,449
Bank loans	**1,984**	1,480
	10,978	56,447

(a) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk related primarily to the variable interest bearing bank loans. 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.

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

	2011 US$'000	2010 US$'000
Cash and cash equivalents		
US dollars (Floating rate)	**4,947**	5,586
RMB (Floating rate)	**1,612**	797
Other financial assets		
RMB (Non-interest bearing)	**57**	24,607
USD	**3,118**	—
	9,734	30,990

The weighted average interest rate earned was 0.10% p.a. for the year (2010: 0.10% p.a.) on floating rate US dollar cash balances, and 0.36% p.a. (2010: 0.36% p.a.) on floating rate RMB balances. At the reporting date, the Group had cash on short-term deposit for periods of between over-night and one week.

25 FINANCIAL INSTRUMENTS (continued)

(a) Interest rate risk (continued)

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

	2011 US$'000	2010 US$'000
Bank loans		
RMB (Fixed rate)	1,984	1,480
Loans from a related company		
US dollars (Fixed rate)	—	9,567
Other financial liabilities		
US dollars (Non-interest bearing)	428	19,620
RMB (Non-interest bearing)	8,566	25,780
	10,978	56,447

The weighted average interest rates on bank loans and loans from a related company for the year was 7.544% p.a. (2010: 6.89% p.a.).

(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 main currency exposure risk to the Group has been in relation to the trade payable and other payables denominated in RMB. The directors consider the foreign currency exposure to be limited. Receivables are generated in RMB, operational cash balances are held in RMB, and future revenues from certain trading subsidiary operations will be generated in RMB.

	In USD US$'000	In RMB US$'000	Total in USD US$'000
As at 31 December 2011			
Financial assets			
Cash and cash equivalents	4,947	1,612	6,559
Trade and other receivables	143	57	200
Amount due from related parties	2,975	—	2,975
	8,065	1,669	9,734
Financial liabilities			
Trade and other payables	428	8,566	8,994
Bank loans	—	1,984	1,984
	428	10,550	10,978

25 FINANCIAL INSTRUMENTS (continued)

(b) Foreign currency risk (continued)

	In USD US$'000	In RMB US$'000	Total in USD US$'000
As at 31 December 2010			
Financial assets			
Cash and cash equivalents	5,586	797	6,383
Other receivables	—	91	91
Amounts due from related parties	—	24,516	24,516
	5,586	25,404	30,990
Financial liabilities			
Trade and other payables	29,187	25,780	54,967
Bank loans	—	1,480	1,480
	29,187	27,260	56,447

The above RMB cash and cash equivalents, other receivables and trade and other payables balances are denominated in a currency other than US dollars. A 5% (2010: 5%) increase or decrease in the US dollar/RMB exchange rate would result in reported profit and net assets for the year US$444,000 (2010: US$93,000) 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 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	Within one to five years US$'000	Undiscounted payments US$'000 (note i)	Adjustments US$'000 (note ii)	Carrying value US$'000 (note iii)
At 31 December 2011						
Trade and other payables	**7,197**	**733**	**1,064**	**8,994**	**—**	**8,994**
Amounts due to related parties	**—**	**—**	**—**	**—**	**—**	**—**
Bank loans	**—**	**2,125**	**—**	**2,125**	**(141)**	**1,984**
	7,197	**2,858**	**1,064**	**11,119**	**(141)**	**10,978**
At 31 December 2010						
Trade and other payables	3,108	385	25	3,518	—	3,518
Amounts due to related parties	51,449	—	—	51,449	—	51,449
Bank loans	1,524	—	—	1,524	(44)	1,480
	56,081	385	25	56,491	(44)	56,447

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 maximum exposure to credit risk by class of individual financial instrument is shown in the table below:

	31 December 2011		31 December 2010	
	Carrying value US$'000	**Maximum exposure US$'000**	Carrying value US$'000	Maximum exposure US$'000
Current assets				
Cash and cash equivalents	**6,559**	**6,559**	6,383	6,383
Other receivables	**3,175**	**3,175**	24,607	24,607
	9,734	**9,734**	30,990	30,990

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. At 31 December 2011, the Group held approximately 75% (2010: 46%) of its cash in US dollars with A1 (Moody's) rated institutions. The Group continues to monitor its treasury management to ensure an appropriate balance of the safety of funds and maximisation of yield.

None of other receivables had been impaired. Other receivables are predominantly non-interest bearing. The Group does not hold any collateral as security and the Group does not hold any significant provision in the impairment account for other receivables as they mainly relate to receivables with no default history.

(e) Capital risk management

The Company considers its capital to comprise its ordinary share capital, share premium and retained deficit as well as the contributed 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, adjust the amounts payable to other group entities, raise funding through capital markets, adjust the amount of other borrowings as necessary. No changes were made to the objectives or policies during the years ended 31 December 2011 and 2010.

(f) Fair value

The carrying value of significant financial assets and liabilities approximate their respective fair values as at 31 December 2011 and 2010.

26 EVENTS AFTER THE REPORTING DATE

On 15 March 2012, the Group raised an additional US$2.38 million bank loan through the mortgage of office building. This bank loan has a one year term from 15 March 2012 to 15 March 2013, with an interest rate of 7.544%.

27 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 10 April 2012.

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Executive Director, Chief Financial Officer

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Non-Executive Director

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REKA

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