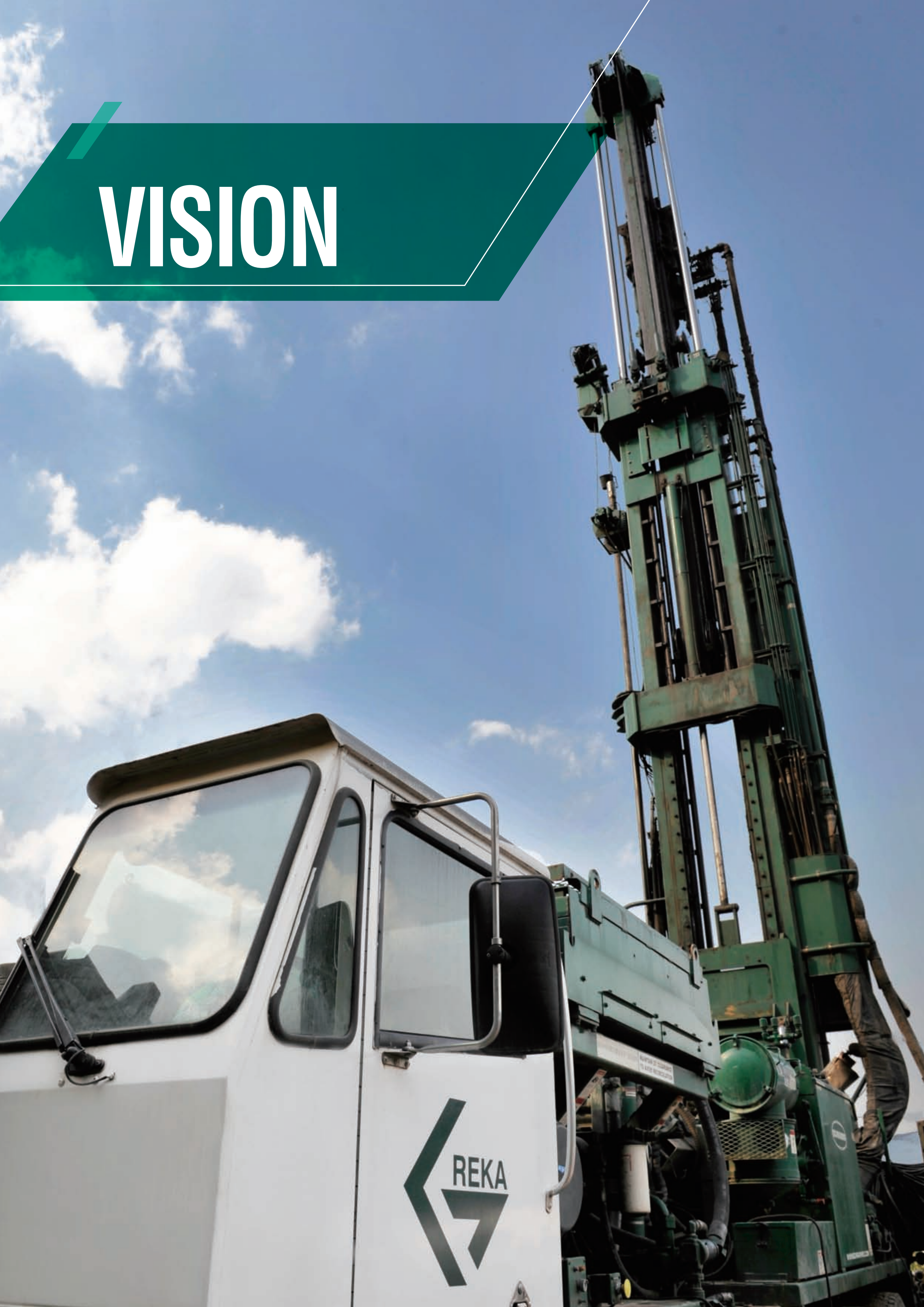
REKA

DRILLING

ANNUAL REPORT 2012

CONTENTS

VISION



VISION

THE LARGEST INDEPENDENT AND SPECIALIZED UNCONVENTIONAL GAS DRILLING COMPANY IN ASIA

- ISO 9001 Quality Management Certification
- Comprehensive set of HSE policy and management system
- Expanding LiFaBriC Technologies: MWD, LWD & RMRS
- Fleets of Purpose Built Rigs
- Operations Control Centre (OCC)

RIG FLEET

RIG FLEET

OUR DRILLING FLEET COMPRISES PURPOSE-BUILT HYDRAULIC TOP-DRIVE RIGS SPECIFICALLY DESIGNED FOR THE APPLICATION OF DRILLING SERVICES WITHIN THE UNCONVENTIONAL GAS INDUSTRY.

- Custom Built Rigs
- Standardized Fleet
- Mobility
- Support
- Scalable
- Safer

TRAINING

TRAINING

WE STRIVE TO PROVIDE CONTINUAL TECHNICAL JOB TRAINING WHICH KEEPS OUR PEOPLE ON TOP OF THE MOST ADVANCED INNOVATION AND TECHNOLOGICAL KNOW-HOW.

The Greka School offering over 20 training modules to our employees.

Rig crews all do an intensive 4 week Training course covering theoretical and practical aspects of Operations such as:

- Technical and Drilling Theory
- Drilling Rig Operation
- Directional Drilling
- Health Safety Environmental Certification
- Equipment Maintenance
- Management Training

HIGHLIGHTS

CORPORATE HIGHLIGHTS

- Headcount grew to 665 with a total of 106,581 hours of training and the ability to operate crews 24/7, 365 days of the year.
- Fleet increased from 16 rigs to 32 rigs over the period, an increase of 100% year-on-year; Average number of rigs in 2012 was 28 versus 14 in 2011.
- 79 directional drillers compared with 51 a year earlier one of the largest team of directional drillers in China.

OPERATIONAL HIGHLIGHTS

- 3 contracted counterparty's: Green Dragon Gas, CNPC Huabei and Petroking.
- 90 wells drilled in 2012 compared with 50 wells drilled in 2011, an increase of 80% year-on-year.

- 147,126 metres drilled, compared to 88,224 metres drilled in 2011, a 67% increase.
- Vertical wells averaging 37 drilling days.
- Horizontal wells averaging 51 drilling days.
- Exploration drilling (LiFaBriC) wells at 88 days improving on previous company guidance of 90 days.

FINANCIAL HIGHLIGHTS

- Revenue of US$60.9m, an 39% increase over same period last year of US$43.8m.
- Total Assets increased by US$25.7m to US$114.1m an increase of 29% year on year.
- EPS US$0.005, compared with US$0.007 in same period last year.
- Cash and bank deposits of US$3.1m.
- Paid off US$12.5m working capital facility in full from affiliate Green Dragon Gas Limited, further demonstrating the Company's increasing operational independence.

CHAIRMAN'S STATEMENT

Randeep S. Grewal
Founder & Chairman

Today is the second anniversary of the Company becoming an independent operating entity and the merits of the successful demerger is further demonstrated by our performance this year.

I am pleased to report that 2012 saw us continue to profitably expand as forecasted. This expansion was demonstrated throughout the Company, from rigs accepted to revenues and by yearend, customers.

Operationally we drilled more meters and more wells. The wells were deeper and longer than ever before. We successfully drilled 90 wells with a total of 147,126 meters drilled which represented an increase of 80% and 67% over the previous year, respectively. Drilling efficiencies were improved with the fastest vertical and LiFaBriC well completions achieving 42% and 14% improvements over last year respectively.

Total headcount grew to 665 from 520 a year earlier, in support of the rig fleet increase to 32. Average operating rigs were 28 in this year compared to 14 in 2011. Directional drillers were added to the team increasing the headcount to 79 from 51 in the previous year. The directional drilling headcount exceeds any other independent drilling company in China. Precision of the directional drilling was further enhanced with improvements in the Rotating Magnet Ranging Systems, allowing for easer intersection during LiFaBric completions.

In addition to the operational expansion, our financial performance was enhanced with local banks increasing their working capital facilities to support our growth. As a result, the Company successfully paid off all its affiliate working capital facility and concluded the year without any affiliate debt. Notwithstanding the increase in the depreciation charge resulting from the material increase in rigs, our profitable yearend results are supported by a strengthened balance sheet which resulted in total assets growing to US $114 million from US$88 million in the previous year.

Third party contracts executed to drill for both of the largest operators within China, CNPC and Sinopec, further validating the competency embedded within the Company. Importantly, these contracts include drilling LiFaBric wells, the Company's proprietary methodology, as well as traditional vertical and directional wells. The contracts are for Coal Bed Methane as well as Shale reservoirs. In totality, these contracts validate the Company's capability that extends to all facets of the industry's drilling demands. We see a very large market that continues to grow exponentially throughout Asia.

In accordance with the business plan, we expect to establish the corporate headquarters in Singapore, a geographically central location to facilitate the expansion beyond China. We are concluding our discussions with several clients and expect to announce our expansion into India as the first step out from China within the widened Asian expansion plans. The Company's proprietary LiFaBriC methodology is well suited to various CBM basins within India and could significantly enhance several of the CBM developers' potential in the near term. We look forward to concluding an agreement with select clients.

While 2012 was a busy year absorbing the growth and expanding the client base in China, we expect 2013 will see continued profitable growth within China further complemented by an expansion into India.

Randeep S. Grewal
Chairman & CEO
8 March 2013

BUSINESS REVIEW

Greka Drilling Limited, the largest independent and specialized unconventional oil & gas driller in China, continue to grow the business on time and within plan. For 2012, the year of the Dragon, the company has increased revenues, evaluated many unconventional basins in China, India and South East Asia. These third party evaluations conducted by in house geology and engineering personnel give the company a very high degree of confidence that the LiFaBriC drilling methodology has a significant and wider footprint in Asia as whole, in addition to multiple opportunities within China itself. We are the one stop shop of choice for unconventional drilling completions in Asia.

OVERVIEW

Our 2012 financial and operating results include:

- EPS US$0.005, compared with gain per share of US$0.007 in same period last year.
- Total Assets increased by US$25.7m to US$114.1m an increase of 29% year on year
- Meter drilled increased by 67% from 88,224 for 2011 to 147,126 for 2012.
- Total rigs grew to 32 from 16 from the previous year.

RIG FLEET

- GDL signed the contract with Drillmec to purchase up to 150 rigs of which 25 were confirmed and delivered while the other 125 are options. By the end of May, 2012, all of these 25 new rigs arrived on site and related accessory drilling equipments for these rigs were also purchased.

- Fleet increased from 16 rigs to 32 rigs over the period, an increase of 100% year-on-year, Average number of rigs in 2012 was 28 versus 14 in 2011.

PERSONNEL

- During 2012, HR recruited 16 new drilling crews in connection with the expansion of the number of rigs, the rigs aim to drill 24/7, 365 days a year.

- The total skilled employee headcount increased to 665 with a total of 106, 581 hours of training and the ability to operate crews 24/7, 365 days of the year.

DRILLING

- Despite the addition of 25 newly acquired GD75 rigs in H1 2012, there was no reduction in overall drilling efficiency of the Company's rig fleet. In fact, the Company experienced an 8% improvement in meters drilled per rig during 2012 (6,703m per rig) over 2011 (6,206m drilled per rig); however a lower utilization rate of 44% in 2012 compares to 53% in 2011. This reduction represents the impact of introducing new rigs and related crews.

- Completely replaced third party Directional Drilling contractors with Greka's own crews in H2 2012, allowing the Company to standardize its drilling practices. This change will also facilitate the ease with which knowledge can be shared within the Company and will allow Greka Drilling to continue to seek improvements in operational efficiency.

- A total of 25 successful intersections completed with the Company's own Rotating Magnet Ranging Systems ("RMRS").

- Use of air hammer and DHM compound drilling to shorten the time from spud to well completion has been successful with reduced time to completion proving the efficiencies of Greka's drilling methodology. Accomplishments for the Company's client, Green Dragon Gas Limited (AIM: GDG), during 2012 included:

  Fastest vertical well for 2012, was drilled by rig GD75-21 to a total vertical depth ("TVD") of 785m and was completed, from spud to completion, in

11 days (an average of 71m per day) versus 15 days in 2011 to drill well GSS-136, to a TVD of 753m (an average of 50m per day), an improvement in drilling efficiency of approximately 42%.

Fastest horizontal well for 2012, was drilled by GD75-20 to a measured depth ("MD") of 2,653m and was completed from spud to completion in a total of 32 days (an average of 83m per day) versus 30 days in 2011 to drill well GSS-5575-08L to a MD of 2,185m (average 73m per day), an improvement in drilling efficiency of 14% year-on-year.

MAINTENANCE

- Rig manufacturer Drillmec set up a warehouse in Greka Drilling facility in GSS block, storing sufficient spare parts to support rig operation.

BUSINESS DEVELOPMENT

- As announced on 11 December 2012, Greka Drilling signed a contract with Petro-king Oilfield Technology Ltd. - to drill 100 wells for Sinopec.
- Signed contract with China National Petroleum Corporation's Huabei Oilfield Company, for the Company's proven LiFaBriC drilling services - as announced on 28 December 2012.

FINANCIAL REVIEW

RESULTS FOR THE YEAR

The Group recorded a revenue of US$60.9 million (2011: US$43.8 million) and a profit attributable to equity holders of US$1.8 million (2011: US$2.8 million) for the year ended 31 December 2012. The general and administrative expenses amounted to US$8.0 million (2011: US$5.6 million). Earnings per share were US$0.005 (2011: US$0.007).

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2012, the Group has total assets of US$114 million (2011: US$88.4 million) and liabilities and equity holders' equity of US$35 million and US$79 million respectively (2011: US$11.3 million and US$77.1 million respectively).

As at 31 December 2012, the Group's cash and bank balance was US$3.1 million (2011: US$6.6 million) with total borrowings of US$11.9 million (2011: US$2.0 million).

The Company has raised US$11.9 million of bank loan through the mortgage of office building and 10 rigs. These bank loans have a one year term with an average interest rate of 6.9%.

US$12.5 million of working facility loan with two year's period and 8% yearly interest rate from Greka China Limited was fully repaid at the year ended.

BOARD OF DIRECTORS

EXECUTIVE DIRECTOR

Randeep S. Grewal, Chairman & CEO

Randeep Grewal is Chairman and Chief Executive of Greka Drilling Limited. He also acts as Chairman and Chief Executive Officer of several Greka entities, having founded the business of the Greka Group in 1997. Mr Grewal also fills the same roles at all his private family estate companies. From April 1997 to September 1997, Mr. Grewal served as Chairman and Chief Executive Officer for Horizontal Ventures, Inc., oil and gas horizontal drilling technology company that became a subsidiary of Greka in September 1997. From 1993 to 1996, Mr. Grewal was Corporate Vice President for the Rada Group with principal responsibility for its global expansion and diversification to a commercial organization from its defence roots and 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 BSc in Mechanical Engineering from Northrop University.

Lisa He, Chief Financial Officer

Lisa He joined Green Dragon Gas Ltd. on 1 February 2008 as Chief Accounting Officer and is now also Chief Financial Officer at Greka Drilling Limited. She has 20 years of experience in accounting and financial management. Prior to joining Greka, she worked for AES Wanfang Company as Chief Financial Controller from 2004 to 2007. From 2007 to 2008, she was Chief Accounting Officer for Xinyuan Real Estate Group and was a key member of the Account and Finance team involved in listing the company on the New York Stock Exchange. Ms He is a Certified Public Accountant and Certified Tax Agent in China, and holds a Masters degree in Business Administration at Xi'an Jiaotong University.

NON-EXECUTIVE DIRECTORS

David Turnbull, Non-Executive Director

David Turnbull is 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 is a Chartered Accountant with over 35 years of financial management experience and from 1981 to 2006 he worked for DaimlerChrysler (UK) Ltd where he became Chief Financial Officer in 1996. Mr Smart is an executive director of Tradelinens Ltd, a joint venture established with a Chinese importer, as well as Brooklands Museum Trust, where he has a financial management role which also involves some project management and fund raising activities. He is a non-executive director of AIM-listed SCOTTY Group PLC, which supplies sitcom solutions for military applications, and a trustee director of DaimlerChrysler Pension Fund. Prior to this, Mr Smart worked for Deloitte Touche as an External Auditor/Management Consultant for six years.

DIRECTORS' REPORT

The Directors of Greka Drilling Limited have pleasure in submitting their Report with the audited financial statements for the year ended 31 December 2012.

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 2012 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 2012 and 2011 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 2012 and 2011, is provided in the Financial Review on page 16. Detailed financial information is included from page 26 to page 59 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

See note 9 to the financial statements.

DIRECTORS AND THEIR INTERESTS

The table below sets out the interests of the Directors in Greka Drilling Limited as at 31 December 2012.

Directors	Number of ordinary shares	% of issued share capital
Mr. Randeep S. Grewal	264,919,233	66.45%
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 2012.

	Number of ordinary shares	% of issued share capital
GDGH 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 2012, the Directors are satisfied that the Group has adequate resources to continue its operations and meet its commitments for the foreseeable future.

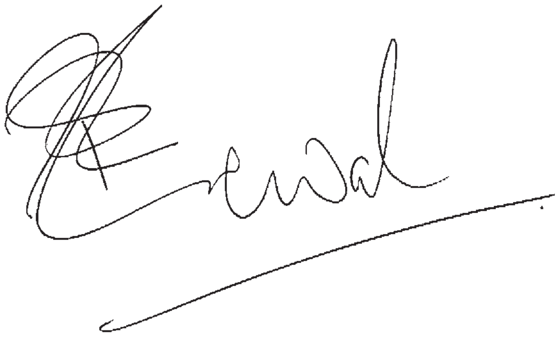
ANNUAL GENERAL MEETING

The 2012 Annual General Meeting will be held at 11:00 am on 16 July 2013, 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
8 March 2013

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 DIRECTORS OF GREKA DRILLING LIMITED

We have audited the group financial statements of Greka Drilling Limited for the year ended 31 December 2012 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 22 February 2013. 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 2012 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 2012 US$'000	Year Ended 31 December 2011 US$'000
Revenue	4	**60,918**	43,834
Cost of sales		**(48,459)**	(34,235)
Gross profit		**12,459**	9,599
Foreign exchange gains		**314**	671
Administrative expenses		**(8,047)**	(5,581)
Total administrative expenses		**(7,733)**	(4,910)
Profit from operations	5	**4,726**	4,689
Finance income	6	**53**	12
Finance costs	7	**(1,322)**	(85)
Profit before income tax		**3,457**	4,616
Income tax charge	11	**(1,625)**	(1,812)
Profit for the year		**1,832**	2,804
Other comprehensive income, net of tax:			
Exchange differences on translation of foreign operations		**(8)**	825
Total comprehensive income for the year		**1,824**	3,629
Profit for the period attributable to:			
— Owners of the company		**1,831**	2,790
— Non-controlling interests		**1**	14
		1,832	2,804
Total comprehensive income attributable to:			
— Owners of the company		**1,824**	3,627
— Non-controlling interests		**—**	2
		1,824	3,629
Earnings per share			
— Basic and diluted (in US dollar)	10	**0.0046**	0.0070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012 US$'000	As at 31 December 2011 US$'000
Assets			
Non-current assets			
Property, plant and equipment	12	**93,135**	43,219
Intangible assets	13	**581**	524
		93,716	43,743
Current assets			
Inventories	14	**12,189**	9,155
Trade and other receivables	15	**5,016**	28,930
Cash and bank balances	16	**3,139**	6,559
		20,344	44,644
Total assets		**114,060**	88,387
Liabilities			
Current liabilities			
Trade and other payables	17	**22,491**	8,994
Loans and borrowings	18	**11,932**	1,984
Current tax liabilities		**234**	283
		34,657	11,261
Non-current liabilities			
Deferred tax liability	20	**453**	—
		453	—
Total liabilities		**35,110**	11,261
Net assets		**78,950**	77,126
Capital and reserves			
Share capital	21	**4**	4
Share premium account		**77,186**	77,186
Invested capital		**(1,533)**	(1,533)
Reserve fund		**917**	595
Foreign exchange reserve		**1,592**	1,599
Retained earnings/(deficits)		**1,173**	(336)
Total equity attributable to owners of the Company		**79,339**	77,515
Non-controlling interests		**(389)**	(389)
Total equity		**78,950**	77,126

The financial statements were authorised and approved by the Board on 8 March 2013 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$'000	Retained (deficits)/ earnings US$'000	Equity attributable to owners of the Company US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2011	—	—	(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
Profit for the year	—	—	—	—	—	1,831	1,831	1	1,832
Other comprehensive income:									
— Exchange difference on translation of foreign operations	—	—	—	—	(7)	—	(7)	(1)	(8)
Total comprehensive income for the year	—	—	—	—	(7)	1,831	1,824	—	1,824
Transfer of reserve fund	—	—	—	322	—	(322)	—	—	—
At 31 December 2012	4	77,186	(1,533)	917	1,592	1,173	79,339	(389)	78,950

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

Share capital: Amount subscribed for share capital at nominal value.

Share premium: Amount subscribed for share capital in excess of nominal value.

Invested capital: Amount represents the difference between the nominal value of the Company's share of the paid-up capital of the subsidiaries acquired and the Company's cost of acquisition of the subsidiaries under common control.

Reserve fund: The rules and regulations of the People's Republic of China require that one tenth of profits as determined in accordance with China Accounting Standards for Business Enterprises in each period be reserved for making good previous years' losses, expanding business, or for bonus issue, provided that the balance after such issue is not less than 25% of the registered capital. The amount is non-distributable.

Foreign exchange reserve: Foreign exchange differences arising on translating the financial statements of foreign operations into the reporting currency.

Retained (deficits)/earnings: Cumulative net gains and losses recognized in profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2012 US$'000	Year ended 31 December 2011 US$'000
Operating activities			
Profit before income tax		**3,457**	4,616
Adjustments for:			
Depreciation	12	**7,079**	2,941
Amortization of other intangible assets	13	**68**	37
Loss on disposal of property, plant and equipment		**435**	10
Finance income		**(53)**	(12)
Finance costs		**1,322**	85
Operating cash flows before changes in working capital		**12,308**	7,677
Increase in inventories		**(3,034)**	(4,801)
Increase in trade receivables		**(636)**	—
Increase in other receivables		**(1,140)**	(3,396)
Increase in trade and other payables		**13,497**	(18,783)
Cash generated from/(used in) operations		**20,995**	(19,303)
Income tax payment		**(1,229)**	(1,976)
Net cash from/(used in) operating activities		**19,766**	(21,279)
Investing activities			
Payments for purchase of property, plant and equipment		**(31,250)**	(28,671)
Transfers to restricted cash		**(977)**	—
Payments for intangible assets		**(123)**	(363)
Proceeds from disposal of property, plant and equipment		**—**	16
Interest received		**53**	12
Net cash used in investing activities		**(32,297)**	(29,006)
Financing activities			
Proceeds from the issue of share, net of issue costs		**—**	50,000
Proceeds of short term loan		**18,296**	1,984
Repayment of short term loan		**(8,353)**	(1,555)
Finance costs paid		**(1,478)**	(85)
Net cash from financing activities		**8,465**	50,344
Net (decrease)/increase in cash and cash equivalents		**(4,066)**	59
Cash and cash equivalents at beginning of the year		**6,559**	6,383
		2,493	6,442
Effect of foreign exchange rate changes		**(331)**	117
Cash and cash equivalents at end of year		**2,162**	6,559

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 2012. The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Business combinations

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

On 1 February 2011, the Company was incorporated as a wholly-owned subsidiary of Green Dragon Gas Ltd. and on 8 March 2011 the Company acquired the entire share capital of a fellow wholly-owned subsidiary of Green Dragon Gas Ltd., Greka Technical Service Limited. The Company's controlling interest in Greka Technical Service Limited was acquired through a transaction under common control, 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.

New and amended standards adopted by the Group

The Group has adopted several new standards and amendments to standards are effective for financial year beginning from 1 January 2012 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's current or prior years financial statements.

Standard	Description	Effective date
Amendments to IAS 12 — Deferred Tax — Recovery of Underlying Assets	The amendment introduce a rebuttable presumption that an investment property which is stated at fair value under IAS 40 "Investment Property" is recovered entirely through sale. The amendment did not have any impact on the current or prior years' financial statements.	1 January 2012

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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 current reporting period, which are relevant to the Group but have not been adopted early, are as follows:

Standard	Description	Effective date
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosures of Interests in Other Entities	1 January 2014
IFRS 13	Fair Value Measurement	1 January 2014
Amendments to IAS 27	Separate Financial Statements	1 January 2014
Amendments to IAS 28	Investments in Associates and Joint Ventures	1 January 2014
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
IFRSs (Amendments)*	Improvements to IFRSs 2009-2011 Cycle	1 January 2013
Amendments to IAS 1 (Revised)	Presentation of Items of Other Comprehensive Income	1 July 2012

* 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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. Property, plant and equipment are depreciated so as to write off their costs net of expected residual value over their estimated useful lives on a straight-line basis. 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
Rigs:	10-20 years

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

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

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

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 measured at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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.

Taxation

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

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

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

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

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

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

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

Revenues generated on a meter rate-basis from drilling contracts, labour contracts and management services are recognised as services are performed.

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

Financial instruments

(i) Financial assets

Loans and receivables

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

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

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

Cash and cash equivalents

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments *(continued)*

(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.

(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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Employee benefits

(i) Defined contribution pension plan

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

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

(ii) Other benefits

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

Leases

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

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

Provisions and contingent liabilities

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

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

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 2012 or 2011. 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.

4 REVENUE AND SEGMENT INFORMATION (continued)

Drilling services revenue and management services revenue represent the net invoiced value of contract drilling services and management services provided substantially to customers in the PRC, of which 95% is derived from one customer. The amounts of each significant category of revenue recognised during the year are as follows:

	2012 US$'000	2011 US$'000
Drilling services	60,325	43,102
Management services	593	732
	60,918	43,834

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

5 PROFITS FROM OPERATIONS

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

	2012 US$'000	2011 US$'000
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the annual financial statements	119	80
Fees payable to the Company's auditors for the review of the interim results	10	—
Fees payable to the Company's auditors for other services	—	160
Cost of inventories recognized as expense	48,459	34,235
Staff costs (note 8)	13,604	7,931
Depreciation of property, plant and equipment	7,079	2,941
Operating lease expense (property)	201	132
Amortization of intangible assets	68	37
Loss on disposal of property, plant and equipment	—	10
Government grant*	(135)	—
Foreign exchange gains	(314)	(671)

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

6 FINANCE INCOME

	2012 US$'000	2011 US$'000
Bank interest	**53**	12

7 FINANCE COSTS

	2012 US$'000	2011 US$'000
Interest expense on short term loans	**631**	85
Interest expense on loans from a related company	**847**	—
Less: Interest expenses capitalized*	**(156)**	—
	1,322	85
*Interest expenses was capitalized in construction in progress at the following rates per annum	**7.22%**	—

8 STAFF COSTS

	2012 US$'000	2011 US$'000
Staff costs (including directors' remuneration (note 9)) comprise:		
Wages and salaries	**10,969**	6,756
Employer's national social security contributions	**2,301**	912
Other benefits	**334**	263
	13,604	7,931

9 DIRECTORS AND KEY MANAGEMENT PERSONNEL'S REMUNERATION

The remuneration of directors for the year ended 31 December 2012 is set as follows:

	Fees	Salaries	Social Security Contribution	2012	2011
	US$'000	US$'000	US$'000	US$'000	US$'000
Executive directors					
Randeep Grewal	—	600	—	600	539
Lisa He	—	89	7	96	84
Sub-total	—	689	7	696	623
Non executive directors					
Bryan Smart	—	64	—	64	55
David Turnbull	—	59	—	59	52
Steward John OBE	—	48	—	48	56
Sub-total	—	171	—	171	163
Total	—	860	7	867	786

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

10 EARNINGS PER SHARE

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

	2012 US$'000	2011 US$'000
Profit for the year	**1,831**	2,790
Number of shares outstanding at the year end	**398,245,758**	398,245,758
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands)	**398,246**	398,246
Weighted average number of ordinary shares for the purposes of diluted earnings per share (thousands)	**398,246**	398,246
Basic earnings per share (US$)	**0.0046**	0.0070
Diluted earnings per share (US$)	**0.0046**	0.0070

There were no potentially dilutive instruments are issued in 2012 and 2011.

11 TAXATION

	2012 US$'000	2011 US$'000
Current tax — PRC Enterprise Income Tax		
Income tax charge	**1,546**	1,713
Under provision of prior year	**79**	99
	1,625	1,812

11 TAXATION (continued)

The reasons for the difference between the actual tax charge and the standard rate of corporation tax applied to the Group's operations for the year are as follows:

	2012 US$'000	2011 US$'000
Profit before income tax	**3,457**	4,616
Expected tax charge based on the standard rate of corporation tax in the PRC of 25% (2011: 25%)	**864**	1,154
Effect of:		
Tax effect of revenue not taxable for tax purposes	**—**	(71)
Tax effect of expenses not deductible for tax purposes	**—**	56
Tax losses not recognized	**682**	574
Under provision of prior year	**79**	99
Income tax charge	**1,625**	1,812

The Company is not subject to income tax in the Cayman Islands.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures US$'000	Motor vehicles US$'000	Fixtures, fittings and equipment US$'000	Construction in process US$'000	Total US$'000
Cost					
At 1 January 2011	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
Additions	41	1,450	53,367	2,238	57,096
Transfer of construction-in-progress upon completion	1,063	—	—	(1,063)	—
Disposals	—	—	(465)	—	(465)
Exchange differences	24	53	853	11	941
At 31 December 2012	8,652	3,973	92,294	3,460	108,379
Depreciation					
At 1 January 2011	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
Charge for the year	414	627	6,038	—	7,079
Eliminated upon disposals	—	—	(30)	—	(30)
Exchange differences	4	46	557	—	607
At 31 December 2012	1,116	1,363	12,765	—	15,244
Net book value					
At 31 December 2012	7,536	2,610	79,529	3,460	93,135
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

Loans and borrowings are secured by drilling equipment included in fixtures, fittings and equipment and properties included in buildings and structures with carrying amount US$6,364 and US$5,568 respectively (note 18).

13 INTANGIBLE ASSETS

	Software US$'000
Cost	
At 1 January 2011	217
Additions	363
Exchange differences	20
At 31 December 2011	600
Additions	123
Exchange differences	2
At 31 December 2012	725
Amortization	
At 1 January 2011	36
Charge for the year	37
Exchange differences	3
At 31 December 2011	76
Charge for the year	68
At 31 December 2012	144
Net book value	
At 31 December 2012	581
At 31 December 2011	524
At 31 December 2010	181

14 INVENTORIES

	2012 US$'000	2011 US$'000
Raw materials and consumables	12,189	9,122
Work-in-progress	—	33
	12,189	9,155

15 TRADE AND OTHER RECEIVABLES

	2012 US$'000	2011 US$'000
Trade receivables	636	—
Prepayments	1,200	25,755
Other receivables	392	200
Amounts due from related parties (note 22a)	2,788	2,975
	5,016	28,930

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. None of the receivables balances are considered to be impaired.

Aging analysis of trade receivables prepared based on allowed credit term that are past due but not impaired as of the end of the reporting period is set out as follows:

	2012 US$'000	2011 US$'000
Less than 60 days past due	636	—

16. CASH AND BANK BALANCES

	2012 US$'000	2011 US$'000
Cash and cash equivalents	2,162	6,559
Restricted bank balance*	977	—
	3,139	6,559

* Restricted bank balance represents deposits placed in financial institutions to secure bills payable of an equivalent amount related to trade payables (note 17).

17 TRADE AND OTHER PAYABLES

	2012 US$'000	2011 US$'000
Trade payables	**21,201**	8,015
Other current liabilities	**1,146**	979
Amounts due to related parties (note 22(a))	**144**	—
	22,491	8,994

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

18 LOANS AND BORROWINGS

	2012 US$'000	2011 US$'000
Bank loans — secured	**11,932**	1,984

Bank borrowings of RMB75,000,000 (2011: RMB12,500,000) have a one year term, with an interest rates ranging from 6.90% p.a. and 7.544% p.a. (2011: 7.544% p.a.). This amount is secured by the Group's properties situated in Zhengzhou of the PRC.

19 SUBSIDIARIES

The principal subsidiaries of the Company as at 31 December 2012, all of which have been included in the consolidated financial statements, are as follows:

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

* Notwithstanding the ownership interest 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

Under the PRC law, withholding tax is imposed on dividends declared in respect of profits earned by subsidiaries in the PRC from 1 January 2008 onwards. Deferred tax liabilities have not been recognised in the consolidated financial statements in respect of the taxable temporary differences attributable to the profits earned by subsidiaries in the PRC amounting to approximately US$905,000 (2011: US$795,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There were no unrecognised deferred tax assets in any year. There are US$453,000 (2011: US$Nil) of deferred tax liabilities caused by different depreciation years between IFRS and current tax policy.

The deductible temporary differences US$43,000 (2011: US$Nil) and domestic tax losses US$1,465,000 (2011: US$959,000) 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		Issued and fully paid	
	No. of shares	US$	No. of shares	US$
At 1 January 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 398,245,758 on 8 March 2011	—	—	398,245,758	3,982
At 31 December 2011 and 2012	5,000,000,000	50,000	398,245,758	3,982

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 398,245,758 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 the Group, 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:

	2012 US$'000	2011 US$'000
Amounts due from related companies (note i):		
— Zhengzhou Greka Gas Co. Limited ("GGD") (note ii)	**40**	—
— Greka Energy (International) B.V ("GBV") (note iii)	**1,236**	2,816
— Asiacanada Energy Inc ("ACE") (note iii)	**1,438**	—
— Henan Gongyi Greka Transportation Co. Ltd ("GTI")	**74**	159
Total of the above which is included in trade and other receivables (note 15)	**2,788**	2,975

22 RELATED PARTY TRANSACTIONS *(continued)*

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

	2012 US$'000	2011 US$'000
Amounts due to related companies (note i):		
— Zhengzhou Greka Petro-Equipment Co Ltd ("GMC") (note iv)	**42**	—
— Henan Gongyi Greka Transportation Co. Ltd (note v)	**102**	—
Total of the above which is included in trade and other payables (note 17)	**144**	—

Notes:

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

(ii) The balance represents receivable from GGD for leasing office.

(iii) The balance represents receivable from GBV and ACE for providing drilling service.

(iv) The balance represents payable to GMC for supplying gas dispensers.

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

22 RELATED PARTY TRANSACTIONS (continued)

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

Related party transactions comprise:

	2012 US$'000	2011 US$'000
Drilling services to related companies:		
— Greka Energy (International) B.V.	**57,697**	44,441
— Asiacanada Energy Inc	**1,992**	5
Management services to related companies:		
— Greka Energy (International) B.V.	**—**	662
— Asiacanada Energy Inc	**—**	67
— Henan Gongyi Greka Transport Company Limited	**—**	71
Leasing income from related companies:		
— Greka Energy (International) B.V.	**328***	—
— Zhengzhou Greka Gas Co. Limited	**141***	—
— Gongyi Greka Transport Company Limited	**124***	—
Interest expense on loans paid to a related company:		
— Greka China Limited	**847**	—
Drilling services expense from a related company:		
— Gongyi Greka Transport Company Limited	**179**	2,240

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

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.

(b) *Subsidiary companies*

Details of transactions and balances among the Group and other related parties are described above. Transactions and balances among the Company and its subsidiaries have been eliminated on combination and consolidation and are not disclosed in the consolidated financial statements.

(c) *Key management personnel*

Other than the directors' remuneration disclosed in note 9 to the consolidated financial statements, there were no other transactions with key management personnel during the years ended 31 December 2012 and 2011.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

23 OPERATING LEASE COMMITMENTS

At the end of the 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:

	2012 US$'000	2011 US$'000
No later than 1 year	**24**	47
Later than 1 year and no later than 5 years	**73**	135
	97	182

24 CAPITAL COMMITMENTS

	2012 US$'000	2011 US$'000
Capital expenditure contracted but not provided for in respect of		
Acquisition of property, plant and equipment	**7,440**	8,760
Construction of property	**—**	1,738
	7,440	10,498

25 FINANCIAL INSTRUMENTS

	2012 US$'000	2011 US$'000
Financial assets		
Loans and receivables:		
Cash and bank balances	**3,139**	6,559
Trade and other receivables	**1,028**	200
Amounts due from related parties	**2,785**	2,975
	6,952	9,734
Financial liabilities		
At amortized cost:		
Trade and other payables	**22,347**	8,994
Amounts due to related parties	**144**	—
Loans and borrowings	**11,932**	1,984
	34,423	10,978

25 FINANCIAL INSTRUMENTS (continued)

(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:

	2012 **US$'000**	2011 US$'000
Cash and cash equivalents		
US dollars (Floating rate)	**309**	4,947
RMB (Floating rate)	**2,830**	1,612
Other financial assets		
RMB (Non-interest bearing)	**2,520**	57
US dollars	**1,293**	3,118
	6,952	9,734

The weighted average interest rate earned was 0.10% p.a. for the year (2011: 0.10% p.a.) on floating rate US dollar cash balances, and 0.36% p.a. (2011: 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:

	2012 US$'000	2011 US$'000
Bank loans		
RMB (Fixed rate)	**11,932**	1,984
Other financial liabilities		
US dollars (Non-interest bearing)	**5,574**	428
RMB (Non-interest bearing)	**16,917**	8,566
	34,423	10,978

The weighted average interest rates on bank loans and loans from a related company for the year were 7.084% p.a. (2011: 7.544% p.a.). If all interest rates had been 50 basis points higher, with all other variables held constant, post-tax profit would have been US$33,000 lower and there will be no impact on other component of equity.

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.

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 2012			
Financial assets			
Cash and cash equivalents	309	2,830	3,139
Trade and other receivables	144	884	1,028
Amount due from related parties	1,149	1,636	2,785
	1,602	5,353	6,952
Financial liabilities			
Trade and other payables	5,574	16,773	22,347
Loans and borrowings	—	11,932	11,932
Amount due to related parties	—	144	144
	5,574	28,849	34,423

	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
Loans and borrowings	—	1,984	1,984
	428	10,550	10,978

Some of the above cash and cash equivalents, other receivables and trade and other payables balances are denominated in a currency other than the functional currencies of the group entities to which they relate. A 5% (2011: 5%) increase or decrease in the US dollar/RMB exchange rate would result in reported profit and net assets for the year US$1,152,000 (2011: US$444,000) higher or lower respectively.

25 FINANCIAL INSTRUMENTS (continued)

(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.

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	one to two years US$'000	Undiscounted payments US$'000 (note i)	Adjustments US$'000 (note ii)	Carrying value US$'000 (note iii)
At 31 December 2012						
Trade and other payables and other current liabilities	9,277	9,600	3,470	22,347	—	22,347
Amounts due to related parties	144	—	—	144	—	144
Loans and borrowings	9,072	3,285	—	12,357	(425)	11,932
	18,493	12,885	3,470	34,848	(425)	34,423
At 31 December 2011						
Trade and other payables and other current liabilities	7,197	733	1,064	8,994	—	8,994
Amounts due to related parties	—	—	—	—	—	—
Loans and borrowings	—	2,125	—	2,125	(141)	1,984
	7,197	2,858	1,064	11,119	(141)	10,978

Notes:

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

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

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

25 FINANCIAL INSTRUMENTS (continued)

(d) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, with 95% of revenue derived from one customer. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

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

(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 2012 and 2011.

(f) Fair value

The carrying value of significant financial assets and liabilities approximate their respective fair values as at 31 December 2012 and 2011.

26 WORKING FACILITIES

On 27 January 2012, the Company drew down the US$12,500,000 working facility loan in full from Greka China Limited, a related company in Green Dragon Gas Group under the agreement signed on 11 February 2011. The facility had a two-year repayment period and 8% annual interest rate. The facility was fully repaid at the year ended.

27 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 8 March 2013.

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Executive Director, Chief Financial Officer

David Turnbull
Non-Executive Director

Stewart John, OBE
Non-Executive Director

Bryan Smart
Non-Executive Director

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