GREKA
DRILLING

INTERIM REPORT **2016**

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Revenue of US$2.6 million (H1 2015: US$11.9 million)
- US$8.1 million of cash on hand as at 30 June 2016 (US$6.5million restricted) (US$2.0million restricted as at 31 December 2015)
- US$3.8 million bank loans as at 30 June 2016 (US$5.9 million as at 31 December 2015)
- Loss of US$5.5 million (H1 2015: loss of US$4.8 million)
- Secured US$5 million in loan financing from Guaranty Finance Investors LLC

OPERATIONAL HIGHLIGHTS

- In line with our guidance in February this year, activity level has been limited in the first half of 2016. GDL has drilled 10 wells (3 in China and 7 wells in India) in the first 6 months compared to 28 wells in the same period last year..
- Of the wells drilled there was:
  - 1 Vertical well in China with a total depth ("TD") of 789 metres and completed in 12.94 days (spud to completion)
  - 7 Directional wells in India which averaged 11.51 days, a 42% improvement on the average of 19.82 days in the same period in 2015. The fasted Directional well was drilled to TD 1,036 metres in 9.3 days
  - 2 Horizontal wells in China with the fastest being drilled to TD of 1,658 metres in 27.49 days (spud to completion)

- In total there were 12,458.31 metres drilled (4,128.31 meters in China and 8,330 meters in India) compared to 26,367 metres in H1 2015.
- The 8,330 meters drilled in India compares with a total of 9,920 meters in India for the FY 2015.

H2 2016 OPERATIONS OUTLOOK

For India:

- Essar Oil Limited:
  - Expected to drill 30 wells with 2 rigs deployed under the current contract
  - Potential for deployment of a third Rig under the current contract.
- In advanced talks with new potential clients for:
  - The mobilisation of a rig and other equipment for drilling of wells in the Central part of India
  - The mobilisation of 2 rigs and other equipment for drilling on a multi-year contract.

For China:

- Green Dragon Gas has requested GDL to prepare for an 8 wells program starting this fall.
- Other wells for existing and new clients to include:
- 6 wells likely to start in November 2016.
- 6 Directional wells for tight gas.

MR. RANDEEP S. GREWAL, CHAIRMAN AND CHIEF EXECUTIVE OF GREKA DEILLING LIMITED, COMMENTED:

"We had previously advised the market that we expected this year to be challenging while the oil & gas operators realign their portfolios to the new oil price environment During this period we continued to take steps to reduce costs, improve our drilling efficiency and diversify our services and customer base. Indeed, we expect to have an equal client base this year between China and India.

In India, we won a new contract from ESSAR Oil to provide drilling vertical and directional wells on a day-rate basis. GDL has completed 7 directional wells under this contract and hope to complete 30 wells with 2 rigs in H2 2016. GDL is also in advanced talks with other Oil and Gas Operators to mobilize other rigs in the Central part of India"

In China it is anticipated that a number of larger E&P companies, including Green Dragon Gas, will start their drilling program for 2016 in H2 and GDL is well positioned and is in discussions in relation to carrying out this work. We remain confident about the market and the Company's longer term prospects in China"

CHAIRMAN’S STATEMENT

Globally, the energy sector is still in its vague state and volatile situation, you can see that from oil price and lot of people even voiced their pessimism on the future energy sector. But much to the contrary, here in China the situation is changing drastically. Though there was little investment into CBM exploratory activities by the majors like CNOOC (CUCBM), Sinopec and Petro china in H1 of 2016. But now Chinese government is reacting and using this opportunity to do something that they have been craving for long. One move, high on their agenda, is eyeball catching i. e. abandoning those coal-fired iron and steel plan and switching lots of factories into clean energy powered, like gas, to fundamentally change the “smoggy” air which has been bugging China badly for a long time. CBM, as an important part of this clean energy family, will play a key role in this process. To alter the situation and resume previous strong momentum of people’s enthusiasm to develop CBM, Chinese government has recently raised the subsidy to CBM development from RMB0.2 to RMB0.3 for extraction and utilization of one cubic meter of CBM. What is more, high on the top of agenda of China’s Thirteenth Five-year Plan, three provinces have been named as Hot Spot targets for CBM development which means more preferential policies will be in place, including central government granted low-interest loans. These three provinces are Guizhou, Inner Mongolia and Xinjiang. All these approaches will undoubtedly be spurs to the CBM development companies and investors, and will for sure trigger another wave CBM all out development. Greka, as Asia’s dominant CBM drilling service provider must grab this opportunity and get prepared!”

As such, in H1 this year we have done several very important things. First, we optimized our organizations, we have made sure that each rig is manned with experienced crew so we can expect to exhibit high efficiency while drilling in the market place. Secondly, we examined and had a thorough diagnosis on every rig and made it sure that they are in good working order and professionally serviced based on industry commonly accepted rules and practices. Thirdly, we have restructured our business department and redefined its functionality. So it is easy and quick to move and react to market requirements. In the end, after restructuring, we visited number of companies like coal mines, power generation plants and coal gasification projects to promote our technologies and capacities for drilling.

As a result, through joint efforts, China has already won a CBM horizontal drilling project from Petro china’s Huabei Branch in southern portion of Qinshui Basin, paperwork will be signed in the coming weeks. In India we have two rigs working for Essar on day rate basis, 16 wells vertical well have been drilled already. GDI is preparing bidding documents now for ONGC, GDI is also looking at another two business opportunities. In China GDC is closely following a coal gasification project in Inner Mongolia sponsored by Huadian, one of China’s biggest power plants. We are also assessing the risk of drilling horizontal wells in a block near Shijiazhuang, Capital City of Hebei Province. We believe that these efforts of visits and meetings we made will get payoff in H2 this year. We are ready to go and drill…”

We are also happy to hear that well Changping 1 in Qinshui Basin which we drilled for Petro china Huabei has already indicated very good potential of gas production. Number of vertical wells we drilled in Guizhou have also shown very good production. All these evidences, without need of advertisement, have absolutely demonstrated that GDL can profitize our clients CBM project through our perfect drilling performance.

I am looking forward to getting the shareholders more information on contract awarding from different clients as well as their satisfaction to our drilling performance!

Randeep S. Grewal
Chairman
27 September,2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2016 US$'000 Unaudited	Six months ended 30 June 2015 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Revenue	3	2,610	11,892	29,916
Cost of sales		(3,921)	(12,428)	(23,951)
Gross (loss)/profit		**(1,311)**	**(536)**	**5,965**
Administrative expenses		(3,898)	(3,914)	(9,256)
Total administrative expenses		(3,898)	(3,914)	(9,256)
Loss from operations		**(5,209)**	**(4,450)**	**(3,291)**
Finance income	4	84	1	3
Finance costs	5	(1,756)	(480)	(4,241)
Loss before income tax		**(6,881)**	**(4,929)**	**(7,529)**
Income tax charge	6	1,353	122	228
Loss for the period		(5,528)	(4,807)	(7,301)
Other comprehensive income/(expense):				
Items that may be reclassified to profit or loss:				
Exchange differences on translation of foreign operations		7	228	(88)
Total comprehensive expense for the period		**(**5,521**)**	**(4,579)**	**(7,389)**
(Loss)/profit for the period attributable to:				
- Owners of the company		(5,615)	(4,791)	(7,246)
- Non-controlling interests		87	(16)	(55)
		(5,528)	**(4,807)**	**(7,301)**
Total comprehensive (expense)/income attributable to:				
- Owners of the company		(5,549)	(4,622)	(7,476)
- Non-controlling interests		28	43	87
		(5,521)	**(4,579)**	**(7,389)**
Earnings per share				
- Basic and diluted (in US dollar)	7	**(0.0141)**	**(0.0121)**	**(0.0184)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2016 US$'000 Unaudited	As at 31 December 2015 US$'000 Audited
Assets			
Non-current assets			
Property, plant and equipment	8	82,389	84,962
Intangible assets		343	388
Deferred tax assets	9	84	-
		82,816	**85,350**
Current assets			
Inventories	10	6,304	7,138
Trade and other receivables	11	3,555	3,363
Cash and bank balances	12	8,082	2,421
		17,941	**12,922**
Total assets		**100,757**	**98,272**
Liabilities			
Current liabilities			
Trade and other payables	13	32,051	25,165
Loans and borrowings	14	3,770	5,852
Provisions		-	585
		35,821	**31,602**
Non current liabilities			
Loans and borrowings	14	4,406	-
Financial Liability	15	565	
Deferred tax liabilities	9	-	1,184
		4,971	**1,184**
Total net assets		**59,965**	**65,486**
Capital and reserves			
Share capital		4	4
Share premium		77,186	77,186
Invested capital		(1,533)	(1,533)
Reserve fund		917	917
Foreign exchange reserve		921	855
Retained deficit		(17,269)	(11,654)
Total equity attributable to owners of the Company		60,226	65,775
Non-controlling interests		(261)	(289)
Total Equity		**59,965**	**65,486**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$'000	Share premium US$'000	Invested capital US$'000	Reserve fund US$'000	Foreign exchange reserve US$'000	Retained deficit US$'000	Equity attributable to owners of the Company US$'000	Non-controlling interests US$'000	Total US$'000
At 01 January 2015 - audited	**4**	**77,186**	**(1,533)**	**917**	**1,086**	**(4,409)**	**73,251**	**(376)**	**72,875**
Loss for the period	-	-	-	-	-	(4,791)	(4,791)	(16)	(4,807)
Other comprehensive income:									
- Exchange difference on translation of foreign operations	-	-	-	-	169	-	169	59	228
Total comprehensive income/(expense) for the period	-	-	-	-	169	(4,791)	(4,622)	43	(4,579)
At 30 June 2015 - unaudited	**4**	**77,186**	**(1,533)**	**917**	**1,255**	**(9,200)**	**68,629**	**(333)**	**68,296**
At 01 January 2016 - audited	**4**	**77,186**	**(1,533)**	**917**	**855**	**(11,654)**	**65,775**	**(289)**	**65,486**
(Loss)/profit for the period	-	-	-	-	**-**	(5,615)	(5,615)	87	(5,528)
Other comprehensive income/(expense):									
- Exchange difference on translation of foreign operations	-	-	-	-	66	-	66	(59)	7
Total comprehensive income/(expense) for the period	-	-	-	-	66	(5,615)	(5,549)	28	(5,521)
At 30 June 2016– unaudited	**4**	**77,186**	**(1,533)**	**917**	**921**	**(17,269)**	**60,226**	**(261)**	**59,965**

CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended 30 June 2016 US$'000 Unaudited	6 months ended 30 June 2015 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Operating activities:			
(Loss)/profit before income tax	**(6,881)**	**(4,929)**	**(7,529)**
Adjustments for:			
Depreciation	1,619	2,037	5,647
Amortization of other intangible assets	38	40	75
Loss on disposal of property, plant and equipment	-	-	356
Finance (loss)/gains	1,329	156	3,629
Finance income	(84)	(1)	(3)
Finance costs	427	324	612
Operating cash flows before changes in working capital	**(3,552)**	**(2,373)**	**2,787**
Decrease/(increase) in inventories	835	(889)	(777)
(Increase)/decrease in trade and other receivables	(192)	2,323	2,292
Increase/(decrease) in trade and other payables	6,301	5,154	(2,713)
Cash generated from/(utilized by) operations	**3,392**	**4,215**	**1,589**
Income tax payment	(43)	(172)	(225)
Net cash from operating activities	**3,349**	**4,043**	**1,364**
Investing activities:			
Payments for purchase of property, plant and equipment	98	(44)	(359)
Transfers (to)/from restricted cash	(4,395)	1,526	3,849
Interest received	1	1	-
Net cash (used in)/from investing activities	**(4,296)**	**1,483**	**3,490**
Financing activities			
Proceeds from promissory note	5,000	-	-
Proceeds of short term loan	3,770	6,216	5,852
Repayment of short term loan	(5,852)	(11,930)	(11,242)
Finance costs paid	(268)	(551)	(565)
Net cash from/(used in) financing activities	**2,650**	**(6,265)**	**(5,955)**
Net/increase/(decrease) in cash and cash equivalents	**1,703**	**(739)**	**(1,101)**
Cash and cash equivalents at start of year	**353**	**1,737**	**1,737**
	2,056	998	636
Effect of foreign exchange rate changes	(437)	261	(283)
Cash and cash equivalents at end of year	**1,619**	**1,259**	**353**

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. ACCOUNTING POLICIES

The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union except for IAS 34. The financial statements of the Group for the 6 months ended 30 June 2016 were approved and authorized for issue by the Audit Committee and the Board on 26 Sep 2016.

The interim financial statements have been prepared in accordance with the accounting policies that are consistent with the December 2015 financial statements and the same policies are expected to apply for the year ended 31 December 2016. The financial information for the six months to 30 June 2016 does not constitute audited accounts of the Company or the Group. The comparative financial information for the year ended 31 December 2015 in this interim report does not constitute statutory accounts for that year. The auditors' report on those accounts was unqualified and did not draw attention to any matters by way of emphasis.

Basis of preparation

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

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

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

The preparation of consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial information are disclosed in note 2 to the financial information in the 31 December 2015 annual report. Actual results may differ from these estimates.

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

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENTAL INFORMATION

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

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

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

	Six months ended 30 June 2016 US$'000 Unaudited	Six months ended 30 June 2015 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
China	1,959	8,785	25,686
India	651	3,107	4,230
	2,610	11,892	29,916

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Segmental assets	Unaudited	Audited
China	80,642	94,180
India	18,505	19,504
Intercompany	1,610	(15,412)
	100,757	98,272

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Segmental liabilities	Unaudited	Audited
China	15,874	11,492
India	3,817	3,973
Intercompany	21,101	17,321
	40,792	32,786

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. FINANCE INCOME

	Six months ended 30 June 2016 US$'000 Unaudited	Six months ended 30 June 2015 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Change in FV of derivative	83	-	-
Bank interest	1	1	3
	84	1	3

5. FINANCE COSTS

	Six months ended 30 June 2016 US$'000 Unaudited	Six months ended 30 June 2015 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Interest expense on short term loans	373	324	612
Foreign exchange loss	1,329	156	3,629
Amortization of warrant costs	54	-	-
	1,756	480	4,241

6. TAXATION

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

7. EARNINGS PER SHARE

	Six months ended 30 June 2016 US$'000 Unaudited	Six months ended 30 June 2015 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Earnings for the purpose of basic and diluted loss per share	(5,615)	(4,791)	(7,301)
Weighted average number of ordinary shares	398,245,758	398,245,758	398,245,758

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

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred US$98,779 on additions to plant and equipment (31 December 2015 — US$802,000).

9. DEFERRED TAXATION

	As at 30 June 2016 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Deferred tax liabilities		
Opening balance	1,184	1,369
Temporary difference charge	718	1,256
Tax losses recognized	(1,986)	(1,441)
At the end of the period	(84)	1,184

The Group has not offset deferred tax assets and liabilities across different jurisdictions. Cayman Island losses of US$962,000 (2015: US$2,618,000) do not expire under current tax legislation. PRC tax losses of US$2,068,603 (2015: $1,467,750) expire after 5 years.

10. INVENTORIES

	As at 30 June 2016 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Raw materials and consumables	6,304	7,138

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2016 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Account receivable	810	1,190
Prepayments	1,122	1,103
Other receivables	1,623	1,070
	3,555	3,363

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. CASH AND CASH EQUIVALENTS

	As at 30 June 2016 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Cash and Cash Equivalents(Unrestricted)	1,619	353
Cash and Cash Equivalents(Restricted)	6,463	2,068
	8,082	2,421

The restricted bank balance represents deposits placed in financial institutions to secure bills payable of an equivalent amount related to trade payables of US$129,690 and bank loans of US$6,333,695.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2016 US$'000 Unaudited	Year ended 31 December 2015 US$'000 Audited
Trade payables and others	12,026	13,297
Notes payable	6,463	2,068
Amount due to related parties	13,562	9,800
	32,051	25,165

14. LOANS AND BORROWINGS

Bank name	**Period**	**Balance as at Dec 31,2015**	**Interest rate**	**Repayment**		**New loan**		**Balance as at June 30,2016**
		US$'000		**Date**	**Amount US$'000**	**Date**	**Amount US$'000**	US$'000
CITIC Bank	One year	2,772	7.00%	14/4/2016	(2,772)	11/5/2016	1,810	1,810
SPD Bank	One year	3,080	7.28%	6/1/2016	(3,080)	19/1/2016	1,960	1,960
Total for Short term loa		**5,852**			**(5,852)**		**3,770**	**3,770**
Guaranty finance investors, LLC	Three year		7.00%			31/3/2016	4,406	4,406
Total for Long term loan							**4,406**	**4,406**

NOTE TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. Financial Liability

During the period, a warrant to subscribe for 35 million ordinary shares was issued as part of the US$5m promissory note agreement with Guaranty Finance Investors LLC.

As the warrants are exchangeable into variable number of shares, their fair values on the grant date and reporting date were determined using the Black Scholes model. The fair value of the warrants on the date of grant and at period end was US$648,000 and US$565,000 respectively, with the change in fair value of US$83,000 being recognize in the income statement. On initial recognition the warrant's cost was deducted from the loan balance of US$5m as it represents the loan arrangement costs and is subsequently amortized over the term of the loan.

16. RELATED PARTY TRANSACTIONS

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

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

As at 30 June 2016, the Group had the following balances due to/from companies under common control of Mr. Randeep Grewal

- Net payable to the Green Dragon Gas group of US$13.4m (2015: net payable: US$ 9.6m)
- Net payable to the Greka Engineering and Technology group of US$184,340 (2015: US$180,240)

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

Related party transactions during the period comprise of

- Drilling services provided to the Green Dragon Gas group of US$1,541,000 (2015: US$8,091,000)
- Leasing income from the Green Dragon Gas group of US$327,000 (2015: US$336,000m), Greka Engineering and Technology group of US$25,000 (2015: US$27,000), and from Henan Greka Weino Alcohol Trading Limited of US$2,000 (2015: US$1,000)

The lease term was 1 year from 1 January 2016 to 31 December 2016 and 1 January 2015 to 31 December 2015 respectively.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

DIRECTORS

Randeep S. Grewal
Executive Director, Chairman and CEO

David Turnbull
Non-Executive Director

Bryan Smart
Non-Executive Director

Richard Day
Non-Executive Director

Sean Mulhearn
Non-Executive Director

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