10 April 2012

Greka Drilling Limited

("Greka Drilling" or "the Company")

Annual results for the year ended December 2011

Revenue increases 80%

FINANCIAL HIGHLIGHTS

- Revenue of US$43.8m, an 80% increase over same period last year of US$24.3m
- Net profit of US$2.8m, compared with US$2.0m last year, 39% increase year-on-year
- EPS US$0.006, compared with US$0.005 in same period last year
- Cash and cash equivalents of US$6.6m
- Unused US$12.5m revolving working capital facility

CORPORATE HIGHLIGHTS

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

OPERATIONAL HIGHLIGHTS

- 88,224 metres drilled, compared to 59,807 metres drilled in 2010, a 48% increase
- Vertical wells averaging 37 drilling days
- Horizontal wells averaging 51 drilling days

Randeep Grewal, Chairman and Chief Executive of Greka Drilling, commented:

"It has been an exciting and rewarding journey for shareholders and employees alike. The rate of our expansion has been at times challenging following the move from being the in-house driller of Green

Dragon Gas to being the largest independent and specialised unconventional gas driller in China. The pace of our growth is underpinned by a methodology of drilling within Chinese coal seams and is driven by our goal of matching the pent up demand that exists for this expertise. Our pioneering ability to 'crack the code' of one of the most challenging geology's globally was built through knowledge, experience and tenure. No other Company in China has advanced the aspirations of the Country to deliver its unconventional gas resource as we have. Today we can truly claim the mantle of a pioneer. Indeed, China is beginning to acknowledge the problems we have faced, with the heavily faulted coal seams being frequently referred to in the public domain as an impediment to the commercialisation of unconventional gas. The 12th five year plan lays out specific targets for unconventional gas production in China. With our methodology deploying at a fast pace at Green Dragon Gas' Shizhuang South block, the scene is set for deployment across other locations throughout China, and for multiple customers. We believe that third party contracts are imminent. The Company is scalable, skilled and staffed. We expect to be able to fund the future growth of the Company in part with debt from Chinese banks as we continue to take deliveries of our new Greka Drillmec rigs."

For further information on Greka Drilling, please refer to the website at www.grekadrilling.com or contact:

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CHAIRMAN'S STATEMENT

I am pleased to report that net profits for the year to December 2011 were US$2.8m on revenues which increased by 80% to US$43.8m.

In our first year as an independently listed and managed company following the successful demerger from Green Dragon Gas in March 2011, the Company has focussed on the commissioning of its 'state of the art' rig fleet and the development of its senior management, engineers and crew. The Lined Faulted Brittle Coals ("LiFaBriC") drilling methodology is an environmentally progressive game-changer, as this method avoids the need for fracking the coals to stimulate desorption to produce methane. The new fleet was ordered in the summer of 2011. The drilling rig manufacturer was assisted in the design and specification of the purpose-built fleet by the Company's senior management and engineers. The tight delivery schedule for 25 new rigs has been accompanied by a significant increase in senior personnel and staff headcount. During this month, the first entrants into the purposely built Site Camp for 25 drilling crews and supervisors at Shizhuang South in Shanxi Province arrived. The Site Camp currently comprises 8 buildings covering a floor space of 9,760 square meters with the capacity to accommodate 1,000 personnel as well as warehouse and workshops.

The Company has been introducing up to 4 new rigs a month into its fleet and has established an Operations Control Centre, enabling live monitoring of the drilling operations 24/7, 365 days a year. This has enhanced operational efficiency and HSE (health, safety and environment) vigilance.

The pattern of drilling has radically changed. Crews are 18 per rig (working in shifts) and operate around the clock. A rig manager oversees 5 rigs and his fleet moves in formations to new locations led by the manager. The production drilling fleet is monitored via digital feeds to the Company's Operations Control Centre in Zhengzhou, where the skilled supervision team monitors and controls execution and performance. Unit efficiencies are expected to be realised later this year, as the initial aggressive growth is absorbed.

Greka Drilling has a significant first mover advantage in the application of specialist LiFaBriC horizontal drilling methodology in the exploitation of CBM in China. Our focus on the unconventional gas niche, complemented by a purpose built new rig fleet, has established a solid foundation for us to achieve exponential growth for years to come.

FINANCIALS

Earnings per share increased to US$0.006 from US$0.005 in the previous year. Greka Drilling remains well-positioned financially, with US$6.6m of cash and a US$12.5m unused working capital facility.

OUTLOOK

The Company has set its sights firmly on third party contracts both in China and further afield. To this end, we are recruiting management with strong regional expertise and adding divisions within the business to enable the Company to capture the enormous opportunities in the market. We expect to build a significant level of third party business while continuing to service Green Dragon's expanding operations. The decision on the strategy concerning the international market will be made during the coming year. Our focus on the Company's balance sheet remains, with conservative levels of debt being added to fund expansion. The 125 rig option that we have to expand the current 32 rig fleet further, is being concurrently evaluated in the context of our anticipated addition of new customers.

Randeep S. Grewal
Chairman and CEO

10 April 2012

BUSINESS REVIEW

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

Overview

Our 2011 financial and operating results include:

- Net profit US$2.8m, compared with US$2.0m last year, a 39% increase year-on-year
- EPS US$0.006, compared with US$0.005 in same period last year
- Metres drilled increased by 48% from 59,807 for 2010 to 88,224 for 2011
- Total rigs grew to 16 from 7 in the previous year

Rig Fleet

- Of the 7 rig fleet size in 2010, 5 were originally equipped for drilling vertical wells. These were converted and equipped to drill LiFaBriC directional wells to join the 2 existing directional rigs
- Greka Drilling signed a contract with Drillmec to purchase 25 new GD-75 rigs. By the end of December 2011, 9 new rigs had arrived on site and related accessory drilling equipment for these 9 rigs was also purchased. The total order of 25 new rigs is expected to be on site by the end of April 2012
- In order to further improve efficiency, 5 new rigs will be treated as one team, each with a team manager. All rigs are capable of drilling directional and/or vertical wells

Personnel

- During 2011, we recruited 9 new drilling teams in connection with the expansion of the number of rigs; our aim is for the rigs to operate 24 hours a day, 365 days a year subject to adequate downtime for maintenance
- Reduced every drilling team from 25 staff to 18 staff
- In order to meet our planned drilling business expansion , the Company revised and augmented its organisation by adding the Directional Department, the HSE Department, the OCC which supervises the drilling activity, and the Maintenance and Logistics Department

Site Camp

- Obtained 23,000m^2 land for camp construction at Shizhuang South
- Started construction of 8 buildings on a total land area of 9,760 square meters to accommodate 1,000 employees
- The buildings include management and staff accommodation, workshops, warehouse, offices, canteen and crew recreational facility

Directional Drilling

- The application of innovative solutions starts with Greka Drilling's growing Engineering Department which houses Directional Drilling and Engineering divisions. With a key focus on improving productivity, these divisions develop and implement our in-house directional drilling techniques. Greka Drilling ensures its team members deliver the consistent application of specialized in-house techniques and methodologies
- Perfected the utilisation of RMRS (Rotating Magnet Ranging System) technologies which significantly enhances the drilling precision
- The LiFaBriC method continues to deliver consistent and reliable results. Greka Drilling combines cutting edge drilling technology with a program of continuous development to deliver an enhanced CBM completions technique. Together with developments in applying enhanced geo-steering techniques through MWD (Measurement While Drilling) and LWD (Logging While Drilling) technologies, Greka Drilling has been able to continue to improve upon the success of the LiFaBriC methodology

Maintenance

- Maintenance and Logistics Department established in June 2011. Following the theoretical and operational training, engineers and mechanics are able to troubleshoot and repair the mechanical, hydraulic and electrical failures on the rigs in-house

  In total 7 Italian-Chinese speaking engineers were sent to Drillmec in Italy for training and concurrently ensured quality control during the construction of the new 25 GD-75 rigs

FINANCIAL REVIEW

RESULTS FOR THE YEAR

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

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2011, the Group has total assets of US$88.4m (2010: US$53.2m) and current liabilities, non-current liabilities and equity holders' equity of US$11.3m, US$0m and US$77.1m respectively (2010: US$56.9m, US$0m and US$(3.7)m respectively).

As at 31 December 2011, the Group's cash and cash equivalents was US$6.6m (2010: US$6.4m) and total borrowings of US$2.0m (2010: US$1.5m), a bank loan secured via the mortgage of the Company's office building. This bank loan has a one year term from 9 December 2011 to 9 December 2012 with a 7.544% interest rate.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Revenue	2	43,834	24,317
Cost of sales		(34,235)	(19,430)
Gross profit		9,599	4,887
Foreign exchange (losses)/gains		671	959
Administrative expenses		(5,581)	(2,829)
Total administrative expenses		(4,910)	(1,870)
Profit from operations	3	4,689	3,017
Finance income	4	12	3
Finance costs	5	(85)	(266)
Profit before income tax		4,616	2,754
Income tax charge	7	(1,812)	(732)
Profit for the year		2,804	2,022
Other comprehensive income:			
Exchange differences on translation of foreign operations		825	154
Total comprehensive income for the year		3,629	2,176
Profit for the period attributable to:			
- Owners of the company		2,790	1,826
- Non-controlling interests		14	196
		2,804	2,022
Total comprehensive income attributable to:			
- Owners of the company		3,627	2,136
- Non-controlling interests		2	40
		3,629	2,176
Earnings per share			
- Basic and diluted (in US dollar)	8	0.006	0.005

Consolidated Statement of Financial Position

	Note	As at 31 December 2011 US$'000	As at 31 December 2010 US$'000
Assets			
Non-current assets			
Property, plant and equipment		43,219	16,738
Intangible assets		524	181
Deferred tax asset		-	-
		43,743	16,919
Current assets			
Inventories		9,155	4,354
Trade and other receivables		28,930	25,534
Cash and cash equivalents		6,559	6,383
		44,644	36,271
Total assets		88,387	53,190
Liabilities			
Current liabilities			
Trade and other payables		8,994	54,967
Loans and borrowings		1,984	1,480
Current tax liabilities		283	436
		11,261	56,883
Total net assets / (liabilities)		77,126	(3,693)
Capital and reserves			
Share capital		4	-
Reserves		77,511	-
Equity attributable to owners of the Company		77,515	(1,389)
Non-controlling interests		(389)	(2,304)
Total equity / (deficiency)		77,126	(3,693)

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$'000	Accumulated losses US$'000	Equity attributable to owners of the Company US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2010	-	-	(1,533)	-	209	(2,201)	(3,525)	(2,344)	(5,869)
Profit for the year	-	-	-	-	-	1,826	1,826	196	2,022
Other comprehensive income:									
- Exchange difference on translation of foreign operations	-	-	-	-	310	-	310	(156)	154
Total comprehensive income for the year	-	-	-	-	310	1,826	2,136	40	2,176
Transfer of reserve fund	-	-	-	102	-	(102)	-	-	-
At 31 December 2010	-	-	(1,533)	102	519	(477)	(1,389)	(2,304)	(3,693)
Profit for the year	-	-	-	-	-	2,790	2,790	14	2,804
Other comprehensive income:									
- Exchange difference on translation of foreign operations	-	-	-	-	837	-	837	(12)	825
Total comprehensive income for the year	-	-	-	-	837	2,790	3,627	2	3,629
Adjustments arising upon acquisition of additional interests in subsidiaries	-	-	-	-	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		27,190	-	-	-	-	27,190	-	27,190
At 31 December 2011	4	77,186	(1,533)	595	1,599	(336)	77,515	(389)	77,126

* Invested capital 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.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Operating activities			
Profit before income tax		4,616	2,754
Adjustments for:			
Depreciation		2,941	2,083
Amortization of other intangible assets		37	18
Loss on disposal of property, plant and equipment		10	491
Finance income		(12)	(3)
Finance costs		85	266
Operating cash flows before changes in working capital		7,677	5,609
Increase in inventories		(4,801)	(2,208)
Increase in trade and other receivables		(3,396)	(18,632)
(Decrease)/increase in trade and other payables		(18,783)	22,747
Cash (used in)/generated from operations		(19,303)	7,516
Income tax payment		(1,976)	(5)
Net cash (used in)/from operating activities		(21,279)	7,511
Investing activities			
Payments for purchase of property, plant and equipment		(28,671)	(3,108)
Payments for intangible assets		(363)	(38)
Proceeds from disposal of property, plant and equipment		16	-
Interest received		12	3
Net cash from/(used in) investing activities		(29,006)	(3,143)
Financing activities			
Proceeds from the issue of share, net of issue costs		50,000	-
Proceeds of short term loan		1,984	1,480
Repayment of short term loan		(1,555)	(1,171)
Finance costs paid		(85)	(266)
Net cash from financing activities		50,344	43
Net (decrease)/increase in cash and cash equivalents		59	4,411
Cash and cash equivalents at the beginning of the year		6,383	2,261
		6,442	6,672
Effect of foreign exchange rate changes		117	(289)
Cash and cash equivalents at end of year		6,559	6,383

Abridged notes to the financial information for the year ended 31 December 2011

1. BASIS OF PREPARATION

Greka Drilling Ltd. ("the Company") is incorporated in the Cayman Islands. The financial statements have been prepared in accordance with IFRSs as adopted by the European Union, that are effective for accounting periods beginning on or after 1 January 2011. The principal accounting policies adopted in the preparation of the financial statements are disclosed in the Group's full annual report and accounts for the year ended 31 December 2011.

2. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

3. PROFIT FROM OPERATIONS

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

	2011 US$'000	2010 US$'000
Cost of inventories recognized as an expense		
Staff costs (note 6)	7,931	4,791
Depreciation of property, plant and equipment	2,941	2,083

Operating lease expense (property)	132	58
Amortization of intangible assets	37	18
Loss on disposal of property, plant and equipment	10	491
Foreign exchange losses	(671)	(959)

4. FINANCE INCOME

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

5. FINANCE COSTS

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

6. STAFF COSTS

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

7. TAXATION

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

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

	2011 US$'000	2010 US$'000
Profit before income tax	4,615	2,754
Expected tax charge based on the standard rate of corporation tax in the Cayman Islands of 0% (2010: 0%)	-	-
Effect of:		
Different tax rates applied in overseas jurisdictions	1,154	689
Tax effect of revenue not taxable for tax purposes	(71)	(233)
Tax effect of expenses not deductible for tax purposes	56	276
Tax losses not recognized	574	-
Under/(over) provision in respect of prior year	99	-
Income tax charge	1,812	732

Taxation for the Group's operations in the PRC is provided at the applicable current tax rate of 25% on the estimated assessable profits for the year.

8. EARNINGS PER SHARE

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

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

There are no potentially dilutive instruments.

9. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2010: Nil).

10. PUBLICATION OF NON-STATUTORY ACCOUNTS

The financial information for the years ended 31 December 2011 and 31 December 2010 set out in this announcement does not constitute the Group's statutory financial information but is extracted from the Company's audited financial statements for those years. The auditors have reported on the full financial information for both periods and their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports.

11. ANNUAL REPORT

The Company's Annual Report and copies of this announcement will be available in due course on the Company's website at www.grekadrilling.com and from the office of the Company's nominated adviser, Smith & Williamson Corporate Finance Limited at 25 Moorgate, London EC2R 6AY, United Kingdom.