REKA
DRILLING

ANNUAL REPORT **2017**

CONTENTS

Greka Drilling Limited (AIM: GDL) is the largest independent and specialised provider of unconventional gas drilling services in Asia.

We have the best-in-class rigs and crews: our rigs are tailor-made for drilling coal bed methane and our crews are trained to uniform standards at the Greka Training School. Our rig fleets are based in Zhengzhou, China and Durgapur, India.

Greka Drilling has developed the LiFaBriC methodology for the under-saturated, brittle and highly faulted coals typically found in China. The LiFaBriC lateral well design does not involve any fracking, it does not use chemicals and it results in a long well life and easy work-over.

Our mission is to ensure that our clients extract unconventional gas in the most cost-efficient and environmentally sound manner, while operating to the highest standards.

2017 HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

48 wells were drilled in 2017 (2016: 33 wells), of which:

41 wells drilled in China (2016: 5 wells)

7 wells drilled in India (2016: 28 wells)

13 wells drilled for G3 Exploration ("G3E") (2016: 5 wells)

28 wells drilled for other clients in China (2016: none)

7 wells were drilled for Essar Oil in India (2016: 28 wells)

A total of **64,192 metres** were drilled in 2017, compared to 39,553 metres in 2016, of which:

56,531 metres were drilled in China

7,661 metres were drilled in India

81% of the metres in China involved the use of the Company's in house MWD (Measurement while drilling) directional tools (i.e. were lateral or directional wells using measurement-while-drilling); (2016: 13%).

FINANCIAL HIGHLIGHTS

Annual revenue of **US$11.6M** (2016: US$7.2m)

Year-end cash and bank deposits of **US$0.6M** (2016: US$2.1m)

Losses before tax curtailed to **US$1.7m** (2016: loss before tax US$9.6m) due to increase in revenue and controlled operational costs resulting in gross profit of **US$3.4m** (2016: gross loss of US$1.0m), Further supported by decrease in administrative expenses

CHAIRMAN'S STATEMENT

We were pleased with the continued stability of our service contracts in China while we faced challenges in India. The Company's dual geography strategy for stability has proven itself since being implemented five years ago. This year, the Chinese clients provided for the stability and growth.

Randeep S. Grewal
Founder & Chairman

While the year presented challenges in India and some in China, Greka Drilling concluded the year with a 61% increase in revenues to US$11.6m from US$7.2m in the previous year. The gross profit increased to US3.4m from a loss of US1.0m in 2016. A total of 48 wells were completed with 64,192 meters being successfully being drilled, a 45% and 62% increase over 2016, respectively.

In China the government continued its strong support for the development of its Coal Bed Methane (CBM) resources. We were benefactors of the continued drilling programs by State owned China National Petroleum Corporation (CNPC) on its large acreage in southern Shanxi province on multiple blocks. Greka Drilling has been accepted as a CBM drilling expert and routinely provided drilling mandates. Specifically, we are always awarded the more complex horizontal or directional wells to drill by CNPC. We expect CNPC to continue its drilling campaigns and include Greka Drilling as its service provider going forward.

Additionally in China, Greka Drilling delivered on a challenging drilling campaign by G3 Exploration (LSE: G3E) in the fourth quarter. G3E mandated the Company to drill twelve wells in their Guizhou province block and further required the program to be completed prior to year end. Notwithstanding, multiple challenges on attaining land access, midst of a torrential rainy season and a difficult mountainous terrain, Greka Drilling successfully completed this difficult mandate timely. The completed program provided G3E the necessary accomplishments by yearend and helped it conclude that their block continue onto development from the exploration phase. As a result of the timely and proficient execution, we expect to drill a significant inventory of wells over the next five years across the large acreage.

Furthermore, the Company concluded 52 work-overs for G3E during the course of the year. The work-overs are continual requirements on their producing wells due to the intermittent well failures on the large population of wells operated by G3E. We expect such workload to continue in the years ahead.

As a result of the drilling campaign and work-overs, the G3E related party debt reduced 52% to US$6.3m at yearend. We expect such debt to be reduced further in 2018 from similar activities.

While in China we continued to stabilize and expand our operations, the sole Indian contract with ONGC was terminated. Greka Drilling was fully committed to Oil and Natural Gas Corporation's (ONGC's) proposed drilling campaign at Bokaro and had designated rigs and resources and had made the best workforce available for the project. Unfortunately, the development plan concluded by ONGC was determined not to be in the best interests of the Company and its shareholders. Greka Drilling wishes the best for ONGC in this drilling campaign.

The curtailed Indian team continues its focus on business development activities with potential clients with CBM ownership interests. We continue to be optimistic of the long term Indian CBM drilling service market, notwithstanding the current challenges being faced.

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

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

Randeep S. Grewal
Chairman
6th July 2018

RESULTS OVERVIEW

Our 2017 financial and operating results include:

- Loss per share of US$0.0064, compared with loss per share of US$0.0194 in 2016.
- Cash and bank deposits of US$0.6m (2016: US$2.1m).
- Gross margin 30% compared with -14% in 2016.
- US$3m of bank loans and US$11.1m of promissory notes (including interest) compared with US$3.6m of bank loans and US$7.3m of promissory notes at 31 December 2016

OPERATIONAL

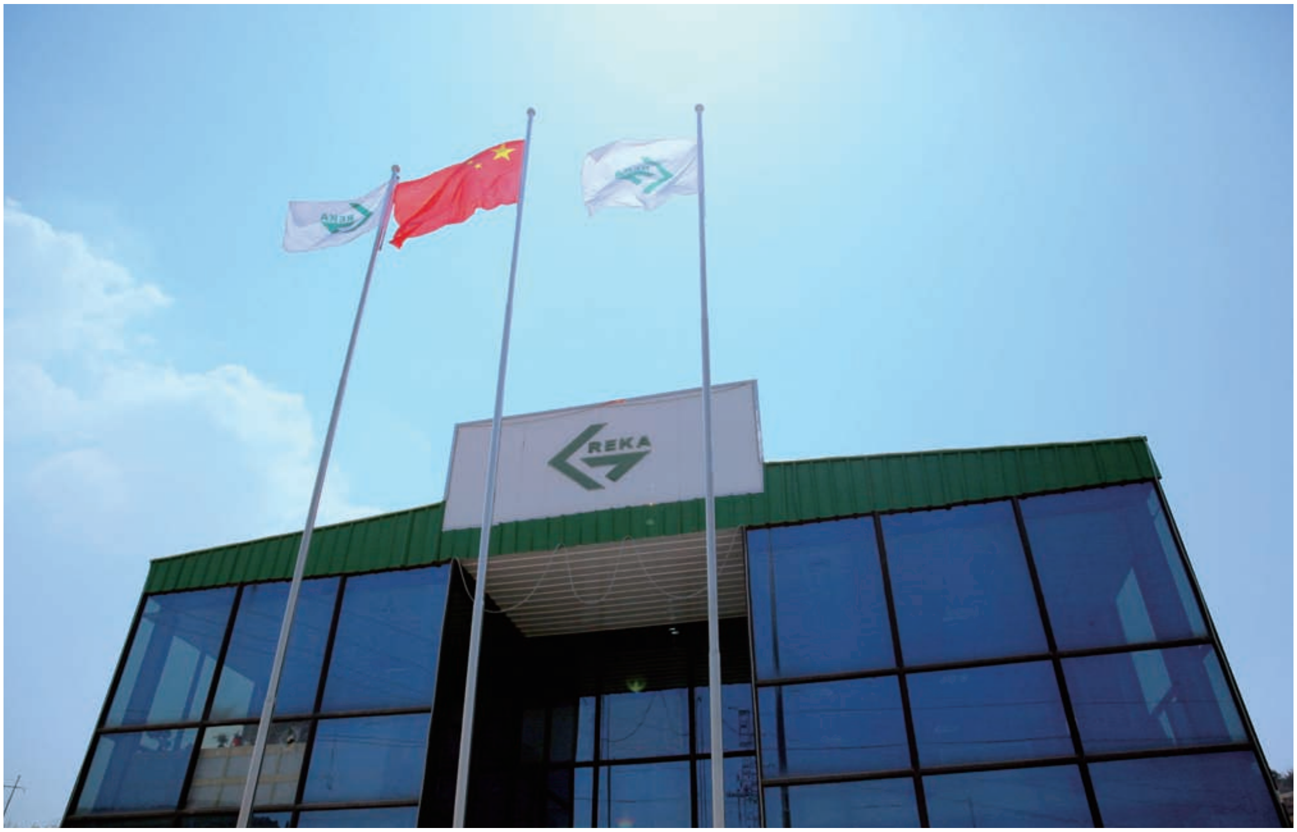
- In 2017, the Company performed work-overs on 52 wells in the GSS block for G3E.
- Strong HSE (Health Safety & Environment) focus. No Lost Time Injuries occurred in 2017.
- Greka Drilling continues to emphasize training, with 4,608 man-hours of training conducted in 2017 for staff in China (2016: 4,184 man-hours) and with 2,022 man-hours of training conducted in 2017 for staff in India (2016: 400 man-hours).

DRILLING

- Most meters drilled in a shift by a rig (12h): 407m.
- Most meters drilled in a day by a rig (24h): 559m.
- Fastest well (spud to TD, 793m) was drilled in 3.52 days.
- 12 wells were completed in Guizhou, for G3E within eight weeks.
- 6 drilling contracts were signed in China, (2016: 1).

BUSINESS DEVELOPMENT

- To increase the drilling fleet utilisation from 7 to 10 rigs.
- Mobilise second workover rig for G3E and/or other clients within Shanxi Province.
- Complete the 35 remaining wells under existing contracts and maintain client relationships with CNPC, G3E and Petrochina for additional mandates.
- In active dialogues with leading gas producers in the western and eastern regions of India to provide drilling support in their CBM fields.



RESULTS FOR THE YEAR

The Group recorded a revenue of US$11.6 million (2016: US$7.2 million) and a loss of US$2.6 million (2016: loss of US$7.7 million) for the year ended 31 December 2017.Revenue increased as a result of increase in drilling activity in China in the year, resulting in a gross profit of US$3.4 million (2016: gross loss of US$1.0 million).

The general and administrative expenses amounted to US$4.0 million (2016: US$6.2 million). Loss per share was US$0.0064 (2016: loss per share US$0.0194).

LIQUIDITY AND CAPITAL

As at 31 December 2017, the Group had total assets of US$91.3 million (2016: US$92.1 million) and liabilities and equity holders' equity of US$35.1 million and US$56.2 million respectively (2016: US$36.8 million and US$55.3 million respectively).

As at 31 December 2017, the Group's cash and bank balance was US$0.6 million (2016: US$2.1 million (including restricted cash) with total borrowings of US$12.8 million (2016: US$10.9 million).

The Company has renewed US$3.06 million of bank loans which it raised through the mortgage of office buildings. These bank loans have a one year term with an average interest rate of 6.96%. Company also raised additional US$2.5 million through promissory note from Grecap Ltd.

BOARD OF DIRECTORS

EXECUTIVE DIRECTOR

RANDEEP S. GREWAL, CHAIRMAN AND CEO

Mr. Grewal has extensive experience in the oil and gas industry and is the founder of the Greka Group of Companies.

From April 1997 to September 1997, Mr. Grewal served as Chairman and Chief Executive Officer for Horizontal Ventures, Inc., an 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 organisation from its defence roots and operations. He has also been involved in various joint ventures, acquisitions, mergers and reorganisations since 1986 in the United States, Europe and the Far East with a range of businesses.

NON-EXECUTIVE DIRECTORS

BRYAN SMART, NON-EXECUTIVE DIRECTOR

Bryan Smart is a Chartered Accountant with over 40 years of experience in finance both in professional and commercial roles for organisations including Deloitte. He presently holds non-executive director roles in AB Dynamics plc, a company that designs and manufactures robotic test equipment for the automotive industry. He is also a non-executive director of NQ Minerals plc, an Australian exploration and mining company. From 1996 to 2014, he held non-executive directorships of the Supervisory Board of CarboTech AG, a company based in Salzburg which manufactured carbon fibre components for the automotive industry. Prior to that, he has worked for Daimler Chrysler (UK) Ltd rising from internal auditor to financial controller in 1985 and was appointed CFO in 1996. During this period, he completed the acquisition and assimilation of Chrysler Jeep in the UK, and also served on the board of Brunel University, and is currently a trustee of Brooklands Museum.

SEAN MULHEARN, NON-EXECUTIVE DIRECTOR

Mr. Mulhearn has over 30 years' experience in the financial industry in Australia, Asia, Europe, and the Americas.

He commenced his career at Citibank where he worked for 20 years in Australia, London and New York in numerous positions including co-Head of Commodity Finance, Head of Commodity Sales, Head of Asian Commodities and Head of Australian Fixed Income and Derivatives.

He worked for Merrill Lynch (New York) in the Structured Finance department before moving to Asia in 2006 where he worked for Standard Chartered Bank (Singapore), JPMorgan Asia (Singapore) and ANZ (Singapore) where he led the development of the commodity and structured commodity finance activities.

He founded Jacaranda Capital Partners, a boutique advisory and corporate training firm with offices in Sydney and Singapore, and is a partner of Rock Elm Capital Management also based in Sydney.

The Directors of Greka Drilling Limited have the pleasure in submitting their Report of the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Group are providing drilling services for Coal Bed Methane companies in China and India. Greka Drilling Limited was incorporated in the Cayman Islands on 1 February 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 AND FUTURE DEVELOPMENTS

A summary of the Group's main business developments for the year ended 31 December 2017 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 to note 2 in the financial statements).

SHARE CAPITAL AND RESERVES

Details of the Group's authorised and issued share capital and reserves as at 31 December 2017 and 2016 are contained in note 22 and the statement of changes in equity of the financial statements respectively.

RESULTS AND DIVIDENDS

An overview of the Group's results, covering the years ended 31 December 2017 and 2016, is provided in the Financial Review on page 5. Detailed financial information is included from page 14 to page 48 of the report. The Directors do not propose the payment of cash dividends until the Group is profitable.

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 2017.

Directors	Number of ordinary shares	% of issued share capital
Mr. Randeep S. Grewal (including holdings through Green Dragon Gas Holdings Limited)	264,919,233	66.52%

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 2017.

	Number of ordinary shares	% of issued share capital
Green Dragon Gas (Holdings) Limited	262,205,082	65.84%

Mr. Randeep S. Grewal is the ultimate controlling party of Green Dragon Gas (Holdings) Limited.

THE BOARD

The Board of Directors is composed of three members: one Executive Director, who is also the Executive Chairman, and two 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 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 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 consist of Bryan Smart and Sean Mulhearn.

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 one Executive Director (Bryan Smart, Sean Mulhearn 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

The Directors have prepared cash flow forecasts which show the company will generate positive cash flows from operations at least for the next 12 months, these will be used to settle overdue trade payables but may not be sufficient to repay the loan notes to Guarantee Finance LLC and Grecap Ltd when they fall due. The loan note holders are also significant shareholders and whilst it is expected they will extend the repayment terms in due course, if it becomes necessary. There are no legally binding agreements currently in place to do so. Refer to Note 2 for more details.

ANNUAL GENERAL MEETING

The 2017 Annual General Meeting will be held at 30th July, 2018 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 Chief Executive Officer

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 IFRS 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 IFRS, 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 TO THE DIRECTORS OF GREKA DRILLING LIMITED

Opinion

We have audited the financial statements of Greka Drilling Limited (the "company") and its subsidiaries (the "group") for the year ended 31 December 2017 which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2017 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 to the financial statements concerning the company's and the group's ability to continue as a going concern which shows that the group will need to raise sufficient funds in order to repay the group's US$2.5 million promissory notes financing from Grecap Ltd and US$5 million promissory notes financing from Guaranty Finance Investors LLC ("GFI"). As disclosed in note 2, these loans are due within the next 12 months.

INDEPENDENT AUDITORS' REPORT

The matters explained in note 2 indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Given the conditions and uncertainties noted above we considered going concern to be a Key Audit Matter.

Our audit procedures in response to this key audit matter included:

- We critically assessed management's financial forecasts and the key underlying assumptions, including drilling plans, pricing, expenditure and the loan facilities currently available to the Group. In doing so, we considered factors such as past performances, new contracts entered into, revenue from related parties and existing loan facilities being rolled forward subsequent to year end. This also included consideration of the group's ability to extend or refinance the promissory notes to meet the group's liabilities as they fall due.

- Our assessment also included making enquiries of management of the future financing plans and options and performing sensitivity analysis in respect of key assumptions underpinning the forecasts.

- We evaluated the adequacy of disclosure made in the financial statements in respect of going concern.

- We discussed these matters with management and the Audit Committee and sought representations from the Board in respect of the future plans of the group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How we addressed the key audit matter in the audit
Carrying value of non-current assets As detailed in note 3, the assessment of impairment to the carrying value of non-current assets requires significant estimates by management. The estimation of the recoverable amount of the non-current assets, mainly consisting of drilling rigs and related equipment, is a key judgement. The carrying value of the drilling rigs and related equipment represented a risk for our audit given the significant judgements required in respect of future trading and revenue growth given the sensitivity of the carrying value to these assumptions.	• We reviewed management's assessment of indicators of impairment and evaluated the discounted cash flow model and critically challenged the key estimates and assumptions used by management. • Our testing included comparison of revenue and margins to current contracts and drilling plans, expected rig life to industry benchmarks, discount rate applied and growth rate to that of underlying market growth. • We challenged the group's ability to achieve forecast growth and considered factors such as rigs' capacity and dependence on revenue from a major customer. • We performed our own sensitivity analysis over individual key inputs, together with a combination of sensitivities over such inputs.

Our application of materiality

The materiality for the group financial statements as a whole was set at US$1.3 million (2016: US$500,000). This was based on 1.5% of total assets which we consider to be an appropriate benchmark due to the focus of stakeholders being the assets of the Group. The significant components of the group were audited to a lower materiality.

Performance materiality was set at US$975,000 (2016: US$375,000) which represents 75% of the above materiality levels.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$65,000 (2016: US$10,000), which was set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluated any uncorrected misstatements against both quantitative measures of materiality discussed above and in light of other relevant qualitative considerations when forming our opinion.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

INDEPENDENT AUDITORS' REPORT

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level. Whilst Greka Drilling Limited is a Company registered in the Cayman Islands and listed on the Alternative Investment Market in UK, the Group's principal operations are located in China and India. In approaching the audit we considered how the Group is organised and managed. We assessed the business to be made up of two significant components, being Greka (Zhengzhou) CBM Technical Service Co Ltd and Greka India Drilling Limited. The Group audit team performed the audits of all the significant components, along with the consolidation. The remaining non-significant holding companies were principally subject to analytical review procedures.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members as a body, in accordance with our engagement letter. Our audit work has been undertaken so that we might state to the company's members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Chartered Accountants
London
United Kingdom

6 July 2018

BDO LLP is limited lability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Year Ended 31 December 2017 US$'000**	Year Ended 31 December 2016 US$'000
Revenue	4	**11,585**	7,154
Cost of sales		**(8,161)**	(8,168)
Gross profit/(loss)		**3,424**	(1,014)
Administrative expenses		**(3,936)**	(6,167)
Loss from operations	5	**(512)**	(7,181)
Finance income	6	**393**	73
Finance costs	7	**(1,562)**	(2,451)
Loss before income tax		**(1,681)**	(9,559)
Income tax (expense)/credit	11	**(884)**	1,815
Loss for the year		**(2,565)**	(7,744)
Other comprehensive expense, net of tax:			
Exchange differences on translation of foreign operations*		**3,402**	(2,402)
Total comprehensive income/(loss) for the year		**837**	(10,146)
(Loss)/Profit for the period attributable to:			
— Owners of the company		**(2,687)**	(7,838)
— Non-controlling interests		**122**	94
		(2,565)	(7,744)
Total comprehensive (expense)/ income attributable to:			
— Owners of the company		**774**	(10,212)
— Non-controlling interests		**63**	66
		837	(10,146)
Earnings per share			
— Basic and diluted (in US$)	10	**(0.0064)**	(0.0194)

* Items that may be reclassified to profit or loss

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000
Non-Current Assets			
Property, Plant and Equipment	12	**79,040**	79,601
Intangible Assets	13	**236**	292
Other Non-Current Assets		**470**	—
Deferred tax assets	21	**10**	377
		79,756	80,270
Current assets			
Inventories	14	**5,309**	5,981
Trade and other receivables	15	**5,590**	3,759
Cash and bank balances (including restricted cash)	16	**649**	2,135
		11,548	11,875
Total assets		**91,304**	92,145
Liabilities			
Current liabilities			
Trade and other payables	17	**20,460**	25,045
Loans and borrowings	18	**5,681**	3,604
		26,141	28,649
Non-current liabilities			
Loan and borrowings	18	**8,520**	7,298
Derivative financial liability	19	**466**	858
		8,986	8,156
Total Liabilities		**35,127**	36,805
Net assets		**56,177**	55,340
Capital and reserves			
Share capital	22	**4**	4
Share premium account		**77,186**	77,186
Invested capital		**(1,533)**	(1,533)
Reserve fund		**917**	917
Foreign exchange reserve		**1,942**	(1,519)
Retained (deficit)		**(22,179)**	(19,492)
Total equity attributable to owners of the Company		**56,337**	55,563
Non-controlling interests		**(160)**	(223)
Total equity		**56,131**	55,340

The financial statements were authorised and approved by the Board on July 6th, 2018 and signed on their behalf by:

Randeep S. Grewal
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$'000	Share premium US$'000	Invested capital US$'000	Reserve fund US$'000	Foreign exchange reserve US$'000	Retained (deficit)/ earnings US$'000	Equity attributable to owners of the Company US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2016	4	77,186	(1,533)	917	855	(11,654)	65,775	(289)	65,486
(Loss)/profit for the year	—	—	—	—	—	(7,838)	(7,838)	94	(7,744)
Other comprehensive expense									
— Exchange difference on translation of foreign operations	—	—	—	—	(2,374)	—	(2,374)	(28)	(2,402)
Total comprehensive (expense)/ income for the year	—	—	—	—	(2,374)	(7,838)	(10,212)	66	(10,146)
At 31 December 2016	4	77,186	(1,533)	917	(1,519)	(19,492)	55,563	(223)	55,340
(Loss)/profit for the year	—	—	—	—	—	(2,687)	(2,687)	122	(2,565)
Other comprehensive income:									
— Exchange difference on translation of foreign operations	—	—	—	—	3,461	—	3,461	185	3,402
Total comprehensive (expense)/ income for the year	—	—	—	—	3,461	(2,687)	774	63	837
At 31 December 2017	**4**	**77,186**	**(1,533)**	**917**	**1,942**	**(22,179)**	**56,337**	**(160)**	**56,177**

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 issues, 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 (deficit)/earnings: Cumulative net gains and losses recognised in profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Operating activities		
Loss before income tax	**(1,681)**	(9,559)
Adjustments for :		
Depreciation	**2,813**	2,445
Amortisation of other intangible assets	**72**	71
Loss on disposal of property, plant and equipment	**—**	152
Finance exchange loss	**355**	1,482
Finance Income	**(393)**	(73)
Finance costs	**1,207**	969
Operating cash flows before changes in working capital	**2,373**	(4,513)
Decrease in inventories	**672**	1,157
(Increase)/decrease in trade and other receivables	**(1,831)**	396
Decrease in trade and other Payables	**(4,203)**	(1,014)
Cash generated from operations	**(2,989)**	(3,974)
Income Tax Payment	**(54)**	(216)
Net cash from operating activities	**(3,043)**	(4,190)
Investing activities:		
Payments for purchase of property, plant and equipment	**(278)**	(318)
Movement in restricted cash	**—**	2,068
Interest received	**1**	59
Net cash generated from investing activities	**(277)**	1,809
Financing activities:		
Proceeds from promissory notes	**2,500**	8,000
Proceeds of short term loan	**3,061**	3,604
Repayment of short term loan	**(3,604)**	(5,852)
Finance costs paid	**(240)**	(738)
Net cash used in financing activities	**1,717**	5,014
Net (decrease)/increase in cash and cash equivalents	**(1,603)**	2,633
Cash and cash equivalents at beginning of the year	**2,135**	353
	532	2,986
Effect of foreign exchange rate changes	**117**	(851)
Cash and cash equivalents at end of the year	**649**	2,135

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 and India. 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. The functional currencies of the subsidiaries are Renminbi (RMB) for China and Rupee for India.

2 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with IFRS as adopted by the European Union, that are effective for accounting periods beginning on or after 1 January 2017. 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 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 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)

Going concern

The Directors have prepared cash flow forecasts which show the company will generate positive cash flows from operations at least for the next 12 months, these will be used to settle overdue trade payables but will not be sufficient to repay the loan notes to Guarantee Finance LLC and Grecap Ltd when they fall due. The loan note holders are also significant shareholders and whilst it is expected they will extend the repayment terms in due course there are no legally binding agreements currently in place to do so.

These conditions indicate that a material uncertainty exists that may cast significant doubt on the company's and the group's ability to continue as a going concern and therefore that the company and group may be unable to realise their assets and discharge their liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the company or group was unable to continue as a going concern. The directors are nevertheless confident that sufficient funds will be made available and that the use of the going concern basis remains appropriate for the preparation of the financial statements.

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 G3 Exploration Ltd and on 8 March 2011 the Company acquired the entire share capital of a fellow wholly-owned subsidiary of G3 Exploration Ltd, Greka Technical Service Limited. The Company's controlling interest in Greka Technical Service Limited was acquired through a transaction under common control. 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.

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 was accounted for on a merger or pooling of interest basis as if both entities had always been combined. The combination was accounted for using book values, with no fair value adjustments made nor goodwill created.

The subsidiaries of Greka Technical Service Limited have been consolidated using the acquisition method.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

New Accounting Standards

There were no new standards, interpretations and amendments to published standards effective in the year which had a significant impact on the Group.

The International Accounting Standards Board (IASB) has issued the following new and revised standards, amendments and interpretations to existing standards that are not effective for the financial year ending 31 December 2017 and have not been adopted early. The Group is currently assessing the impact of these standards on the financial statements.

New Standards	Issued date	Mandatory effective date	EU Endorsement status
IFRS 9 Financial Instruments	Various	1-Jan-18	Endorsed
IFRS 15 Revenue from Contracts with Customers	2014/5/28	1-Jan-18	Endorsed
IFRS 16 Leases	2016/1/13	1-Jan-19	Endorsed
Amendments to Existing Standards			
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	12-Sep-16	1-Jan-18	Endorsed
Annual Improvements to IFRSs (2014-2016 Cycle)	8-Dec-16	01-Jan-17/18	Endorsed
IFRIC 22 Foreign Currency Transactions and Advance Consideration	8-Dec-16	1-Jan-18	Endorsed
Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)	19-Jan-16	1-Jan-17	Endorsed
Disclosure Initiative: Amendments to IAS 7	29-Jan-16	1-Jan-17	Endorsed
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	20-Jun-16	1-Jan-18	Endorsed
Annual Improvements to IFRSs (2015-2017 Cycle)	12-Dec-17	1-Jan-19	Expected 2018

2 PRINCIPAL ACCOUNTING POLICIES (continued)

New Accounting Standards (continued)

IFRS 9 'Financial Instruments' (2014) — as issued in July 2014 reflects the final version of the IASB's work on the replacement of IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. Early application is permitted but the Group has not early adopted IFRS 9. IFRS 9, Financial Instruments, covers mainly: i) the classification and measurement of financial assets and financial liabilities, ii) the new impairment model for the recognition of expected credit losses, and iii) the new hedge accounting model.

The Group will adopt IFRS 9 in the financial reporting period commencing 1 January 2018. IFRS 9 determines the measurement and presentation of financial instruments depending on their contractual cash flows and business model under which they are held. The impairment requirements are based on an expected credit loss ("ECL") model that replaces the IAS 39 incurred loss model. The Group will make an assessment of all the account receivables specifically relating to credit risk and expected credit losses, the Group does not expect a significant impact on adoption of IFRS 9's impairment requirements.

For financial liabilities, the existing classification and measurement requirements of IAS 39 are largely retained by IFRS 9. The accounting treatment of the group's current financial liabilities is based on IAS 39.

Therefore, the Group does not expect a significant impact on adoption of IFRS 9's financial assets and liabilities.

IFRS 15 'Revenue from Contracts with Customers' — outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and will be effective for annual periods beginning on or after 1 January 2018. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRS, such as IAS 17 Leases. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property or equipment. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset; and liability account balances between periods and key judgments and estimates. The Group anticipate minimal changes in the accounting under this new standard for the contracts that are currently booked on adoption of IFRS 15 in 2018.

IFRS 16 'Leases' — effective for the 31 December 2019 financial year-end. IFRS 16 provides a new model for lessee accounting in which all leases, other than short-term leases and leases of low-value items, will be accounted for by the recognition under a single on-balance sheet model of a right-to-use asset and a lease liability, similar to finance leases under IAS 17. The subsequent amortization of the right-to-use asset and the interest expense related to the lease liability will be recognized separately in profit or loss over the lease term. Lessor accounting is substantially unchanged from today's accounting under IAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective transition approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15. The group will continue to assess all lease agreements. The group expects that IFRS 16 will have a non-material effect on the group's financial statements after its adoption, as the total amount of lease agreement is insignificant.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currency translation

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

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

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 or units of production basis, depending on the nature of the asset. The useful lives and residual value are reviewed, and adjusted if appropriate, at each reporting date. The methods of property, plant and equipment depreciation are as follows:

Buildings and structures:	20 - 30 years straight line basis
Motor vehicles:	5 years straight line basis
Fixtures, fittings and equipment:	3 - 10 years, for drilling equipment according to units of production
Rigs:	Units of production

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The units of production calculation multiplies the asset net book value by the ratio of the drilling activity relative to the estimate total drilling activity over the life of the asset based on design capacity and empirical norms.

Construction in progress is stated at cost less impairment losses. Cost comprises direct cost of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation 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.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated statement of comprehensive income as 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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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 include materials and consumable tools and spare parts which are expected to be used within 12 months. Inventory is 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. Cost is calculated using the weighted average method. 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.

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 Board of Directors.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis; or
- To realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Revenue recognition

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

Revenues generated on a metre rate-basis from drilling contracts, labour contracts and management services are recognised as services are performed. Rig mobilisation fees are recognised over the period in which drilling services are delivered.

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments

(i) Financial assets

Loans and receivables

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

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

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

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.

Financial liabilities at fair value through profit or loss

This category comprises only warrants instruments classified as derivative financial liability. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any other financial liabilities as being at fair value through profit or loss.

Fair value measurement hierarchy

The Group classifies its financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (note 28). The fair value hierarchy has the following levels:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2);

c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within the financial liability is determined on the basis of the lowest level input that is significant to the fair value measurement.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract has been discharged, cancelled or expired.

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 People's Republic of China (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 AND JUDGEMENTS

The Group makes estimates and assumptions regarding the future. Estimates and judgements 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:

Judgements

Impairment of property plant and equipment

Management reviews the carrying amounts and useful economic lives of property, plant and equipment at each reporting date 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 using the criteria detailed in note 2.

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, natural gas market prices and industry rig counts for drilling rigs. In performing an impairment evaluation, management estimate the future discounted value of 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 discounted value of net cash flows is less than the carrying amount of the property plant and equipment for these asset grouping levels as detailed in note 12, 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 any of the years ended 31 December 2017 or 2016. The key estimates made include the demand for drilling, estimated rig life, future prices, cost levels, long term growth rates and discount rates. The assumptions used in the impairment evaluation for property plant and equipment are inherently uncertain and require management judgment.

Estimates

Depreciation

The Group depreciates drilling rigs and associated equipment on units of production basis. This requires estimates of the total drilling life of these assets. These estimates, derived in conjunction with the Group’s engineers, are inherently judgmental. Refer to note 12 for details of depreciation charge. The carrying amount of Rigs or the year ended 31 December 2017 is US$54 million with depreciation for the year of US$0.6 million.

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 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.

The accounting policies of the reportable segments are the same as those described in the summary of principal accounting policies (see Note 2). We evaluate the performance of our operating segments based on revenues from external customers and segmental profits.

Drilling services revenue and management services revenue represent the net invoiced value of contracted drilling services and management services provided to three major customers, two in the PRC of which one is a related party and the other in India. 100% of revenue in India was derived from one single customer. 43% of revenue in the PRC was derived from the third party customer with the remaining from the related party customer. Please refer to note 23 for details of the revenue derived from the related party customer.

For the Year Ended 31 December 2017

	PRC	**India**	**Intercompany**	**Consolidated**
	US$'000	US$'000	US$'000	US$'000
Revenue	10,788	959	(162)	11,585
Cost of sales	(7,207)	(1,116)	162	(8,161)
Gross (loss)/profit	3,581	(157)	—	3,424
Depreciation	2,732	82	—	2,814
Amortisation	72	—	—	72

For the Year Ended 31 December 2016

	PRC	**India**	**Intercompany**	**Consolidated**
	US$'000	US$'000	US$'000	US$'000
Revenue	3,433	3,913	(192)	7,154
Cost of sales	(5,504)	(2,856)	192	(8,168)
Gross (loss)/profit	(2,071)	1,057	—	(1,014)
Depreciation	2,194	251	—	2,445
Amortisation	71	—	—	71

4 REVENUE AND SEGMENT INFORMATION (continued)

As at 31 December 2017

	PRC	India	Intercompany	Consolidated
Segment assets	178,834	19,764	106,794	91,304
Segment liabilities	123,126	4,672	92,671	35,127
PPE	62,429	16,611	—	79,040
PPE additions	256	22	—	278

As at 31 December 2016

	PRC	India	Intercompany	Consolidated
Segment assets	86,613	19,699	(14,167)	92,145
Segment liabilities	9,517	4,096	23,192	36,805
PPE	62,929	16,672	—	79,601
PPE additions	44	274	—	318

5 LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	2017 US$'000	2016 US$'000
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the annual financial statements	**119**	127
Fees payable to the Company's auditors for the review of the interim results	**—**	15
Cost of inventories recognised as expense	**2,120**	1,231
Staff costs (note 8)	**3,956**	5,294
Depreciation of property, plant and equipment	**2,814**	2,445
Operating lease expense (property)	**627**	900
Amortisation of intangible assets	**72**	71
Loss on disposal of property, plant and equipment	**—**	152

6 FINANCE INCOME

	2017 US$'000	2016 US$'000
Bank interest	**1**	59
Decrease in fair value of warrants (note 19)	**392**	14
	393	73

7 FINANCE COSTS

	2017 US$'000	2016 US$'000
Foreign exchange gains/loss	**(355)**	(1,482)
Interest expense on loans	**(1,207)**	(969)
	(1,562)	(2,451)

8 STAFF COSTS

	2017 US$'000	2016 US$'000
Staff costs (including directors' remuneration (note 9)) comprise:		
Wages and salaries	**3,515**	4,088
Employer's national social security contributions	**390**	1,102
Other benefits	**51**	104
	3,956	5,294

9 DIRECTORS' AND KEY MANAGEMENT PERSONNELS' REMUNERATION

The remuneration of Directors is set as follows:

Executive Directors	Fees and Salaries US$'000	Social Security Contribution US$'000	2017 US$'000	2016 US$'000
Randeep Grewal	600	—	**600**	600
Sub-total	600	—	**600**	600
Non-executive directors				
Bryan Smart	53	—	**53**	52
David Turnbull	40	—	**40**	49
Richard Day	40	—	**40**	49
Sean Mulhearn	49	—	**49**	49
Stewart John	—	—	**—**	—
Sub-total	182	—	**182**	199
Total	782	—	**782**	799

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:

	2017 US$'000	2016 US$'000
Loss for the year	**(2,565)**	(7,744)
Number of shares	**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 and diluted loss per share (US$)	**(0.0064)**	(0.0194)

There were 56,000,000 warrants outstanding at the end of the year that could potentially dilute basic earnings per share in the future. As the Group is in a loss making position, the potential ordinary shares are anti-dilutive and therefore a diluted loss per share has not been calculated. No additional potentially dilutive instruments have been issued between 31 December 2017 and the date of the approval of these financial statements.

11 TAXATION

	2017 US$'000	2016 US$'000
Current tax charge	**45**	162
Deferred tax charge/(credit)	**839**	(1,977)
Tax charge/(credit) recognised in the income statement	**884**	(1,815)

11 TAXATION (continued)

The reasons for the difference between the actual tax charge for the years and the standard rate of corporation tax in the PRC applied to the loss) for the year are as follows:

	2017 US$'000	2016 US$'000
Loss before income tax	**(1,681)**	(9,559)
Expected tax charge based on the standard rate of corporation tax in the PRC of 25% (2016: 25%)	**(420)**	(2,390)
Effect of:		
Income tax in overseas jurisdictions	**688**	575
Foreign exchange effect originating in overseas companies	**616**	—
Income tax charge/(credit)	**884**	(1,815)

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. Taxation for operations in India is taxed at 4.326% of gross revenue.

Refer to note 21 for details of deferred tax and unrecognised tax losses and other deductible temporary differences.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures US$'000	Motor vehicles US$'000	Fixtures, fittings and equipment US$'000	Total US$'000
Cost				
At 1 January 2016	12,428	3,588	102,363	118,379
Additions	—	—	318	318
Disposals	(106)	(62)	(204)	(372)
Exchange Differences	(794)	(230)	(5,194)	(6,218)
At 31 December 2016	11,528	3,296	97,283	112,107
Additions	—	—	278	278
Disposals	—	(576)	(23)	(599)
Exchange differences	497	143	4,198	4,838
At 31 December 2017	12,025	2,863	101,736	116,624
Depreciation				
At 1 January 2016	5,507	2,854	25,056	33,417
Charge for the year	885	407	1,153	2,445
Eliminated upon disposals	—	(51)	(169)	(220)
Exchange differences	(352)	(182)	(2,602)	(3,136)
At 31 December 2016	6,040	3,028	23,438	32,506
Charge for the year	166	51	2,597	2,814
Eliminated upon disposals	—	(576)	(23)	(599)
Exchange differences	169	52	2,642	2,863
At 31 December 2017	6,375	2,555	28,654	37,584
Net book value				
At 31 December 2017	5,650	308	73,082	79,040
At 31 December 2016	5,488	268	73,845	79,601
At 1 January 2016	6,921	734	77,307	84,960

Bank loans of US$3.06 million are secured by properties included in buildings and structures with a carrying amount US$4,946,559 (2016: US$4,855,342).

13 INTANGIBLE ASSETS

	Software US$'000
Cost	
At 1 January 2016	**750**
Additions	**—**
Exchange differences	**(48)**
At 31 December 2016	**702**
Additions	**—**
Exchange differences	**41**
At 31 December 2017	**743**
Amortisation	
At 1 January 2016	**362**
Charge for the year	**71**
Exchange differences	**(23)**
At 31 December 2016	**410**
Charge for the year	**72**
Exchange differences	**25**
At 31 December 2017	**507**
Net book value	
At 31 December 2017	**236**
At 31 December 2016	**292**
At 1 January 2016	**388**

14 INVENTORIES

	2017 US$'000	2016 US$'000
Raw materials and consumables	**5,309**	5,981
	5,309	5,981

Details of cost recognised in the consolidated statement of comprehensive income in respect of inventories are included in note 5.

15 TRADE AND OTHER RECEIVABLES

	2017 US$'000	2016 US$'000
Trade receivables	**3,116**	1,415
Prepayments	**662**	902
Other receivables	**1,812**	1,442
	5,590	3,759

The fair values of trade and other receivables approximate their respective carrying amounts at the end of each reporting period due to their short maturities. There is no allowance for impairment of receivables.

The ageing analysis of trade receivables prepared based on allowed credit terms that are past due but not impaired as of the end of the reporting period is set out below. The debtors are not considered to be impaired given post year end receipts.

	2017 US$'000	2016 US$'000
Less than 60 days past due	**3,116**	1,415

16. CASH AND BANK BALANCES

	2017 US$'000	2016 US$'000
Cash and cash equivalents	**649**	2,135
	649	2,135

17 TRADE AND OTHER PAYABLES

	2017 US$'000	2016 US$'000
Trade payables	**10,011**	8,557
Other current liabilities	**3,669**	3,561
Amounts due to related parties (note 23a)	**6,780**	12,927
	20,460	25,045

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 period due to their short maturities.

18 LOANS AND BORROWINGS

	2017 US$'000	2016 US$'000
Current liabilities		
Bank loans (1)	**3,061**	3,604
Promissory notes (2)	**2,620**	—
	5,681	3,604
Non-current liabilities		
Promissory notes (2)	**8,520**	7,298
Total loans and borrowings	**14,201**	10,902

(1) Bank loans

The banks loans are all secured. The detailed information regarding loan maturity dates and interest rates are below:

	Balance as at Dec 31, 2017			Balance as at Dec 31, 2016		
Bank name	**Interest rate**	**USD**	**Expiry Date**	Interest rate	USD	Expiry Date
CITIC Bank	**6.960%**	**1,530,409**	**5/4/2018**	6.600%	1,729,854	11-May-2017
SPD Bank	**6.960%**	**1,530,409**	**1/17/2018**	6.960%	1,874,009	17-Jan-2017
Total		**3,060,818**			3,603,863	

Loans due to CITIC Bank and SPD Bank have been renewed post year-end.

(2) Promissory notes

During the year 2017, Greka Drilling Limited secured US$2.5 million in loan financing from Grecap Ltd. Maturity date of the promissory notes is 30 November 2018. The notes bear an interest of 7% per annum.

During the year 2016, Greka Drilling Limited secured US$5 million and US$3 million in loan financing from Guaranty Finance Investors LLC ("GFI"). The promissory notes are repayable on 30 March 2019 and 30 September 2019 respectively. The notes bear an interest of 7% per annum and are unsecured.

On initial recognition, financing costs of US$872,000 were deducted from the promissory notes balance as detailed in note 19.

18 LOANS AND BORROWINGS (continued)

(2) Promissory notes (continued)

Reconciliation of liabilities arising from financing activities

	Non-current loans and borrowings US$'000	Current loans and borrowings US$'000	Accrued interest US$'000	Derivative financial liability US$'000	Total US$'000
At 1 January 2017	7,298	3,604	382	858	12,142
Cash flows	—	1,957	(240)	—	1,717
Non-cash flows					
Interest in the period	560	120	180	—	860
Reclassification of interest	315	—	(315)	—	—
Amortisation of financing costs	347	—	—	—	347
Change in fair value	—	—	—	(392)	(392)
At 31 December 2017	8,520	5,681	7	466	14,674

19 DERIVATIVE FINANCIAL LIABILITY

	2017 US$'000	2016 US$'000
Derivative financial liability	**466**	858

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

The fair values on the grant date and reporting date were determined using the Black Scholes Model. The fair values were based on the following assumptions:

	Grant date	31 December 2016	31 December 2017
Share price	0.035/0.030	0.037	0.022
Expected volatility	83%	87%	130%
Option life	2	1.5	1
Expected dividends	0	0	0
Risk free rate	0.18%	0.18%	0.68%

The fair value of the 35,000,000 and 21,000,000 warrants on the grant date was US$605,000 and US$267,000 respectively. On initial recognition the warrants' cost was deducted from the promissory notes balance as it represents the cost of obtaining the financing. Subsequent changes in the fair value of the warrants are recognised through profit or loss. The warrants were valued at US$466,000 (2016: US$858,000) at year end with the change of fair value of US$392,000 (2016: US$14,000) recognised through profit or loss (note 6).

20 SUBSIDIARIES

The principal subsidiaries of the Company as at 31 December 2017, 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) 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 Drilling India Ltd	British Virgin Islands	100%	—	Provision of drilling services
Greka (Zhengzhou) Drilling Technical Consult Service Co Ltd	People's Republic of China	—	100%	Provision of drilling services

* Notwithstanding the ownership interest of 50%, the Company controls the financial and operating policies of this company. Therefore, the Company is considered to be a subsidiary of the Group.

21 DEFERRED TAXATION

The following table summarises the movement in the deferred tax balance:

	2017 **US$'000**	2016 US$'000
Opening balance at 1 January	**(377)**	1,184
Tax losses recognised	**—**	(3,372)
Accelerated depreciation charge	**1,217**	1,395
Foreign exchange adjustment	**(472)**	416
Closing balance at 31 December	**(10)**	(377)

Operations in the PRC have recorded taxable losses during the year. Deferred tax assets have been recognised in respect of all tax losses giving rise to deferred tax assets where the directors believe it is probable that the assets will be recovered. The deferred tax asset on these taxable losses has been offset against the deferred tax liability arising on the difference in the tax base and net book value of the Group's drilling assets as they are depreciated on a unit of production basis.

A deferred tax asset of US$10,000 (2016: US$377,000) has been recognised. There are no other sources of deferred tax assets or liabilities. The Group has not offset deferred tax assets and liabilities across different jurisdictions. Unrecognized Cayman Island losses of US$2,680,554 (2016: US$2,120,554) do not expire under current tax legislation.

Recognized PRC tax losses of US$2,748,000 (2016: $3,371,620) expire after 5 years.

22 SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	No. of shares	**US$**	**No. of shares**	**US$**
At 31 December 2016 and 2017	5,000,000,000	50,000	398,245,758	3,982

The shares have a par value of US$0.00001

23 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 G3 Exploration 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 31 December 2017, the Group had the following balances due to/from companies under common control of Mr. Randeep Grewal:

- Net payable to the G3 Exploration group of US$6.3 m (2016: US$12.7 m), which represents prepayments on drilling services to be provided.
- Net payable to the Greka Engineering and Technology group of US$0.48 m (2016: US$ 0.2 m)

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 year comprise of:

- Drilling services provided to the G3 Exploration group of US$5,663,146 (2016: US$2,574,000)
- Leasing income from the G3 Exploration group of US$479,390 (2016: US$507,000), Greka Engineering and Technology group of US$56,245 (2016: US$130,000) and from Henan GrekaWeino Alcohol Trading Limited of US$1,654 (2016: US$2,000)

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

(b) Subsidiary companies

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 2017 and 2016.

24 OPERATING LEASES

At the end of the reporting period, the Group had commitments, as lessee, for future minimum lease payments under a non-cancellable operating lease in respect of land and fall due as follows:

	2017 US$'000	2016 US$'000
No later than 1 year	**124**	54
Later than 1 year and no later than 5 years	**9**	13
	133	67

At the end of the reporting period, the Group had the right to the following minimum lease payments, as a lessor, under operating leases in respect of equipment, vehicle and land and buildings as a lessor

	2017 US$'000	2016 US$'000
No later than 1 year	**521**	562
	521	562

25 COMMITMENTS

	2017 US$'000	2016 US$'000
Capital expenditure contracted but not provided for in respect of		
Drilling mandates	**—**	1,224
	—	1,224

26 FINANCIAL INSTRUMENTS

	2017 US$'000	2016 US$'000
Financial assets		
Loans and receivables:		
Cash and bank balances	**649**	2,135
Trade and other receivables	**4,551**	2,546
Amounts due from related parties	**—**	—
	5,200	4,681
Financial liabilities		
At amortised cost:		
Trade and other payables	**12,655**	11,071
Amounts due to related parties	**6,780**	12,927
Loans and borrowings	**14,201**	10,902
	33,636	34,900
At fair value through profit or loss:		
Derivative financial liability	**466**	858
	34,102	35,758

26 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 has not entered into any cash flow interest rate hedging contracts or any other derivative financial instruments for hedging purposes. However, management closely monitors the Group's 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:

	2017 US$'000	2016 US$'000
Cash and cash equivalents		
US dollars (Floating rate)	**36**	1,224
HK dollars(Floating rate)	**—**	—
RMB (Floating rate)	**561**	418
Rupee (Floating rate)	**52**	493
Other financial assets		
RMB (Non-interest bearing)	**1,849**	458
US dollars(Non-interest bearing)	**—**	—
Rupee(Non-interest bearing)	**2,702**	2,088
	5,200	4,681

The weighted average interest rate earned was 0.10% p.a. for the year (2016: 0.10% p.a.) on floating rate US dollar cash balances, and 0.35% p.a. (2016: 0.35% p.a.) on floating rate RMB balances.

26 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:

	2017 US$'000	2016 US$'000
Bank loans		
RMB (Fixed rate)	**3,061**	3,604
Promissory notes		
US dollars (Fixed rate)	**11,140**	7,298
Other financial liabilities		
US dollars (Non-interest bearing)	**2,730**	2,108
RMB (Non-interest bearing)	**12,936**	18,841
Rupee(Non-interest bearing)	**3,769**	3,049
	33,636	34,900

The weighted average interest rate bank loans for the year was 6.96% p.a. (2015: 6.86% p.a.)

26 FINANCIAL INSTRUMENTS (continued)

b) Foreign currency risk

The Group's active subsidiaries undertake transactions principally in RMB and Rupee. While the Group continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risks. The Directors consider the foreign currency exposure to be limited.

	In RMB US$'000	In Rupee US$'000
As at 31 December 2017		
Financial assets		
Cash and cash equivalents	**561**	**52**
Trade and other receivables	**1,849**	**2,702**
Amount due from related parties	**—**	**—**
	2,410	**2,754**
Financial liabilities		
Trade and other payables	**6,157**	**3,769**
Loans and borrowings	**3,061**	**—**
Amount due to related parties	**6,780**	**—**
	15,998	**3,769**

	In RMB US$'000	In Rupee US$'000
As at 31 December 2016		
Financial assets		
Cash and cash equivalents	418	493
Trade and other receivables	458	2,088
Amount due from related parties	—	—
	876	2,581
Financial liabilities		
Trade and other payables	5,914	3,049
Loans and borrowings	3,604	—
Amount due to related parties	12,927	—
	22,445	3,049

26 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 a monthly cash-call basis.

The maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted payments is summarised below:

	Six months or less US$'000	Six months to one year US$'000	More than one year US$'000	Undiscounted payments US$'000 (note i)	Carrying value US$'000 (note iii)
At 31 December 2017					
Trade and other payables and other current liabilities	**289**	**12,366**	**—**	**12,655**	**12,655**
Amounts due to related parties	**—**	**6,780**	**—**	**6,780**	**6,780**
Loans and borrowings	**3,088**	**2,780**	**10,201**	**16,069**	**14,201**
	3,377	**21,926**	**10,201**	**33,637**	**33,636**
At 31 December 2016					
Trade and other payables and other current liabilities	7,074	3,997	—	11,071	11,071
Amounts due to related parties	12,927	—	—	12,927	12,927
Loans and borrowings	3,604	—	7,298	10,902	10,902
	23,605	3,997	7,298	10,902	34,900

26 FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk (continued)

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.

(d) Credit risk

The Group's credit risk is primarily attributable to its cash and trade and other receivables. 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 and financial condition.

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.

The Group's cash balance is held with large reputable banks and management monitors the spread of funds and any credit risk regularly.

(e) Capital risk management

The Company considers its capital to comprise its ordinary share capital, share premium and retained earnings as well as the invested 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 shareholders, 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 shareholders, raise funding through capital markets or seek additional borrowings as necessary. No changes were made to the objectives or policies during the years ended 31 December 2017 and 2016.

26 FINANCIAL INSTRUMENTS (continued)

(f) Fair value

The fair values of the Group's financial assets and liabilities are considered equal to the book value.

The Group measures the fair value of its financial assets and liabilities in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Level 2 fair value measurements at 31 December 2017.

Warrant instruments measured at fair value through the profit or loss has been deemed to be Level 2 liabilities under the fair value hierarchy. The valuation methodology and inputs are described in note 19.

27 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on July 3rd,2018

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Executive Director, Chairman and CEO

Sean Mulhearn
Non-Executive Director

Bryan Smart
Non-Executive Director

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