Audited results - year ended 31 December 2016

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GREEN DRAGON GAS LTD
("Green Dragon Gas" or the "Company")

Audited results for the year ended 31 December 2016

Green Dragon Gas Ltd. (LSE: GDG), one of the largest independent companies involved in the production and sale of Coal Bed Methane (CBM) gas in China, is pleased to announce its audited financial results for the year ended 31 December 2016.

Highlights

Financial: Continued cash generation but impacted by FX and downstream

- Revenue of US$ 29.1 million (2015: US$ 37.7 million) due to an approximate 23% decrease in downstream sales and a 7% decline in the RMB/USD exchange rate year on year
- Net loss for the year of US$ 12.1 million (2015: Net profit of US$ 0.1 million), attributable to the downstream business which is held for sale and due to be sold shortly
- The recurring upstream business generated net profit of US$ 16.5 million (2015: net profit of US$ 18.6 million) at a constant margin
- Cash generated from operating activities during the year to 31 December 2016 of US$ 8.5 million (2015: US$ 12.4 million)

Operational: Significant operational progress across key production blocks and exploration success

- Total net gas sales increased by 5.6% to 3.41 bcf (2015: 3.23 bcf)
- Gas sales from GDG operated wells on GSS block increased by 34% to 1.88 bcf (2015: 1.41 bcf)
- Well head compressors installed at GSS, allowing wellhead pressure to be taken to vacuum for the first time, resulting in an increase in gas sales
- Successful GGZ exploration block work programme resulting in 2P reserves growth of c.5mmboe with an NPV10 of US$ 373 million
- Overall Development Plan for Chengzhuang Block (GCZ) approved by China National Petroleum Company (CNPC) and Joint Management Committee

Strategic: Significant support from Chinese government for CBM and specifically GDG blocks and record reserve base

- GDG blocks GCZ, GSS, GSN and GGZ specifically identified by the Chinese Central Government as priority CBM projects within the 13th Five Year Plan, announced in Q1 2017
- 11th consecutive increase in both 1P and 2P reserve volumes
    - Total OGIIP increase of 6% to 27.1 Tcf (2015: 25.6 Tcf)
    - Net increase in 1P of 6% to 184 bcf (2015: 173 bcf); NPV10 US$ 1.3 billion
    - Net increase in 2P of 2% to 559 bcf (2015: 549 bcf); NPV10 US$ 4.3 billion
    - Net increase in 3P of 0.3% to 2,386 bcf (2015: 2,379 bcf); NPV10 US$ 17.8 billion
- Reserve migration includes first-time booking of 2P and 3P reserve volumes on Guizhou Block (GGZ) development asset
- CNOOC audit successfully undertaken with a focus on the supplementary agreements which are expected to be finalised in the second quarter of 2017

Outlook: Continue de-risking balance sheet and drive development programme and production cashflow

- Refinance USD debt with RMB debt and focus on early redemption of the Nordic Bond
- Conclude evolution to pure upstream business with sale of downstream operations
- Progress Hong Kong listing alongside London to deliver shareholder value
- Execute CNOOC Supplementary Agreements and submit the GSS ODP
- Launch GSS LiFaBriC drilling programme to further increase sales volumes

Randeep S. Grewal, Founder and Chairman of Green Dragon Gas, commented:

"The Company continues to make progress on its two commercial production blocks, Chenzhuang (GCZ) and Shizhuang South (GSS). GSS equity gas sales increased 34% in 2016 as wellhead compression stabilised the gas flow through the existing infrastructure. In 2017 production will be further supplemented with the additional infrastructure being built. In terms of new developments we made significant progress on the GCZ Block with an additional 147 production wells to be drilled over the next two years.

"In the first half of 2017, we are focused on concluding the debt refinancing discussions with a number of options available to us, including mezzanine finance and reserve based financing. The Company is currently evaluating the multiple term sheets on hand.

"Government Policy was steadfast in its support for CBM production which we expect to stay consistent. This Policy provides for a cash subsidy of c. US $2 per mcf at the current exchange rate. In addition, the Chinese central Government 13th Five Year Plan specifically includes four of our eight blocks as key strategic domestic production assets.

"Exploration progressed across the other six blocks with a focus towards our southern China block in Guizhou (GGZ). Following commercial production levels being attained, we have booked reserves at GGZ for the first time with 2P and 3P reserves of 30 BCF (NPV10 US $373 million) and 106 BCF (NPV10 US $1,306 million) respectively. We expect GGZ to certify Chinese Reserves during 2017 and progress onto developing the ODP.

"The CNOOC audit was successfully undertaken with the focus now on the supplementary agreements which are expected to be concluded in the second quarter of 2017. Once in place, the pace of activity will accelerate to deliver increased sales to the group by connecting the significant CNOOC drilled wellstock into infrastructure.

"2016 was a year of stabilisation; I expect 2017 to be one of conclusions and monetisation."

CHAIRMAN'S STATEMENT

2016 was a year of stabilisation and renewed focus on our core operations. With unprecedented volatility in the global E&P market it was important that GDG focused its attention to its core value - the upstream assets.

We continue to optimise production on our commercial assets (GSS and GCZ) and are pleased to have migrated another exploration block into production. The undertaking of the CNOOC audit is significant, as it will demonstrate the value to the Company's shareholders from the 1,388 wells drilled by CNOOC. The approval of our first Overall Development Plan on GCZ is a key milestone for a UK listed company operating in China.

GDG's commitment to evolve into an upstream E&P was implemented with the downstream assets being marketed for sale. With these assets held for sale, my commentary will focus on the upstream operations which better reflects our recurring business.

The Company continues to make progress on its two Shanxi commercial production blocks, Chenzhuang (GCZ) and Shizhuang South (GSS). In both blocks the shallower Coal Seam 3 has been commercially producing with significant additional potential from the hundred-meter deeper Coal Seam 15.

On the GCZ Block, 2017 and 2018 will see significant activity with the recently approved ODP, approving the drilling of an additional 147 wells to complete the commercialization of the block. Previous investment in the GCZ block was repaid within three years and has been net cash flowing to the Company since September 2015. The upcoming drilling programme aims to expand commercial operations over the remaining 75% of the block. GDG has an option under the PSC for operator CNPC to carry the Company for its share of capex.

Regarding our other commercially producing GSS block, net gas sales increased 34% in 2016 as well head compression stabilised the gas flow through the existing infrastructure. The current level of gas sales will be further increased as the infrastructure development is completed and additional producing wells are connected. Additionally, following the CNOOC audit and the related execution of the CNOOC Supplementary Agreements, we expect a collective focus on connecting over a thousand existing drilled wells to infrastructure and materially increasing sales.

Exploration progressed across the other six blocks with a focus on our southern China block in Guizhou (GGZ). Following commercial production levels being attained during the year on the GGZ block, we concluded the year for the first time with 2P and 3P reserves of 30 BCF (NPV10 US $373 million) and 106 BCF (NPV10 US $1,306 million) respectively. We expect GGZ to certify Chinese Reserves during 2017 and progress onto developing the ODP plan for approval in 2018.

GDG established its downstream business in order to provide a route to market for its gas where previously there were limited options. With a number of entities developing downstream operations within the Qinshui basin adjacent to our GSS block this optionality is no longer needed. Consequently we have taken the decision to focus on our core upstream assets with our downstream assets non-core and held for sale. Upon completion of the sale, GDG's evolution to a pure play upstream E&P company will be complete. We expect the sale to be agreed within the first half 2017 and look forward to updating the market in due course.

The audit by CNOOC of the GSS block was successfully undertaken with a focus on the supplementary agreements which are expected to be finalised in the second quarter 2017. Once these agreements have been executed, we would expect an acceleration of the CNOOC built infrastructure being brought on-line and the development of the GSS ODP. Furthermore, this conclusion will also bring collective focus on the other four cooperative blocks.

Government Policy was steadfast regarding its continuing support for CBM development and production. This Policy provides for a cash subsidy of approximately US $2 per mcf at the current exchange rate. In developing the large asset base across 7,600 sqkm, with over c.25 TCF of original gas in place, the Government's continued support throughout the two decade development cycle has been a key ingredient to the successful de-risking of CBM projects. The large de-risked assets with mature technology are now ready for significant commercial monetisation.

In conjunction with work on the ground, we are focused on concluding the debt refinancing discussions with a number of options available to us, including mezzanine finance and reserve based financing. The Company is currently evaluating the multiple term sheets on hand. These initiatives are at an advanced stage and we expect to update the market in the next quarter.

While 2016 was a year of stabilisation, I expect 2017 to be one of conclusions and monetisation.

Randeep S. Grewal
Chairman

For further information on the Company and its activities, please refer to the website at www.greendragongas.com or contact:

FTI Consulting
Edward Westropp/Elizabeth Burnham/ Toby Chidavaenzi
Tel: +44 20 3727 1000

Peel Hunt
Richard Crichton / Ross Allister
Tel: +44 20 7418 8900

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2016 US$'000**	Year ended 31 December 2015 US$'000
Revenue	3	**29,143**	37,715
Cost of sales		**(16,393)**	(15,549)
Gross profit	4	**12,750**	22,166
Other income		**1,711**	373
Selling and distribution costs		**(977)**	(1,639)
Administrative expenses		**(8,901)**	(5,530)
Profit from operations	5	**4,583**	15,370
Finance income	6	**356**	424
Finance costs	7	**(17,207)**	(15,924)
Loss before income tax		**(12,268)**	(130)
Income tax credit	10	**216**	212
(Loss)/profit for the year attributable to owners of the company		**(12,052)**	82
Amounts that may be recycled to profit or loss:			
Other comprehensive expense, net of tax:			
- Exchange differences on translating foreign operations		**(40,963)**	(41,937)
Total comprehensive expense for the year attributable to owners of the company		**(53,015)**	(41,855)
Basic and diluted (loss)/earnings per share	11	**(0.077)**	0.001

All results for the year relate to continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 31 December 2016 US$'000**	As at 31 December 2015 US$'000
Assets			
Non-current assets			
Property, plant and equipment		**272,583**	271,996
Gas exploration and appraisal assets		**1,034,117**	1,043,859
Other intangible assets		**2,210**	2,957
Non-current prepaid expenses		**192**	213
Deferred tax asset		**2,079**	2,169
		1,311,181	1,321,194
Current assets			
Inventories		**94**	109
Trade and other receivables		**22,911**	22,478
Restricted cash		**2,000**	2,000
Cash and cash equivalents		**7,324**	26,866
		32,329	51,453
Total assets		**1,343,510**	1,372,647
Liabilities			
Current liabilities			
Trade and other payables		**13,883**	15,413
Convertible notes		**47,347**	-
Bonds		**88,795**	-
Current tax liabilities		**-**	13
		150,025	15,426
Non-current liabilities			
Convertible notes		**-**	48,398
Bonds		**-**	86,807
CUCBM provision		**401,702**	370,217
Deferred tax liability		**144,831**	154,352
Derivative financial liabilities		**7,924**	-
		554,457	659,774
Total liabilities		**704,482**	675,200

Total net assets		**639,028**	697,447
Capital and reserves			
Share capital		**16**	16
Share premium		**808,981**	808,981
Share redemption reserve		**(8,255)**	-
Convertible note equity reserve		**2,851**	3,756
Share-based payment reserve		**-**	12,743
Foreign exchange reserve		**(18,947)**	22,016
Retained deficit		**(145,618)**	(150,065)
Total equity attributable to owners of the Parent		**639,028**	697,447
Total equity		**639,028**	697,447

The financial statements were authorised and approved by the Board on 26 April 2017 and signed on their behalf by

Mr. Randeep S. Grewal
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$'000	Share premium US$'000	Share Buyback Option reserve US$'000	Convertible note equity reserve US$'000	Share-based Payment reserve US$'000	Foreign exchange reserve US$'000	Retained deficit US$'000	Equity Attributable to owners of the parent US$'000
At 1 January 2015	16	808,981	-	3,756	12,743	63,953	(150,147)	739,302
Profit for the year	-	-	-	-	-	-	82	82
Exchange differences on translating foreign operations	-	-	-	-	-	(41,937)	-	(41,937)
Total comprehensive expense for the year	-	-	-	-	-	(41,937)	82	(41,855)
At 31 December 2015	16	808,981	-	3,756	12,743	22,016	(150,065)	697,447
Loss for the year	-	-	-	-	-	-	(12,052)	(12,052)
Exchange differences on translating foreign operations	-	-	-	-	-	(40,963)	-	(40,963)
Total comprehensive expense for the year	-	-	-	-	-	(40,963)	(12,052)	(53,015)
Issue of share buyback option	-	-	(8,255)	-	-	-	-	(8,255)
Transfer on expiry of share options	-	-	-	-	(12,743)	-	12,743	-
Transfer on amendment of convertible notes	-	-	-	(3,756)	-	-	3,756	-
Amendment of convertible notes	-	-	-	2,851	-	-	-	2,851
At 31 December 2016	**16**	**808,981**	**(8,255)**	**2,851**	-	**(18,947)**	**(145,618)**	**639,028**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**Year ended 31 December 2016 US$'000**	Year ended 31 December 2015 US$'000
Operating activities			
(Loss)/profit after tax		**(12,052)**	82
Adjustments for:			
Depreciation		**5,154**	4,172
Amortisation of intangible assets		**723**	945
Loss on disposal of property, plant and equipment		**4**	-
Finance income	6	**(356)**	(797)
Other finance costs	7	**16,691**	15,924
Accelerated finance charge		**516**	-
Taxation		**(216)**	(212)
Cash generated from operating activities before changes in working capital		**10,464**	20,114
Movement in inventory		**15**	3
Movement in trade and other receivables		**(427)**	1,600
Movement in trade and other payables		**(1,530)**	(9,265)
Net cash generated from operations			
Income tax			
Net cash generated from operating activities			
Investing activities			
Payments for purchase of property, plant and equipment		**(4,709)**	(259)
Proceed from disposal of property, plant and equipment		**748**	-
Payments for intangible assets - gas station licence		**-**	(794)
Payments for long-term prepaid expenses		**-**	192
Share of GCZ property plant and equipment purchases		**-**	(2,404)
Payments for exploration activities		**(10,468)**	(42,319)
Interest received		**25**	121
Deposits paid to PetroChina		**-**	(2,000)
Net cash used in investing activities		**(14,404)**	(47,463)
Financing activities			
Interest paid		**(12,300)**	(12,300)

Net cash generated used in financing activities			(12,300)	(12,300)
Net decrease in cash and cash equivalents			(18,215)	(47,335)
Cash and cash equivalents at beginning of year			26,866	80,037
			8,651	32,702
Effect of foreign exchange rate changes			(1,327)	(5,836)
Cash and cash equivalents at end of year			7,324	26,866

BRIDGED NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016

The financial information set out in this announcement does not constitute the Company's statutory accounts for the year ended 31 December 2016 or 2015, but is derived from those accounts. The Auditor has reported on those accounts; its reports were unqualified, but did contain an emphasis of matter paragraph in respect of going concern on which further details are available in note 1.

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") that are effective for accounting periods beginning on or after 1 January 2016. 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.

Going concern

These financial statements have been prepared on a going concern basis.

Included in current liabilities as at the 31 December 2016 are two specific instruments;

- The Company has a US$50.0 million convertible loan note which is due for repayment on 31 December 2020. On the 25 April 2017 an extension to the one-time early redemption option was agreed with the note holder such that and this is now exercisable at any time in the period 26 June 2017, and would require early repayment of the whole amount due no earlier than 30 May 2017. The option to require early repayment is at the note holder's sole discretion. Further details of the terms of the instrument are included in notes 22 and 33.

- The Company has an US$88.0 million bond which is due for repayment on 20 November 2017. The bond contains a number of financial covenants that are measured by reference to EBITDA and calculated at each reporting date. As announced on 2 September 2016, during 2016 the Company did not meet two of its financial covenants. As yet this breach has not been formally waived, however no default notice has been issued by the Bondholder Trustee, and the Company has continued to make interest payments as they fall due.

In considering the appropriateness of the going concern basis the Board gave consideration to the following;

- The Company is currently actively engaged with a number of banks in order to re-finance the US$88.0 bond and to provide further funding to support future development. The Company has received draft term sheets from banks indicating that they are willing to progress lending to the Company. The Company expects that the banks will complete their appropriate due diligence steps and confirm financing in due course.

- The Company is in discussions with the Bond Trustee regarding a request for waiver of the breached covenants and an amendment to future covenant tests. The Company is confident that there is sufficient Bondholder support for this request and furthermore are confident that no default notice will be issued in the meantime.

- The Company is confident that the US$50.0million noteholder will continue to support the Company as it acts to refinance the bond, such that the noteholder will not be motivated to act on their early redemption option available to 26 June 2017.

- The Company has no significant contractual cashflow obligations in relation to the planned development of the Company's CBM assets, having flexibility over when to commit to further development capital.

- As at the date of this report, the Company has sufficient access to cash such that along with the expected operation cash inflows, the Company expects, aside from the bond and note instruments discussed above, to meet its liabilities as they fall due for a period not less than one year.

However, as at the date of this report, there were no binding re-financing agreements in place and therefore there can be no certainty that re-financing will be successful, or that the US$50m noteholder will continue to support the Company and not exercise their right to early redemption, or that no default notice will be issued in respect of the bond.

Notwithstanding the confidence that the Board has, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Group's ability to continue as a going concern and that the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. These Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

2 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 within the period after the year/period are as follows.

CUCBM Framework Agreement

Judgement has been exercised in the recognition of the Group's share of the historic expenditure incurred by China United Coalbed Methane Gas ("CUCBM") on the Group's blocks. Further to the identification of drilling activities by third parties across several of the Group's blocks, the Group entered into a Framework Agreement signed with CUCBM on 31 March 2014. CUCBM undertook significant historical exploration and infrastructure preparation work within several licence areas and incurred significant gross expenditure. Under the PSC, the Group had the right to enforce its PSC interests in the asset but agreed to reimburse CUCBM for the Group's share of the historic expenditure by allowing CUCBM to recover its costs from ring fenced cash flows associated with the relevant wells. A constructive obligation is considered to exist given the nature of the transaction and the negotiation between the parties. The amount to be reimbursed through future cash flows from the relevant wells is considered sufficiently certain given the extent of well development, the levels of in place infrastructure and reserves associated with the wells, although settlement remains dependent upon sufficient future production arising. Accordingly, the Group recorded its estimated share of the assets and a provision as at 31 December 2014. Subsequent to 2014 the Group has continued to progress negotiations with CUCBM regarding agreement over the reimbursable costs and has continued to make its best estimate of the amount due to CUCBM, based on the terms within the PSC and the Framework Agreement and has recorded its estimated share of the assets and increase in provision in relation to further expenditure which CUCBM has incurred on behalf of the Group and any changes in estimated amount. The Group has exercised judgement in considering the arrangement to create an obligation, the amount of the obligation, and its assessment that there is a reasonable expectation that the relevant wells will generate sufficient cash flows.

The Group's arrangement with CUCBM represents a joint arrangement as the Group shares joint control with CUCBM. As with the PetroChina transaction, the Group accounts for the arrangement as a joint operation and therefore has recognised its share of the relevant assets and liabilities, which reflects the structure of the arrangement and the joint control conferred by the PSC and the Joint Management Committee.

Depreciation of the gas production assets

The Group has exercised judgement in depreciating its property, plant and equipment associated with its gas assets which have achieved commercial production. These assets have been depreciated on a units of production basis. Judgement was required in determining the reserves used in this calculation and the Group considers the economics and well performance of each individual fields to determine the suitable reserves

basis. The Group considers 2P (2015: 1P) reserves for Area 4 GSS block and 2P reserves for the GCZ Block to be capable of extraction using the assets and therefore an appropriate estimate of the respective asset's life. It is noted that significant 3P reserves have been estimated to exist and such reserves would significantly extend the estimate useful life. However, 3P reserves are not included until such time as they are transferred to 2P reserves as part of the Group's independent reserves audit.

Determination of commercial production

Judgement has been exercised in determining whether the Group's exploration assets have achieved technical feasibility and commercial viability. The Group's definition of technically feasible and commercially viable reserves ("commercial reserves") for such purpose are those which are classified as proven and probable reserves on an entitlement basis for which approval has been obtained from the PRC Government in respect of the "overall development programme" ("ODP") related to the relevant licence and thus commercial production commenced as defined in the production sharing agreements. In certain circumstances, delays obtaining the overall development programme approval can be encountered. As a result, the Group also considers factors such as the extent to which infrastructure is in place to process the gas and the levels of production. As such, in addition to the PetroChina operated GCZ block which has been in production since 2013 (see Note 33 regarding the current status of ODP), the Group considers the Area 4 block of the GSS licence area to be in commercial production since 2015 as technical feasibility and commercial viability has been established despite the pending approval of the overall development programme. The Group's remaining areas within the GSS block will be assessed for commercial production once the Group has reviewed production volumes being generated from the recently completed processing facilities by China National Offshore Oil Corporation ("CNOOC"). Therefore, commercial production period has not yet commenced for the remaining blocks and licence areas under the Group's accounting policy.

Transfer of exploration and appraisal assets and depreciation of the gas production assets

The Group has exercised judgement in determining the relevant assets transferred from exploration and evaluation intangible assets to property, plant and equipment. In the prior year Area 4 of the GSS block was transferred from exploration and evaluation intangible assets to property, plant and equipment. The costs transferred included a portion of the fair value uplift on acquisition of the Group's licence interests as a whole considered attributable to Area 4, based on the relative OGIIP of the Area 4 block and the total licence areas. The property, plant and equipment Area 4 has been depreciated on units of production basis. Judgement was required in determining the reserves used in this calculation and the Group considers 2P (2015:1P) reserves to be capable of extraction using the assets and therefore an appropriate estimate of the asset's life.

Impairment reviews

Exploration and appraisal costs are assessed for indicators of impairment using the criteria detailed in note 2. The assessment by the Board requires judgement and is dependent upon an assessment of the rights to the Group's assets and renewal of such rights, expected levels of expenditure, interpretation of exploration and appraisal activity in the year and future intentions. No impairment indicators were noted. These assessments are inherently judgemental and require estimation and therefore may change over time resulting in significant charges to the statement of comprehensive income.

The Group tests its property, plant and equipment assets, which include oil and gas development and production assets for impairment when circumstances suggest that the carrying amount may exceed its recoverable value and in accordance with the policy detailed in note 2. This assessment involves judgement as to the level of reserves that are capable of being extracted commercially and which are technically viable with reference to the Group's independent competent person's report, estimates of future gas prices, operating costs, capital expenditure necessary to extract those reserves and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. The Group uses proven plus probable (2P) reserves in such impairment tests.

3 Revenue and segment information

The Group's reportable segments are as set out below. The operating results of each of these segments are regularly reviewed by the Group's chief operating decision-makers in order to make decisions about the allocation of resources and assess the performance of each segment.

The financial statements of 2016 and 2015 did not include the Group's share of CNOOC GSN transactions or operated GSS 1,388 wells' revenue, associated costs and resulting margins. The sales revenues and volumes associated with the CNOOC operated areas of GSS and GSN will be reported in due course as they are currently being audited by independent auditors. The audit will complete the sales revenue since inception of the sales from all wells operated by CNOOC in GSS under the Framework Agreement. Under the Framework Agreement, while the Company will record its share of revenue, costs and resulting margins, the resulting cash flow will be offset with the cost recovery account. The Group has not recorded any estimated sales revenue from its interest in the CNOOC legacy wells until such time as the independent audit of sales revenues and associated volumes is concluded.

For the year ended 31 December 2016

	Upstream US$'000	Downstream US$'000	Corporate US$'000	Sub-total US$'000	Eliminations US$'000	Consolidated US$'000
Segment Revenue:						
Sales to external customers	**9,923**	**12,725**	**-**	**22,648**	**-**	**22,648**
Inter-segment sales	**12,395**	**-**	**-**	**12,395**	**(12,395)**	**-**
Government subsidies	**6,495**	**-**	**-**	**6,495**	**-**	**6,495**
	28,813			**41,538**		
Depreciation	**(3,390)**	**(1,742)**	**(22)**	**(5,154)**	**-**	**(5,154)**
Amortisation	**-**	**(723)**	**-**	**(723)**	**-**	**(723)**
Profit/(loss) from operations	**16,428**	**(6,889)**	**(4,956)**	**4,583**	**-**	**4,853**
Financial income	**1**	**9**	**346**	**356**	**-**	**356**
Finance costs	**8**	**(336)**	**(16,879)**	**(17,207)**	**-**	**(17,207)**
Income tax credit	**50**	**166**	**-**	**216**	**-**	**216**
Profit/(loss) for the year	**16,487**	**(7,050)**	**(21,489)**	**(12,052)**	**-**	**(12,052)**
Assets	**1,413,005**	**37,637**	**759,973**	**2,210,615**	**(867,105)**	**1,343,510**
Liabilities	**897,022**	**61,382**	**535,390**	**1,493,795**	**(789,312)**	**704,482**
PPE additions	**21,864**	**2,706**	**-**	**24,570**	**-**	**24,570**
Gas exploration additions	**47,683**	**-**	**-**	**47,683**	**-**	**47,683**

For the year ended 31 December 2015

	Upstream US$'000	Downstream US$'000	Corporate US$'000	Sub-total US$'000	Eliminations US$'000	Consolidated US$'000
Segment Revenue:						

Sales to external customers	15,127	17,588	-	32,715	-	32,715
Inter-segment sales	10,874	-	25	10,899	(10,899)	-
Government subsidies	5,000	-	-	5,000	-	5,000
	31,001	17,588	25	48,614	(10,899)	37,715
Depreciation	(3,495)	(608)	(69)	(4,172)	-	(4,172)
Amortisation	-	(945)	-	(945)	-	(945)
Profit/(loss) from operations	18,473	(2,656)	(447)	15,370	-	15,370
Financial income	-	113	311	424	-	424
Finance costs	-	(469)	(15,455)	(15,924)	-	(15,924)
Income tax credit	123	89	-	212	-	212
Profit/(loss) for the year	18,596	(2,923)	(15,591)	82	-	82
Assets	1,338,275	23,844	857,023	2,199,142	(846,495)	1,372,647
Liabilities	883,591	4,958	626,548	1,515,097	(859,897)	655,200

4 Other income

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Value added tax refund	**1,711**	373
	1,711	373

5 Profit from operations

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

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the annual financial statements	**450**	435
Fees payable to the Company's auditors for the review of the interim results	**81**	40
Staff costs (note 8)	**4,480**	1,357
Depreciation of property, plant and equipment	**5,154**	4,172
Operating lease expense (property)	**1,472**	370
Amortisation of intangible assets	**723**	945

6 Finance income

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Bank interest	**25**	121
Exchange gain	**-**	303
Change in fair value of financial derivative	**331**	-
	356	424

7 Finance costs

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Convertible notes (coupon at 7% and 10% plus effective interest adjustments)	**4,784**	4,655
Bonds (coupon at 10% plus effective interest adjustments)	**10,788**	10,535
Accelerated finance charge on amendment of convertible notes	**516**	-
Exchange loss	**1,119**	734
	17,207	15,924

8 Staff costs

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Staff costs (including Directors' emoluments) comprise:		
Wages and salaries	**6,130**	5,841
Employer's national social security contributions	**816**	1,134
Other benefits	**1,440**	1,181
	8,386	8,156
Less: expenses capitalised as gas exploration and appraisal assets	**(3,906)**	(6,799)
Total staff costs charged to profit or loss (note 5)	**4,480**	1,357

9 Share-based payments

Details of the Group's share options as follows:

Number of share options granted historically	3,408,750
Number of share options exercised historically	(2,029,375)

Number of share options outstanding at 1 January 2015	1,379,375
Number of share options outstanding at 31 December 2015 and 31 December 2016	-

The share options granted under the Share Option Scheme are equity-settled.

The share options do not confer any rights on the holders to dividends or to vote at shareholders' meetings. The fair value of the share options granted was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	25 January 2011	31 December 2009	28 February 2008	1 October 2008
Share options granted on				
Weighted average share price	US$11.13	US$6.67	US$6.04	US$8.25
Weighted average exercise price	US$6.50	US$6.50	US$6.50	US$6.50
Expected volatility	35%	25%	39%	44%
Risk free rate	0.27%	2.76%	3.08%	4.06%
Expected dividend yield	N/A	N/A	N/A	N/A

The volatility assumption, measured at the standard deviation of expected share price returns, was based on a statistical analysis of daily share prices over the year prior to grant.

The 1,379,375 outstanding share options since 1 January 2012, which had a weighted average exercise price of US$6.5 fully expired on 31 December 2015. No new share options have been issued during 2016.

10 Taxation

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Current tax - PRC Enterprise Tax		
Tax charge/(credit) for the current year	**12**	(25)
Deferred tax		
Temporary timing differences	**(178)**	(9)
Previously unrecognised deferred tax assets assessed as recoverable at the end of the year	**(50)**	(178)
Total tax credit	**(216)**	212)

Other comprehensive income includes a charge of US$Nil (2015: US$Nil) in respect of deferred tax movements on exchange gains and on the retranslation of foreign subsidiaries.

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

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Accounting loss before tax	**(12,268)**	(130)
Expected tax credit based on the standard rate of corporation tax in the PRC of 25% (2015: 25%)	**(3,067)**	(32)
Effect of:		
Different tax rates applied in overseas jurisdictions	**3,067**	57
Temporary differences applied in overseas jurisdictions	**(216)**	(237)
Income tax credit	**(216)**	(212)

Taxation for the Group's operations in the PRC is provided at the applicable current tax rate of 25% (2015: 25%) on the estimated assessable profits for the year.

11 Earnings and loss per share

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

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
(Loss)/profit for the year attributable to owners of the Company used in basic and diluted (loss)/earnings per share	**(12,052)**	82

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number

Weighted average number of Ordinary Shares for basic and diluted earnings per share	**156,072,289**	56,072,289

	Year ended 31 December 2016	Year ended 31 December 2015
Basic and diluted (loss)/earnings per share (US$)	**(0.077)**	0.001

There have been no other transactions involving Ordinary Shares or potential Ordinary Shares between the reporting date and the date of approval of these financial statements.

12 Joint arrangements

The Group currently operates under six (2015: six) production sharing contracts ("PSCs") for the exploration and development of CBM gas in the PRC.

Background

On 8 January 2003, the Group entered into four PSCs with CUCBM to explore, develop and produce coal bed methane in five blocks comprising Shizhuang South ("GSS"), Chengzhuang ("GCZ"), Shizhuang North ("GSN"), Qinyuan ("GQY") and Panxie East ("GPX"). GSS, GCZ, GSN and GQY are located in Shanxi Province with Panxie East located in Anhui Province.

In 2003 the Group also obtained the rights as foreign contractor related to the Fengcheng ("GFC") PSC. This PSC, dated 13 August 1999, was originally entered between Saba Petroleum Inc. as foreign contractor and CUCBM. Saba Petroleum Inc. was a related company of the Group by way of the common controlling shareholder, Mr. Randeep S. Grewal. The GFC block is located in Jiangxi Province.

Under the terms of these five PSCs the Group, as operator, agreed to provide funds and apply its technology and managerial experience and to cooperate with CUCBM to explore, develop and produce coal bed methane from the licence areas. CUCBM as a state-owned enterprise is eligible to apply for the exclusive rights for the exploitation of coal bed methane in the areas as defined in the contracts.

The PSCs provide that all costs incurred in the exploration stage shall be borne by the Group. The terms of the PSCs require the Group to cooperate with the state partner to submit the Overall Development Plan to the relevant authorities. Upon approval of the ODP by the Chinese authorities, the PSC operations are determined to have entered the development stage. However, as detailed in note 3 in circumstances when the approval of ODP is delayed other factors, including the substantive nature of operations and cash generation, may be considered to determine whether the development stage has been reached regardless of formal ODP approval. Where it is determined that an asset is in the development stage based on facts and circumstances then the associated investment balance is reclassified from the exploration and appraisal category to the property, plant and equipment category of fixed assets. The responsibility for procuring approval of the ODP lies with the State partner. Once formally in the development stage the cost sharing mechanisms within the PSCs become effective and development and operating costs are borne by the partners in accordance with their respective equity interests in the relevant PSCs. Once production commences the cost recovery mechanism within the PSCs provides that the proceeds of production output (after deduction of value-added tax and any royalty payable to the Chinese tax authority) are allocated as follows:

- firstly towards operating costs recovery in the proportion above mentioned (the "Sharing Proportion");
- secondly to exploration cost recovery solely by the Group; and
- thirdly to development cost recovery (including deemed interest as appropriate).

Any unallocated revenue after cost recovery is allocated to the partners in accordance with their equity participation in the PSC after calculating a final royalty payable to the Chinese Authorities. The final royalty is based on a sliding scale from 0% to the maximum payable of 15% and calculated over total block production.

The five PSCs each have a term of 30 years, with a production period of not more than 20 consecutive years commencing on a date determined by the Joint Management Committee but aligned with the approval date of ODP. The JMC is established in accordance with the PSC between the Group and CUCBM to oversee the operations in the contracted area. Currently five of the six blocks covered by these five production sharing contracts are formally in the exploration stage based on the Chinese requirement for ODP approval before transition to development. In 2015, the assets associated with area 4 within the GSS block were reclassified as property, plant and equipment due to the substantive nature of the production operations and associated cash generation from this area.

PSCs held with PetroChina (CNPC)

Chengzhuang block ("GCZ")

In August 2014, the Group finalised and signed the Cooperation Agreement with PetroChina in respect of the GCZ block in accordance with a memorandum of understanding previously entered in December 2013. GZC lies within the GSS licence area and prior to the Cooperation agreement was governed by the GSS PSC. The Cooperation Agreement reaffirms the rights of the Group contained in the PSC over the GCZ block. The Cooperation agreement confirms the Group's 47% participating interest in the block and defines the term of the agreement as running from March 2010 to March 2033.

The Cooperation Agreement confirmed the Group's contribution to cumulative capital expenditure and its share of net revenue. The Cooperation Agreement also confirmed the Group's entitlement to its share of the downstream infrastructure assets in place, including the gas gathering station, together with the Group's funding obligation for those assets. The Group recorded US$10,900,000 within property, plant and equipment in respect of its 47% share in these assets in 2014 based on the final agreement of the costs associated with the downstream infrastructure. The Group also elected to settle its obligation for all historic amounts due to PetroChina through its share of future production.

In 2015 PetroChina achieved cost recovery in respect of its historic investment in the GCZ block. Following cost recovery by PetroChina the Group is receiving its proportion of revenue in cash each month. As a result, the billing arrangements for GCZ have moved to a full joint operations basis where the Group receives its share of revenue on the conclusion of each month and is separately cash-called for its share of opex and capex on a month-ahead basis. Cash calls are reconciled to actual expenditure quarterly.

The following table summarises the Group's share of the capital expenditure and net revenues arising from the GCZ block for the current and prior year. Depreciation figures have been excluded.

	2016 US$'000	2015 US$'000
Capital expenditure	**-**	2,404
Revenue	**11,764**	15,126
Total operational costs and expenses	**(4,998)**	(3,248)
Net Profit	**6,766**	11,878
Amount due from/(to) PetroChina		

Balance as at 1 January 2015	**1,774**	(4,407)
Capital expenditure for GCZ block	**-**	(2,404)
Share of profit for GCZ block	**6,766**	11,878
Cash received	**(7,053)**	(3,293)
Balance as at 31 December 2015	**1,487**	1,774

The balance due from PetroChina is included within trade and other receivables, is unsecured and interest free.

Baotian-Qingshan block ('GGZ')
In addition, Greka Guizhou E&P Ltd, a subsidiary of the Company, is party to a PSC with PetroChina to explore for and develop coal bed methane resources in Guizhou Province. The Group is entitled to earn a 60% interest in GGZ by funding up to US$8,000,000 in respect of an exploration pilot programme and has provided a performance bond against this commitment in the amount of US$2,000,000. At 31 December 2016, the cumulative investment made by the Group in GGZ was US$28,267,000 (2015: US$30,287,000). The decrease in the investment made was mainly due to the change in exchange rate of RMB against USD.

PetroChina is a subsidiary of state-owned China National Petroleum Corporation (CNPC), headquartered in Dongcheng District, Beijing.

PSCs held with CUCBM (CNOOC)
Framework Agreement with CUCBM
On 31 March 2014, and following the identification of unauthorised drilling activities across several of the Group's blocks by CUCBM, the Group entered a Framework Agreement CUCBM the purpose of which was to amend and clarify the rights of both the Group and CUCBM in relation to the PSCs jointly held between the parties. Under the terms of the Framework agreement, the Group's percentage share in the relevant blocks were updated and confirmed as follows:

PSC	GDG share	CUCBM share	
Shizhuang South	60%	40%	GDG share increasing to 70% on payment of US$13,000,000 to CUCBM
Shizhuang North	50%	50%	
Quinyuan Area A	10%	90%	
Quinyuan Area B	60%	40%	
Fengcheng	49%*	51%	
Panxie East	60%*	40%	

* Unchanged

The Framework Agreement reaffirmed the status of the PSC's. Under the PSCs, the exploration costs were due to be incurred by the Group, with the Group carrying the exploration risk and the associated costs being recovered from future production. Notwithstanding the terms of the PSC, CUCBM undertook significant unauthorised exploration work within the licence area incurring gross expenditure of US$611,300,000 related to the drilling of wells and the establishment of certain infrastructure across the PSC blocks.

Under the PSC, the Group had the legal right to enforce its interest in the asset as if it had been incurred 100% by the Group in the exploration phase and benefit accordingly from the costs incurred by CUCBM. However, as part of the negotiation of the Framework Agreement the Group agreed to reimburse CUCBM for what otherwise would have represented the Group's share of the historic expenditure by allowing CUCBM to recover its historic costs in kind from an enhanced participation share (over and above CUCBMs equity interest in the PSC) in ring fenced gas production from the relevant wells. A constructive obligation related to the agreement to reimburse CUCBM in kind is considered to exist given the nature of the transaction and the substance of the negotiation between the parties.

The amount to be reimbursed through future production from the ring-fenced wells is considered sufficiently certain given the status of well development, the extent of in-place infrastructure and estimated reserves associated with the wells. Accordingly, the Group has recorded its proportionate share of the assets in accordance with its equity interest in the PSC. A provision representing the estimated value of production from the ring-fenced wells that the Group will forgo in order to settle its share of the costs incurred has also been recorded.

Settlement remains dependent upon sufficient future production arising from the ring-fenced wells.
The following table summarises the CUCBM provision which also represents the Group's cumulative share of capital expenditure:

	31 December 2016 US$'000	31 December 2015 US$'000
Opening balance	**370,217**	367,027
Additions in the year	**57,076**	23,012
FX gain	**(25,591)**	(19,822)
Closing provision for amounts due to CUCBM	**401,702**	370,217

During the year, the Group has recorded its share of the assets and an increase in the provision. The Group is currently in the process of formalising a contractual agreement with CUCBM which will confirm the amounts due to and from CUCBM. In advance of entering into such agreement the Group continues to make its best estimate of the provision due to CUCBM, based on the terms within the PSC and the Framework Agreement.

The cumulative expenditure by CUCBM across the PSCs, which the Group is reimbursing through future production, bears interest at 9%, which is expected to apply prospectively once an agreement with CUCBM has been reached. No discounting of the provision applies given the prospective interest bearing nature. No entries have been made in relation to the interest as the Group remains in discussions with CUCBM over accounting for the interest.

Under the original Shizhuang South PSC and as reaffirmed by the Framework Agreement US$13,000,000 included within provisions (2015: US$13,000,000) represent amounts payable to CUCBM in respect of exploration costs incurred by CUCBM on GSS prior to the original PSC between the parties. This amount is to be settled out of the Group's share of future revenue from the Shizhuang South Block. The balance is unsecured, interest-free and is not expected to be repayable within the next 12 months. Discounting is considered immaterial. On satisfaction of the payable to CUCBM, the Group's interest in the GSS PSC will be revised to 70%. The obligation is classified as a provision given the uncertain nature of its timing.

Shizhuang North PSC
Under the terms of the Framework Agreement, the Group agreed to reduce its interest in the GSN Block by 10% in return for CUCBM providing the Group with a carried interest of US$100,000,000 related to exploration and development expenditure across the block. The Group has incurred US$7,700,000 on the block which is currently held as exploration asset. No gain in respect of the committed future expenditure as compared to the 10% interest in the Group's existing assets has been recognised under the Group's accounting policy.

CUCBM is majority owned by China National Offshore Oil Corp and is headquartered in Dongcheng District, Beijing.

13 Subsequent events

The Qinshui Basin Chengzhuang Cooperative CBM Block ("GCZ Block") Overall Development Plan ("ODP") has been approved by the Consultation Center of China National Petroleum Corporation and the Joint Management Committee on 14 April 2017 for submission to National Development and Reform Committee of the State Council for further approval.

In relation to the convertible loan note, an agreement was made with the note holder to extend the one-time early redemption option to 26 June 2017, to require early repayment of the loan note no earlier than 30 May 2017. The option to require early repayment is at the note holder's sole discretion.

14 Annual report

The Company's Annual Report and copies of this announcement will be available in due course on the Company's website at www.greendragongas.com.

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