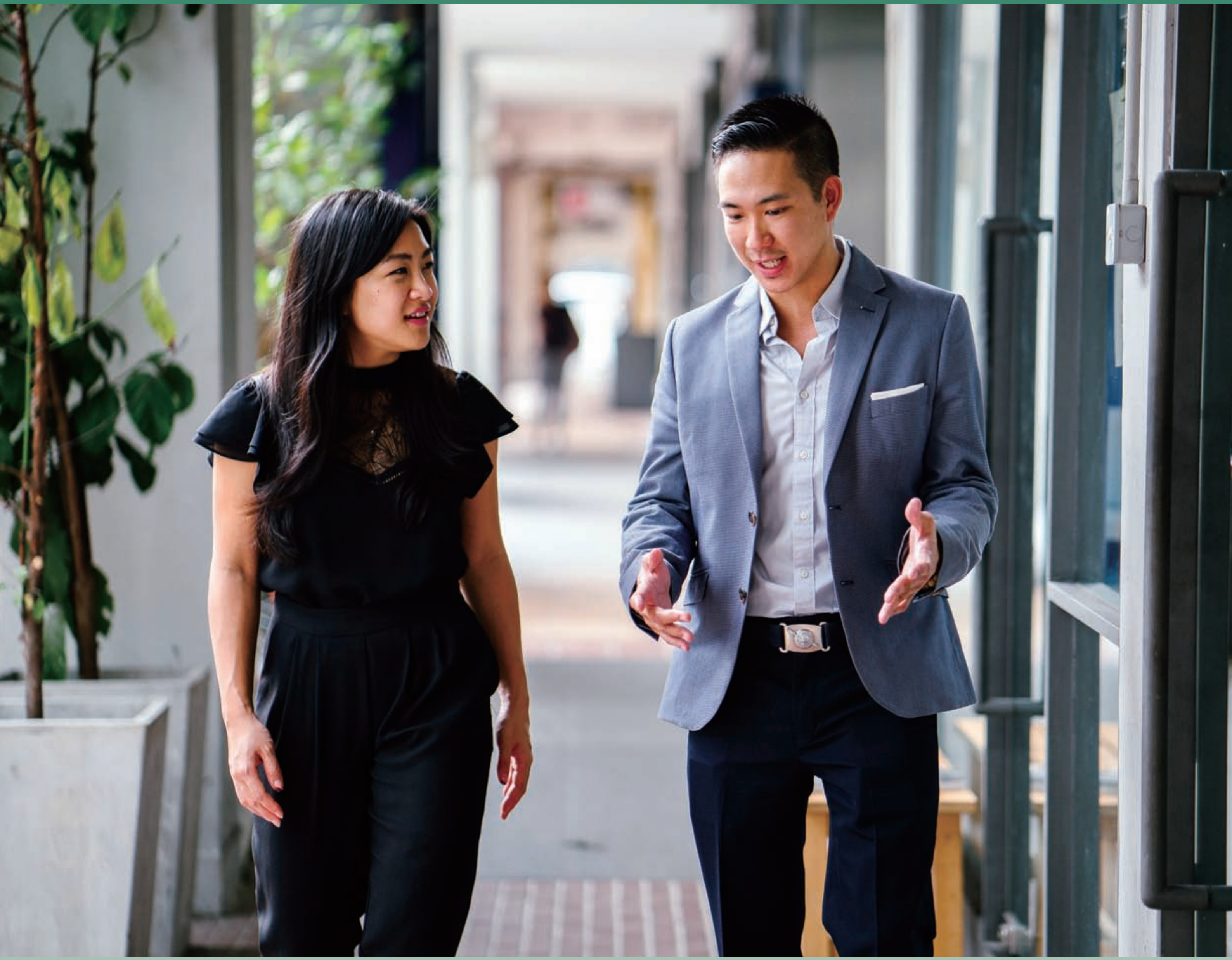
EXPLORATION

ANNUAL REPORT 2018

: G3 EXPLORATION IS ONE OF THE LARGEST COMPANIES INVOLVED IN THE PRODUCTION AND SALE OF COAL BED METHANE (CBM) GAS IN CHINA.



STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

STRATEGIC REPORT

: HIGHLIGHTS

2018 HIGHLIGHTS

- Disposition plan concluded of the Producing assets to focus on Exploration.
- China National Petroleum Corporation (CNPC) approved Overall Development Plan on GCZ producing Block.

2018 RESULTS

Financial: Continued stable EBITDA generation from Producing Green Dragon Gas Assets

- Reported revenue includes assets held for sale within Green Dragon Gas (GDG).
- Revenue of US$28.6m (2017: US$25.7m) an 11% increase on 2017 mainly attributed to a slight increase in average gas selling prices.
- EBITDA of GDG of US$16.3m (2017: US$15.2 m) at a constant margin.
- Cash generated from group total operating activities during the year of US$3.4m (2017: US$17.5m).
- Net loss for the year of US$9.1m (2017: net loss of US$24.6m), a 170% improvement mainly attributed to the profit for the year from discontinued operations.

Operational: Progress across production blocks

- China National Petroleum Corporation (CNPC) approved the Overall Development Plan on GCZ producing block.
- Total gross sales of 5.66 Bcf compared to 5.72 Bcf, a marginal decline.
- GSS gross sales of 3.39 Bcf compared to 2.88 Bcf, an 18% increase mainly due to the increase in CNOOC operated wells.
- GCZ , which is operated by CNPC, had gross sales of 2.27 Bcf (2017: 2.84 Bcf), a 20% decline on the previous period reflecting the absence of new wells in the year.

2019 OUTLOOK

Recapitalize balance sheet and drive development Program

G3 Exploration

- Conclude evolution to exploration and development business with the completion of the disposition of the GDG producing assets
- GDG IPO remains a fall-back alternative to the sales processes.
- Repay two bond creditors from the GDG sales proceeds .
- Progress ODP plan for GDG-GSS asset
- Deliver first gas in GuiZhou Block (GGZ).

Strategic: Continued support from Chinese government

- G3E blocks GCZ, GSS, GSN and GGZ specifically identified by the Chinese Central Government as priority CBM projects within the 13th Five-Year Plan.
- Gas price stability policies consistent providing for well head prices at $9-$12 per mcf.

STRATEGIC REPORT

: COMPANY OVERVIEW

OUR LOCATIONS

01 Henan
02 Shanxi
03 Anhui
04 Jiangxi
05 Guizhou

We are one of the first non-Chinese operators in the Chinese CBM industry, with a key commercial advantage in our foothold in the country's significant unconventional gas sector. Today G3 Exploration stands as one of the leading CBM independents in China, having overcome structurally complex difficulties in Chinese coal seams.

PRODUCTION AND EXPLORATION BLOCKS

Shizhuang South Block – GSS

Shizhuang South Block Covers an area of 388km^2 in the southeastern part of the Qinshui basin, in the Shanxi Province. The Group's most advanced block, which commenced exploration by CUCBM in 1997, and commercial production in October 2008.

Chengzhuang Block – GCZ

Covers an area of 67km^2 adjacent to the GSS Block in the southeastern part of the Qinshui basin, in the Shanxi Province. One of GDG's key areas of current production and focus, part of the Shizhuang South PSC together with GSS.

Shizhuang North Block – GSN

The 375km^2 Shizhuang North Block lies on the eastern part of the Qinshui basin, in close proximity to the GSS Block. At an exploration stage, where CUCBM investment ongoing. The continuation of Coal Seams 3 and 15 and its proximity to the GSS Block make GSN an extension of its more advanced neighbouring block.

Baotian-Qingshan Block – GGZ

The 947km^2 Baotian-Qingshan Block is located 316km from Guiyang, in the Guizhou Province. The block has been the focus of exploration activity since 2015 and will continue to be a focus area going forward.

Qinyuan Block (A and B) – GQY A and GQY B

The 3,665km^2 Qinyuan is located 185km from Taiyuan in Shanxi Province and roughly 30km northwest of the Shizhuang North Block. Given its rich resources, the Qinyuan Block will be one of the Group's key long-term areas of focus.

Fengcheng Block – GFC

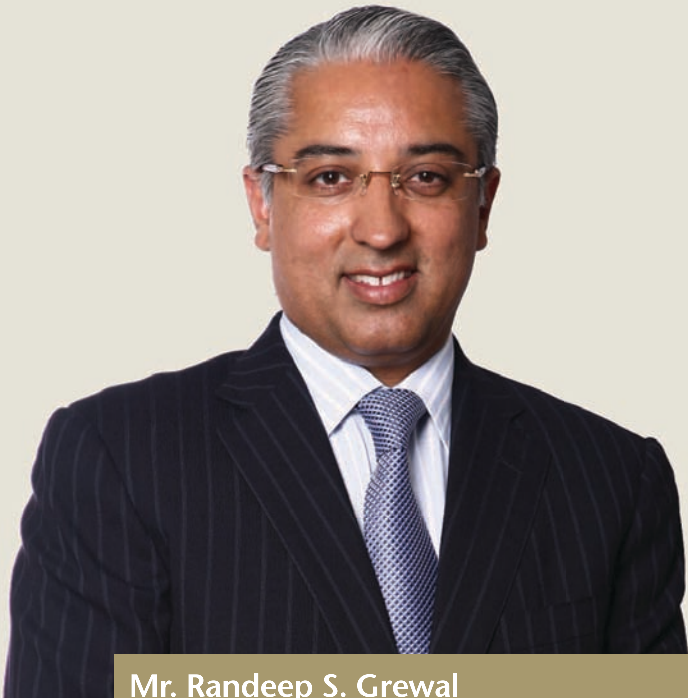
The block consists of 1,541km^2 of contracted area, intersecting several active coal mining operations 74km from Nanchang, in Jiangxi Province. The Fengcheng Block has responded positively to horizontal drilling and further development is expected using LiFaBriC technology.

Panxie East Block – GPX

The Panxie East Block is a 584km^2 contracted areas located approximately 90km from Hefei, in the Anhui Province. The block is at an early exploration stage, with ongoing investment from the Group and its partner, CUCBM.

STRATEGIC REPORT

: CHAIRMAN'S STATEMENT



Mr. Randeep S. Grewal
Founder and Chairman

The year started with several challenges and ended with constructive conclusions that are being currently implemented.

Of the decisions taken, that to transform the business into an exploration and appraisal company was the most significant in providing a clear direction to the group; it focuses G3E on its specialty and takes us back to our roots and strengths.

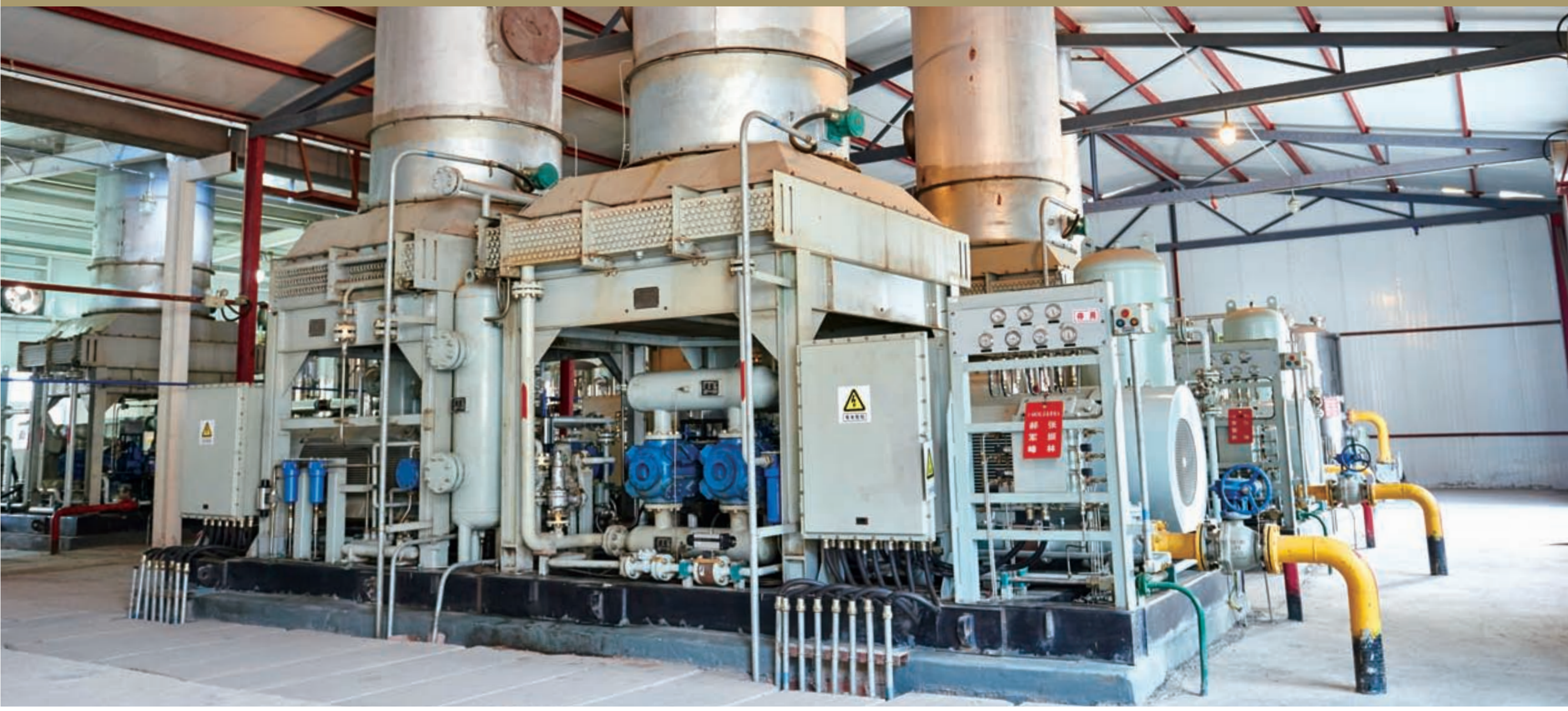
Having brought two fields into viable commercial production we believe that producing fields are better operated by significantly larger enterprises which are specialist in doing so. As such, we engaged Citibank and Credit Suisse to explore possible monetization options for our producing assets. This process is on-going and is expected to conclude with trade sales for the GDG assets, enabling G3 Exploration shareholders to receive our third dividend in specie through the distribution of the proceeds. The fall-back of proceeding with a Hong Kong listing still remains an option.

On completion of the dividend in specie of GDG, the Group's receivable from GDG of US$341 million is expected to be paid in full. G3 Exploration shall in turn use these receipts to settle its outstanding debt, including to its Nordic Bond holders and Convertible Bond holders, and to fund ongoing working capital and an accelerated exploration and development programme in its remaining exploration blocks.

After our monetization plan is concluded, G3 Exploration expects to be debt free with six exploration blocks and an exciting future ahead. We believe we can add material shareholder value in capitalizing on our decades of technical aptitude in appraising Coal Bed Methane assets for development. G3 Exploration shareholders can expect to benefit from a monetization event on a recurring basis as we progress other assets through the appraisals stage. The most advanced of these, the Guizhou exploration block (GGZ), is expected to commence test gas sales before the end of this year.

Our Jincheng, Shanxi based team has worked closely with CNPC-PetroChina on progressing the GCZ production block to further development. The block continued its commercial gas sales while the collaborative Joint Operating Team concluded its Overall Development Plan. The plan approved by NDRC in September, commits to the drilling of 147 wells by yearend 2019 with a collective US$54 million investment divided according to the partners' participating interests in the Block. GCZ's expected gas production following this ODP execution is 6 BCFPY which will counter the current decline curve as no wells have been drilled on the block since 2010.

The GSS block met its objective of increasing gas sales from the 460 gas sales wells. The CNOOC-CUBCM team increased with gas sales well from 324 to 354 of the total 1,128 wells drilled which resulted in a yearend exit rate of 2.25 BCFPY. This was complemented by our own operated wells which



maintained a 2.19 BCFPY exit gas sales rate. This provides for GSS attaining an annual gas sales rate of 3.39 BCFPY exiting the year. We expect gas sales to continue increasing as the balance of the drilled wells are placed on line and from the resulting de-watering of the basin which will assist gas flow.

In addition to the GSS producing block, the CNOOC/CUCBM partnership spreads across five exploration blocks namely; GSN, GFC, GPX, GQY-A and GQY-B. Our exploration team has been re-structured to efficiently progress each of these assets onto development and have been diligently concluding programs which could be executed following recapitalization.

In addition to our CNOOC & CNPC partnership on the two producing blocks, we continued to progress our CNPC partnership in the Guizhou (GGZ) exploration block. This gas block is a focused and prioritized asset which is expected to have Chinese reserves certified in 2019. Furthermore, we expect to commence test gas sales this year so as to progress the asset into development.

We are very appreciative of the continuous support extended by our Bondholders who continuously acknowledge the Company's accomplishments with our Chinese partners. The Bondholders have been very cooperative and constructive in supporting the Company to conclude its re-capitalization plan which would fundamentally include payment to the debt holders in full and facilitate continued growth in capex.

We have a well-established track record and demonstrated perseverance in going the distance to monetize shareholder value through core basic principles:

- Focus on core intellectual aptitude in developing Coal Bed Methane gas
- Develop assets in an environmentally and socially prudent manner
- Protect accreted shareholder value

Emerging markets have been a challenge for many pioneers and we have certainly had ours. Notwithstanding, our core principles have guided us through these challenges and we look forward to delivering material value to our shareholders and employees who have persevered through our twenty-two year journey so far.

I look forward to the upcoming years where we expect to monetize value in our producing assets, develop our exploration assets and search for incremental geographies where our deep knowledge in CBM is of accretive value.

We thank our employees' relentless hard work and the Board for guiding the company through its evolution into an exciting CBM exploration and development globally-focused business.

Randeep S. Grewal
Chairman

STRATEGIC REPORT

: REVIEW OF OPERATIONS

LUE FROM OUR ASSET BASE

The upstream operational focus for 2018 was on the further development and optimisation of production and gathering infrastructure in the GSS Block. The current focus on infrastructure reflects the Group's commitment to deliver value from investments through increased production and sales volumes.

STRATEGIC REPORT

: REVIEW OF OPERATIONS

UPSTREAM

ASSETS HELD FOR SALE

GREEN DRAGON GAS – Producing Assets (GSS & GCZ)

Financial

- Balance sheet movement owing to Dividend in Specie of $341 million to sell the GDG assets at their Net Equity Amount.
- Revenue of $25.5m with EBITDA of $16.3m are contributed by upstream producing blocks.

DIVIDEND IN SPECIE

Shizhuang South (GSS)

G3E: 60% (op) CNOOC: 40% 388 km^2	**2018** **Net, Bcf**	2017 Net, Bcf	+/-
1P	**77.2**	77.5	(0.30%)
2P	**274.6**	275.5	(0.36%)

Location: Shanxi Province

Our primary focus in our operated GSS area in 2018 was the continued development of infrastructure to deliver gas volumes from investments already made. The infrastructure programme is aimed at increasing the number of well connections and making specific enhancements to surface production facilities to optimise the recovery of gas.

Up to 2018, the number of producing LiFaBriC wells is 58 at the year end. This brings the total number of wells connected to infrastructure and producing gas for sale in the GDG operated area of the block to 106 from a total stock of 130 wells.

As part of the infrastructure programme, we have also continued a compression upgrade project for the gathering system since 2015. The compression project is focused on realising the full production potential of the connected wells and improving the sales to production ratio by optimising gas flow and pressures across the gathering network. A total of 51 compressors have been installed resulting in an improvement in the sales to production ratio at year-end 2018. The compression project will continue into 2019.

In 2018, our partner, CNOOC, completed the construction and commissioning of two additional gathering stations in the GSS Block. This increases the total gas processing capacity at GSS to 22.7 Bcf per annum.

In addition to supporting the GSS development activities, the installation of further pipeline and processing infrastructure across GSS is important for the development of the contiguous GSN Block situated directly north of GSS.

Coal Seam 15

Coal Seam 15 lies deeper than Coal Seam 3, at approximately 890 metres below the surface. Where Coal Seam 3 is capped by non-permeable shale rock, Coal Seam 15 is situated directly beneath a significant water-bearing limestone cap. In 2015, we successfully drilled the GSS 036-R well into Coal Seam 15. The well is the first LiFaBriC well drilled into the seam. The 036-R well encountered a four-metre thick section of coal and was successfully completed with no penetration of the limestone cap. Intersecting the limestone while drilling could cause water ingress into the coal section of the well, significantly hampering gas recovery. GSS 036-R is currently showing well head casing pressure consistent with gas desorption. Applying in-house drilling experience and proprietary technologies, we were able to successfully navigate in the lateral portion of the well, avoiding the limestone layer. This is a key success in terms of the future development of Coal Seam 15.

The successful drilling result in Coal Seam 15 is an important step in the development of GSS and brings forward the prospect of developing this seam concurrently with Coal Seam 3. Significant production infrastructure already exists across the GSS Block and it is expected that this will reduce the full cycle development cost of Coal Seam 15.

We continued to strengthen our relationships with our partner CNOOC, the establishment of the Joint Operations Team (JOT) collocated in the Jincheng field office. The team comprises technical and financial representatives of both parties. The JOT is focused on the joint development of operations in the GSS Block. Together with our partner we intend to seek Overall Development Plan (ODP) approval in 2019. Approval of ODP is expected to widen available funding opportunities.

Chengzhuang (GCZ)

G3E: 47% CNPC: 53% (op) 67 km^2	**2018** **Net, Bcf**	2017 Net, Bcf	+/-
1P	**13.9**	14.0	(0.19%)
2P	**31.0**	31.1	(0.28%)

Location: Shanxi Province

GCZ is the smallest of our acreage, positions at 67 km^2 and has been on production for the longest period. In 2015 CNPC successfully drilled an initial lateral well into Coal Seam 15 and after routine de-watering; the well is now producing gas at commercial rates. This is an important milestone on the route to full development of the GCZ Block, as all required infrastructure is already in place. Using the same infrastructure in a Coal Seam 15 development scenario will result in significant capex efficiencies.

We continue to work together with CNPC through the GCZ Joint Operations Team, focusing on potential infill drilling in Coal Seam 3 and the continued exploitation of Coal Seam 15.

On 7 September 2018, NDRC has approved the ODP, consistent with its policy to accelerate CBM development in China, boost green energy supply, and improve coal mine safety production and to reduce CO2 emissions. This final NDRC approval facilitates the permits for the Company and its partner to further develop the acreage.

GCZ ODP highlights

- The ODP area of 33 km^2 has 294 Bcf of gas in place with estimates of recoverable proved reserves of 176 Bcf.
- 114 wells have been drilled on the acreage of which 86 wells are selling gas.
- The development plan includes the drilling of an additional 147 production wells.
- Acreage contains coal seam #3 & #15 gas bearing reservoirs.
- Gross production capacity from the ODP is estimated to be 180 million cubic meters per year (6.35 Bcf per year).

STRATEGIC REPORT

REVIEW OF OPERATIONS

UPSTREAM

- The total development cost for GCZ is expected to be c. US$54 million over the next two years starting from fourth quarter 2018. Each party is expected to invest according to its participating interest in the Block, and work towards the completion of the work program by yearend 2019.
- GCZ is a commercial gas producing block which has been profitable since September 2015 and continues to be so.

The GCZ Block is jointly operated by CNPC and the Company through a joint management team based in Jincheng, Shanxi. In addition to the above, NDRC approval has emphasised on strengthening the health, safety and environment (HSE) management systems to fulfil the objective of no accidents and zero pollution to the environment. Regarding HSE, the Company has since inception, along with its Chinese partners, been committed to working to the highest standards of HSE in all of its operations. Our teams have diligently been committed to safety at all times with zero lost time incidents recorded year-on-year.

G3E – EXPLORATION ASSETS

The GGZ Block located in Guizhou Province remains the focus of exploration activity. 12 CBM production wells were successfully drilled in three major coal seams; namely Coal Seam 17, 19 and 29 in 2017. More than 10,000 metres were drilled in these 12 wells with the fastest speed recorded of 431 metres per day of drilling accomplished by Greka Drilling Limited. In addition to the current seven production wells on stream, these 12 newly drilled wells in 2017 will be brought online in H2 2019, commencing initial test gas sales from the GGZ Block.

On the three additional blocks – GFC, GPX and GQY, geological dynamic models will be updated, well deployment and geological field surveys will be carried out, land leases were acquired with civil work now ongoing to kick-off the 2019 work plan for each block in 2019.

Shizhuang North (GSN)

GDG: 50%			
CNOOC: 50% (op)	**2018**	2017	
375 km²	**Net, Bcf**	Net, Bcf	+/-
1P	**4.7**	4.5	4.95%
2P	**16.3**	16.3	(0.03%)

Location: Shanxi Province

GSN is an important block for the Group given its geographic position relative to GSS. Coal Seams 3 and 15, present in GSN, are a continuous extension of the same coal seams in GSS. The nature and behaviour of Coal Seam 3 has been well defined through the extensive exploration and development work undertaken by the Group and its partner on GSS, experience that can be transferred to the development of GSN.

In addition, the pipelines and production facilities in place at GSS can be used to evacuate gas for sale from the GSN Block. The GSN area is currently being developed by CNOOC under the terms of the 2014 Framework Agreement and 2017 supplementary agreement (SA) where we exchanged a 10% interest for an additional US$100 million investment commitment from CNOOC.

Boatian-Quingshan (GGZ)

G3E: 60% (op)			
CNPC: 40%	**2018**	2017	
870 km²	**Net, Bcf**	Net, Bcf	+/-
Unrisked prospective resources, best estimate	**339**	494	(31%)

Location: Guizhou Province

The GGZ Block continued to be a major area of exploration focus in 2018, with well performance testing continued through 2017 as part of the reserve compilation process with 9 wells currently on production. Six of these 9 wells have reached commercial rates of production which fulfil the per-well commercial production requirement for reserve certification. The objective of the exploration work undertaken in 2017 and 2018 was to better define and understand the coal resource in place. Exploration wells were targeted to give sufficient well coverage and production data over the seam in preparation for the submission of the Chinese Reserve Report (CRR) in 2019. Submission of the CRR is an important exploration milestone and a precursor to the ODP in 2019.

In 2017, 12 CBM production wells were successfully drilled in three major coal seams and were brought on line; namely Coal Seam 17, 19 and 29.

While still at a relatively early stage, the Group sees significant potential in GGZ, which forms an important part of our strategy to develop the exploration portfolio into fully producing assets. This is building a tangible route to further long-term organic growth.

Other Exploration

The other exploration areas have been re-evaluated during the year, and work plans on exploration have been established for implementation in 2019.

PSC	Location (province)	Area km²	G3E share (op)	Unrisked prospective resource – best estimate Net, Bcf
GQY A			10%	
GQY B			60%	
GQY Total	Shanxi	3,665	70%	682
GFC	Jiangxi	1,541	49%	196
GPX	Anhui	584	60%	15

STRATEGIC REPORT

: REVIEW OF OPERATIONS

RESERVES MIGRATION

The Group updated its estimates of gas reserves and resources at 31 December 2018 for each of the eight blocks that it is participant to. The estimates of reserves and resources have been prepared in accordance with definitions and guidelines set out in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers. This includes all 1,791 wells operated by G3E, CNOOC, CNPC and PetroChina across all blocks in which the Group has an equity interest.

The summary reserves report at 31 December 2018 (2017 report updated for depletion through production), with associated NPV 10 valuations, is below:

	GDG (Blocks GSS and GCZ)		**G3E** (Blocks GGZ, GSN, GQY A & B,GFC,GPX)	
	Bcf	NPV10 US$M	Bcf	NPV10 US$M
1P	91.2	425.4	5.4	32.5
2P	305.7	1,416.6	68.5	826.1
3P	1,120.9	4,997.8	912.2	7,209.0
2C	–	–	596.0	–

The summary reserves report at 31 December 2017, with associated NPV 10 valuations, is below:

	GDG (Blocks GSS and GCZ)		**G3E** (Blocks GGZ, GSN, GQY A & B,GFC,GPX)	
	Bcf	NPV10 US$M	Bcf	NPV10 US$M
1P	91.5	440.5	5.2	33.7
2P	306.6	1,539.2	70.5	879.4
3P	1,124.6	5,223.1	919.8	7,526.7
2C	–	–	762.2	–

The estimates in the reserve report have been prepared in accordance with definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers. The information in this announcement pertaining to G3 Exploration's China reserves have been prepared by Hassan Sindhu, the Company's petroleum engineer who holds a Bachelor of Science degree from the China University of Petroleum.

Main assumptions supporting the NPV10:

1. Applicable well-head gas price (before subsidies) of US$7.1/Mcf in GSS and US$7.5/Mcf in GCZ (2018), increasing to US$8.2/Mcf in GSS and US$8.7/Mcf in GCZ (2021), and escalated 5% p.a.

2. Operating costs relating to direct lease and field level costs – US$1,870 per well per month and US$0.329/Mcf of gas produced (no corporate G&A included) in GCZ; and $1,040 per well per month and US$1.275/Mcf of gas produced (no corporate G&A included) in GSS and escalated 5% p.a. from 2019.

STRATEGIC REPORT

: REVIEW OF OPERATIONS

DISCONTINUED: DOWNSTREAM

PNG

PNG sales are made directly into the national transmission network at GCZ on a volume-metered basis. The Group sells PNG gas at GSS under contract at US$7.3 per Mcf and invoices directly for sales to Shanxi Greka CBM Integrated Utilization Co., Ltd. Sales at GCZ are managed by our partner, CNPC, with our share of gross revenue distributed under normal joint operating procedures. There are de-minimis delivery quantities in the sales contracts in place for either GSS or GCZ.

Total PNG sales for the Group in 2018 amounted to 2.84 Bcf (2017: 3.21 Bcf). PNG sales from the Group's operated property on GSS were 1.75 Bcf in 2018 (2017: 1.36 Bcf). PNG sales from the GCZ were 1.10 Bcf in 2018 (2017: 1.35 Bcf). Gross PNG sales from CNOOC operated wells amounted to 1.64 Bcf (2017: 0.94 Bcf)

STRATEGIC REPORT

: FINANCIAL REVIEW

INCOME STATEMENT – DISCONTINUED OPERATIONS

During the year, all revenue generating assets of the Group are still classified as held for sale; their results are classified as gains or losses from discontinued operations. Therefore, there is no revenue and cost of sales in the consolidated statement of comprehensive income from continuing operations, and the results of operations of discontinued operations are presented in non-current assets held-for-sale and discontinued operation (note 11 to the financial statements).

Total revenue increased by 11.3% in 2018 to US$28.6 million (2017: US$25.7 million) mainly attributable to an approximate 20% decrease in sales volume of GCZ operated by CNPC, 10% decrease in sales volume of GSS operated by GDG, and revenue generated from downstream business, with a slight increase in average selling prices.

Sales volumes by channel in 2018 compared to 2017 were as follows:

	2018 Bcf	2017 Bcf
PNG	**2.8**	2.7
CNG	**0.1**	0.5

PNG sales volumes from our operated GSS area were 10% lower in 2018 than in 2017. Our share of sales volumes (47%) from GCZ was 20% lower than in 2017 reflecting the relative maturity of the GCZ area. The Group and CNPC have planned to drill 147 wells in the next two years. The sales price per m^3 achieved on GCZ is higher than that on GSS due to the higher compression ratio of sales-gas that means it can be directly injected into the main east-west gas pipeline.

Subsidy revenue has decreased compared to 2017 as a result of the sales volume decrease. Subsidies are calculated at a flat rate based on sales volumes and hence are presented as a component of revenue.

Cost of sales has decreased by 19% in 2018 to US$13.3 million (2017: US$16.4 million), as a result of the group's cost saving policy successfully implemented.

G&A cost has decreased by 27% to US$2.4 million (2017: US$3.3 million), as a result of the group's cost saving policy successfully implemented.

INCOME STATEMENT – CONTINUING OPERATIONS

Other administrative costs of US$2.4 million (2017: US$4.1 million), as a result of the group's cost saving policy successfully implemented.

LIQUIDITY AND CAPITAL RESOURCES

The Group closed the year with US$0.3 million (2017: US$1.3 million) of cash on hand and US$1.0 million (2017: US$1.0 million) of restricted cash related to a performance bond given to Petro-China in relation to the Group's exploration activities on the GGZ Block.

STRATEGIC REPORT

: FINANCIAL REVIEW

During the year, US$(3.4) million (2017: US$17.6 million) was generated from operations with US$6.1 million (2017: US$16.7 million) invested in the exploration and production acreage. The decrease in investment in exploration and production acreage is largely due to longer than expected conclusion of the supplementary agreements, before which the parities were refrained from capital investment in the blocks.

In December 2016, the group reached an agreement with the convertible note holder, GIC, to extend the maturity of the US$50 million convertible bond. Under the agreement, the Bond remains unsecured, has a revised coupon of 10% and a maturity date extended to 31 December 2020 (subject to a one-time redemption option exercisable by GIC on the current maturity). On 23 June 2017 an extension to the note holder's one-time early redemption option was agreed with the note holder such that at any time up to 27 October 2017, the note holder could require the Company to repay the whole amount of the loan note immediately. The option to require early repayment is at the note holder's sole discretion. In 2017, the company reached agreement with the note holder to extend the period during which the put option is exercisable to 20 November 2018. In 2019, the company reached agreement with the note holder to extend the period during which the put option is exercisable to 20 November 2019. At 31 December 2018, the Company had one (2017: one) convertible note in issue. At final maturity of the Bond, GIC has the right to require the Company to purchase its conversion shares at a price based on the 90 day VWAP calculated as of 31 December 2020 and to be settled prior to 30 April 2021.

Interest in the amount of $14.1 million (2017: US$11.5 million) accrued during the year of which $nil million (2017: US$4.4 million) interest was paid in respect of the US$88.0 million bond entered in late 2014 and carrying a coupon of 10% (2017:10%) and an additional 5% on overdue amounts, and the convertible bond taken out in late 2014, with principal of US$50.0 million and a coupon of 10% (2017:10%), both of which will be repaid after dividends in specie by GDG.

ASSET ADDITIONS

Total additions to upstream CBM assets in 2018 amounted to US$12.2 million (2017: US$13.2 million).

Since 2017, due to the GSS and GCZ blocks being actively pursued for a divesture, the assets appropriately have been classified as held for sale.

STRATEGIC REPORT

: SUSTAINABILITY

HSE REPORT

The Group is committed to working to the highest standards of HSE in all of our operations. Our teams work in a potentially hazardous environment and we are committed to safety at all times. Reflecting this commitment, 2018 represented yet another year for the Group where we recorded no lost time incidents.

In the field, we implement HSE procedures to western standards. All of our operational personnel undertake intensive training on joining the Group, including sessions on safe operating practices, personal safety, environmental matters and the proper maintenance and safeguarding of assets. We have a structured programme for the on going training and development of staff both when they move to new roles and as a matter of course related to their current duties.

All operational staff and visitors to our facilities are issued with appropriate HSE equipment including head protection, safety glasses, overalls and boots. Non-compliance with basic safety principles is taken very seriously.

Our operational processes have been designed with the safety of personnel and the protection of assets and the environment in mind. For instance, the drilling rigs that are operated on our sites all have fully automated drilling floors with automatic pipe handling systems. This means the operator of the rig can carry out drilling operations entirely from the drill cab with no need for manual intervention in the loading and pushing of pipe.

STRATEGIC REPORT

: SUSTAINABILITY

Our employees are the Group's greatest asset and their safety and well-being – both while on site and travelling to and from our locations – is of paramount importance to us. Our obligation in this regard is one that we take very seriously.

ENVIRONMENT

We are very aware of the environment that we operate in. The areas where our production operations are based are rural, mountainous and picturesque. The mountains we operate in have been farmed by the local population for generations, long before G3E arrived. The preservation of the natural environment and respect for the local community is important in our operations.

In our operations, we seek to have as low an impact on our surroundings as possible and, to this end; we drill our LiFaBriC wells using principally air and water for circulation. Where drilling fluids are required we use only biodegradable drilling mud. In addition, we undertake our drilling on compact sites often using a single drilling pad to drill a number of wells and thereby reducing our physical footprint on the landscape. Where we do need to remove some trees to gain access to sites we commit to replanting more trees than have been removed.

When our wells are first put on production, they produce clean water as the de-watering process takes place. Because we do not use chemicals in our drilling operations, the water that is produced at the wellhead is fresh and perfectly drinkable. Indeed, the water that we produce when wells are initially put on line is provided to the local farmers for crop irrigation.

In addition to reducing our environmental footprint we also commit to give back. We work closely with village leaders to support the communities we work in and have sponsored the construction of a children's play park in the village adjacent to our GSS facilities.

Community

In 2012, we launched our future leaders programme. The programme is aimed at identifying key young talent in our team and providing both professional and personal development opportunities and support to these individuals to help them grow to be the future leaders of our businesses.

The activities of the future leaders programme also include community projects. The team recently entered a relationship with Li Jiang Ethnic Orphan School located in Li jiang city, in Yunnan Province. The school was established after a disastrous earthquake in Lijiang in 1996. This school is the only orphan school in Yunnan Province providing shelter and schooling to 270 orphans aged 1 to 9. The orphans reside at the school are from minority nationalities in China including Tibet, Sinkiang, Guangxi, Yunnan and Sichuan.

As part of the relationship with the school our team visited the orphanage and provided English lessons for the children, and arranged a number of group activities with them. In addition to teaching the children, the school's resident English teaching staffs were able to participate and learn from our team, a number of whom have studied languages and translation at university level.

GOVERNANCE

: BOARD OF DIRECTORS

Randeep S. Grewal

Chairman and CEO
Year of appointment: 2006

Skills and experience
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., 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.

External appointments
Chairman and CEO, Greka Group of companies
Chairman and CEO, Greran Family Office
Chairman, AJW Aviation Ltd

Qualifications
BSc Mechanical Engineering, Northrop University

Board Committees
Remuneration Committee

Bryan Smart

Non-Executive Director
Year of appointment: 2018

Skills and experience
Bryan Smart is a Chartered Accountant with over 40 years' experiences in finance both in professional and commercial roles at various organisations including Deloitte and Mercedes Benz UK where he served as Chief Financial Officer.

He currently holds Non-Executive Director roles at AB Dynamics plc., a company that designs and manufactures robotic test equipment for the automotive industry.

Furthermore, Mr. Smart is currently a trustee director of Brooklands Museum and of the Mercedes-Benz UK Pension fund.

External appointments
Non-Executive Director at AB Dynamics

Qualifications
Chartered Accountant

Board Committees
Audit Committee (chair)
Remuneration Committee

Wayne Roberts

Non-Executive Director
Year of appointment: 2012

Skills and experience
Mr. Roberts was VP of Exploration and Production for Africa at Galp Energia until 2015. Prior to that, he spent 12 years with BG Group in several senior roles, including serving as Senior Vice President for Asia, Middle-East and Africa, with responsibility for growth assets, business development and all commercial activities in that geography.

Earlier, he was based in Singapore as President of BG Southeast Asia & China and Chairman of BG Asia Pacific. In these roles, he had responsibility for BG's E&P, power and LNG businesses in Thailand, Malaysia, Singapore, China and the Philippines. His earlier career also involved several international assignments in asset management of M&A, and corporate finance with both BG Group and ARCO.

External appointments
None

Qualifications
Chartered Chemical Engineer
MBA, INSEAD France

Board Committees
Audit Committee
Nomination Committee

GOVERNANCE

BOARD OF DIRECTORS

Zhao Li Guo

Non-Executive Director
Year of appointment: 2018

Skills and experience
Zhao Li Guo was the General Counsel of China National Offshore Oil Company (CNOOC) from 2008, and CNOOC Limited from 2009 to June 2015. Mr. Zhao joined CNOOC in 1983 and has served in multiple positions, including the Head of Contract Division from 1993 to 1997, Deputy General Manager of Contract & Legal Department from 1998 to 2000 and General Manager of Legal Department from 2001 to 2009.

Furthermore, Mr. Zhao was the Director and Board Secretary of CNOOC & Shell Petrochemicals Co Ltd. from 2001 to 2012. Mr. Zhao was also the arbitrator of China International Economic & Trade Arbitration Commission from 2005 to 2015 and a member of China Maritime Arbitration Commission from 2010 to 2015, the Arbitrator of China Maritime Arbitration Commission from 2017. Mr. Zhao obtained PRC lawyer qualification in 1987, a corporate counsel qualification in 1998 and is a professor-level senior economist. He obtained a bachelor of law degree from Peking University in 1983. He also studied at the Law School of Niigata University in Japan for a year in 1988.

External appointments
None

Qualifications
PRC Lawyer
Law degree from Peking University

Board Committees
Audit Committee

Gong Da Bing

Non-Executive Director
Year of appointment: 2006

Skills and experience
Madam Gong has 27 years of international business experience.

From 1992 to 1999, she was Managing Director of the Chinese office of Frontanic Co, a private international trading organisation. From 1989 to 1992, she was the Chief Representative in China of Koor Trade Limited. From 1978 to 1989, she was the manager for joint venture operations and import and export business for Machinery & Equipment Import & Export Corporation. From 1975 to 1978, she was a business negotiator for the Beijing Foreign Trade Bureau, Department of Machinery Import & Export.

External appointments
None

Qualifications
English, Beijing Second Foreign Language University
Masters Comparative Law, University of Illinois

Board Committees
Remuneration Committee (Chair)

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

G3E is committed to maintaining the highest standards of business conduct and ethics, as well as full compliance with all applicable laws, rules and regulations, corporate reporting and disclosure, and all other matters deemed to protect the best interests of the Company's shareholders.

As the Group continues to grow, the Board carries out regular reviews of its corporate governance policy and practices, with the objective that these will continue to evolve and be enhanced in line with the Groups' increasing size and stature. Integral to these reviews are appraisals of the Group's system of internal controls, including financial, operational and compliance controls and risk management systems.

BOARD OF DIRECTORS

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the Group, including (but not limited to) formulating the Group's strategic direction, setting remuneration, appointing Directors and senior management, establishing goals for management and monitoring the achievement of these goals; approving and monitoring annual financial and operating budgets and capital expenditure; and ensuring the integrity of internal control and management information systems. The Board is also ultimately responsible for approving and monitoring financial and other reporting.

Board process

The full Board meets formally at regular intervals throughout the year and at such other times as may be necessary to address any significant matters that may arise. The Board communicates regularly between these meetings. On a regular basis, the Board is provided with appropriate and timely information relating to all aspects of the Group. In addition, the Directors are free to seek any further information or request specific presentation on matters that they consider necessary in order to discharge their duties effectively. The collective responsibility of the Board ensures that all Directors are involved in the process of arriving at significant decisions.

How the Board operates

A detailed schedule of matters reserved for the Board has been established and is periodically reviewed. The key matters reserved are the consideration and approval of:

- The Group's overall strategy and objectives.
- Material acquisitions and disposals and major expenditure commitments.
- Borrowing and hedging arrangements where relevant.
- The issuance of equity and options.
- Annual work programmes and budgets.
- The Group's annual and half-yearly financial statements.
- Board appointments, remuneration and roles.
- Corporate policies and corporate governance arrangements.

Through the publication of regular announcements, corporate presentations posted to the Company website, and face to face meetings, the Board has sought to communicate its strategy, objectives and performance to all shareholders on a timely basis. When shareholders raise concerns with the Board over the Group's strategy, objectives or performance, the Board endeavours to actively engage with the shareholders in dialogue.

Composition of the Board

The Board of Directors is composed of five members, one Executive Director, who is also the Executive Chairman and four 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.

Independent professional advice and access to Company information

Each Director has the right of access to all relevant Company information and to the Company's senior management.

The Executive and Non-Executive Directors have access to advice from the Company's retained auditors, legal advisers as well as to other independent professional advisers (as appropriate), at the expense of the Company, if considered necessary in the performance of their duties. Directors are expected to bring independent judgement to bear on issues of strategy, performance and standards of conduct.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

Director education

On an ongoing basis, the Group educates Directors about the nature of the business, current issues, the corporate strategy and timeline for key objectives to be met, and the expectations of the Group concerning the performance of the Directors. Directors also have the opportunity to visit Group facilities and meet with the operational management to gain a better understanding of the Group's business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge. The Group provides comprehensive education to new directors both prior to and following appointment consistent with the principles of continuing education outlined above.

Committees of the Board:

Audit Committee

The Audit Committee helps the Board discharge its responsibilities regarding financial reporting, external and internal audits and controls as well as reviewing the Group's annual and half-year financial statements, other financial information and internal Group reporting. The Audit Committee meets with the external auditors prior to the publication of the annual and half-year financial statements. It also assists by reviewing and monitoring the extent of non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Group's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the Annual Report and financial statements and the half-yearly reports remains with the Board. The Audit Committee comprises Bryan Smart (Chairman), Wayne Roberts and Zhao Li Guo.

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 the Executive Directors and recommending and monitoring the remuneration of senior management below Board level. The Remuneration Committee comprises the Executive Director and two Non-Executive Directors being Bryan Smart, Gong Da Bing (Chairman) and Randeep S. Grewal.

Nominations Committee

The Board has not formally established a Nominations Committee. The Board considers this to be appropriate given the size of the Group, the straightforward nature of current operations and the single geographic focus of the Group. Reflective of this, the Board composition has been stable. As required, the responsibilities that would otherwise fall to the Nominations Committee are undertaken by the Remuneration Committee. The Board continues to evaluate the requirement for a separate Nominations Committee.

Internal Controls and Risk Management in relation to financial reporting

The Board is responsible for the Group's system of internal control environment over the financial reporting process and for reviewing its effectiveness. It should be recognised that such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate those risks that may affect the Company in achieving its business objectives.

Risk profile – the Group has not established a separate Risk Management Committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Group's operations, ensures financial reporting risks are identified, assessed and appropriately managed. Where necessary, the Board will draw on the expertise of appropriate external consultants to assist in dealing with or mitigating risk. Major risks arise from such matters as actions by competitors, government policy changes, significant fall in the price of gas, issues relating to the environment or occupational health and safety, financial reporting, and the purchase, development and use of information systems.

The Board's internal control processes are comprehensive and comprise:

- Operating unit controls – operating units confirm compliance with financial controls and procedures including information system controls.
- Functional speciality reporting – key areas subject to regular reporting to the Board include operations/production, finance, investor relations, technical, safety, human resources, corporate social responsibility, environment and legal matters.

Practices have been established to ensure:

- A comprehensive delegation of authority is in place that includes approval limits for Directors and senior management and specifically matters reserved for the Board.
- Capital expenditure and revenue commitments above a certain size obtain prior Board approval.
- Financial exposures are controlled, including the potential use of derivatives.
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.
- Business transactions are properly authorised and executed.
- Financial reporting accuracy and compliance with the financial reporting regulatory framework.

In addition, the Board has adopted policies covering anti-corruption, bribery, conflict of interests and related-party transactions. The Group's legal and compliance departments assist the Board with monitoring of the application of the Group's policies.

Environment and sustainability

At G3 Exploration, the Board acknowledges the importance of our sustainability commitments. The Group's principles, business practices, and management decisions are driven by a full commitment to sustainable development and to create a sustainable business. Further details about environmental and sustainable development initiatives are on the Company's website www.g3-ex.com.

Ethical standards

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer issues arising from their employment.

Relationship agreement

A relationship agreement is in place between the Company and the majority shareholder that includes, amongst others, provisions related to:

- The entry and approval of related-party transactions.
- Conflicts of interest.
- Amendments to the articles of association.
- Certain voting arrangements.

The agreement remains in place while the majority shareholder controls directly or indirectly or can influence the exercise of more than 25% of the voting rights attaching to the Ordinary Share capital of the Company.

External auditors

The Board and the Audit Committee review the performance of the external auditors on an annual basis and normally meet with them during the year to:

- Discuss the external audit plans, identifying any significant changes in structure, operations, and internal controls or accounting policies likely to impact on the financial statements and to review the fees proposed for the audit work to be performed.
- Review the periodic reports prior to lodgement and release, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results.
- Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.
- Review the draft financial report and recommend Board approval of the financial report.
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

The Board and Audit Committee specifically assess the independence of the Group's external auditors and in doing so consider the level and nature of non-audit services provided and associated fees, the auditor's rotation arrangements for key audit personnel and areas of potential conflicts of interest.

Communication with shareholders and continuous disclosure

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.g3-ex.com).

Financial reporting – the Company reports to shareholders half-yearly and annually, as required by the LSE Rules. The Chairman states to the Board that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

Equal access policy – the Company has a policy, based on existing policies and practices as a company quoted on the LSE market, that all shareholders and investors have equal access to the Company's information, and has procedures to ensure that all price-sensitive information will be disclosed to the LSE in accordance with the continuous disclosure requirements of the LSE Rules. These procedures include:

- A comprehensive process to identify matters that may have a material effect on the price of the Company's shares, notifying them to the LSE, posting them on the Company's website, and issuing media releases.
- All information provided to the LSE, and related information (including information provided to analysts and the media), being immediately posted to the Company's website www.g3-ex.com.
- The Annual Report is made available to all shareholders. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, as well as all required disclosures.

News releases are issued throughout the year and the Company maintains a website (www.g3-ex.com) on which press releases, corporate presentations and the Annual Report and financial statements are available to view together with the half-yearly financial statements. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. Shareholders and other interested parties can subscribe to receive notification of news updates and other documents from the Company via email. In addition, the Executive Director meets with major shareholders to discuss the progress of the Company and provide periodic feedback to the Board following meetings with shareholders.

GOVERNANCE

: DIRECTORS' REPORT

The Directors of G3E Ltd. have pleasure in submitting their Report with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

G3 Exploration (the "Group") is the ultimate holding company and the indirect parent company of Greka Energy (International) B.V, Greka GSN BV, Greka GFC BV, Greka GPX BV, Greka GQY BV companies incorporated in the Netherlands and the operating companies through which the Group holds seven of its Coal Bed Methane ("CBM") properties in China while Greka GGZ Ltd, incorporated in the British Virgin Islands operating the CBM property in Guizhou, China. The principal activities of the Group are the exploration for and development and production of CBM, and the distribution and sale of gas in China. G3 Exploration Ltd was incorporated in the Cayman Islands on 28 March 2006 and was registered as a Public Company on 17 August 2006. 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 2018 and potential future developments is contained within the Chairman's Statement, Operations Review and Financial Review.

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (as adopted by the EU).

SHARE CAPITAL AND RESERVES

Details of the Group's authorised and issued share capital and reserves as at 31 December 2018 are contained in the Consolidated Statement of Changes in Equity and in notes 22 and 23 of the financial statements.

RESULTS AND DIVIDENDS

An overview of the Group's results, covering the year ended 31 December 2018, is provided in the Financial Review on page 17. Detailed financial information is included from page 31 to page 90 of the report. The Directors do not propose the payment of cash dividends until the Group is in production and generating revenue and profit.

EVENTS AFTER THE REPORTING DATE

Subsequent to the balance sheet date, the Company has declared a dividend in-specie for its discontinued upstream operation, Green Dragon Gas (GDG). G3E shareholders on the register as of the effective date 29 March 2019 will receive a direct interest in GDG, the Company's 100% owned subsidiary which holds its producing assets. The Dividend in Specie will represent 100% of the commercial producing assets in GDG and G3 Exploration will retain all its exploration and development assets of the continuing upstream blocks. All G3E shareholders on the effective date shall receive a GDG share deposited into their crest account holding the G3E shares. Such GDG dividend shall be deposited on or before 28 June 2019. The dividend on deposit day could be either in the form of cash or shares in GDG, depending on whether any of the producing assets have been monetized by that date.

There were no other reportable events arising after the reporting date.

GOVERNANCE

: DIRECTORS' REPORT

DIRECTORS REMUNERATION

Directors remuneration for the year ended 31 December 2018 was as follows:

	Fees US$'000	Salaries US$'000	Bonuses US$'000	(Other emoluments benefits) US$'000	**2018 US$'000**	2017 US$'000
Executive Directors						
Randeep S. Grewal	–	1,000	–	870	**1,870**	1,860
Sub-total	–	1,000	–	870	**1,870**	1,860
Non-Executive Directors						
David Turnbull	30	–	–	–	**30**	49
Wayne Roberts	52	–	–	–	**52**	49
Stewart John	32	–	–	–	**32**	53
Gong Da Bing	52	–	–	–	**52**	49
Bryan Smart	22	–	–	–	**22**	–
Zhao Li Guo	21	–	–	–	**21**	–
Sub-total	209	–	–	–	**209**	200
Total	209	1,000	–	870	**2,079**	2,060

DIRECTORS AND THEIR INTERESTS

The table below sets out the interests of the Directors in G3E Ltd as at 31 December 2018.

	Number of Ordinary Shares	% of issued share capital
Randeep S. Grewal	87,169,631	55.85%
Bryan Smart	–	–
David Turnbull	–	–
Wayne Roberts	–	–
Gong Da Bing	800	–
Zhao Li Guo	–	–

SHARE OPTIONS

The Group operates a share option scheme pursuant to which the Directors and senior management may be granted options to acquire Ordinary Shares in the Company at a fixed option exercise price.

During the year ended 31 December 2018, no options were granted and no Director options were exercised.

DIRECTORS' SHARE OPTIONS

The Directors who held office at the reporting date did not hold any interest in the share option during the year ended 31 December 2018.

SUBSTANTIAL SHAREHOLDINGS

The Group is aware of the following beneficial shareholdings, representing 10% or more of the issued Ordinary Share capital of the Group, as at 31 December 2018:

	Number of Ordinary Shares	% of issued share capital
GDGH Limited and related holdings (Mr. R. Grewal)	87,169,631	55.85%
Clermont	36,031,759	23.09%

THE BOARD

The Board of Directors is composed of five members, one Executive Director, who is also the Executive Chairman, and four 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.

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.g3-ex.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 cost of providing this cover is US$25,000 (2017: US$25,000). The Board intends to maintain the level of cover provided under annual or more frequent review, as appropriate.

GOING CONCERN
Based on the Group's budgets and cash flow projections for 2019, the Directors are satisfied that the Group has adequate resources to continue its operations and meet its commitments for the foreseeable future. Further disclosures are included in note 2 regarding the material uncertainty relating to going concern.

ANNUAL GENERAL MEETING
Details of the 2019 Annual General Meeting will be announced in due course. The Notice of Meeting, together with an explanation of the items of special business, is to be provided separately to shareholders.

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

Mr. Randeep S. Grewal
Chairman
17 April 2019

GOVERNANCE

: 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 Stock Exchange.

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.

DIRECTORS' RESPONSIBILITIES PURSUANT TO DTR4

The directors confirm to the best of their knowledge:

- The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the group and the parent company, together with a description of the principal risks and uncertainties that they face.

FINANCIAL STATEMENTS

: INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF G3 EXPLORATION LIMITED

OPINION

We have audited the financial statements of G3 Exploration Limited (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation 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 2018 and of the group's loss for the year then ended; and
- 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 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 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 bond liability of US$110 million, its loan note liability of $58 million, , its current creditors of approximately $12.9 million and meet its exploration funding commitments. As disclosed in note 2, the Group's debts are currently due and repayment could be enforced by the debt holders.

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. 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:
- Considering the immediate solvency of the group by challenging management's assessment of the likelihood of each particular creditor's ability or intent to make a demand on the business for immediate payment. This included consideration of the terms of the instruments, the nature of on-going negotiations, and the financial support available to the business from its majority shareholder.
- Critically assessing management's financial forecasts over their period of going concern assessment to June 2020. This included consideration of the key underlying assumptions and the group's ability to raise finance to meet the group's liabilities as they fall due.
- Noting that the success of the forecast is dependent upon the raising of external finance and in particular, we checked that the business is involved in active negotiations in selling its upstream producing assets in order to raise funds for the group.
- Discussing these matters with management and the Audit Committee and obtaining representations from the Board in respect of the future plans of the group.
- Evaluating the adequacy of disclosures made in the financial statements.

FINANCIAL STATEMENTS

: INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

In addition to the matter described in the material uncertainty related to going concern section, 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.

Key audit matter	How we addressed the key audit matter in the audit
Carrying value of gas assets	
The group's gas assets represent its most significant assets and total US$948.7 million (2017: US$988 million) as at 31 December 2018, including Held for Sale ("HFS") gas assets of US$369.5 million (2017: US$365.2 million). Management is required to assess whether they consider there are any indications that the Group's assets may be impaired as at 31 December 2018. The potential value of the gas assets are principally underpinned by the exploration and production results achieved to date, and the prediction of future value. Management engaged a third party expert to carry out an assessment of the gas reserves and valuation the Group's gas assets during 2017. Management used their judgement in the current year to update the reserves and valuation assessment made by the third party expert in the prior year. As detailed in note 3, the assessment of the indicators of impairment of the gas assets required significant judgement and estimates. As disclosed in note 25, the Group has not met some of its contractual exploration commitments under the terms of the Supplementary Agreements with its Joint Venture partner CUCBM. In accordance with the terms of the Supplementary Agreements, CUCBM has the right to require the Group to relinquish a portion of the exploration blocks. The carrying value of gas assets represented a significant risk for our audit given the significant judgements and estimates required in regards to the exploration commitments, the reserves associated with the assets, future gas prices and discount rate.	We reviewed management's assessment of indicators of impairment of the Group's exploration assets under IFRS 6 and producing assets under IAS 36. As part of this assessment we evaluated the valuations prepared by the third party expert and Management's updates to these valuations. We also critically challenged the key estimates and assumptions used by management. Our testing included comparing the gas prices used in the valuation models to external market prices, critically reviewing the forecast cost profiles against empirical performance and assessing the discount rate. We sensitised the valuation models for reasonably possible movements in key estimates to ascertain whether there remains sufficient headroom. We assessed the independence and competence of the third party expert as part of our prior year audit. We assessed the updates to the third party expert valuations made by Management as part of our audit. In respect of the Group's contractual commitments, we reviewed the Supplementary Agreements and reviewed correspondence with CUCBM. We reviewed the accuracy of the disclosures in the financial statements in relation to the uncertainty regarding the potential extension of the deadline for the contractual commitments.

OUR APPLICATION OF MATERIALITY

The materiality for the group financial statements as a whole was set at US$9.6 million (2017: US$10 million). This was based on approximately 1% of total assets which we consider to be an appropriate benchmark due to the focus of stakeholders being the assets of the Group.

Whilst materiality for the financial statements as a whole was set per above, the significant components of the group were audited to a lower materiality of US$2.0 million (2017: US$4.0 million).

Performance materiality was set at US$5.7 million (2017: US$7.5 million) which represents 60% (2017: 75%) of the above materiality levels and is at the mid end of the threshold due to the low risk of aggregation of misstatements within the group.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$200,000 (2017: US$200,000), which was set at approximately 2% 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.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit was scoped by obtaining an understanding of the group and its environment, as well as assessing the risks of material misstatement in the financial statements at group level. In approaching the audit, we considered how the group is organised and managed. We completed a full scope audit on the group's financial information and we completed a full scope audit on all four of the components we deemed significant, and the Group audit team also visited the finance operations in China. The non-significant components were 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 the 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.

: INDEPENDENT AUDITOR’S REPORT

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 Parent 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 Parent 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 Parent Company and the Parent 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)
17 April 2019

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

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Continuing operations			
Revenue	4	–	–
Cost of sales		–	–
Gross profit		–	–
Other Income		19	13
Selling and distribution costs		–	–
Administrative expenses		(2,446)	(4,144)
Loss from operations	5	(2,427)	(4,131)
Finance income	6	1,189	4,457
Finance costs	7	(19,759)	(17,426)
Loss before income tax		(20,997)	(17,100)
Income tax credit	10	48	46
Loss for the year from continuing operations		(20,949)	(17,054)
Discontinued operations			
Profit/(Loss) for the year from discontinued operations	11	10,248	(7,522)
Gain from Disposal	11	1,545	–
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Exchange gains arising on translation of discontinued foreign operations	11	67	–
Loss for the year from continuing operations		(9,089)	(24,576)
Items which may be reclassified to profit and loss:			
Exchange differences on translation foreign operations		(27,844)	57,328
Total comprehensive (loss)/income for the year attributable to owners of the company		(36,933)	32,752
Basic and diluted loss per share (US$) of continuing operations	12	(0.134)	(0.109)
Basic and diluted earnings/(loss) per share (US$) of discontinued operations	12	0.076	(0.048)
Basic and diluted loss per share (US$)	12	(0.058)	(0.158)

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 31 December 2018 US$'000**	As at 31 December 2017 US$'000
Assets			
Non-current assets			
Property, plant and equipment	13	**23**	33
Gas exploration and appraisal assets	14	**579,112**	617,900
Long-term prepaid expenses		**–**	299
Deferred tax asset	16	**348**	317
		579,483	618,549
Current assets			
Trade and other receivables	17	**10,387**	8,167
Restricted cash	25	**1,000**	1,000
Cash and cash equivalents	18	**305**	1,347
		11,692	10,514
Assets of disposal group classified as held-for-sale	11	**389,506**	380,133
		401,198	390,647
Total assets		**980,681**	1,009,196

	Notes	As at 31 December 2018 US$'000	As at 31 December 2017 US$'000
Liabilities			
Current liabilities			
Trade and other payables	19	**7,783**	10,198
Convertible notes	20	**58,739**	53,132
Bonds	21	**110, 083**	95,932
		176,605	159,262
Liabilities of disposal group classified as held-for-sale	11	**48,308**	50,548
		224,913	209,810
Non-current liabilities			
Deferred tax liability	16	**118,641**	124,137
Share buyback option liability	20	**2,280**	3,469
		120,921	127,606
Total liabilities		**345,834**	337,416
Total net assets		**634,847**	671,780
Capital and reserves			
Share capital	22	**16**	16
Share premium	23	**808,981**	808,981
Share redemption reserve	23	**(8,255)**	(8,255)
Convertible note equity reserve	23	**2,851**	2,851
Foreign exchange reserve	23	**10,537**	38,381
Retained deficit	23	**(179,283)**	(170,194)
Total equity attributable to owners of the parent		**634,847**	671,780
Total equity		**634,847**	671,780

The financial statements were authorised and approved by the Board on 17 April 2019 and signed on their behalf by

Mr. Randeep S. Grewal
Director

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$'000	Share premium US$'000	Share redemption 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 2017	**16**	**808,981**	**(8,255)**	**2,851**	**-**	**(18,947)**	**(145,618)**	**639,028**
Loss for the year	–	–	–	–	–	–	(24,576)	(24,576)
Exchange differences on translating foreign operations	–	–	–	–	–	57,328	–	57,328
Total comprehensive expense for the year	–	–	–	–	–	57,328	(24,576)	32,752
At 31 December 2017	**16**	**808,981**	**(8,255)**	**2,851**	**-**	**38,381**	**(170,194)**	**671,780**
Loss for the year	–	–	–	–	–	–	(9,089)	(9,089)
Exchange differences on translating foreign operations	–	–	–	–	–	(27,844)	–	(27,844)
Total comprehensive expense for the year	–	–	–	–	–	(27,844)	(9,089)	(36,933)
At 31 December 2018	**16**	**808,981**	**(8,255)**	**2,851**	**-**	**10,537**	**(179,283)**	**634,847**

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Cash flows used in continuing operating activities			
Loss after tax		**(20,949)**	(17,054)
Adjustments for:			
Depreciation	13	**10**	22
Amortisation of intangible assets	15	**–**	–
Other income and finance income	6	**(1,189)**	(4,457)
Finance costs	7	**19,759**	17,426
Accelerated finance charge	20	**–**	–
Taxation	10	**(48)**	(46)
Cash generated from operating activities before changes in working capital		**(2,417)**	(4,153)
Movement in inventory		**–**	–
Movement in trade and other receivables		**(2,221)**	4,690
Movement in trade and other payables		**(2,412)**	5,258
Net cash generated from operations		**(7,050)**	5,795
Income tax paid		**–**	–
Net cash generated from continuing operating activities		**(7,050)**	5,795
Net cash generated from discontinued operating activities	11	**10,426**	11,731
Net cash generated from operating activities		**3,376**	17,526

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Investing activities			
Payments for purchase of property, plant and equipment	13	–	–
Proceed from disposal of discontinued operation	11	–	–
Payments for exploration activities	14	(2,963)	(6,259)
Interest received		–	4
Refund of deposit received from Petro China		–	1,000
Net cash used in continuing investing activities		(2,963)	(5,255)
Net cash used in discontinued investing activities	11	(3,118)	(12,192)
Net cash used in investing activities		(6,081)	(17,447)
Financing activities			
Interest paid	20,21	–	(4,400)
Payment received from investing in discontinued operations		–	–
Repayment of Loans and borrowings		–	–
Net cash used in continuing financing activities		–	(4,400)
Net cash used in discontinued financing activities	11	–	–
Net cash used in financing activities		–	(4,400)
Net decrease in cash and cash equivalents		(2,705)	(4,321)
Cash and cash equivalents at beginning of year		3,175	7,324
		470	3,003
Effect of foreign exchange rate changes		21	172
Cash and cash equivalents at the end of year		491	3,175
Attributable to continuing activities	18	305	1,347
Attributable to discontinued activities	11	186	1,828

FINANCIAL STATEMENTS

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 GENERAL

G3 Exploration Ltd. (the "Company") was incorporated in the Cayman Islands on 28 March 2006 as an exempted company with limited liability under Chapter 22 of the Cayman Islands Companies Law (2004 revision). 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, Cayman Islands and 28th Floor, Landmark Plaza, No.1 Business Outer Ring Road, Central Business District, Zhengzhou 450000, Henan Province, PRC, respectively.

The Company and its subsidiaries are hereinafter collectively referred to as the "Group". The Company is an investment holding company while the principal activities of its subsidiaries are exploration, development and production of coal bed methane in the People's Republic of China ("PRC"). The coal bed methane operations in the PRC are conducted through production sharing arrangements with China United Coal Bed Methane Corporation Ltd. ("CUCBM"), a subsidiary of China National Offshore Oil Company (CNOOC) and with PetroChina Company Limited ("PetroChina" or "CNPC"). CNOOC and CNPC are companies established in the PRC and indirectly controlled by the PRC Government. Under the production sharing contracts ("PSCs") whereby the Group is entitled to a fixed percentage of production output in accordance with the respective PSCs entered into with CUCBM and CNPC. Further details in relation to these contracts are disclosed in note 25 to the financial statements.

The financial statements are presented in US dollars which is the same as the functional currency of the Company. The functional currency of the Group's subsidiaries is primarily Renminbi ("RMB").

2 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") that is effective for accounting periods beginning on or after 1 January 2018. 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 modified for financial instruments carried at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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.

Going concern

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

Included in current liabilities as at 31 December 2018 are two specific instruments;

The Company has a convertible loan note liability of $58.7 million, which is due for repayment on 31 December 2020. On the 14th of November 2018 an extension to the one-time early redemption option was agreed with the note holder such that it is now exercisable at any time up to 20 November 2019, and would require early repayment of the whole amount due no earlier than 20 November 2019. 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 note 20.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Going concern (continued)

The Company has a bond liability of $110 million, which was due for repayment in November 2017. The bond has not been repaid, and the due date has passed. The Bond Trustee representing a majority of the outstanding bond, are in ongoing discussions with the Company regarding amongst other things negotiating the repayment of the outstanding bond amount. Furthermore, the Bond Trustee has been instructed by those majority bondholders not to take any action to recover amounts due and, until further notice, and as long as no conflicting instruction is received, they will not declare the bond to be in default or demand immediate payment. Further details of the terms of the instrument are included in note 21.

The Company also has other payables due to third parties of approximately $12.9 million (2017: $15 million), due immediately. The Company is managing these payables through continuing negotiation with suppliers.

The Company also has certain capital expenditure requirements in some of its exploration blocks during the exploration period. Further details are included in note 25.

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

Subsequent to the balance sheet date, the Company has declared a dividend in-specie for its discontinued upstream operation, Green Dragon Gas (GDG). G3E shareholders on the register as of the effective date 29 March 2019 will receive a direct interest in GDG. Further details are included in note 31.

GDG has engaged certain banks to explore possible monetization options for GDG through trade sales. Currently, sales processes for the producing assets in GDG are underway with discussions for the sale of block GCZ with bids expected from a number of interested parties. A separate sales process is also underway for block GSS.

On completion of the dividend in-specie of GDG, the Group will have a receivable from GDG of $341 million. Proceeds from the monetization of GDG will be used to settle the debts due to the Group in due course. G3E shall in turn use those receipts to settle its outstanding debt, including to its Nordic Bond holders and Convertible Bond holders, and to fund working capital and an accelerated exploration and development programme in the blocks.

The Company's major shareholder and CEO, Randeep S. Grewal, has confirmed that he will provide sufficient financial support in respect to other current payables of $12.9 million, prior to the expected trade sales, if required.

The Directors have informed the Bondholder Trustee of the Company's intention to raise financing through the trade sales of GDG, and to use the proceeds to repay the $110 million bond. The Company notes that discussions continue with the bondholders. To date the Company is not aware of any immediate intention of the Bond Trustee to take action to recover amounts due. On the basis of the above, the Company does not expect the bondholders to put the bond into default before additional funding is received. However, the bondholders have given no written assertions that they will not put the bond into default.

The Company is not aware of any immediate intention of the note holder to exercise its early redemption option. However, the note holder has given no written assertions that they will not exercise its early redemption option.

The Company expects to use the proceeds from the trade sales to repay all of the Company's debts. Based on the above, the Company expects to be able 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 trade sales agreements in place. Therefore, there can be no certainty that the trade sales will be successful, there can also be no certainty that no default notice will be issued in respect of the $110 million bond, and there can also be no certainty that no early repayment notice will be issued in respect of the convertible loan note.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Going concern (continued)

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.

Transactions under common control

The acquisition of Greka Gas China Ltd and its subsidiaries in the period ended 31 December 2006 was outside the scope of IFRS 3 "Business Combinations" because it was not considered to be a business combination (G3 Exploration Limited was a shell company at the time of the transaction) and all parties were under common control of Mr. Randeep S. Grewal before and afterwards.

IAS 8 "Accounting policies, changes in accounting estimates and errors" requires management to develop a relevant and reliable policy in the absence of transactions being in the scope of other IFRS standards. Management therefore chose to apply purchase accounting rules. As a result, the consideration given and the assets and liabilities acquired were recorded at their fair value. The excess of fair value of the net assets acquired over the nominal value of the shares issued was recorded as share premium.

New Accounting Standards

New Standards effective for the year	**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
New Standards not affective for the year			
IFRS 16 Leases	2016/1/13	1-Jan-19	Endorsed
Amendments to Existing Standards			
Clarifications to IFRS 15 revenue from Contracts with Customers	12-Apr-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
IFRIC 23 Uncertainty over Income Tax Treatments	07-Jun-17	01-Jan-19	Endorsed
Annual Improvements to IFRSs (2015-2017 Cycle)	12-Dec-17	1-Jan-19	Expected 2019
Amendments to IAS 28: Long-term interests in Associates and Joint Ventures	12-Oct-17	1-Jan-19	Expected 2018
Amendments to References to the Conceptual Framework in IFRS Standards	29-Mar-18	01-Jan-20	Expected 2019
Amendments to IFRS 3 Business Combinations – Definition of a Business	22-Oct-18	01-Jan-20	Expected 2019
Definition of Material – Amendments to IAS 1 and IAS 8	31-Oct-18	01-Jan-20	Expected 2019

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

IFRS 16 "Leases"

Adoption of IFRS 16 will result in the group recognizing right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases , under current accounting requirements the group does not recognize related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing its annual financial statements the total commitment.

The group has decided it will apply the modified retrospective adoption method in IFRS 16, and therefore, will only recognize leases on balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date, this will ensure there is no immediate impact to net assets on that date.

At 31 December 2018 operating expense commitments amounted to $0.6m (see note 27), which is not expected to be materially different to the anticipated position on 31 December 2019. Assuming the group's lease commitments remain at this level, the effect of discounting those commitments is anticipated to result in right-of-use assets and lease liabilities of approximately $0.6m being recognized on 1 January 2019. However, further work still needs to be carried out to determined whether and when extension and termination options are likely to be exercised, which will result in the actual liability recognized being higher than this,

Instead of recognizing an operation expense for its operating lease payment, the group will instead recognize interest on its lease liabilities and amortization on its right-of use assets. This will increase reported EBITDA by the amount of its current operating lease cost, which for the year ended 31 December 2018 was approximately $1.8m.

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost less any accumulated amortisation and impairment loss. Under IFRS 16 these payments will be added to the right of use asset.

Basis of consolidation

The financial statements incorporate a consolidation of the financial statements of the Company and entities controlled by the Company (its subsidiaries) together with joint operations over which the Group has joint control. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidated financial statements present the results of the Company and its subsidiaries and joint arrangements as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full. The financial statements of subsidiaries are included in the Group's financial statements from the date that control commences until the date that control ceases.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Subsidiaries and joint arrangements

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Joint arrangements are arrangements in which the Group shares joint control with one or more parties. Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the activities that significantly affect the arrangement's returns require the unanimous consent of the parties sharing control.

Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties to the arrangement. In joint operations, the parties have rights to the assets and obligations for the liabilities relating to the arrangement, whereas in joint ventures, the parties have rights to the net assets of the arrangement.

Joint arrangements that are not structured through a separate vehicle are always joint operations. Joint arrangements that are structured through a separate vehicle may be either joint operations or joint ventures depending on the substance of the arrangement. In these cases, consideration is given to the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, other facts and circumstances. When the activities of an arrangement are primarily designed for the provision of output to the parties, and the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates the parties to the arrangements have rights to the assets and obligations for the liabilities.

The Group accounts for its joint operations with PetroChina by recognising the assets, liabilities, revenue and expenses for which it has rights or obligations, including its share of such items held or incurred jointly. Further details of the joint operations with PetroChina and CUCBM are included in note 26. Cash flows arising in respect of the joint arrangements are recorded on a line by line basis in accordance with the nature of the underlying cash flows of the joint arrangement within the Group's cash flow. Where the Group has agreed to meet its share of historic expenditure incurred by a joint venture partner as part of a settlement agreement, the cash flows are recorded on a line-by-line basis in accordance with the nature of the underlying cash flows of the joint arrangement unless the settlement is considered to represent a non-cash financing arrangement with the joint venture partner.

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 statement of comprehensive income.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise with the exception of the retranslation exchange differences on inter-company loans considered to be permanent equity, which are defined as loans which are not expected to be settled in the foreseeable future. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which cases, the exchange differences are also recognised in other comprehensive income.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (the United States dollar) at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the year/period, in which case, a rate approximating to that ruling when the transaction took place is used. All assets and liabilities of foreign operations are translated at the rate ruling at 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 in other comprehensive income (the "foreign exchange reserve"). Fair value adjustments arising on acquisition are initially recorded in the functional currency of the companies to which they relate and are retranslated at the rates ruling at each reporting date with exchange rate movements recognised in other comprehensive income ("foreign exchange reserve").

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.

Gas assets (development and production)

Gas assets include those assets for which the technical feasibility and commercial viability of extracting coal bed methane gas is demonstrable. Such assets are referred to as having achieved commercial production. Gas assets include the cost of developing such assets, together with the associated exploration and appraisal assets transferred from intangible exploration and appraisal assets on demonstration of technical feasibility and commercial viability.

Gas assets also include physical infrastructure. Such assets start being depreciated on a units-of-production ("UoP") basis once the associated assets enter commercial production.

The net book value of gas assets is depreciated using the UoP method. In applying the UoP method of depreciation a UoP rate is calculated where the numerator is the production associated with the block or area to which the assets relate and the denominator is reserves volume assessed as relating to that block or area. Reserves are those which are considered to be technically feasible and commercially viable for extraction and are considered to be proved and probable (2P) reserves. Future capital expenditure required to extract such reserves is included in the calculation of the UoP rate when applicable. Such future capital expenditure applies when additional expenditure is required to extract the gas reserves over which the assets are depleted. The depreciation charge for the year/period is calculated by multiplying the UoP rate by the production of the relevant assets. The depreciation charge reduces the carrying value of the assets reflecting their usage.

Other property, plant and equipment

Property, plant and equipment are depreciated so as to write off their costs net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each reporting date. The useful lives of property, plant and equipment are as follows:

Buildings and structures	20 to 30 years
Motor vehicles	5 years
Fixtures, fittings and equipment	3 to 10 years

Construction in progress represents pipelines, buildings, structures and other plant and equipment in the course of construction for production or for use by the Group on completion, and is stated at cost less impairment losses. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. An asset may be substantially ready for its intended use prior to the issuance of the relevant commissioning certificates by the relevant PRC authorities. Such situations are assessed on a case by case basis.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Other property, plant and equipment (continued)

No depreciation is provided in respect of construction in progress.

The carrying amount of property, plant and equipment is compared to the recoverable amount whenever events or changes in circumstances indicate that the net book value may not be recoverable during the development or production phase. The aggregate carrying value of the cash generating unit (assessed on a block-by-block or area-by-area basis as appropriate) is compared against the expected recoverable amount of the cash generating unit. The expected recoverable amount is the higher of fair value less cost to sell and value in use. Value in use is assessed by reference to the present value of future cash flows expected to be derived from production of reserves that are considered technically feasible and commercially viable for extraction, being 1P and 2P reserves. An impairment loss is recognised immediately in the statement of comprehensive income to the extent that the carrying amount is higher than the asset's estimated recoverable amount. Where the event or circumstance giving rise to an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. The carrying amount of the assets following the reversal of an impairment loss cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. The reversal of an impairment loss is recognised as income in the period in which the event or circumstance giving rise to the impairment is considered to have reversed.

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 profit or loss on disposal.

Gas exploration and appraisal assets

The Group applies the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources" in respect of its exploration and appraisal expenditure. The requirements of IFRS 6 are not applied to expenditure incurred by the Group before legal title to explore for and evaluate coal bed methane gas resources in a specific area. Such costs are generally referred to as pre-licence expenditure. Likewise, the Group does not apply the requirements of IFRS 6 after the point at which the technical feasibility and commercial viability of extracting coal bed methane gas is demonstrable.

The costs of exploring for and evaluating hydrocarbon resources are accumulated and capitalised as intangible assets by reference to appropriate cash generating units ("CGU") on a pooled basis. Such cost pools are based on geographic areas and are not larger than a segment. The Group currently has two exploration and evaluation cost pool being the PRC. One CGU includes GSS and GCZ, the other CGU includes the rest of the blocks. Each of the CGU is separately and individually assessed, being assessment for continuing and discontinued operations.

Capitalised exploration and appraisal expenditure may include the costs of licence acquisition, third party technical services and studies, seismic acquisition, exploration drilling and testing and a portion of directly attributable general and administrative expenditure. The expenditure does not include costs incurred prior to having obtained the legal rights to explore an area. Pre-licence expenditure is expensed directly to the statement of comprehensive income as incurred.

Property, plant and equipment acquired for use in exploration and appraisal activities is classified as property, plant and equipment. However, to the extent that such a property, plant and equipment is consumed in developing an intangible exploration and appraisal asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Gas exploration and appraisal assets (continued)

Intangible exploration and appraisal assets are not depreciated and are carried forward, subject to the provisions of the Group's impairment of exploration and appraisal policy, until the technical feasibility and commercial viability of extracting coal bed methane gas are demonstrable. 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/prospect. 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, the substantive nature of operations and cash generation from producing assets.

If commercial reserves have been discovered, the related exploration and appraisal assets are assessed for impairment as set out below and any impairment loss is recognised in the statement of comprehensive income. The carrying value, after any applicable impairment loss, of the relevant exploration and appraisal assets is then reclassified as development and production assets within property, plant and equipment. The costs reclassified include costs directly attributable to the relevant commercial reserves in the specific block being transferred, together with a proportion of non-directly attributable costs. Non-directly attributable costs include a portion of the original fair value uplift on acquisition of the licences, calculated with reference to the relative size and prospectively of the licence area as a proportion of the total licence areas originally acquired.

In circumstances where third parties undertake exploration, evaluation, development or production on the Group's licence areas, the Group records its attributable share of results and assets associated with such activities when the parties have reached an agreement regarding the entitlements. Entitlements include the Group's attributable share of the production, results and assets, where that share can be reliably measured and meets IFRS criteria for recognition of revenue and assets respectively. Where the Group reaches agreement with a third party that costs associated with the construction of such assets can be recovered by the third party through surrender of an element of the Group's future production then an associated provision is recorded. The agreement for a third party to recover cost from future production is recorded as a provision because the ultimate settlement of the amount is made only from production volume from the specified area/wells and can be subject to uncertainties in terms of timing.

Intangible exploration and appraisal assets that relate to exploration and evaluation activities that have not yet resulted in the discovery of commercial reserves remain capitalised as intangible exploration and appraisal assets at cost less accumulated amortisation, subject to meeting a pool-wide impairment test.

The Group's exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the exploration and appraisal assets may exceed their recoverable amount. In accordance with IFRS 6, the Group considers facts and circumstances in their assessment of whether the Group's exploration and appraisal assets may be impaired. These facts and circumstances include, but are not limited to, the following:

- Whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

- Whether substantive expenditure on further exploration for and appraisal of mineral resources in a specific area is neither budgeted nor planned.

- Whether exploration for and evaluation of coal bed methane gas in a specific area have not led to the discovery of commercially viable quantities of coal bed methane and the Group has decided to discontinue such activities in the specific area.

- Whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Gas exploration and appraisal assets (continued)

If any facts or circumstances are noted the Group performs an impairment test in accordance with the provisions of IAS 36. In such circumstances, the aggregate carrying value of the exploration and appraisal assets is compared against the expected recoverable amount of the single cost pool CGU. The recoverable amount is the higher of value in use and the fair value less costs to sell.

Any impairment loss is recognised in the statement of comprehensive income as additional depreciation and separately disclosed.

Non-current assets held for sale and discontinued operations

An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable."

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- Is a subsidiary acquired exclusively with a view to resale;

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in note 11. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Farm outs

Under arrangements whereby the Group reduces its interest in a PSC in return for commitments by its partner to undertake additional future exploration expenditure on assets without proven reserves, the Group does not recognise any consideration in respect of the value of the work to be performed by the farmee and instead carries the remaining interest at the previous cost of the full interest reduced by the amount of any cash consideration received for entering the agreement. As a result, no gain recognised on the disposal unless the cash consideration received exceeds the carrying value of the entire asset held.

Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of an asset's productive life exists, a provision is made for decommissioning when the obligation is created. The amount recorded as a provision is the present value of estimated future expenditure based on local legislative requirements. Included in the relevant asset is an amount equal to the provision which is depreciated on a UoP basis. Changes in estimates are recorded prospectively through the provision and asset carrying value. Unwinding of the effect of discounting on the provision is recorded in finance costs. Under the Group's PSC's, decommissioning costs are borne by the operator. Decommissioning in respect of PSCs for which the Group is the operator fall on the other party to the PSC if production ceases after the end of the Group's 20 years PSC production period. At present, decommissioning obligations are assessed as immaterial.

Other intangible assets acquired in a business combination

Other intangible assets acquired in a business combination are identified and recognised separately where they satisfy the definition of an intangible asset. Such intangible assets are recognised at their assessed fair value as of the date of acquisition.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated to write off the intangible asset over its useful life. Useful life is estimated to be 5 to 10 years for the Group's intangible assets.

Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost less any accumulated amortisation and impairment loss. They are amortised over the period of the lease on a straight-line basis to profit or loss.

Inventories

Inventories are initially recognised at cost, and subsequently measured at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion 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.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer and the non-executive Board Members.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

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

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

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from 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 taxation laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities or assets are settled or recovered respectively. The tax laws in the PRC may be subject to change in the future and could potentially result in the recognition of deferred tax and current tax liabilities/assets. Balances related to deferred taxes 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 and expect to have the legal right 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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company has elected to early adopt IFRS 15, with effect from 1 January 2018. IFRS 15 had no impact on prior year results. There was no impact to the consolidated financial statements to 31 December 2018 resulting from the Group applying IFRS 15.

Revenue represents amounts receivable in respect of sales of gas. Revenue represents only sales for which contracts have been agreed and for which the product has been delivered to the purchaser in the manner set out in the contract.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenues are recognised in full using contractual pricing terms ruling at the date of sale with adjustments in respect of final contractual pricing terms being recognised in the month that such adjustment is agreed. Under the terms of the sales contracts, the Company's performance obligation is considered to be the delivery of gas to customers storage device. The Company recognises 100% of the revenue on transfer of gas as considered highly probable there will be no reversals. On transfer of gas , control is considered to have passed to the customer with the Company having right to payment, but no ongoing physical possession or involvement with the concentrate, legal title and insurance risk having transferred. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due. All sales revenue from incidental production arising during the exploration, evaluation, development and commissioning of a gas resource prior to commercial production, are taken as a contribution towards previously incurred costs and offset against the related asset accordingly.

Revenue generated from gas subsidies is recognised when there is reasonable certainty that the Group complies with the conditions for their receipt and that the subsidy will be received from the government. This is currently considered to be the point when revenue from the sale of gas is recognised. Revenue arising during pilot or test production, prior to commercial production being established, is recorded gross and a corresponding adjustment is made to cost of sales and the exploration and appraisal asset.

Financial instruments

Financial assets and financial liabilities are recognised in the Group statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position and statement of comprehensive income when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss

(i) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

a) Classification of financial assets

Financial assets that meet the following conditions are measured subsequently at amortised cost using effective interest rate method:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and,

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group does not hold any financial assets that meet conditions for subsequent recognition at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured subsequently at fair value through profit or loss ("FVTPL").

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(i) Financial assets (continued)

b) Impairment of financial assets (continued)

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets that are measured at amortised cost which comprise mainly trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL on trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking ECL. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month ECL along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime ECL along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime ECL along with interest income on a net basis are recognised.

c) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(ii) Financial liabilities

The classification of financial liabilities at initial recognition depends on the purpose for which the financial liability was issued and its characteristics. All purchases of financial liabilities are recorded on trade date, being the date on which the Group becomes party to the contractual requirements of the financial liability. Unless otherwise indicated the carrying amounts of the Group's financial liabilities approximate to their fair values.

The Group's financial liabilities consist of financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss. Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method. The Group's financial liabilities measured at amortised cost comprise loans and other borrowings, equipment loans, finance leases, and other payables and accruals. The effective interest method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts/payments through the expected life of the financial asset/liability or, where appropriate, a shorter period.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(iii) Convertible debt and bonds

Convertible notes issued by the Group that contain both liability and equity conversion option components and include embedded early redemption options that are not closely related to the host contract are classified separately into respective items on initial recognition. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity component.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar debt instruments without conversion options and early redemption options. The fair value of embedded early redemption options is determined by appropriate option pricing models. The difference between the proceeds of the issue of the convertible notes, and the fair value assigned to the liability component and the fair value of the embedded early redemption options, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible note equity reserve).

In subsequent periods, the liability component of the convertible note is carried at amortised cost using the effective interest method. The early redemption option components are measured at fair value with changes in fair value recognised in profit or loss. The equity component, represented by the option to convert the liability component into Ordinary Shares of the Company, will remain in the convertible note equity reserve until the conversion option is exercised (in which case the balance stated in convertible note equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible note equity reserve will be released to retained earnings. No gain or loss is recognised in the statement of comprehensive income upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of convertible notes containing liability and equity components are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to convertible note equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible note using the effective interest method.

Bonds issued by the Group are initially recorded at fair value and subsequently measured at amortised cost. Where there is a significant amendment to a financial liability, the financial original liability is de-recognised and a new financial liability is recognised.

(iv) Share buyback option liability

Contracts entered into by the Group which grant an option to require the Group to purchase its own equity instruments for cash or another financial asset is accounted for by recognising a financial liability, a "Share buyback option liability". The financial liability is initially recognised at the present value of the redemption amount, and is also recognised in reserves. Subsequently, the financial liability is measured at the present value of the redemption amount, with the resulting difference in value being recognised in the income statement as financing income or expense.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Employee benefits

(i) Defined contribution pension plan

Contributions to defined contribution pension plan are recognised as an expense in profit or loss as the services giving rise to the Company's obligations are rendered by the employees.

The employees of the operations in the PRC are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions payable are charged to profit or loss 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 9.

(ii) Other benefits

Other benefits, being benefits in kind, are charged to profit or loss in the period to which they relate.

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with the fair value of goods or services received unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received. At each reporting date, the liability is re-measured at its fair value until the liability is settled, with change in fair value recognised in income statement.

Leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset 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.

Borrowing costs

Borrowing costs comprise interest payable and transaction costs on the issue of bonds, loan notes, convertible notes and other liabilities that are of the nature of a borrowing. Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. Borrowing costs relating to solely exploration and evaluation expenditure are capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Treasury shares

Consideration paid or received for the purchase or sale of treasury shares is recognised directly in equity. The cost of treasury shares held is presented as a separate reserve. Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares is credited to retained earnings.

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

CUCBM Framework Agreement

In prior year a provision for a potential liability to CUCBM was recognised on the basis of there being a dispute over the historic wells drilled by CUCBM. The provision represented the best estimate of the Group's obligation to settle its share of the costs of the disputed wells.

In 2017, upon finalisation of the Supplemental Agreements in 2017, the original dispute that arose was settled, and the outcome was that CUCBM will recover its historic costs through potential future production. As described in the accounting policies, the Group's oil and gas assets are accounted for as joint operations and the Group therefore accounts for its share of income and expenditure. As such, it was no longer appropriate for the Group to recognise CUCBM's historic costs. As the disputed wells are no longer subject to a settlement obligation, it was deemed appropriate to reduce the provision to $nil. The original recognition of the provision had no impact on the income statement and therefore the reversal of the provision also has no impact on the income statement, and is recognised as a reduction to the Group's exploration assets. The change in provision represents a change in accounting estimate as a result of the Supplemental Agreements executed in 2017.

Once CUCBM has fully recovered its historical costs through potential future production, the Group will account for its share of income and expenditure according to its participating interests in the blocks.

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 unit 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 (2017: 2P) 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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 25 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 2015, 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 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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Fair value of convertible notes

The fair value of the liability component on initial recognition is the present value of the stream of future cash flows (including both coupon payments and redemption) discounted at the market rate of interest that would have been applied to an instrument of comparable credit rating with substantially the same cash flows, on the same terms, but without the conversion option. The applicable rates of interest, which are a matter of judgement, are disclosed in note 31. The rates have been determined with reference to comparable market transactions for debt without conversion options. The amendment to the convertible loan was considered to be a significant modification under IFRS and therefore the original loan note was derecognised and a new convertible loan was recognised. There was no difference between the fair value of the amended convertible loan and the carrying value of the original convertible loan on the basis that the interest rate approximated to market interest rates.

Capitalisation of exploration costs

The Group exercises judgement in determining costs which are directly attributable to its exploration activities and therefore are capitalised as part of exploration and evaluation assets. In particular, judgement is applied in allocating directly attributable general and administrative overheads to the Group's exploration assets.

Licensing

As stipulated in the production sharing contracts, it is the responsibilities of the Chinese partners to provide the necessary assistance to the Group, including obtaining, maintaining and renewing certain licenses from the government authorities to allow the Group to discharge its responsibilities in the blocks. The Group is relying on its Chinese partners to comply with and adhere to the licensing requirements of the government authorities, including obtaining the necessary licenses, and applying for their renewals prior to expiry.

Capital expenditure commitments

In the ordinary course of business, the Group is contractually required under the Supplementary Agreements and the PSCs to undertake certain planned work programs and capital expenditure commitments in its blocks. The Group has not met some of its contractual commitments, and in accordance with the terms of the Supplementary Agreements, CUCBM could require the Group to pay unfilled exploration commitments and relinquish a proportion of the relevant Blocks. Further details of this are included in note 25.

Non-current assets held for sale and discontinued operations

The Group exercises judgement in whether an asset is held for sell. During 2017, management decided to carve out the producing blocks (GSS & GCZ) of Greka Energy (International) B.V., a 100% wholly-owned subsidiary of the Company. Subsequent to the balance sheet date, the Company has declared a dividend in-specie for its discontinued upstream operation, Green Dragon Gas (GDG). G3E shareholders on the register as of the effective date 29 March 2019 will receive a direct interest in GDG, the Company's 100% owned subsidiary which holds its producing assets. The Dividend in Specie will represent 100% of the commercial producing assets and G3 Exploration will retain all its exploration and development assets of the continuing upstream blocks. All G3E shareholders on the effective date shall receive a GDG share deposited into their crest account holding the G3E shares. Such GDG dividend shall be deposited on or before 28 June 2019. The dividend on deposit day could be either in the form of cash or shares in GDG, depending on whether any of the producing assets have been monetized by that date. Therefore, the related assets and liabilities have been presented as held for sale. Management expects GSS & GCZ blocks will be sold within the next 12 months through dividends in species.

On 31 December 2018, the Group sold its 100% interest in Greka Gas Distribution Ltd (the downstream assets). Greka Gas Distribution Ltd was classified as held for sale and fully impaired at 31 December 2017. The Group exercises judgement in accounting for the post-tax gain on disposal of discontinued operations as the sale involved the accounting for a variable consideration payable by the purchaser.

4 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 assets and liabilities relating to the carve-out of the producing blocks (GSS & GCZ) of Greka Energy (International) B.V., a 100% wholly-owned subsidiary of the Company, have been presented as held for sale following the board decision to spin off the assets of GSS & GCZ blocks. As the carve out of the GDG assets is coming to its final stage, GDG has been classified as held for sale asset.

The financial statements did not include the Group's share of CNOOC operated GSS 1,128 wells' revenue, associated costs and resulting margins. The sales revenues and volumes associated with the CNOOC operated areas of GSS and GSN will be subject to future audits.

The accounting policies of these segments are in line with those described in note 2.

The Group has two (2017: two) customers which account for more than 50% of its revenue for the year.

For the year ended 31 December 2018

	Upstream continuing operations US$'000	Upstream discontinued operations US$'000	Downstream discontinued operation US$'000	Corporate US$'000	Sub-total US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue:							
Sales to external customers	–	25,508	3,108	–	28,616	(28,616)	–
Inter-segment sales	–	–	–	–	–	–	–
	–	25,508	3,108	–	28,616	(28,616)	–
Depreciation	–	(6,513)	(330)	(10)	(6,853)	6,843	(10)
Amortisation	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–
Profit/(loss) from operation	–	9,799	(1,178)	(2,427)	6,194	(8,621)	(2,427)
Finance income	–	–	1	1,189	1,190	(1)	1,189
Finance cost	–	2	4	(19,759)	(19,753)	(6)	(19,759)
Income tax	48	1,627	(7)	–	1,668	(1,620)	48
Profit/(Loss) for the year	48	11,428	(1,180)	(20,997)	(10,701)	(10,248)	(20,949)
Assets	109,985	389,506	–	481,190	980,681	(389,506)	591,175
Liabilities	118,846	48,308	–	178,680	345,834	(48,308)	297,526
PPE additions	–	–	–	–	–	–	–
Gas exploration additions	1,650	10,525	–	–	12,175	(10,525)	1,650

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4 REVENUE AND SEGMENT INFORMATION (continued)

For the year ended 31 December 2017

	Upstream continuing operations US$'000	Upstream discontinued operations US$'000	Downstream discontinued operations US$'000	Corporate US$'000	Sub-total US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue:							
Sales to external customers	–	14,618	11,039	–	25,657	(25,657)	–
Inter-segment sales	–	12,500	646	–	13,146	(13,146)	–
	–	27,118	11,685	–	38,803	(38,803)	–
Depreciation	–	(7,623)	(1,524)	(22)	(9,169)	9,147	(22)
Amortisation	–	–	1,066	–	1,066	(1,066)	–
Impairment	–	–	(13,095)	–	(13,095)	13,095	–
Profit/(loss) from operation	–	7,577	(18,195)	(4,131)	(14,749)	10,618	(4,131)
Finance income	12	1	2	4,445	4,460	(3)	4,457
Finance cost	–	–	580	(17,426)	(16,846)	(580)	(17,426)
Income tax	46	2,347	166	–	2,559	(2,513)	46
Profit/(Loss) for the year	58	9,925	(17,447)	(17,112)	(24,576)	(7,522)	(17,054)
Assets	127,550	377,513	2,619	501,513	1,009,194	(380,133)	629,062
Liabilities	132,296	47,928	2,619	154,570	337,413	(50,548)	286,865
PPE additions	–	–	162	3	165	(161)	4
Gas exploration additions	9,261	3,970	–	–	13,231	(3,970)	9,261

5 LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Auditors' remuneration:		
– Fees payable to the Company's auditors for the audit of the annual financial statements	**386**	365
– Fees payable to the Company's auditors for the review of the interim results	**91**	91
Staff costs (note 8)	**1,573**	1,884

6 FINANCE INCOME

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Bank interest	**–**	2
Change in value of the share buyback option liability	**1,189**	4,455
	1,189	4,457

7 FINANCE COSTS

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Convertible notes (coupon at 7% and 10% plus effective interest adjustments)	**5,607**	5,785
Bonds (coupon at 10% and 5% penalty plus effective interest adjustments)	**14,151**	11,537
Other financial cost	**1**	104
	19,759	17,426

8 STAFF COSTS

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Staff costs (including Directors' emoluments) comprise:		
Wages and salaries	**4,174**	4,459
Employer's national social security contributions	**190**	648
Other benefits	**721**	1,089
	5,085	6,196
Less: expenses capitalised as gas exploration and appraisal assets	**(2,543)**	(2,839)
Classified as held for sale	**(969)**	(1,473)
Total staff costs charged to profit or loss (note 5)	**1,573**	1,884

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9 DIRECTORS' AND OTHER KEY MANAGEMENT REMUNERATION

The remuneration of Directors for the year ended 31 December 2018 was as follows:

	Fees US$'000	Salaries US$'000	Bonuses US$'000	Other Emoluments (benefits) US$'000	**2018 US$'000**	2017 US$'000
Executive Directors						
Randeep Grewal	–	1,000	–	870	**1,870**	1,860
Sub-total	–	1,000	–	870	**1,870**	1,860
Non-Executive Directors						
David Turnbull	30	–	–	–	**30**	49
Wayne Roberts	52	–	–	–	**52**	49
Steward John, OBE	32	–	–	–	**32**	53
Gong Da Bing	52	–	–	–	**52**	49
Bryan Smart	22	–	–	–	**22**	–
Zhao Li Guo	21	–	–	–	**21**	–
Sub-total	209	–	–	–	**209**	200
Total	209	1,000	–	870	**2,079**	2,060

Key management are considered to be the Directors. During the year ended 31 December 2018, no options were granted and no Director options were exercised.

10 TAXATION

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Current tax – PRC Enterprise Tax		
Tax credit for the current year	**48**	46
Deferred tax		
Temporary timing differences (note 16 (a)(b))	**–**	(2,347)
Previously unrecognised deferred tax assets assessed as recoverable at the end of the year (note 16 (a))	**–**	–
Classified as held for sale (note 11)	**–**	2,347
Total tax credit	**48**	46

Other comprehensive income includes a charge of US$ nil (2017: US$ nil) in respect of deferred tax movements on exchange gains and on the retranslation of foreign subsidiaries.

10 TAXATION (continued)

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 2018 US$'000	Year ended 31 December 2017 US$'000
Accounting loss before tax	**(20,997)**	(17,100)
Expected tax credit based on the standard rate of corporation tax in the PRC of 25% (2017: 25%)	**(5,249)**	(4,275)
Effect of:		
Different tax rates applied in overseas jurisdictions	**5,249**	4,275
Temporary differences applied in overseas jurisdictions	**48**	46
Income tax credit	**48**	46

Taxation for the Group's operations in the PRC is provided at the applicable current tax rate of 25% (2017: 25%) on the estimated assessable profits for the year.

11 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATION

The assets and liabilities relating to the carve-out of the producing blocks (GSS & GCZ) of Greka Energy (International) B.V., a 100% wholly-owned subsidiary of the Company, have been presented as held for sale following the board decision to monetise GDG with a declaration of dividend in-specie. Management expects GSS & GCZ blocks to be sold within the next 12 months.

(a) Assets of disposal group classified as held-for-sale

	Note	**As at 31 December 2018 Upstream Group** US$'000	**As at 31 December 2018 Downstream Group** US$'000	**As at 31 December 2018 Subtotal** US$'000
Property, plant and equipment	13	132,947	–	132,947
Gas exploration and appraisal assets	14	236,601	–	236,601
Other intangible assets	15	–	–	–
Long term prepaid expenses		–	–	–
Deferred tax asset	16	5,742	–	5,742
Inventories		–	–	–
Trade and other receivables		14,030	–	14,030
Cash and cash equivalents		186	–	186
		389,506	**–**	**389,506**

11 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATION (continued)

(a) Assets of disposal group classified as held-for-sale (continued)

	Note	**As at 31 December 2017 Upstream group** US$'000	**As at 31 December 2017 Downstream group** US$'000	**As at 31 December 2017 Subtotal** US$'000
Property, plant and equipment	13	141,445	–	141,445
Gas exploration and appraisal assets	14	223,713	–	223,713
Other intangible assets	15	–	–	–
Long term prepaid expenses		–	579	579
Deferred tax asset	16	4,268	–	4,268
Inventories	17	–	–	–
Trade and other receivables		7,478	822	8,300
Cash and cash equivalents		609	1,219	1,828
		377,513	**2,620**	**380,133**

(b) Liabilities of disposal group classified as held-for-sale

	Note	**As at 31 December 2018 Upstream Group** US$'000	**As at 31 December 2018 Downstream Group** US$'000	**As at 31 December 2018 Subtotal** US$'000
Trade and other payables		(19,188)	–	(19,188)
Deferred tax liabilities	16	(29,120)	–	(29,120)
Current tax liabilities		–	–	–
		(48,308)	**–**	**(48,308)**

	Note	**As at 31 December 2017 Upstream group** US$'000	**As at 31 December 2017 Downstream group** US$'000	**As at 31 December 2017 Subtotal** US$'000
Trade and other payables		(19,061)	(3,340)	(22,401)
Deferred tax liabilities	16	(28,806)	(145)	(28,951)
Current tax liabilities		(61)	865	804
		(47,928)	**(2,620)**	**(50,548)**

11 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATION
(continued)

(c) Analysis of the results of discontinued operations is as follows:

	Note	**Year ended 31 December 2018 Upstream** US$'000	**Year ended 31 December 2018 Downstream** US$'000	**Year ended 31 December 2018 Subtotal** US$'000
Revenue:	4	25,508	3,108	28,616
Profit/(loss) from operation	4	9,799	(1,178)	8,621
Finance income	4	–	1	1
Finance cost	4	2	4	6
Income tax	4	1,627	(7)	1,620
Gain/(Loss)after tax of discontinued operations attributable to owners of the company	4	11,428	(1,180)	10,248

	Note	**As at 31 December 2017 Upstream group** US$'000	**As at 31 December 2017 Downstream group** US$'000	**As at 31 December 2017 Subtotal** US$'000
Revenue:	4	14,618	11,039	25,657
Profit/(loss) from operation	4	7,577	(18,195)	(10,618)
Finance income	4	1	2	3
Finance cost	4	–	580	580
Income tax	4	2,347	166	2,513
Gain/(Loss)after tax of discontinued operations attributable to owners of the company	4	9,925	(17,447)	(7,522)

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11 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATION (continued)

(d) Cash flow from (used in) discontinued operations:

	Note	Year ended 31 December 2018 Upstream US$'000	Year ended 31 December 2018 Downstream US$'000	Year ended 31 December 2018 Subtotal US$'000
Net cash generated in operating activities		10,426	(160)	10,266
Net cash generated from investing activities		(3,118)	–	(3,118)
Net cash generated from financing activities		–	–	–
Net cash inflow/(outflow)		7,308	(160)	7,148

	As at 31 December 2017 Upstream group US$'000	As at 31 December 2017 Downstream group US$'000	As at 31 December 2017 Subtotal US$'000
Net cash used in operating activities	16,514	(4,783)	11,731
Net cash generated from investing activities	(12,045)	(147)	(12,192)
Net cash generated from financing activities	–	–	–
Net cash inflow/(outflow)	4,469	(4,930)	(461)

11 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATION (continued)

(e) Profit/(loss) on disposal of operations during the year:

On 31 December 2018, the Group sold its 100% interest in Greka Gas Distribution Ltd. Greka Gas Distribution Ltd was classified as held for sale at 31st December 2017. The post-tax gain on disposal of discontinued operations was determined as follows:

	Note	Year ended 31 December 2018 US$'000
Cash consideration received or receivable		**365**
Creditors assumed		**–**
Other Consideration received		**–**
Total Consideration received		**365**
Cash disposed of		**–**
Net cash inflow on disposal of discontinued operation		**–**
Net assets disposed(other than cash):		
Property, plant and equipment		**–**
Intangibles		**(456)**
Trade and other receivables		**(536)**
Other financial assets		**(438)**
Trade and other payables		**3,720**
Other tax assets		**(1,110)**
		1,180
Pre-tax gain on disposal of discontinued operation		**1,545**
Related tax expense		**–**
Gain on disposal of discontinued operation		**1,545**

The downstream business was sold to a related party, Gremex Ltd. (refer to note 26 for further details).

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12 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 2018 US$'000	Year ended 31 December 2017 US$'000
Loss for the year attributable to owners of the Company used in basic and diluted loss per share	**(9,089)**	(24,576)
Loss for the year attributable to owners of the Company used in basic and diluted loss per share – continuing operations	**(20,949)**	(17,054)
Earnings/(Loss) for the year attributable to owners of the Company used in basic and diluted loss per share – discontinued operations	**11,793**	(7,522)

	Year ended 31 December 2018 Number	Year ended 31 December 2017 Number
Weighted average number of Ordinary Shares for basic and diluted earnings per share	**156,072,289**	156,072,289

	Year ended 31 December 2018	Year ended 31 December 2017
Basic and diluted loss per share (US$)	**(0.058)**	(0.158)
Basic and diluted loss per share (US$) – continuing operations	**(0.134)**	(0.109)
Basic and diluted (loss)/earnings per share (US$) – discontinued operations	**0.076**	(0.048)

(Loss)/earnings per share is based on the (loss)/earnings attributable to ordinary equity holders of the Company of divided by the weighted average of ordinary shares in issue during the corresponding period.

No separate calculation of diluted (loss)/earnings per share has been presented as, at the date of this financial information, no options, warrants or other instruments that could have a dilutive effect on the share capital of the Company were outstanding.

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.

13 PROPERTY, PLANT AND EQUIPMENT

	Gas assets USD'000	Building and structures USD'000	Construction in progress USD'000	Motor vehicles USD'000	Fixtures, fitting and equipment USD'000	Total USD'000
Cost						
At 1 January 2017	**285,869**	**1,220**	**1,493**	**3,802**	**4,751**	**297,135**
Additions	–	15	51	43	56	165
Share of CUCBM additions	7,726	–	–	–	–	7,726
Disposal	–	–	–	–	–	–
Change in estimate of CUCBM provision	(145,945)	–	–	–	–	(145,945)
Classified as held for sale (note 11)	(170,045)	(1,295)	(1,636)	(4,024)	(4,412)	(181,412)
Exchange adjustment	22,395	60	92	179	208	22,934
At 31 December 2017	**–**	**–**	**–**	**–**	**603**	**603**
Addition	–	–	–	–	–	–
Exchange adjustment	–	–	–	–	(30)	(30)
Balance as at 31 December 2018	**–**	**–**	**–**	**–**	**573**	**573**
Accumulated depreciation and impairment						
At 1 January 2017	**19,711**	**579**	**–**	**2,128**	**2,074**	**24,552**
Provided this year	7,623	101	–	1,163	282	9,169
Impairment loss (note 11)	–	580	1,636	603	2,536	5,355
Classified as held for sale (note 11)	(28,600)	(1,295)	(1,636)	(4,024)	(4,412)	(39,967)
Exchange adjustment	1,206	35	–	130	90	1,461
Balance as at 31 December 2017	**–**	**–**	**–**	**–**	**570**	**570**
Provided this year	–	–	–	–	10	10
Exchange adjustment	–	–	–	–	(30)	(30)
Balance as at 31 December 2018	**–**	**–**	**–**	**–**	**550**	**550**
Net book value						
At 31 31 December 2018	**–**	**–**	**–**	**–**	**23**	**23**
At 31 December 2017	**–**	**–**	**–**	**–**	**33**	**33**
At 1 January 2017	**266,098**	**641**	**1,493**	**1,674**	**2,677**	**272,583**

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14 GAS EXPLORATION AND APPRAISAL ASSETS

	USD'000
Cost	
At 1 January 2017	**1,034,117**
Additions	13,231
Capitalisation of internal costs	3,461
Share of gas exploration and appraisal assets from CUCBM 2017 (note 25)	13,886
* Reversal of Share of gas exploration and appraisal assets from CUCBM pre 2017 (note 25)	(288,872)
Classified as held for sale (note 11)	(223,713)
Exchange differences	65,790
At 31 December 2017	**617,900**
Additions	1,650
Capitalisation of internal costs	2,446
Exchange differences	(42,884)
At 31 December 2018	**579,112**

* Upon signing of the Supplementary Agreement in September 2017, the Group is of the view that recognising its share of assets and the provision with CUCBM is no longer appropriate. Therefore, full reversal had been made on the date of signing the agreement. Notes 3 and 25 provide further details of the judgement made.

During the year, mining licenses of certain blocks have expired. The Chinese partner represented to the Group that applications to renew the license had already been submitted to the relevant authorities prior to their expiries, and it's awaiting for the issuance of the renewed mining licenses.

In accordance with IFRS 6, the Group considers facts and circumstances in their assessment of whether the Group's exploration and appraisal assets may be impaired. The management is satisfied that no impairment indicators exist at balance sheet date.

15 OTHER INTANGIBLE ASSETS

	Gas station operation licence US$'000
Cost	
At 1 January 2017	**8,287**
At 31 December 2017	8,287
At 31 December 2018	–
Accumulated amortisation and impairment	
At 1 January 2017	**6,077**
Charge for the year	1,066
Impairment	1,144
At 31 December 2017	8,287
At 31 December 2018	–
Net book value	
At 31 December 2018	**–**
At 31 December 2017	**–**

16 DEFERRED TAXATION

(a) Deferred tax assets

	US$'000
At 1 January 2017	**2,079**
Additions (note 10)	2,347
Exchange differences	159
Classified as held for sale (note 11)	(4,268)
At 31 December 2017	**317**
Additions (note 10)	48
Exchange differences	(17)
At 31 December 2018	**348**

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16 DEFERRED TAXATION (continued)

(b) Deferred tax liabilities

	US$'000
At 1 January 2017	**144,831**
Additions	–
Reversal of temporary difference	(177)
Exchange difference	8,434
Classified as held for sale (note 11)	(28,951)
At 31 December 2017	**124,137**
Additions	–
Reversal of temporary difference	–
Exchange difference	(5,496)
At 31 December 2018	**118,641**

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Recognised deferred tax (liabilities) and assets at PRC rate of 25%		
Deferred tax assets and liabilities are attributable to the following:		
Fair value adjustments on exploration and evaluation assets	**(118,641)**	(124,137)
Tax losses – overseas	**348**	317

The deductible temporary differences do not expire under current tax legislation. PRC tax losses expire after five years. Deferred tax assets have not been recognised in respect of the full value of these items because future taxable profits against which the Group companies can utilise the benefits of these tax losses in the near future is not certain. The Group has not offset deferred tax assets and liabilities across different jurisdictions.

17 TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Trade receivables	**–**	–
Prepayments	**–**	72
Other receivables	**3,163**	1,928
Amount due from related parties (note 26)	**7,224**	6,167
	10,387	8,167

The Group's maximum exposure to credit risk is as disclosed in note 29 (d). The fair values of trade receivables and other financial assets approximate their respective carrying amounts at the reporting dates due to their short maturities. No impairment provisions are held against the receivables as credit quality is considered to be high and we consider that these would be immaterial.

18 CASH AND CASH EQUIVALENTS

An analysis of the balances of cash and cash equivalents is as follows:

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Cash and bank balances	**305**	1,347

Significant non-cash transactions are as follows:

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Investing activities		
- Change in estimate relating to CUCBM provision	**–**	(434,817)

	Current loans and borrowing USD'000
At 1 January 2017	136,142
Interest paid	(4,400)
Accrued interest	17,322
At 31 December 2017	149,064
At 1 January 2018	149,064
Interest paid	–
Accrued interest	19,758
At 31 December 2018	168,822

19 TRADE AND OTHER PAYABLES

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Trade payables	**3,542**	3,272
Other payables	**3,731**	3,440
Amounts due to related parties (note 26)	**510**	3,486
	7,783	10,198

Trade and other payables are expected to be settled within one year. Their fair values approximate their respective carrying amounts at the end of each reporting period due to their short maturities. The amounts due to the related parties are unsecured, interest-free and repayable on demand.

20 CONVERTIBLE NOTES

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Brought forward from prior year	**53,132**	47,347
Accrued interest	**5,607**	5,785
Interest paid	**–**	–
	58,739	53,132

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Repayable within 1 year	**58,739**	53,132
Repayable over 1 year	**–**	–
	58,739	53,132

At 31 December 2018, the Company had one (2017: one) convertible note in issue.

Convertible note issued 2014

US$50 million 7% coupon convertible note due 2017

On 2 June 2014, the Company issued a three-year convertible note having a face value of US$50,000,000 with a maturity date of 1 June 2017. The note bears interest at 7% per annum, payable on a semi-annual basis. At the Maturity Date, the total sum of 100% of the outstanding principal amount of the convertible note and the accrued interest shall become payable, unless previously converted or redeemed.

The convertible note can be converted into Ordinary Shares of the Company at the note holder's option at any time prior to the Maturity Date at US$9.34 per share.

Convertible note amendment

US$50 million 10% coupon convertible note due 2020

In December 2016, the Company reached agreement with the note holder to extend the maturity of the US$50 million convertible note entered into in June 2014. Under the agreement, the note remains unsecured, has a revised coupon of 10% and a maturity date extended to 31 December 2020. The Company issued an option for the note holder to require (one-time) put option on the original maturity date, the option being exercisable at the discretion of the note holder by 28 April 2017. The conversion price of the note was amended to US$2.83 per share representing a 25% premium over the 13 December 2016 closing price.

During 2017, the company reached agreement with the note holder to extend the period during which the put option is exercisable to 20 November 2018. On 14 November 2018, the company reached another agreement with the note holder to extend the period during which the put option is exercisable to 20 November 2019.

At final maturity of the note, the note holder has the right to require the Company to purchase all of its share holdings up to a maximum limit of 10,775,578 shares or 6.69% of the entire issued share capital of the Company at a price based on the 90 day VWAP calculated as of 31 December 2020 and to be settled prior to 30 April 2021. See the share buyback option liability below.

20 CONVERTIBLE NOTES (continued)

Accounting for convertible notes

On initial recognition, the fair value of the liability component of the convertible loan note was determined using the prevailing market interest rate of similar debts without conversion option and early redemption options. For the note issued during 2014, the rate considered to be comparable was 10%. The loan note is subsequently carried at amortised cost.

The equity element arising from the conversion option of their convertible notes, being the residual value at initial recognition, is presented in the equity heading "convertible note equity reserve", as disclosed in note 23 to the financial statements.

On the amendment of the convertible note, the original financial liability was extinguished and the convertible reserve was transferred to retained earnings through reserves. The fair value of the liability component of the amended convertible loan determined using the prevailing market interest rate of similar debts without conversion option and early redemption options. the rate considered to be comparable was 12%. The loan note is subsequently carried at amortised cost.

The equity element arising from the conversion option of the convertible notes, being the residual value at initial recognition, is presented in the equity heading "convertible note equity reserve", as disclosed in note 23 to the financial statements.

The terms of the convertible note include a clause whereby if another loan held by the Company becomes in default then the convertible note would also be in default. At the balance sheet date, no other loans were in default.

Share buyback option liability

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Balance brought forward from prior year	**3,469**	7,924
Issue of share buyback option	**–**	–
Revaluation of share buyback option	**(1,189)**	(4,455)
	2,280	3,469

21 BONDS AND DERIVATIVE FINANCIAL INSTRUMENT

On 8 December 2014, G3 Exploration issued a public corporate bond (the "Bond") in the amount of US$88,000,000. The bond was issued at a discount of 2.5% and is senior secured three-year paper due on 20 November 2017. The Bond carries a 10% coupon payable semi-annually and also carries a redemption premium of 2% at maturity. In the event that any amount due under this Bond Agreement or any Finance Document is not made on the relevant due date, the unpaid amount shall bear a further penalty interest from the due date at an interest rate equivalent 5% per annum. The Bond is secured by a pledge over the shares of Greka Gas China, a wholly-owned subsidiary of G3 Exploration. The bond was initially recorded at fair value and is subsequently carried at amortised cost. Issue fees of US$1,893,000 were offset against the principal amount of the bond and will be amortised as part of the effective interest rate charge to the maturity date. The redemption premium is amortised as part of the effective interest rate charge to the maturity date. The following table summarises the movements in the bond:

21 BONDS AND DERIVATIVE FINANCIAL INSTRUMENT (continued)

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Brought forward from prior year	**95,932**	88,795
Accrued interest	**14,151**	11,537
Repayments of interest	**–**	(4,400)
	110,083	95,932

The bond was disclosed as a current liability at the year end of 2017 and 2018 as it was due on November 2017 and was therefore overdue.

22 SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares	US$	**Number** of shares	US$
At 31 December 2017 and 31 December 2018, Ordinary Shares of US$0.0001 each	500,000,000	50,000	156,072,289	15,607

23 RESERVES

Nature and purposes of reserves

(i) Share premium

The amount relates to subscription for or issue of shares in excess of nominal value. The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) Share redemption reserve

The amount represents the initial value of the liability in respect of the option the company has granted to buy back shares.

(iii) Convertible note equity reserve

The amount represents the value of the unexercised equity component of the convertible note issued by the Company recognised in accordance with the accounting policy adopted in note 2 to the financial statements.

(iv) Share-based payment reserve

The amount relates to the fair value of the share options that have been expensed through the income statement less amounts, if any, that have been transferred to the retained earnings/deficit upon exercise.

(v) Foreign exchange reserve

The amount represents gains/losses arising from the translation of the financial statements of foreign operation the functional currency of which is different from the presentation currency of the Group. The reserve is dealt with in accordance with the accounting policy set out in note 2 to these financial statements.

(vi) Retained deficit

The amount represents cumulative net gains and losses recognised in consolidated profit or loss less any amounts reflected directly in other reserves.

23 RESERVES (continued)

Distributable reserves

According to the Companies Law of the Cayman Islands and the Company's Articles, payment of dividends or distribution from the share premium account is permitted.

24 SUBSIDIARIES

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

Name	Place of incorporation	Principal activities	**As at 31 December 2018 Percentage of ownership interest held**		As at 31 December 2017 Percentage of ownership interest held	
			Directly	**Indirectly**	Directly	Indirectly
Greka Gas China Limited	Cayman Islands	Investment holding	**100%**	**–**	100%	–
Greka Energy (International).B.V.	Amsterdam, Netherlands	Exploration, development and production of coal bed methane	**–**	**100%**	–	100%
GDGF Ltd	British Virgin Islands	Investment holding	**–**	**100%**	–	–
Greka GSN Ltd	British Virgin Islands	Exploration, development and production of coal bed methane	**–**	**100%**	–	100%
Greka Integrated Products Ltd	British Virgin Islands	Investment holding	**–**	**100%**	–	100%
Greka GFC Ltd	British Virgin Islands	Exploration, development and production of coal bed methane	**–**	**100%**	–	100%
Greka GQY Ltd	British Virgin Islands	Exploration, development and production of coal bed methane	**–**	**100%**	–	100%
Greka Exploration and Production Ltd	Cayman Islands	Investment holding	**–**	**100%**	–	100%
Greka GPX Ltd	British Virgin Islands	Exploration, development and production of coal bed methane	**–**	**100%**	–	100%
Greka Guizhou E&P Ltd	British Virgin Islands	Exploration, development and production of coal bed methane	**–**	**100%**	–	100%

Note:

(1) The following subsidiaries' shares have been pledged to the bondholder in 2017 and 2018 (note 21): a Cayman Islands law governed first ranking equitable share mortgage over shares in Greka Gas China Ltd.

25 JOINT ARRANGEMENTS

The Group currently operates under six (2017: 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.

25 JOINT ARRANGEMENTS (continued)

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	G3E share	CUCBM share	
Shizhuang South	60%	40%	G3E 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. 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.

In prior year a provision for a potential liability to CUCBM was recognised on the basis of there being a dispute over the historic wells drilled by CUCBM. The provision represented the best estimate of the Group's obligation to settle its share of the costs of the disputed wells.

Upon finalisation of the Supplemental Agreements in 2017, the original dispute that arose is now settled, and the outcome is that CUCBM will recover its historic costs through potential future production. As described in the accounting policies, the Group's oil and gas assets are accounted for as joint operations and the Group therefore accounts for its share of income and expenditure. As such, it is no longer appropriate for the Group to recognise CUCBM's historic costs. As the disputed wells are no longer subject to a settlement obligation, it is deemed appropriate to reduce the provision to $nil. The original recognition of the provision had no impact on the income statement and therefore the reversal of the provision also has no impact on the income statement, and is recognised as a reduction to the Group's exploration assets. The change in provision represents a change in accounting estimate as a result of the Supplemental Agreements executed in 2017.

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25 JOINT ARRANGEMENTS (continued)

PSCs held with CUCBM (CNOOC) (continued)

Framework Agreement with CUCBM (continued)

The following table summarises the CUCBM provision which also represents the Group's cumulative share of capital expenditure:

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Opening balance	–	401,702
Additions in the year	–	21,612
Reclassified to payable	–	(13,000)*
FX loss/(gains)	–	24,503
Change in estimate of CUCBM provision	–	(434,817)
Closing provision for amounts due to CUCBM	–	–

* $13 million has been reclassified to payables due to management's intention to exercise the option to obtain a higher share rate.

Shizhuang South PSC

During the year, CUCBM has invested an additional $17 million in the block.

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 terms are confirmed by the parties in the supplementary agreements signed in September 2017. 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.

Fengcheng PSC

According to the Supplementary Agreement signed between the Group and CNOOC-CUCBM in September 2017, the Group had to undertake $8.9 million of capital expenditure by certain dates specified in the Supplementary Agreement.

Panxie PSC

According to the Supplementary Agreement signed between the Group and CNOOC-CUCBM in September 2017, the Group had to undertake $4.2 million of capital expenditure by certain dates specified in the Supplementary Agreement.

25 JOINT ARRANGEMENTS (continued)

Qinyuan PSC

According to the Supplementary Agreement signed between the Group and CNOOC-CUCBM in September 2017, the Group had to undertake $11.7 million of capital expenditure by certain dates specified in the Supplementary Agreement.

In accordance with the terms of the Supplementary Agreements, if the Group does not complete the capital expenditure before the due dates then the Group may be required to do the following:

– Make certain payment to CNOOC-CUCBM for any unfulfilled balance of the capital expenditure and

– relinquish a proportion of the relevant Block to CNOOC-CUCBM.

The Group awaits CNOOC-CUCBM to conclude the assignments pursuant to the internal restructuring of the exploration Blocks into separate wholly owned entities. The planned exploration expenditures under the Fengcheng PSC, Panxie PSC, and Qinyuan PSC supplementary agreements with CNOOC-CUCBM have not been completed. Following the completion of such assignments, the separate entities of each PSC plan to commence and complete the planned exploration program and related capital expenditures.

Management is confident that CNOOC-CUCBM will conclude the assignments and extend the due dates to enable the Group to complete the capital expenditures. Therefore, Management expects that none of the Group's exploration Blocks will be relinquished and no material cash will be payable by the Group.

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

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.

On 7th of September 2018, NDRC has approved the ODP, consistent with its policy to accelerate CBM development in China, boost green energy supply, and improve coal mine safety production and to reduce CO2 emissions. This final NDRC approval facilitates the permits for the Company and its partner to further develop the acreage.

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25 JOINT ARRANGEMENTS (continued)

PSCs held with PetroChina (CNPC) (continued)

Chengzhuang block ("GCZ") (continued)

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.

	2018 US$'000	2017 US$'000
Capital expenditure	**–**	–
Revenue	**10,566**	10,692
Total operational costs and expenses	**(4,958)**	(6,776)
Net Profit	**5,608**	3,916
Amount due from/(to) PetroChina		
Balance as at 1 January 2018	**3,935**	1,487
Capital expenditure for GCZ block	**–**	–
Share of profit for GCZ block	**7,341**	3,917
Cash received	**(7,126)**	(1,469)
Balance as at 31 December 2018	**4,150**	3,935

The balance due from PetroChina is included within trade and other receivables under the assets held for sale (note 11), 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$1,000,000 (2017:US$1,000,000). At 31 December 2018 the cumulative investment made by the Group in GGZ was US$34,339,000 (2017: US$35,960,000). The decrease in the investment made was mainly due to currency devaluation during 2018

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

26 RELATED PARTY TRANSACTIONS

Amounts due from/(to) related parties and corresponding transactions
The related parties of the Group include:

- Companies that are subsidiaries of Greka Drilling Limited, Greka Engineering and Technology Limited, and Gremex Limited. These companies are under common management and control of Mr. Randeep S. Grewal.

As at 31 December 2018, the Group had the following balances due to/from its related parties under common control:

- Net prepayment to the Greka Drilling Limited group of US$6,860,000 (2017: US$6,167,000).
- Net payable to the Greka Engineering and Technology group of US$510,000 (2017: US$3,486,000).
- Net receivable from Gremex Ltd of $364,000 (2017: $nil).

26 RELATED PARTY TRANSACTIONS (continued)

During the year, the Group has incurred drilling and related services costs of US$1,127,000 (2017: US$6,890,000) on services provided by wholly-owned subsidiaries of Greka Drilling Limited. The Group has also incurred infrastructure services costs of US$6,738,000 (2017: US$6,250,600) from wholly-owned subsidiaries of Greka Engineering and Technology Limited. During the year, the Group has sold gas of US$12,666,059 (2017: US$1,453,746) to a wholly-owned subsidiary of Greka Engineering and Technology Limited for Pipeline Gas.

The Group has entered a master service contract with Greka Drilling Ltd, a company under common management and control, regarding the provision of drilling services to the Group. There is no minimum expenditure committed in the contract within the next 12 months.

During the year, the Group has entered into a sales and purchase agreement with Gremex Limited to dispose all of its shares in its downstream business, which has been held to sale since 2017.

Subsidiary companies

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are described above.

Key management personnel

Key management personnel of the Group are the Directors. Directors' remuneration is disclosed in note 9 to the financial statements. There is an amount owing to Director Mr. Randeep S. Grewal under other payables of US$1 million (2017: US$1 million).

Ultimate controlling party

The ultimate controlling party is Mr. Randeep S. Grewal.

27 OPERATING LEASE COMMITMENTS

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

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
No later than 1 year	**324**	1,944
Later than 1 year and no later than 5 years	**262**	1,071
	586	3,015

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28 CAPITAL COMMITMENTS

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Capital expenditure contracted but not provided for in respect of		
- additions to exploration costs and appraisal assets	**18,747**	7,011
- acquisition of property, plant and equipment	**25,626**	–
	44,373	7,011

The Group is required to undertake certain capital expenditures upon signing supplementary agreements with CUCBM on certain blocks, details of which are disclosed in note 25.

29 FINANCIAL INSTRUMENTS

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Financial Assets		
Financial assets at amortised cost		
Trade and other receivables	**10,387**	8,167
Restricted Cash	**1,000**	1,000
Cash and cash equivalents	**305**	1,347
Total financial assets	**11,692**	10,514
Financial Liabilities		
At amortised cost:		
Trade and other payables	**7,783**	10,198
Convertible notes	**58,739**	53,132
Bonds	**110,083**	95,932
Share buyback option liability	**2,280**	3,469
Total financial liabilities	**178,885**	162,731

The carrying value of the financial assets and liabilities is approximately equal to their fair value at 31 December 2018 and 2017.

29 FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's bond and convertible loan note bear fixed interest. The Group has not entered into any cash flow interest rate hedging contracts or any other derivative financial instruments for hedging purposes. However, the management closely monitors its exposure to future cash flow as a result of changes in market interest rates, and will consider hedging such changes should the need arise.

The interest rate profile of the Group's financial assets at each year end was as follows:

		Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Cash and cash equivalents			
USD	Non-interest bearing	**133**	2
USD	Floating rate	**148**	1,056
GBP	Non-interest bearing	**7**	1
GBP	Floating rate	**3**	3
CAD	Floating rate	**–**	1
RMB	Non-interest bearing	**–**	135
RMB	Floating rate	**186**	1,731
HKD	Non-interest bearing	**13**	245
HKD	Floating rate	**1**	1
Other financial assets			
USD	Non-interest bearing	**404**	2,396
RMB	Non-interest bearing	**10,133**	14,579
HKD	Non-interest bearing	**654**	489
GBP	Non-interest bearing	**10**	–
		11,692	20,639

The weighted average interest rate earned during the year was 0.10% (2017: 0.20%) on floating rate US dollar cash balances, 0.03% (2017: 0.05%) on floating rate GBP balances and 0.43% (2017: 0.52%) on floating rate RMB balances. At the year end, the Group had cash on short-term deposit for periods of between over-night and one week.

29 FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

The interest rate profile of the Group's financial liabilities at each year end was as follows:

		Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Loans and borrowings, convertible notes and bonds financial liability			
USD	Fixed rate	**168,822**	149,064
Other financial liabilities			
USD	Non-interest bearing	**1,063**	5,085
RMB	Non-interest bearing	**7,960**	30,776
GBP	Non-interest bearing	**974**	49
HKD	Non-interest bearing	**23**	154
EUR	Non-interest bearing	**2**	–
NOK	Non-interest bearing	**40**	–
		10,063	36,064

The interest rates payable during the year was 10% (2017: 10%) on US dollars convertible notes and 10% (2017: 10%) on US dollars bonds. If all interest rates had been 50 basis points higher/lower, with all other variables held constant, post-tax profit would have been US$Nil (2017: US$Nil) higher/lower and there will be no impact on other components of equity.

Foreign currency risk

While the Group continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risks. The main currency exposure risk to the Group has been in relation to the trade payable and other payables denominated in RMB. The Directors consider the foreign currency exposure to be limited. Receivables are generated in RMB, operational cash balances are held in RMB, revenues and future revenues from certain subsidiary operations will be generated in RMB.

As at 31 December 2018	In NOK US$'000	In CAD US$'000	In USD US$'000	In RMB US$'000	In GBP US$'000	In HKD US$'000	Total in USD US$'000
Financial Assets							
Trade and other receivables	–	–	3,527	6,860	–	–	10,387
Restricted cash	–	–	1,000	–	–	–	1,000
Cash and cash equivalents	–	–	261	17	–	27	305
	–	–	4,788	6,877		27	11,692
Financial Liabilities							
Trade and other payables	49	–	1,538	510	5,686	–	7,783
Convertible notes and bonds	–	–	168,822	–	–	–	168,822
Derivative financial liabilities	–	–	2,280	–	–	–	2,280
	49	–	172,640	510	5,686	–	178,885

29 FINANCIAL INSTRUMENTS (continued)

Foreign currency risk (continued)

As at 31 December 2017	In NOK US$'000	In CAD US$'000	In USD US$'000	In RMB US$'000	In GBP US$'000	In HKD US$'000	Total in USD US$'000
Financial Assets							
Trade and other receivables	–	–	1,396	6,281	–	489	8,167
Restricted cash	–	–	1,000	–	–	–	1,000
Cash and cash equivalents	–	–	1,059	39	4	246	1,347
	–	–	3,455	6,320	4	735	10,514
Financial Liabilities							
Trade and other payables	49	–	1,616	8,373	–	154	10,192
Convertible notes and bonds	–	–	149,064	–	–	–	149,064
Derivative financial liabilities	–	–	3,469	–	–	–	3,469
	49	–	154,149	8,373	–	154	162,725

The above RMB cash, trade and other receivables, trade and other payables and other financial liabilities balances are denominated in a currency other than US dollars. A 4% increase or decrease in the US dollar/RMB exchange rate would result in reported profits for the year ended 31 December 2018 being US$327,000 (2017: US$537,000) higher or lower respectively.

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. Further disclosures on liquidity risk and going concern are included in note 2.

All surplus cash is held centrally to maximise the returns on deposits through economies of scale while required cash will be remitted to the PRC based on monthly cash-call basis.

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

	Six months or less US$'000	Six months to one year US$'000	within one to five years US$'000	Over five years US$'000	Undiscounted payments US$'000 (note i)	Adjustments US$'000 (note ii)	Carrying balance US$'000 (note iii)
At 31 December 2018							
Trade and other payables	**7,783**	**–**	**–**	**–**	**7,783**	**–**	**7,783**
Convertible notes and bonds	**–**	**188,580**	**–**	**–**	**188,580**	**(19,758)**	**168,822**
Share buyback option liability	**–**	**–**	**2,732**	**–**	**2,732**	**(452)**	**2,280**
	7,783	**188,580**	**2,732**	**–**	**199,095**	**(20,210)**	**178,885**
At 31 December 2017							
Trade and other payables	10,198	–	–	–	10,198	–	10,198
Convertible notes and bonds	6,900	156,844	–	–	164,744	(14,680)	150,064
Share buyback option liability	–	–	4,440	–	4,440	(971)	3,469
	17,098	156,844	4,440	–	179,382	(15,651)	163,731

29 FINANCIAL INSTRUMENTS (continued)

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) In the year ended 31 December 2016 and 2015, the adjustment to the convertible notes and bonds represents the impact of the unamortised transaction costs and future interest.

(iii) Carrying balance represents the balance per consolidated statement of financial position at the end of each reporting period.

Credit risk

The Group's maximum exposure to credit risk by class of individual financial instrument is shown below:

	31 December 2018		31 December 2017	
	Carrying value US$'000	**Maximum exposure US$'000**	Carrying value US$'000	Maximum exposure US$'000
Current assets				
Trade and other receivables	**10,387**	**10,387**	8,167	8,167
Restricted cash	**1,000**	**1,000**	1,000	1,000
Cash and cash equivalents	**305**	**305**	1,347	1,347
	11,692	**11,692**	10,514	10,514

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. As at 31 December 2018, the Group holds approximately 30% (2017: 19%) of its cash in US dollars and 5% (2017: 6%) in British Pound with Baa2 (2017: Baa2) or higher (Moody's) rated institutions. The Group continues to monitor its treasury management to ensure an appropriate balance of the safety of funds and maximisation of yield.

None of trade and other receivables, including the amount due from related parties, had been impaired. Trade and other receivables are predominantly non-interest bearing. 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 customers with no default history. The Group has current receivables of due from a related party of US$6,394,000 (2017: US$6,166,000), the recovery of which is dependent on the future profits of the related party. The Group expects to fully recover its receivable based on the profit forecasts of the related party.

Capital risk management

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 equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain the capital structure, the Group considers the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generated from operations and may adjust the amount of dividends paid or payable to equity holders, raise funding through capital market, adjust the amount of other borrowings as necessary. No changes were made to the objectives or policies during the year/period.

29 FINANCIAL INSTRUMENTS (continued)

Capital risk management (continued)

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as net debts divided by equity attributable to the Company's equity holders. Net debt includes current and non-current liabilities less cash and cash equivalents, as shown in the consolidated statements of financial position. Equity includes equity attributable to equity holders of the Company. Debt-to-equity ratios at 31 December 2018 and 2017 are as follows:

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
Current liabilities	**176,605**	159,262
Non-current liabilities	**120,921**	127,606
Cash and cash equivalents	**(305)**	(1,347)
Net debt	**297,221**	285,521
Equity	**634,847**	671,780
Debt-to-equity ratio	**0.47**	0.43

Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2018 and 2017.

The carrying values of cash and bank balances, trade and other receivables, and trade and other payables approximate their respective fair values because of their short maturities. The carrying amounts of other liabilities approximate their fair value as the effect of discounting is immaterial. The carrying amounts of loan and borrowings and convertible notes approximate their fair values because the effective interest rates of the debts are approximate to the prevailing market interest rates at the reporting dates for similar borrowings available to the Group.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

30 PROVISIONS

	Year ended 31 December 2018 US$'000	Year ended 31 December 2017 US$'000
CUCBM provision	**–**	–

In the prior year a provision for a potential liability to CUCBM was recognised on the basis of there being a dispute over the historic wells drilled by CUCBM. The provision represented the best estimate of the Group's obligation to settle its share of the costs of the disputed wells.

Upon finalisation of the Supplemental Agreements in 2017, the original dispute that arose is now settled, and the outcome is that CUCBM will recover its historic costs through potential future production. As described in the accounting policies, the Group's oil and gas assets are accounted for as joint operations and the Group therefore accounts for its share of income and expenditure. As such, it is no longer appropriate for the Group to recognise CUCBM's historic costs. As the disputed wells are no longer subject to a settlement obligation, it is deemed appropriate to reduce the provision to $nil. The original recognition of the provision had no impact on the income statement and therefore the reversal of the provision also has no impact on the income statement, and is recognised as a reduction to the Group's exploration assets. The change in provision represents a change in accounting estimate as a result of the Supplemental Agreements executed in 2017

31 SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Company has declared a dividend in-specie for its discontinued upstream operation, Green Dragon Gas (GDG). G3E shareholders on the register as of the effective date 29 March 2019 will receive a direct interest in GDG, the Company's 100% owned subsidiary which holds its producing assets. The Dividend in Specie will represent 100% of the commercial producing assets and G3 Exploration will retain all its exploration and development assets of the continuing upstream blocks. All G3E shareholders on the effective date shall receive a GDG share deposited into their crest account holding the G3E shares. Such GDG dividend shall be deposited on or before 28 June 2019. The dividend on deposit day could be either in the form of cash or shares in GDG, depending on whether any of the producing assets have been monetized by that date.

Except as disclosed in the above, there is no other subsequent event after the balance sheet date which requires disclosure in the financial statements.

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Non-Executive Director

Wayne Roberts
Non-Executive Director

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EXPLORATION

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