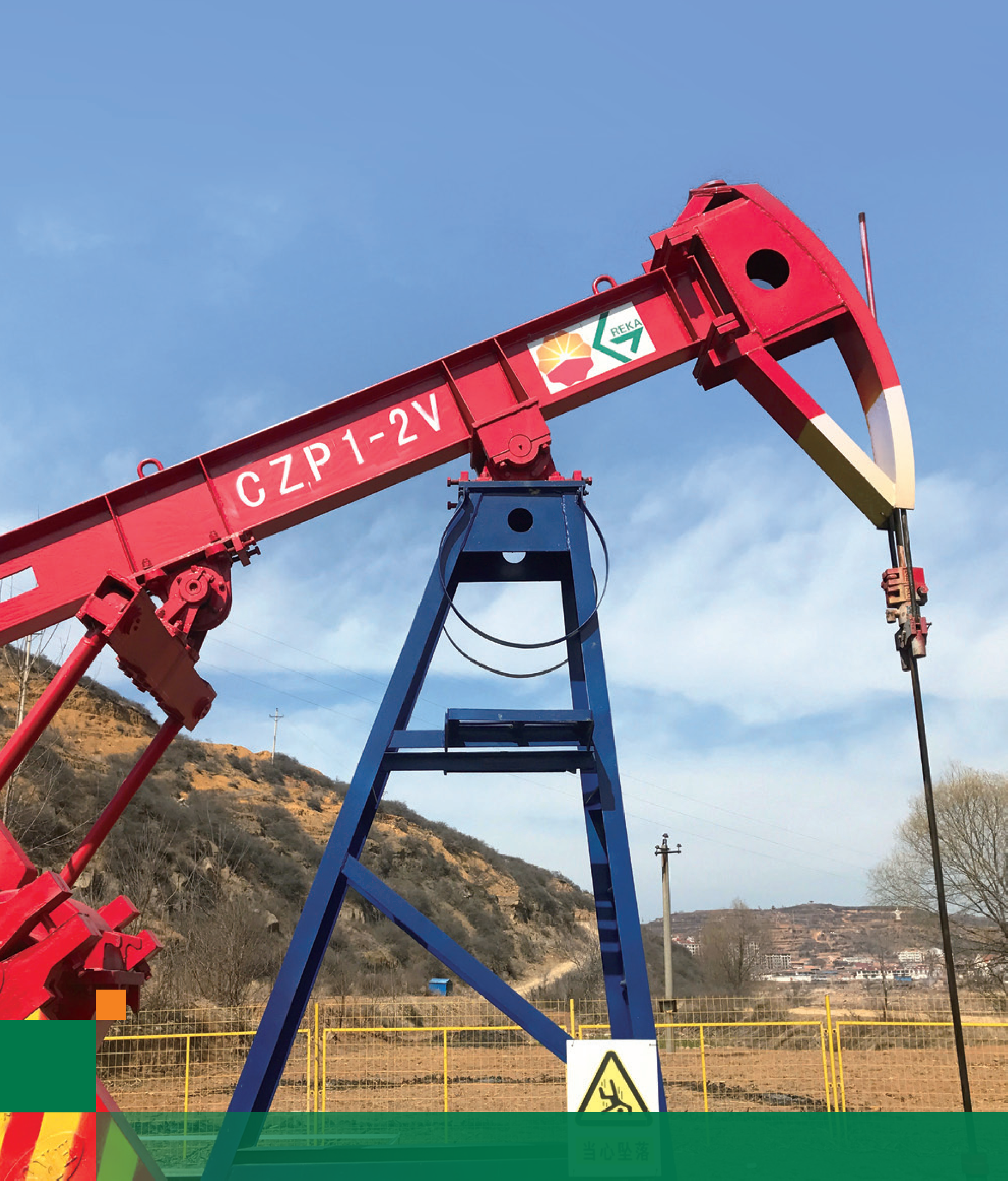
G3 EXPLORATION

ANNUAL REPORT 2017



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

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STRATEGIC REPORT

: HIGHLIGHTS

2017 HIGHLIGHTS

Eight year long matters favourably concluded, stagnation over

- Concluded Supplementary Agreements with China National Offshore Oil Corporation and China United Coalbed Methane Corporation (CNOOC and CUCBM) on six gas blocks.
- Shareholders approved Dividend in Specie Producing assets to focus on Exploration.
- China National Petroleum Corporation (CNPC) approved Overall Development Plan on GCZ producing Block.
- Completed twelve well exploration drilling program in Guizhou Block.
- Bond Trustee has extended maturity date.

2018 OUTLOOK

Recapitalize balance sheet. Increase Production cash flow. Drive development Program

G3 Exploration

- Repay two bond creditors from debt and equity issuance in Green Dragon Gas.
- Conclude evolution to exploration and development business.
- Finalise Dividend in Specie for producing assets.
- First gas in Guizhou Block.
- Expand into additional geography.

Green Dragon Gas

- Infrastructure focus to monetize invested capital.
- Work along with Chinese partner CNOOC on GSS block for the connection of existing 1,139 drilled wells to the sales infrastructure.
- Increase gas sales volumes on GSS block from GDG existing producing wells through better compression management infrastructure.
- Launch GSS LiFaBriC drilling programme to further increase sales volumes.
- Commence GCZ ODP to drill 147 wells through yearend 2019.

2017 RESULTS

Financial: Continued stable EBITDA generation

- Revenue of US$25.7m including revenue from discontinued operations classified as assets held for sale (2016: US$29.1m), decreased mainly due to GCZ PNG sales decreased of approximately 10%, downstream sales decreased of 16%, and GSS PNG sales decreased of 8%,due to decrease in production and sales volume.
- The upstream producing business generated EBITDA of US$15.2 million (2016: US$19.9 million) at a constant margin.
- Cash generated from group total operating activities during the year of US$17.5 million (2016: US$8.5m).
- Net loss for the year of US$24.6m (2016: US$12.1m), 53% attributable to the discontinued downstream business which is fully impaired (US$13.1m) and classified as held for sale, 12% due to increase in depreciation and 13% for the reduction in revenue.
- Subsidiary Green Dragon Gas (GDG), inclusive of all revenue generating assets held for sale resulting from the planned dividend in specie spin-off.

Operational: Progress across production blocks, increase in 2018 gas price

- GCZ equity sales, operated by CNPC was 1.37 Bcf in 2017 compared to 1.53 Bcf in 2016, a 10% decline curve in the field where no new wells were drilled in the year.
- Concluded Supplementary Agreements with CNOOC on GSS, GFC, GQY, GSN and GPX blocks.
- Progressed towards obtaining ODP approval in the year. The Group has received the Overall Development Plan Project Codes (ODP Project Code) from the NDRC on the Shizhuang South Zaoyuan portion (GSS block) and Chengzhuang block (GCZ Block).
- Carried out advanced exploration work in Guizhou (GGZ Block) by successfully drilling and completing twelve CBM production wells.

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 Years Plan.
- Green energy revolution spreading across China. In late 2017 during winter season, nearly half of the urban heating supply systems were forced to switch from coal to natural gas.
- 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, with exploration by CUCBM commencing 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 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, with Group as well as 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

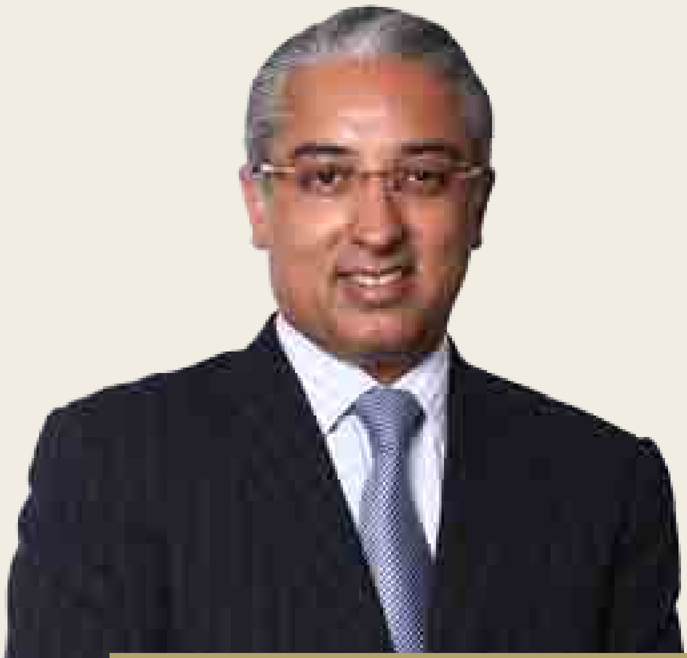
The block consists of 1,541km^2 of contracted area, intersecting several active coal mining operations 74km from Nanchang, in Jiangxi Province. The Fengcheng Block has responded extremely positively to horizontal drilling and further development is expected using LiFaBriC technology.

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 rewarding conclusions. These favorable conclusions allow the Company to move forward after being forced into stagnation for almost eight years.

Over the course of eight years, we have maintained our operations while focused on concluding material supplementary agreements with our partner CNOOC/CUCBM. While foundational agreements were executed after five years of negotiations in June 2014, the related financial audits of the deployed capital for cost recovery was concluded within the agreements executed in September this year. These Supplementary Agreements concluded the challenges which the Company has endured since 2010 and confirmed all our rights, title and interest across our PSC Area.

We are indeed pleased with the conclusion embedded in the Supplementary agreement. Since the signing of the agreements, the parties are working closely together into rapidly advancing the producing wells and focused on monetizing the gas sales within the GSS commercial producing block.

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. The concluded supplementary agreements also favourably concluded a collaborative execution plan on each one of these blocks. Our exploration team has been re-structured to efficiently progress each of these assets onto development.

Our producing GCZ block with CNPC continued its commercial gas sales while the collaborative Joint Operating Team concluded its Overall Development Plan. The plan approved by CNPC in October, commits the drilling of 147 wells by yearend 2019 and investing a collective $54 million. The expected gas production following this ODP execution forecasts production in GCZ to be 6 BCFPY which will counter the current decline curve as no wells have been drilled on the block since 2010.

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. Favorably GGZ was boosted with a successful twelve well drilling program at the end of the year. This gas block is a focused and prioritized asset which is expected to have Chinese reserves certified in 2018, following the NSAI reserve certification this year. Furthermore, we expect to commence test gas sales this year so as to progress the asset into development.

We are very appreciative of the constructive non-binding agreements reached with our Bond holders who acknowledged the company's accomplishments with our Chinese partners. The Bond holders are very cooperative

in working to extending the debt maturities which should allow the company to launch a re-capitalization plan which would fundamentally include payment to the debt holders in full and facilitate continued growth capex. We are currently focused on such refinancing.

In accordance with the Shareholders decision in December, the producing assets within our subsidiary Green Dragon Gas will be distributed through a Dividend in Specie. G3E will retain a minimum of 25% of GDG post distribution enabling continuous dividend participation. Our execution plan is to raise a minimum of $175m, in a combination of debt and equity issuance over GDG so as to facilitate the Dividend in Specie. We expect to conclude such in the second half of 2018.

After a successful IPO, G3 Exploration expects to be debt free with six exploration blocks and an exciting future. It has a well-established track record and demonstrated perseverance in going the distance to monetize shareholder value through some basic principles:

- Focus on core intellectual aptitude in developing Coal Bed Methane
- 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-one 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 employee’s relentless hard work and the Board for guiding the company through its evolution into an exciting CBM exploration and development focused business.

Randeep S. Grewal
Chairman

STRATEGIC REPORT

: REVIEW OF OPERATIONS

LUE FROM OUR ASSET BASE

The upstream operational focus for 2017 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

In 2017, the Group continued its exploration programme focused on the GGZ licence areas. This programme saw significant drilling progress on the GGZ Block as it moves toward submission of the Chinese Reserves Report (CRR). In addition, 2017 was marked by the initial bookings of both 2P and 3P reserves volumes on the GGZ Block. The migration of resources to reserves reflects the development work undertaken during the year where nine wells are now on production with six of those wells having reached commercial production levels. Guizhou is an important asset to the Group and an exciting prospect as it located in a market that is characterised by higher end user gas prices. Guizhou Province is located in Southern China and currently sources the majority of its gas needs by pipeline from other provinces. As such, prices in Guizhou attract a transportation premium to encourage the delivery of gas to the province. It is expected that gas sourced and produced directly in Guizhou will also benefit from this premium as the premium is a factor in determining city-gate end user pricing.

A significant exploration milestone was reached on GSS where the Group booked 1P and 2P reserve volumes in respect of the deeper and technically challenging Coal Seam 15. This seam is present in all of the Group's Shanxi Province Licence areas. Our success on Coal Seam 15 in GSS was matched by that of our partner in the GCZ licence area, where CNPC successfully completed an initial well in the seam recording commercial volumes of gas production. These successes raise the tangible prospect of future gas production from multiple seams in both GSS and GCZ.

The decrease on reserve reports is due to the changes in unit cost and unit price, as well as a change in estimate from Netherland, Sewell & Associate Inc (NSAI), our external gas valuation experts.

ASSETS HELD FOR SALE

GREEN DRAGON GAS – Producing Assets (GSS & GCZ)

Financial

- Balance sheet movement to Dividend in Specie of $329.6 million.
- Revenue of $27.1m with EBITDA of $15.2m (56%) are contributed by upstream producing blocks.

DIVIDEND IN SPECIE

Shizhuang South (GSS)

G3E: 60% (op)
CNOOC: 40%
388 km²

NPV (US$ million)	2017
1P	368.6
2P	1,384.7
3P	4,935.3

Location: Shanxi Province

Our primary focus in our operated GSS area in 2017 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 2017, the number of producing LiFaBriC wells is 57 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 105 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 46 compressors have been installed resulting in an improvement in the sales to production ratio at year-end compared to year-end 2017. The compression project will continue into 2018.

In 2017, 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.

STRATEGIC REPORT

: REVIEW OF OPERATIONS

UPSTREAM

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 2018. Approval of ODP is expected to widen available debt funding opportunities.

Chengzhuang (GCZ)

G3E: 47%
CNPC: 53% (op)
67 km^2

NPV (US$ million)	**2017**
1P	**71.9**
2P	**154.5**
3P	**287.8**

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.

In April 2017, the GCZ Block Overall Development Plan was approved by the Consultation Center of China National Petroleum Corporation of CNPC and the Joint Management Committee for submission for further approval to National Development and Reform Committee of the State Council.

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. 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 will be stimulated and brought online in H2 2018, commencing initial test gas sales from the GGZ Block.

On the three additional blocks – GFC, GPX and GQY, geological dynamic models were updated, well deployment and geological field surveys were carried out, land leases were acquired with civil work now ongoing to kick-off the 2018 work plan for each block in H2 2018.

Shizhuang North (GSN)

GDG: 50%
CNOOC: 50% (op)
375 km²

NPV (US$ million)	2017
1P	**24.6**
2P	**88.8**
3P	**2,929.2**

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 which 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%
870 km²

NPV (US$ million)	2017
1P	**9.1**
2P	**427.3**
3P	**1,464.2**

Location: Guizhou Province

The GGZ Block was a major area of exploration focus in 2017, with well performance testing continued through 2016 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 2016 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 2017. Submission of the CRR is an important exploration milestone and a precursor to the ODP in 2018.

During the year, 12 CBM production wells were successfully drilled in three major coal seams; 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 2018.

Unrisked prospective resources, best estimate

NPV (US$ million)	2017
GQY A GQY B	**1,591.7**
GFC	**2,513.2**
GPX	**201.0**
GGZ	**5,211.4**

STRATEGIC REPORT

: REVIEW OF OPERATIONS

RESERVES MIGRATION

The Group updated its estimates of gas reserves and resources at 31 December 2017 for each of the eight blocks that it is participant to. The estimates of reserves and resources have been provided by Netherland and Sewell and Associates Inc., an independent reservoir engineering firm. 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. The report includes all 1,800 wells operated by G3E, CNOOC, CNPC and PetroChina across all blocks in which the Group has an equity interest.

Highlights from the reserves report include:

- Net 1P reserves decrease of 48% to 96 bcf (2016 184cf)
- Net 2P reserves decrease of 33% to 377 bcf (2016 559cf)
- Net 3P reserves decrease of 14% to 2,044 bcf (2016 2,386 bcf)

The results of the reserve report represent significant decrease in 1P and 2P reserve volumes; it is due to the changes in unit cost and unit price, and changes in estimate from NSAI.

This report includes the initial booking of reserves volumes on the GGZ Block.

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 reviewed by Hassan Sindhu, the Company's petroleum engineer who holds a Bachelor of Science degree from the China University of Petroleum.

Main NSAI assumptions behind the NPV10:

1. Applicable well-head gas price (before subsidies) of US$7.4/Mcf in GSS and US$7.9/Mcf in GCZ, increasing to US$10.0/Mcf (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.

The downstream assets of gas stations and gas transportations are classified as held for sale. The group had made decision to sell the downstream assets and focus on upstream business. There are offers provided from various parties, but none of them have concluded by the 2017 year end.

According to local news and government policies, all gas powered buses and taxis will be fully replaced by electrical model at the year end 2020, starting from 2018. Nearly 95% of gas sales volume from Greka's gas stations are contributed by local public transports (taxis, buses), therefore, it has an adverse impact to the value of the downstream assets. As a result, the Group has decided to provide full impairment of downstream asset. Any gain on disposal will be recognized when the disposal is concluded.

STRATEGIC REPORT

: REVIEW OF OPERATIONS

DISCONTINUED: DOWNSTREAM

The downstream operations of the Group are conducted by our Gas Distribution division, which is responsible for the management of the Group's downstream assets and all downstream sales and marketing activities. The distribution division also purchases third-party gas to complement sales of own production volumes from the Group's retail gas station network. Gross sales in 2017, including our 47% share of GCZ sales, were 3.46 bcf (2016: 3.73 bcf) of which 1.84 bcf (2016: 1.88 bcf) represented sales of GSS production and 0.14 bcf (2016: 0.32 bcf) representing retail sales made from market purchases of gas for sales.

The primary sales routes for the distribution division are:

- pipeline natural gas (PNG)
- compressed natural gas (CNG) for retail and industrial use
- sales for power generation

The Group's production operations are in close proximity to major pipeline infrastructure. PNG sales from GSS and GCZ are directly produced into the East-West pipeline. In addition, a number of customers operate in the area around the GSS processing facility and the CNPC processing facility at GCZ. The downstream has been classified as held for sale, as the group plans to focus on the upstream business.

PNG

PNG sales are made directly into the national transmission network at both GSS and GCZ on a volume metered basis. The Group sells PNG gas at GSS under contract at US$10.4 per mcf and invoices directly for sales. Sales at GCZ are managed by our partner, CNPC, with our share 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 2017 amounted to 3.21bcf (2016: 3.41 bcf) representing 93% of gross production (2016: 91%). PNG sales from the Group's operated property on GSS were 1.36 bcf (2016: 1.47 bcf) representing a decrease of 7% over 2016.

CNG

Bulk CNG sales are made to customers directly at our GSS IPF, which includes CNG compression and loading facilities. Total bulk CNG sales for 2017 amounted to 0.18 bcf (2016: 0.14 bcf).

Retail CNG sales are made from our own network of retail gas stations located in Henan Province and proximate to Zhengzhou. Customers comprise fleet users and mass market private customers. The Group currently owns seven retail gas stations, which have been classified as held for sale.

CBM pricing is increasing during 2017, retail CNG continues to provide the highest margins of our available sales channels for equity gas.

Total retail CNG sales for 2017 amounted to 0.25 bcf (2016: 0.31 bcf). Of the total 2017 retail sales volume, 0.11 bcf (2016: 0.04 bcf) was sourced from equity production.

Sales for power generation

The distribution division also sells gas to Greka Technology and Manufacturing Limited (GTM), a related company under common control that operates and maintains the IPF facility and production infrastructure. Sales of gas for in-field power generation comprised 15 % (2016: 13%) of total sales from the Group's operated property on GSS.

STRATEGIC REPORT

: FINANCIAL REVIEW

INCOME STATEMENT – DISCONTINUED OPERATIONS

During the year, all cash generating units of the Group have been 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, 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 decreased by 12% in 2017 to US$25.7 million (2016: US$29.1 million) mainly attributable to an approximate 10% decrease in sales volume of GCZ operated by CNPC, and 4% decrease in sales volume of GSS operated by Greka. However, the total selling prices are stable year-on-year with 2016. The selling price increased considerably from the beginning of 2018.

Sales volumes by channel in 2017 compared to 2016 were as follows:

	2017 **bcf**	2016 bcf
PNG	**2.7**	3.0
CNG – Industrial	**0.2**	0.1
CNG – Retail	**0.3**	0.3
Power	**0.3**	0.2

PNG sales volumes from our operated GSS area were 10% lower in 2017 than in 2016, because the group purposely made more sales to industrial customers for higher margin. Our share of sales volumes (47%) from GCZ was 10% lower than in 2016 reflecting the relative maturity of the GCZ area, it is a natural decline. The Group and CNPC have planned to drill more than 100 wells in the next two years. The sales price per m3 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. This modest price differential results in a decrease in total sales revenue with the effect of currency exchange.

CNG retail sales volumes in 2017 was relatively stable as compared to 2016.

Subsidy revenue has decreased compared to 2016 as a result of the sales volume decreased. Subsidies are calculated at a flat rate based on sales volumes and hence are presented as a component of revenue.

Cost of sales has increased by 9 % in 2017 to US$17.8 million (2016: US$16.4 million). Production processing and associated power cost are variable in nature, with other costs being relatively fixed in nature. As a result of changes in the reserves estimated in 2017, depreciation charge of the gas assets during the year has increased accordingly; this has resulted in a higher cost of sales in 2017.

Selling and distribution costs were US$1.0 million (2016: US$1.0 million) and relate wholly to the retailing gas station sales segment. Selling and distribution costs comprise the costs associated with the operation of the CNG retail stations. The underlying costs are consistent year-on-year with seven stations in operation in both periods.

STRATEGIC REPORT

FINANCIAL REVIEW

INCOME STATEMENT – CONTINUING OPERATIONS

Other administrative costs of US$4.1 million (2016: US$4.9 million) have decreased due to the cost saving policy manifests in the current year.

LIQUIDITY AND CAPITAL RESOURCES

The Group closed the year with US$3.2 million (2016: US$7.3 million) of cash on hand and US$1.0 million (2016: US$2.0 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.

During the year, US$17.6 million (2016: US$8.5 million) was generated from operations with US$16.7 million (2016: US$10.5 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 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. 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. During the year, the company reached agreement with the note holder to extend the period during which the put option is exercisable to 20 November 2018.

The Company has an $88.0 million bond which is due for repayment on November 2017. The bond contains a number of financial covenants that are measured by reference to EBITDA and calculated at each reporting date. As announced on 5 June 2017, the Bondholder waived the covenants up to 30 June 2017.

The cash used for debt service in 2017 was $4.4 million (2016: US$12.3) which reflects the interest paid in respect of the US$88.0 million bond entered in late 2014 and carrying a coupon of 10% (2016: 10%), and the convertible bond taken out in late 2014, with principal of US$50.0 million and a coupon of 10% (2016: 7%), both of which will be repaid after dividends in specie by GDG.

ASSET ADDITIONS

Total additions to upstream CBM assets in 2017 amounted to US$13.2 million (2016: US$15.2 million).

In 2017, due to the GSS and GCZ blocks being actively pursued for a spin off exercise, the assets are recognized as held for sale.

STRATEGIC REPORT

: SUSTAINABILITY

HSE REPORT

As a Group we are 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, 2017 represented yet another year for the Group where we recorded no lost time incidents.

In the field we implement HSE procedures to western standard. 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

In downstream, we adhere to strict safety-permitting rules at our production facility and gas stations. We carry out independent safety checks on third party trucks and trailers before allowing access to our sites.

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 don't use chemicals in our drilling operations the water that is produced at the well head is fresh and perfectly drinkable. Indeed, this 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 who 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., an oil and gas horizontal drilling technology company that became a subsidiary of Greka in September 1997. From 1993 to 1996, Mr. Grewal was Corporate Vice President for the Rada Group with principal responsibility for its global expansion and diversification to a commercial organisation from its defence roots and operations. He has also been involved in various joint ventures, acquisitions, mergers and reorganisations since 1986 in the United States, Europe and the Far East with a range of businesses.

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

Qualifications
BSc Mechanical Engineering, Northrop University

Board Committees
Remuneration Committee

David Turnbull

Non-Executive Director
Year of appointment: 2006

Skills and experience
Mr. Turnbull worked for the Swire Group for 30 years from 1976 to 2006 where he was the immediate past Chairman of Swire Pacific Ltd, Cathay Pacific Airways Ltd (January 2005 – January 2006) and Hong Kong Aircraft Engineering Company Ltd (HAECo) (March 1995 – August 2006).

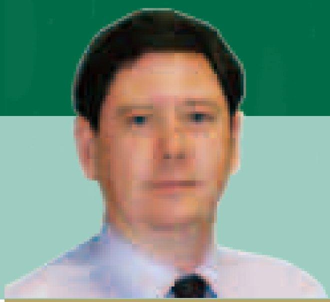
He also served as a Non-Executive Director of the Hong Kong and Shanghai Banking Corporation (HSBC) (January 2005 – December 2005), Hysan Development Co Ltd (May 2005 – Jan 2006) and Air China Ltd (May 2005 – December 2005).

He was appointed a Director of Cathay Pacific in 1994 and took up the positions of Deputy Managing Director in 1994, Managing Director in 1996 and Deputy Chairman and Chief Executive in 1998 before his appointment to Chairman in January 2005.

External appointments
Executive Chairman, Pacific Basin Shipping Limited

Qualifications
MA Economics, Cambridge University

Board Committees
Audit Committee (chair)



Wayne Roberts

Non-Executive Director
Year of appointment: 2012

Skills and experience
Mr. Roberts was VP 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

GOVERNANCE

BOARD OF DIRECTORS

Stewart John, OBE

Non-Executive Director
Year of appointment: 2006

Skills and experience
Mr. John has over 50 years of experience in the aviation industry, almost half of which was gained in Hong Kong. He worked for British Airways for 22 years (from 1955 to 1977) in a senior engineering position, and joined Cathay Pacific as Deputy and then Engineering Director for 16 years (from 1977 to 1993).

Mr. John was Deputy Chairman of Hong Kong Aircraft Engineering Company Ltd (from 1987 to 1993) and has served as Non-Executive Director of Rolls-Royce Commercial Aero Engines (from 1994 to 1998), British Aerospace Aviation Services (from 1994 to 1998), Airlines of Britain Holdings and British Midland Engineering (from 1994 to 2000), HK Aero Engine Services Ltd (from 1996 to 1998), Aviation Exposure Management (from 1995 to 2005) and Newall Aerospace (from 1993 to 1996). He was a founder and Non-Executive Director of Taikoo Aircraft Engineering Co, in Xiamen for 23 years until 2014.

External appointments
Trustee, Brooklands Museum
Chairman, Brooklands Ltd

Qualifications
Chartered Engineer
Fellow, Royal Academy of Engineering
Fellow, Royal Aeronautical Society

Board Committees
Audit Committee
Remuneration Committee (chair)

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

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 an LSE quoted company with a standard listing, G3E is not required to comply with the UK Corporate Governance Code (the "Code") and has not elected to voluntarily comply with the Code. However, the Board fully supports the principles on which the Code is based. Effective corporate governance is a priority of the Board and outlined below are details of how the Company has applied the principles of corporate governance as set out in the Code, as far as they are relevant to the Group.

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 Group's 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.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

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.

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 David Turnbull (Chairman), Stewart John and Wayne Roberts.

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 Stewart John (Chairman), Gong Da Bing 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, 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.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

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.

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 2017.

PRINCIPAL ACTIVITIES

G3 Exploration (the "Group") is the ultimate holding company and the indirect parent company of Greka Energy International B.V, a company incorporated in the Netherlands and the operating company through which the Group holds its Coal Bed Methane ("CBM") properties in 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 2017 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 2017 are contained in the Consolidated Statement of Changes in Equity and in notes 23 and 24 of the financial statements.

RESULTS AND DIVIDENDS

An overview of the Group's results, covering the year ended 31 December 2017, is provided in the Financial Review on page 17. Detailed financial information is included from page 30 to page 82 of the report. The Directors do not propose the payment of dividends until the Group is in production and generating revenue and profit.

EVENTS AFTER THE REPORTING DATE

There were no reportable events arising after the reporting date.

DIRECTORS REMUNERATION

Directors remuneration for the year ended 31 December 2017 was as follows:

	Fees US$'000	Salaries US$'000	Bonuses US$'000	(Other emoluments benefits) US$'000	**2017 US$'000**	2016 US$'000
Executive Directors						
Randeep S. Grewal	–	1,000	–	860	**1,860**	3,220
Sub-total	–	1,000	–	860	**1,860**	3,220
Non-Executive Directors						
David Turnbull	49	–	–	–	**49**	49
Wayne Roberts	49	–	–	–	**49**	49
Stewart John	53	–	–	–	**53**	52
Gong Da Bing	49	–	–	–	**49**	49
Sub-total	200	–	–	–	**200**	199
Total	200	1,000	–	860	**2,060**	3,419

GOVERNANCE

: DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The table below sets out the interests of the Directors in G3E Ltd as at 31 December 2017.

	Number of Ordinary Shares	% of issued share capital
Randeep S. Grewal	87,169,631	55.85%
David Turnbull	8,000	0.001%
Wayne Roberts	–	–
Stewart John	3,000	0.00%
Gong Da Bing	800	0.00%

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 2017, 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 2017.

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 2017:

	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 (2016: 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 2018, 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.

ANNUAL GENERAL MEETING

Details of the 2018 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
Founder and Chairman
06 June 2018

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 web-site.

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 uncertain-ties 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 and its subsidiaries (the "group") for the year ended 31 December 2017 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 the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:
- give a true and fair view of the state of the group's affairs as at 31 December 2017 and of 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 US$88 million bond, its $50 million loan note, its current creditors of approximately $15 million and its exploration funding commitments. As disclosed in note 2, the Group's debts are due immediately 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. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Our audit procedures in response to this key audit matter included:
- We considered the immediate solvency of the group by considering 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 dialogue, and the ability and support of financial assistance available to the business.
- We critically assessed management's financial forecasts over their period of going concern assessment to June 2019. 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.
- We noted that the success of the forecast is dependent upon the raising of external finance and In particular, we checked that the business is engaged in pursuing an IPO in respect of certain assets of the group, and in obtaining intermediate finance while this process is pursued. As part of this, we obtained the draft IPO prospectus and the draft term sheet from a potential debt provider.
- We discussed these matters with management and the Audit Committee and sought representations from the Board in respect of the future plans of the group.
- We evaluated the adequacy of disclosures made in the financial statements.

We found that the disclosure of this matter was adequately described.

: 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
CUCBM Provision estimate	
As detailed in notes 3 and 26, in September 2017, the Supplementary Agreements ("SAs") with China United Coalbed Methane Gas ("CUCBM") in regards to five of its Production Sharing Contracts ("PSCs") in China were finalised. These SAs clarified the historical costs incurred by both the Group and CUBCM and the cost recovery mechanism. As a result of the SAs, Management reassessed the quantum of the CUCBM provision and concluded that a provision is no longer required. The SAs confirmed that historical cost recovery will be through CBM production, which is consistent with the other PSCs. Therefore it is no longer considered appropriate to provide for a potential settlement. The potential complexity of the accounting for a historical cost recovery mechanism made this a key audit matter.	We obtained and reviewed the SAs signed in the year. We reviewed and critically assessed Management's assessment of the accounting treatment of the SAs and consequent de-recognition of the provision. We verified the provision movement in the year up to the date of the signing of the SAs to supporting documentation such as statements from CUCBM. We found Management's assessment and subsequent de-recognition of the CUCBM provision as at the date of the signing of the SAs to be appropriate.
Carrying value of gas assets	
The group's gas assets represent its most significant assets and total US$988 million as at 31 December 2017, including Held for Sale ("HFS") gas assets of 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 2017. In addition, they are also required to carry out an impairment assessment of the US$355.2 million gas assets before these are classified as HFS. 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 engage Netherland, Sewell & Associates, Inc, a third party gas reserves expert to provide an estimate of the reserves of the Group's assets along with estimated net present values for each block. As detailed in note 3, the assessment of the indicators of impairment and net present value NPV of the gas assets required significant judgement and estimates by management. The carrying value of gas assets represented a significant risk for our audit given the significant judgements and estimates required in regards of the reserves associated with the assets, future gas prices and discount rate.	We reviewed management's assessment of indicators of impairment for the ongoing exploration assets under IFRS 6 and evaluated management's NPV models for the HFS assets. We critically challenged the key estimates and assumptions used by management. Our testing included comparison of the gas prices used in the model to external market prices and critical review of the forecast cost profiles against empirical performance and discount rate. We specifically challenged the impact of the decrease in reserves on the NPV of the gas assets. We sensitised the models for reasonable movements in key judgement areas to ascertain whether there remained a reasonable expectation that there would remain adequate headroom in excess of carrying value. We assessed the independence and competence of NSAI as part of our audit. We held a call with NSAI to assess their scope and challenge the underlying assumptions used. We found the group's assessment that the carrying value of the gas assets to be appropriate.

: INDEPENDENT AUDITOR'S REPORT

OUR APPLICATION OF MATERIALITY

The materiality for the group financial statements as a whole was set at US$10.0 million (2016: US$13 million). This was based on 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 US$10 million (2016: US$13 million), the significant components of the group were audited to a lower materiality of US$4.0 million (2016: US$5.0 million).

Performance materiality was set at US$7.5 million (2016: US$9.75 million) which represents 75% of the above materiality levels and is at the higher 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 (2016: US$260,000), which was set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluated any uncorrected misstatements against both quantitative measures of materiality discussed above and in light of other relevant qualitative considerations when forming our opinion.

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

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 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 this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS

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

: 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 company's members as a body, in accordance with our engagement letter. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Chartered Accountants
London
United Kingdom
06 June 2018

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

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	31 December Year ended 2017 US$'000	Year ended 31 December 2016 Restated* US$'000
Continuing operations			
Revenue	4	–	–
Cost of sales		–	–
Gross profit		–	–
Other Income		13	13
Selling and distribution costs		–	–
Administrative expenses		(4,144)	(4,969)
Loss from operations	5	(4,131)	(4,956)
Finance income	6	4,457	347
Finance costs	7	(17,426)	(16,879)
Loss before income tax		(17,100)	(21,488)
Income tax credit	10	46	50
Loss for the year from continuing operations		(17,054)	(21,438)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	11	(7,522)	9,386
Loss for the year attributable to owners of the company		(24,576)	(12,052)
Other comprehensive expense net of tax:			
Items which may be reclassified to profit and loss:			
– Exchange differences on translation foreign operations		57,328	(40,963)
Total comprehensive income/(Loss) for the year attributable to owners of the company		32,752	(53,015)
Basic and diluted loss per share (US$) of Continuing operations	12	(0.109)	(0.138)
Basic and diluted loss per share (US$) of discontinuing operations	12	(0.048)	0.061
Basic and diluted loss per share (US$)	12	(0.158)	(0.077)

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made in respect to assets held for sale, refer to Note 11.

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000
Assets			
Non-current assets			
Property, plant and equipment	13	**33**	272,583
Gas exploration and appraisal assets	14	**617,900**	1,034,117
Other intangible assets	15	**–**	2,210
Non current prepaid expenses		**299**	192
Deferred tax asset	16	**317**	2,079
		618,549	1,311,181
Current assets			
Inventories	17	**–**	94
Trade and other receivables	18	**8,167**	22,911
Restricted cash	26	**1,000**	2,000
Cash and cash equivalents	19	**1,347**	7,324
		10,514	32,329
Assets of disposal group classified as held-for-sale	11	**380,133**	–
		390,647	32,329
Total assets		**1,009,196**	1,343,510

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2017 US$'000	As at 31 December 2016 US$'000
Liabilities			
Current liabilities			
Trade and other payables	20	**10,198**	13,883
Convertible notes	21	**53,132**	47,347
Bonds	22	**95,932**	88,795
Current tax liabilities		**–**	–
		159,262	150,025
Liabilities of disposal group classified as held-for-sale	11	**50,548**	–
		209,810	150,025
Non-current liabilities			
CUCBM provision	26,31	**–**	401,702
Deferred tax liability	16	**124,137**	144,831
Share buyback option liability	21	**3,469**	7,924
		127,606	554,457
Total liabilities		**337,416**	704,482
Total net assets		**671,780**	639,028
Capital and reserves			
Share capital	23	**16**	16
Share premium	24	**808,981**	808,981
Share redemption reserve	24	**(8,255)**	(8,255)
Convertible note equity reserve	24	**2,851**	2,851
Share-based payment reserve	24	**–**	–
Foreign exchange reserve	24	**38,381**	(18,947)
Retained deficit	24	**(170,194)**	(145,618)
Total equity attributable to owners of the parent		**671,780**	639,028
Total equity		**671,780**	639,028

The financial statements were authorised and approved by the Board on 06 June 2018 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 2016	**16**	**808,981**	**–**	**3,756**	**12,743**	**22,016**	**(150,065)**	**697,447**
Loss for the year	–	–	–	–	–	–	(12,052)	(12,052)
Exchange differences on translating foreign operations	–	–	–	–	–	(40,963)	–	(40,963)
Total comprehensive expense for the year	–	–	–	–	–	(40,963)	(12,052)	(53,015)
Issue of share buyback option	–	–	(8,255)	–	–	–	–	(8,255)
Transfer on expiry of share options	–	–	–	–	(12,743)	–	12,743	–
Transfer on amendment of convertible notes	–	–	–	(3,756)	–	–	3,756	–
Amendment of convertible notes	–	–	–	2,851	–	–	–	2,851
At 31 December 2016	**16**	**808,981**	**(8,255)**	**2,851**	**–**	**(18,947)**	**(145,618)**	**639,028**
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**

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**Year ended 31 December 2017 US$'000**	Year ended 31 December 2016 US$'000
Cash flows used in continuing operating activities			
Loss after tax		**(17,054)**	(12,052)
Adjustments for:			
Depreciation	13	**22**	5,154
Amortisation of intangible assets	15	**–**	723
Loss on disposal of plant, properties and equipment	5	**–**	4
Other income and finance income	6	**(4,457)**	(356)
Finance costs	7	**17,426**	16,691
Accelerated finance charge	21	**–**	516
Taxation	10	**(46)**	(216)
Cash generated from operating activities before changes in working capital		**(4,153)**	10,464
Movement in inventory		**–**	15
Movement in trade and other receivables		**4,690**	(427)
Movement in trade and other payables		**5,258**	(1,530)
Net cash generated from operations		**5,795**	8,522
Income Tax paid		**–**	(33)
Net cash generated from continuing operating activities		**5,795**	8,489
Net cash generated from discontinued operating activities	11	**11,731**	–
Net cash generated from operating activities		**17,526**	8,489

	Notes	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Investing activities			
Payments for purchase of property, plant and equipment	13	–	(4,709)
Proceed from disposal of property, plant and equipment		–	748
Payments for exploration activities	14	(6,259)	(10,468)
Interest received		4	25
Refund of deposit received from Petro China		1,000	–
Net cash used in continuing investing activities		(5,255)	–
Net cash used in discontinued investing activities	11	(12,192)	–
Net cash used in investing activities		(17,447)	(14,404)
Financing activities			
Interest paid		(4,400)	(12,300)
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)	(12,300)
Net decrease in cash and cash equivalents		(4,321)	(18,215)
Cash and cash equivalents at beginning of year		7,324	26,866
		3,003	8,651
Effect of foreign exchange rate changes		172	(1,327)
Cash and cash equivalents at the end of year		3,175	7,324
Attributable to continuing activities	19	1,347	–
Attributable to discontinued activities	11	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 27 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 2017. The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared under the historical cost basis 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 the 31 December 2017 are two specific instruments;

The Company has a $50.0 million convertible loan note which is due for repayment on 31 December 2020. On the 23 October 2017 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 2018, and would require early repayment of the whole amount due no earlier than 20 November 2018. The option to require early repayment is at the note holder's sole discretion. Further details of the terms of the instrument are included in notes 21.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Going concern (continued)

The Company has an $88.0 million bond which was due for repayment in November 2017, prior to which the Company entered into a non-binding Term Sheet with a certain bondholder which among matters, extends the maturity to November 2018. The bond has not been repaid to date. On 22 December 2017 the Bond Trustee reported that it was instructed by one or more bondholders representing a majority of the outstanding bond that they were in discussions with the Company regarding amongst other things an amendment to the bond agreement. Further the Bond Trustee was 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 22.

The company also has other payables due to third parties of approximately $15 million, due immediately. The company is managing these payables.

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

The Company is currently in negotiation with institutions in order to re-finance the $88.0 million bond, the $50.0 million convertible loan note and settle all other liabilities and fund commitments. The Company has received a draft term sheet and the Company expects that the institution will complete its appropriate due diligence process and confirm debt financing in due course.

The Company plans to distribute to its shareholders through a dividend in specie, its producing assets (blocks GSS and GCZ) into a new Hong Kong listed company, Green Dragon Gas (GDG) and at the same time raise sufficient cash from new debt and equity to repay all of the Company's existing debt. The remaining development and exploration blocks are planned to stay in G3E, which in turn will remain listed in London. The Hong Kong listing and concurrent equity raise is subject to approval from the Hong Kong Stock Exchange (HKEX).

The Company's major shareholder has provided conformation that it will provide sufficient financial support in respect of other current payables if found necessary.

The Directors have informed the Bondholder Trustee of the Company's intention to raise financing through the issue of debt or equity from the Hong Kong listing and to use the new financing to repay the $88 million bond. The Company notes that discussions continue and a major bondholder has also signed a non-binding draft agreement to defer the due date to November 2018. To date the Company is not aware of any immediate intention of the Bond Trustee to take action to recover amounts due, or of any bondholder who may act to put the bond into default. On the basis of the above, the Company does not expect the Bond Trustee to put the bond into default before additional funding is received.

The Company is confident that the $50.0 million noteholder will continue to support the Company as it acts to refinance the bond, such that the noteholder will not be motivated to act on their early redemption option available until 20 November 2018. The noteholder has not given any written assertions that they will not exercise their early redemption option.

The Company expects to use the proceeds from the Hong Kong listing and the new debt finance to repay 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.

As at the date of this report, there were no binding debt re-financing agreements in place, the HKEX have not yet approved the Hong Kong Listing and investors have not committed to provide equity financing. Therefore there can be no certainty that re-financing will be successful. There can also be no certainty that the $50 million noteholder will continue to support the Company and not exercise their right to early redemption, or that no default notice will be issued in respect of the $88 million bond.

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

	Issued date	Mandatory effective date	EU En-dorsement status
New Standards			
IFRS 9 Financial Instruments	Various	1-Jan-18	Endorsed
IFRS 15 Revenue from Contracts with Customers	2014/5/28	1-Jan-18	Endorsed
IFRS 16 Leases	2016/1/13	1-Jan-19	Endorsed
Amendments to Existing Standards			
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	12-Sep-16	1-Jan-18	Endorsed
Annual Improvements to IFRSs (2014-2016 Cycle)	8-Dec-16	01-Jan-17/18	Endorsed
IFRIC 22 Foreign Currency Transactions and Advance Consideration	8-Dec-16	1-Jan-18	Expected Q1 2018
Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)	19-Jan-16	1-Jan-17	Endorsed
Disclosure Initiative: Amendments to IAS 7	29-Jan-16	1-Jan-17	Endorsed
Clarifications to IFRS 15 revenue from Contracts with Customers	12-Apr-16	1-Jan-18	Endorsed
Amendments to IAS 28: Long-term interests in Associates and Joint Ventures	12-Oct-17	1-Jan-19	Expected 2018
Annual Improvements to IFRSs (2015-2017 Cycle)	12-Dec-17	1-Jan-19	Expected 2018

IFRS 9 'Financial Instruments'

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

IFRS 15 'Revenue from Contracts with Customers'

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

For financial liabilities, the existing classification and measurement requirements of IAS 39 are largely retained by IFRS 9. The accounting treatment of the group's current financial liabilities (notes 21, 22) is based on IAS 39.

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

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

The Group and Company anticipate minimal changes in the accounting under this new standard for the contracts that are currently booked. The transfer of control natural gas sold by the group usually coincides with title passing to the customer and the customer taking physical possession. The group principally satisfies its performance obligations at a point in time of gas delivered to customer. Although, according written clauses in selling contracts, the group will give discount if there was a quality issue; however, the situation is uncommon. The Group does not expect a significant impact on adoption of IFRS 15 in 2018.

IFRS 16 'Leases'

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

The group will continue to assess all lease agreements. The group expects that IFRS 16 will have a non-material effect on the group's financial statements after its adoption, as the total amount of lease agreement is insignificant.

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.

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 in place during the exploration phase. 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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Gas exploration and appraisal assets (continued)

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.

When the exploration, evaluation, development or production undertaken by third parties is no longer assessed as a financing arrangement, the Group's share of assets previously recognised are fully reversed.

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.

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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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;

Or

- 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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Revenue from the sale of gas is recognised when the risks and rewards of ownership together with effective control are transferred to the customer with agreed standard quality and the amount of the revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group. 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.

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.

Financial instruments

(i) Financial assets

Loans and receivables

The Group's loans and receivables comprise trade and other receivables.

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Loans and receivables (continued)

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

Other receivables include items such as refundable deposits paid to acquire property plant and equipment.

Cash and cash equivalents

Cash includes cash on hand and demand deposits with any bank or other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of changes in value.

(ii) Financial liabilities

Financial liabilities held at amortised cost

Trade payables and other short-term monetary liabilities are recognised initially at fair value and subsequently carried at amortised cost using the effective interest rate method.

Fair value through profit or loss

The Group does not have any liabilities designated as held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

(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).

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Convertible debt and bonds (continued)

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 in accordance with the Group's policy.

(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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

CUCBM Framework Agreement

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

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

Determination of commercial production

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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.

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.

Non-current assets held for sale and discontinued operations

The Group exercises judgement in whether an assets are held for sell. During 2017, management decided to sell the downstream assets (gas stations and gas transportation) and started to review offers from prospective buyers. The downstream assets are available for immediate sale in its present condition. Management is committed to sell the assets. To date, a number of prospective buyers have approached and expressed interest to the management for the acquisition of the downstream assets. Currently, the management estimates that the assets will be disposed of at its fair market value. In addition, management is confident that the downstream assets will be disposed of by 30 June 2018.

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 launch GSS & GCZ blocks IPO listing on the Hong Kong Stock Exchange. Management expects GSS & GCZ blocks will be sold within the next 12 months.

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.

4 REVENUE AND SEGMENT INFORMATION (continued)

During the year, the downstream business of G3E was classified as held for sale. Due to recent news which disclosed that all taxis and buses which are currently fuelled by gas will be replaced by electrical vehicles by the year of 2020, and this is the main business of the downstream assets, the Group decided to dispose the downstream assets.

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 of 2017 and 2016 did not include the Group's share of CNOOC GSN transactions or operated GSS 1,388 wells' revenue, associated costs and resulting margins. The sales revenues and volumes associated with the CNOOC operated areas of GSS and GSN will be subject to future audits.

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

For the year ended 31 December 2017

	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	–	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

* The contracted price at which the GSS gas is sold to the downstream operations is $10.4/mcf.

4 REVENUE AND SEGMENT INFORMATION (continued)

For the year ended 31 December 2016

	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	–	16,418	12,725	–	29,143	(29,143)	–
Inter-segment sales	–	12,395	–	–	12,395	(12,395)	–
	–	28,813	12,725	–	41,538	(41,358)	–
Depreciation	–	(3,390)	(1,742)	(22)	(5,154)	5,132	(22)
Amortisation	–	–	(723)	–	(723)	723	–
Impairment	–	–	–	–	–	–	–
Profit/(loss) from operation	–	16,428	(6,889)	(4,956)	4,583	(9,539)	(4,956)
Finance income	1	–	9	346	356	(9)	347
Finance cost	–	8	(336)	(16,879)	(17,207)	328	(16,879)
Income tax	50	–	166	–	216	(166)	50
Profit/(Loss) for the year	51	16,436	(7,050)	(21,489)	(12,052)	(9,386)	(21,438)
Assets	43,460	1,369,545	37,637	759,973	2,210,615	(867,105)	1,343,510
Liabilities	47,945	849,077	61,382	535,390	1,493,794	(789,312)	704,482
PPE additions	–	21,864	2,706	–	24,570	–	24,570
Gas exploration additions	27,416	20,267	–	–	47,683	–	47,683

5 LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 (Restated) US$'000
Auditors' remuneration:		
– Fees payable to the Company's auditors for the audit of the annual financial statements	**365**	450
– Fees payable to the Company's auditors for the review of the interim results	**91**	81
Staff costs (note 8)	**1,884**	3,475

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6 FINANCE INCOME

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 (Restated) US$'000
Bank interest	**2**	16
Exchange gain	**–**	–
Change in value of the share buyback option liability	**4,455**	331
	4,457	347

7 FINANCE COSTS

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 (Restated) US$'000
Convertible notes (coupon at 7% and 10% plus effective interest adjustments)	**5,785**	4,784
Bonds (coupon at 10% plus effective interest adjustments)	**11,537**	10,788
Accelerated finance charge on amendment of convertible notes	**–**	516
Exchange loss	**104**	791
	17,426	16,879

8 STAFF COSTS

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 (Restated) US$'000
Staff costs (including Directors' emoluments) comprise:		
Wages and salaries	**4,459**	6,130
Employer's national social security contributions	**648**	816
Other benefits	**1,089**	1,440
	6,196	8,386
Less: expenses capitalised as gas exploration and appraisal assets	**(2,839)**	(3,906)
Classified as held for sale	**(1,473)**	(1,005)
Total staff costs charged to profit or loss (note 5)	**1,884**	3,475

9 DIRECTORS' AND OTHER KEY MANAGEMENT REMUNERATION

The remuneration of Directors for the year ended 31 December 2017 was as follows:

	Fees US$'000	Salaries US$'000	Bonuses US$'000	Other Emoluments (benefits) US$'000	**2017 US$'000**	2016 US$'000
Executive Directors						
Randeep Grewal	–	1,000	–	860	**1,860**	3,220
Sub-total	–	1,000	–	860	**1,860**	3,220
Non-Executive Directors						
David Turnbull	49	–	–	–	**49**	49
Wayne Roberts	49	–	–	–	**49**	49
Steward John, OBE	53	–	–	–	**53**	52
Gong Da Bing	49	–	–	–	**49**	49
Sub-total	200	–	–	–	**200**	199
Total	200	1,000	–	860	**2,060**	3,419

Key management are considered to be the Directors.

10 TAXATION

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Current tax – PRC Enterprise Tax		
Tax credit for the current year	**46**	12
Deferred tax		
Temporary timing differences (note 16 (a)(b))	**(2,347)**	(178)
Previously unrecognised deferred tax assets assessed as recoverable at the end of the year (note 16 (a))	**–**	(50)
Classified as held for sale (note 11)	**2,347**	166
Total tax credit	**46**	50

Other comprehensive income includes a charge of US$Nil (2016: US$Nil) in respect of deferred tax movements on exchange gains and on the retranslation of foreign subsidiaries.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

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 2017 US$'000	Year ended 31 December 2016 US$'000
Accounting loss before tax	**(17,100)**	(21,488)
Expected tax credit based on the standard rate of corporation tax in the PRC of 25% (2016: 25%)	**(4,275)**	(5,372)
Effect of:		
Different tax rates applied in overseas jurisdictions	**4,275**	5,372
Temporary differences applied in overseas jurisdictions	**46**	50
Income tax credit	**46**	50

Taxation for the Group's operations in the PRC is provided at the applicable current tax rate of 25% (2016: 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 launch GSS & GCZ blocks IPO listing in the Hong Kong Stock Exchange. Management expects GSS & GCZ blocks to be sold within the next 12 months.

The assets and liabilities relating to Greka Gas Distribution Ltd, a 100% wholly-owned subsidiary of the Company, have been presented as held for sale following the announcement made to sell Greka Gas Distribution Ltd in the PRC. Management expects Greka Gas Distribution Ltd to be sold within the next 12 months.

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

	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**

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

(b) Liabilities 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
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)**

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

	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)**

	Note	Year ended 31 December 2016 Upstream group US$'000	Year ended 31 December 2016 Downstream group US$'000	As at 31 December 2016 Subtotal US$'000
Revenue	4	16,418	12,725	29,143
Profit/(loss) from operation	4	16,428	(6,889)	9,539
Finance income	4	–	9	9
Finance cost	4	8	(336)	(328)
Income tax	4	–	166	166
Gain/(Loss) after tax of discontinued operations attributable to owners of the company		**16,436**	**(7,050)**	**9,386**

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

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

	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)**

	As at 31 December 2016 Upstream group US$'000	**As at 31 December 2016 Downstream group** US$'000	**As at 31 December 2016 Subtotal** US$'000
Net cash used in operating activities	7,978	(1,205)	6,773
Net cash generated from investing activities	(9,944)	(121)	(10,066)
Net cash generated from financing activities	–	–	–
Net cash inflow/(outflow)	**(1,966)**	**(1,326)**	**(3,292)**

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 2017 US$'000	Year ended 31 December 2016 US$'000 *Restated
Loss for the year attributable to owners of the Company used in basic and diluted loss per share	**(24,576)**	(12,052)
Loss for the year attributable to owners of the Company used in basic and diluted loss per share – continuing operations	**(17,054)**	(21,438)
Loss for the year attributable to owners of the Company used in basic and diluted loss per share – discontinued operations	**(7,522)**	9,386

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Weighted average number of Ordinary Shares for basic and diluted earnings per share	**156,072,289**	156,072,289

	Year ended 31 December 2017	Year ended 31 December 2016
Basic and diluted loss per share (US$)	**(0.158)**	(0.077)
Basic and diluted loss per share (US$) – continuing operations	**(0.109)**	(0.138)
Basic and diluted (loss)/earnings per share (US$) – discontinued operations	**(0.048)**	0.061

Loss per share is based on the loss 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 profit/(loss) 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.

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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 2016	**282,858**	**1,041**	**2,110**	**2,084**	**4,726**	**292,819**
Additions	2,002	246	266	1,904	291	4,709
Share of CUCBM additions	19,861	–	–	–	–	19,861
Disposals	–	–	(748)	(66)	–	(814)
Exchange differences	(18,852)	(67)	(135)	(120)	(266)	(19,440)
At 31 December 2016	**285,869**	**1,220**	**1,493**	**3,802**	**4,751**	**297,135**
Addition	–	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
Balance as at 31 December 2017	**–**	**–**	**–**	**–**	**603**	**603**
Accumulated depreciation and impairment						
At 1 January 2016	**17,609**	**447**	**–**	**868**	**1,899**	**20,823**
Provided for the year	3,365	144	–	1,364	281	5,154
Disposals	–	–	–	(62)	–	(62)
Exchange differences	(1,203)	(12)	–	(42)	(106)	(1,363)
At 31 December 2016	**19,771**	**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**
Net book value **31 December 2017**	**–**	**–**	**–**	**–**	**33**	**33**
At 31 December 2016	**266,098**	**641**	**1,493**	**1,674**	**2,677**	**272,583**

14 GAS EXPLORATION AND APPRAISAL ASSETS

	USD'000
Cost	
At 1 January 2016	1,043,859
Additions	4,076
Capitalisation of internal costs	6,392
Share of gas exploration and appraisal assets from CUCBM (note 26)	37,215
Exchange differences	(57,425)
At 31 December 2016	1,034,117
Additions	13,231
Capitalisation of internal costs	3,461
Share of gas exploration and appraisal assets from CUCBM 2017 (note 26)	13,886
Reversal of Share of gas exploration and appraisal assets from CUCBM pre 2017 (note 26)	(288,872)
Classified as held for sale (note 11)	(223,713)
Exchange differences	65,790
At 31 December 2017	**617,900**

In respect of the Group's share of gas exploration and appraisal assets from CUCBM of $13,886,000 (2016 $37,215,000), the Group estimates its share of assets and the associated provision with CUCBM resulting from the Framework Agreement, this additional cost reflects an increase in that estimate in the year prior to the signing of the supplementary agreement in September 2017.

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 26 provide further details of the judgement made.

15 OTHER INTANGIBLE ASSETS

	Gas station operation licence US$'000
Cost	
At 1 January 2016	8,311
Additions	(24)
At 31 December 2016	8,287
Additions	–
Exchange differences	–
At 31 December 2017	**8,287**
Accumulated amortisation and impairment	
At 1 January 2016	**5,354**
Charge for the year	723
At 31 December 2016	6,077
Charge for the year	1,066
Impairment	1,144
At 31 December 2017	**8,287**
Net book value	
At 31 December 2017	**–**
At 31 December 2016	2,210

16 DEFERRED TAXATION

(a) Deferred tax assets

	US$'000
At 1 January 2016	2,169
Exchange differences	(140)
Reversal of temporary difference in respect of overseas tax losses	50
At 31 December 2016	2,079
Additions (note 10)	2,347
Exchange differences	159
Classified as held for sale (note 11)	(4,268)
At 31 December 2017	**317**

(b) Deferred tax liabilities

	US$'000
At 1 January 2016	154,352
Reversal of temporary difference	(178)
Exchange differences	(9,343)
At 31 December 2016	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**

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'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	**(124,137)**	(144,831)
Tax losses – overseas	**317**	2,079
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following:		
Tax losses – overseas	**–**	6,503
Potential unrecognised tax benefit at PRC rate of 25%	**–**	1,626

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 these items because at this point in the Group's development it is not virtually certain that future taxable profits will be available against which the Group companies can utilise the benefits of these tax losses in the near future. The Group has not offset deferred tax assets and liabilities across different jurisdictions.

17 INVENTORIES

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Raw materials and consumables	**–**	64
Finished goods	**–**	30
	–	94

18 TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Trade receivables	**0**	3,227
Prepayments	**72**	2,446
Other receivables	**1,928**	6,321
Amount due from related parties (note 27)	**6,167**	10,917
	8,167	22,911

The Group's maximum exposure to credit risk is as disclosed in note 30 (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.

19 CASH AND CASH EQUIVALENTS

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

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Cash and bank balances	**1,347**	7,324

Significant non-cash transactions are as follows:

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Investing activities		
- Additional CUCBM provision	**–**	57,076
- Change in estimate relating to CUCBM provision	**(434,817)**	–

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19 CASH AND CASH EQUIVALENTS (continued)

Significant non-cash transactions are as follows: (continued)

	Current loans and borrowing USD'000
At 1 January 2017	136,142
Cash flows	(4,400)
Non-cash flows	–
Effects of foreign exchange	–
Fair value changes	–
Elimination	–
CUCBM provision	–
Accrued interest	17,322
At 31 December 2017	149,064
At 1 January 2016	135,205
Cash flows	(12,300)
Non-cash flows	–
Effects of foreign exchange	–
Fair value changes	–
Amendment of convertible notes	(2,851)
Accelerated finance change	516
Accrued interest	15,572
At 31 December 2016	136,142

20 TRADE AND OTHER PAYABLES

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Trade payables	**3,272**	6,640
Other payables	**3,440**	6,325
Amounts due to related parties (note 27)	**3,486**	918
	10,198	13,883

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.

21 CONVERTIBLE NOTES

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Brought forward from prior year	**47,347**	48,398
Accrued interest	**5,785**	4,784
Amendment of convertible notes	**–**	(2,851)
Accelerated finance change	**–**	516
Interest paid	**–**	(3,500)
	53,132	47,347

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Repayable within 1 year	**53,132**	47,347
Repayable over 1 year	**–**	–
	53,132	47,347

At 31 December 2017, the Company had one (2016: 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) early repayment 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.

21 CONVERTIBLE NOTES (continued)

Convertible note amendment (continued)

US$50 million 10% coupon convertible note due 2020 (continued)

During the year, the company reached agreement with the note holder to extend the period during which the put option is exercisable to 20 November 2018.

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.

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 24 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 was 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 24 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 but there was a breach of covenants on the Company's public corporate bond (see note 22).

Share buyback option liability

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Balance brought forward from prior year	**7,924**	–
Issue of share buyback option	**–**	8,255
Revaluation of share buyback option	**(4,455)**	(371)
	3,469	7,924

22 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. The Company has a right to redeem the Bond early at 102% prior to 30 June 2018, and 107.5% from and including 30 June 2018. 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:

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Brought forward from prior year	**88,795**	86,807
Accrued interest	**11,537**	10,788
Repayments of interest	**(4,400)**	(8,800)
	95,932	88,795

As disclosed in the Company's 2016 annual report, due to the non-inclusion of CUCBM's revenue and related costs, the Company's 2015 financial statements failed to meet two of the bonds' financial covenants. On 31 May 2017, the Company has obtained a waiver for the reporting period ended on 31 December 2016 and 30 June 2017 from the bond holders for this non-compliance. The bonds are disclosed as a current liability at the year end of 2016 and 2017 as they are due in November 2017 and are therefore overdue.

23 SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares	**US$**	**Number of shares**	**US$**
At 31 December 2016 and 31 December 2017, Ordinary Shares of US$0.0001 each	500,000,000	50,000	156,072,289	15,607

24 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.

24 RESERVES (continued)

Nature and purposes of reserves (continued)

(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.

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.

25 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 2017 Percentage of ownership interest held**		As at 31 December 2016 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%
Greka Transport Limited	British Virgin Islands	Investment holding	**–**	**100%**	–	100%
Greka Integrated Products Ltd	British Virgin Islands	Investment holding	**–**	**100%**	–	100%
Great Buy Investments Ltd	British Virgin Islands	Investment holding	**–**	**100%**	–	100%
Greka Gas Distribution Ltd	British Virgin Islands	Investment holding	**–**	**100%**	–	100%
Greka Shanxi Ltd	British Virgin Islands	Investment holding	**–**	**100%**	–	100%
Greka Exploration and Production Ltd	Cayman Islands	Investment holding	**–**	**100%**	–	100%
Greka LNG Ltd	British Virgin Islands	Not yet commence business	**–**	**100%**	–	100%
Zhengzhou Greka Gas Co., Ltd.	The PRC	Supply and distribution of natural gas	**–**	**100%**	–	100%
PingDingShan Greka Gas Co., Ltd	The PRC	Supply and distribution of natural gas	**–**	**100%**	–	100%
Gongyi Greka Transportation Co., Ltd	The PRC	Investment holding	**–**	**100%**	–	100%
Greka Guizhou E&P Ltd	British Virgin Islands	Exploration, development and production of coal bed methane	**–**	**100%**	–	100%
Yanjin Changda Gas Station	The PRC	Supply and distribution of natural gas	**–**	**100%**	–	100%

Note:

(1) The following subsidiaries' shares have been pledged to the bondholder in 2016 and 2017 (note 23): a Cayman Islands law governed first ranking equitable share mortgage over shares in Greka Gas China Ltd.

26 JOINT ARRANGEMENTS

The Group currently operates under six (2016: 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.

26 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 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.

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

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Opening balance	**401,702**	370,217
Additions in the year	**21,612**	57,076
Reclassified to payable	**(13,000)***	–
FX loss/(gains)	**24,503**	(25,591)
Change in estimate of CUCBM provision	**(434,817)**	–
Closing provision for amounts due to CUCBM	**–**	401,702

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

26 JOINT ARRANGEMENTS (continued)

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. The Group has incurred US$7,700,000 on the block which is currently held as exploration asset. No gain in respect of the committed future expenditure as compared to the 10% interest in the Group's existing assets has been recognised under the Group's accounting policy.

Fengcheng PSC

According to the Supplementary Agreement signed in September 2017, the exploration period is from 15 April 2014 to 14 April 2019. The group is required to undertake $8.9 million discretionary capital expenditure prior to the expiry of the exploration period.

Panxie PSC

According to the Supplementary Agreement signed in September 2017, the exploration period is from 15 April 2014 to 14 April 2019. The group is required to undertake $4.2 million discretionary capital expenditure prior to the expiry of the exploration period.

Qinyuan PSC

According to the Supplementary Agreement signed in September 2017, the exploration period is from 15 April 2014 to 14 April 2019. The group is required to undertake $27 million discretionary capital expenditure prior to the expiry of the exploration period.

According to the supplementary agreement, the Group will pay CUCBM for any unfulfilled balance of the minimum commitment converted into cash, together with relinquishment of certain percentage of the block. Based on the Group's assessments, it is confident that future minimum commitments will be fulfilled accordingly.

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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

26 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.

	2017 US$'000	2016 US$'000
Capital expenditure	–	–
Revenue	10,692	11,764
Total operational costs and expenses	(6,776)	(4,998)
Net Profit	3,916	6,766
Amount due from/(to) PetroChina		
Balance as at 1 January 2017	1,487	1,774
Capital expenditure for GCZ block	–	–
Share of profit for GCZ block	3,917	6,766
Cash received	(1,469)	(7,053)
Balance as at 31 December 2017	3,935	1,487

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

Baotian-Qingshan block ('GGZ')

In addition, Greka Guizhou E&P Ltd, a subsidiary of the Company, is party to a PSC with PetroChina to explore for and develop coal bed methane resources in Guizhou Province. The Group is entitled to earn a 60% interest in GGZ by funding up to US$8,000,000 in respect of an exploration pilot programme and has provided a performance bond against this commitment in the amount of US$1,000,000 (2016:US$2,000,000). At 31 December 2017 the cumulative investment made by the Group in GGZ was US$35,960,000 (2016: US$28,267,000). The increase in the investment made was mainly due to exploration activities in GGZ, 12 wells were drilled during the year.

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

27 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 and Greka Engineering and Technology Limited. These companies are under common management and control of Mr. Randeep S. Grewal.

As at 31 December 2017, 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$6,167,000 (2016: US$10,917,000).
- Net payable to the Greka Engineering and Technology group of US$3,486,000 (2016: US$918,000).

27 RELATED PARTY TRANSACTIONS (continued)

During the year, the Group has incurred drilling costs of US$6,890,000 (2016: US$3,300,000) on services provided by wholly-owned subsidiaries of Greka Drilling Limited. The Group has also incurred infrastructure services costs of US$6,250,600 (2016: US$5,790,000) from wholly-owned subsidiaries of Greka Engineering and Technology Limited. During the year, the Group has sold gas of US$1,453,746 (2016: US$1,158,000) to a wholly-owned subsidiary of Greka Engineering and Technology Limited for power generation.

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.

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 10 to the financial statements.

Ultimate controlling party

The ultimate controlling party is Randeep Grewal.

28 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 2017 US$'000	Year ended 31 December 2016 US$'000
No later than 1 year	**1,944**	2,017
Later than 1 year and no later than 5 years	**1,071**	1,071
	3,015	3,088

29 CAPITAL COMMITMENTS

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Capital expenditure contracted but not provided for in respect of		
– additions to exploration costs and appraisal assets	**7,011**	7,017
– acquisition of property, plant and equipment	**–**	–
	7,011	7,017

The Group is required to undertake certain discretionary capital expenditures upon signing supplementary agreements with CUCBM on certain blocks, details of which are disclosed in note 26.

For disclosure of discretionary commitments under the CUCBM supplementary agreement, see Note 26

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

30 FINANCIAL INSTRUMENTS

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Financial Assets		
Loans and receivables:		
Trade and other receivables	**8,167**	20,465
Restricted Cash	**1,000**	2,000
Cash and cash equivalents	**1,347**	7,324
Total financial assets	**10,514**	29,789
Financial Liabilities		
At amortised cost:		
Trade and other payables	**10,198**	13,883
Convertible notes	**53,132**	47,347
Bonds	**95,932**	88,795
Share buyback option liability	**3,469**	7,924
Total financial liabilities	**162,731**	157,949

The carrying value of the financial assets and liabilities is approximately equal to their fair value at 31 December 2017 and 2016.

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 2017 US$'000	Year ended 31 December 2016 US$'000
Cash and cash equivalents			
USD	Non-interest bearing	**2**	1,280
USD	Floating rate	**1,056**	145
GBP	Non-interest bearing	**1**	65
GBP	Floating rate	**3**	325
CAD	Floating rate	**1**	56
RMB	Non-interest bearing	**135**	–
RMB	Floating rate	**1,731**	5,363
HKD	Non-interest bearing	**245**	90
HKD	Floating rate	**1**	–
Other financial assets			
USD	Non-interest bearing	**2,396**	2,000
RMB	Non-interest bearing	**14,579**	19,976
HKD	Non-interest bearing	**489**	489
		20,639	29,789

30 FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

The weighted average interest rate earned during the year was 0.20% (2016: 0.14%) on floating rate US dollar cash balances, 0.05% (2016: 0.58%) on floating rate GBP balances and 0.52% (2016: 0.35%) 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.

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

		Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Loans and borrowings, convertible notes and bonds financial liability			
USD	Fixed rate	149,064	136,142
Other financial liabilities			
USD	Non-interest bearing	5,085	8,951
RMB	Non-interest bearing	30,776	11,924
GBP	Non-interest bearing	49	762
HKD	Non-interest bearing	154	170
		36,064	157,949

The interest rates payable during the year was 10% (2016: 7%) on US dollars convertible notes and 10% (2016: 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 (2016: US$676,000) 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 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

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

30 FINANCIAL INSTRUMENTS (continued)

Foreign currency risk (continued)

As at 31 December 2016	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	–	–	–	19,976	–	489	20,465
Restricted cash	–	–	2,000	–	–	–	2,000
Cash and cash equivalents	–	56	1,425	5,363	390	90	7,324
	–	56	3,425	25,339	390	579	29,789
Financial Liabilities							
Trade and other payables	–	–	1,027	11,924	762	170	13,883
Convertible notes and bonds	–	–	136,142	–	–	–	136,142
Derivative financial liabilities	–	–	7,924	–	–	–	7,924
	–	–	145,093	11,924	762	170	157,949

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 2017 being US$537,000 (2016: US$379,000) 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 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**
At 31 December 2016							
Trade and other payables	13,883	–	–	–	13,883	–	13,883
Convertible notes and bonds	146,660	–	–	–	146,660	(10,518)	136,142
Share buyback option liability	–	–	10,107	–	10,107	(2,183)	7,924
	160,543	–	10,107	–	170,650	(12,701)	157,949

30 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 2017		31 December 2016	
	Carrying value US$'000	**Maximum exposure US$'000**	Carrying value US$'000	Maximum exposure US$'000
Current assets				
Trade and other receivables	**8,167**	**8,167**	22,911	22,911
Restricted cash	**1,000**	**1,000**	2,000	2,000
Cash and cash equivalents	**1,347**	**1,347**	7,324	7,324
	10,514	**10,514**	32,235	32,235

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 2017, the Group holds approximately 19% (2016: 19%) of its cash in US dollars and 6% (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$6,166,000 (2016: US$10,917,000), 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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

30 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 2017 and 2016 are as follows:

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
Current liabilities	**159,262**	150,025
Non-current liabilities	**127,606**	554,457
Cash and cash equivalents	**(1,347)**	(7,324)
Net debt	**285,521**	697,158
Equity	**671,780**	639,028
Debt-to-equity ratio	**0.43**	1.09

Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2017 and 2016.

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.

31 PROVISIONS

	Year ended 31 December 2017 US$'000	Year ended 31 December 2016 US$'000
CUCBM provision	**–**	401,702

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.

32 SUBSEQUENT EVENTS

There is no 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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