dited results - year ended 31 December 2015

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

Audited results for the year ended 31 December 2015

Green Dragon Gas Ltd. (LSE: GDG), one of the largest independent companies involved in the production and sale of CBM gas in China, is pleased to announce its audited financial results for the year ended 31 December 2015.

Highlights

Financial and corporate

- Revenue of US $37.7 million, a 6% increase year on year (2014: US $35.5 million)
- Cash generated from operating activities in the year to 31 December 2015 of US $12.4 million (2014: US $0.8 million), a near 18-fold increase
- Full cost recovery on GCZ, receiving regular gross sales proceeds from September 2015 onwards and providing additional cash to the business
- Cash of US $26.9 million at 31 December 2015 (2014: US $80.0 million)

Operational

Upstream

- End of year gross annual production capacity of 12.12 bcf per annum, exceeding 2015 target
- Net increase in 1P reserves of 17% to 173 bcf (2014: 148 bcf), NPV10 USD 1.2 billion
- Net increase in 2P reserves of 29% to 549 bcf (2014: 427 bcf), NPV10 USD 4.0 billion
- Annual processing capacity at GSS increased by 79% to 22.7 bcf per annum following the completion of a further two processing facilities by our partner, CNOOC
- First LifaBric well drilled in Coal Seam 15 and successfully completed
- 2,037 wells across all licences with 1,097 on line and 678 wells producing gas
- On GSS, 94 Green Dragon operated wells are connected to sales infrastructure at 31 December 2015 with a further 87 wells similarly connected on the GCZ block

Gas sales

- Net gas sales of 3.7 bcf consistent with prior year (2014: 3.6 bcf)
- PNG sales stable year on year at 2.9 bcf
- Increase in gas sales from GSS equity gas of 26% to 1.41 bcf in 2015 (2014: 1.12 bcf)
- Weighted average sales price achieved of $10/mcf (2014: $10/mcf)

Outlook

- Strategic focus on the upstream business - reviewing options to rationalise downstream operations
- Considering farmout, debt and equity financing options to develop assets and enhance trading liquidity

- 2016 year-end annual gross production capacity target of 16 bcf per annum, a 33% increase versus 2015
- Continued focus on production volume, existing drilled well connections and gas sales
- CNOOC to further progress infrastructure build out on GSS toward ultimate 53 bcf annual sales processing capacity

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

"The Group has succeeded in its transition from an explorer and CBM technology developer into a commercial gas producing, profitable company, delivering our maiden profit in 2015. I am particularly pleased in our operational performance with increases seen in production and processing capacity whilst simultaneously growing our 1P reserves base.

"In 2015, the Company made key recruitments to add skill-sets and bandwidth to the team to support the next phase of Green Dragon's growth. With the impetus this created in mind, we would also like to thank our tirelessly committed workforce that has been fundamental in executing our ambitious business plan.

"With production capacity growth of 33% and strengthened cooperative partnerships with CNPC, Petrochina and CNOOC, we are proud of the position we find ourselves in. As our focus moves to optimising production, revenue and profitability on GCZ and GSS we move into a position where we can now consider how we best deliver tangible value to our shareholders whilst still retaining the financial resources necessary to develop all of GDG's blocks."

Green Dragon Gas' management team will be presenting the 2015 Annual Results and the Company's Vision for 2020 today at 10:15am at the Connaught Hotel, Carlos Place, Mayfair, London, W1K 2AL. To watch the presentation live, please register for the webcast by following this link: http://www.investis-live.com/green-dragon-gas/571e39bf840ec60a0001ffdb/2h8ds6

CHAIRMAN'S STATEMENT

In 2015 we have continued to build on the solid foundations laid down since we entered China over 20 years ago, foundations that were reinforced following the Framework and Cooperation agreements signed with our partners, CNPC and CNOOC, in 2014. We have delivered a consistent operational performance focused on realising investments already made. This, in turn, has translated to a stable financial performance and has provided the platform for growth in our business. This year marks our pivotal year of firmly moving from pure exploration and development into production and sales.

We have an exceptional portfolio of assets that we have continually developed and de-risked since the inception of our operations in China. Our industry continues to enjoy support of the Chinese Government that we are grateful for and that provides the bedrock to underpin the continued growth of the Group. The Chinese Government's commitments embedded in our Production Sharing Contracts since 1999, continue to be honored seventeen years later demonstrating the benefits of a stable governing body through several leadership changes.

The energy sector has faced a challenging year globally, characterised by uncertainty and volatility in commodity prices. Against this backdrop the CBM industry in China has benefitted from consistent Government policy and price stability that has enabled us to deliver a solid performance both operationally and financially. In a year where headlines were dominated by the fall out of the oil price and its impact on forward investment internationally, Green Dragon has continued to judiciously deploy capital in production and gas sales infrastructure to deliver value for shareholders.

China is not wholly immune to the global commodity markets. In late 2015 we saw pricing pressure in the downstream sector where city-gate prices for non-residential gas were adjusted in to encourage gas consumption as the price of substitute fuels fell following a significant decrease in world oil prices. The reduction in the regulated price for non-residential gas is rightly aimed at increasing the use of gas in China as a cleaner alternative to both coal and fuel oil. While reduced end-user pricing will support gas demand in the medium term it could potentially bring a degree of pressure on upstream pricing. Reflecting this and reaffirming its commitment to the CBM industry in China, the Chinese Government recently confirmed its support for CBM in China and announced a 50% increase in subsidy rates for upstream CBM producers as part of the 13thFive Year Plan - a move that was followed by provincial governments with similar increases to local subsidy. Furthermore, CBM continues to be the only energy source under free market principles.

Given the strong margins historically for CBM in China and the increased Chinese Government support through subsidy, we expect margins to remain robust for CBM production even if medium term price pressure comes to bear. The net margins within the natural gas sector are certainly the best globally in China CBM and we are uniquely structured to avail this opportunity.

Operational performance in 2015

We saw our exit-rate production capacity increase by 36% to 12.12 bcf per annum providing the basis for future gas sales as infrastructure is built out particularly on the GSS block. During the year our partner, CNOOC, completed and commissioned two further gathering stations bringing processing capacity in GSS to 22.7 bcf per annum as part of the programme to increase the total processing capacity in the block to 53.4 bcf per annum in the next 18-24 months.

We continued our own focus on infrastructure in GSS through the connection of existing drilled wells to production infrastructure and the optimisation of the gathering system by strategically adding compression to wellheads and gathering circuits. In the GDG operated areas of GSS this has yielded a 26% increase in the sales to production ratio as compared to year end 2014.

Significantly, we also saw success in our inaugural well drilled into Coal Seam 15 that was completed successfully and is now exhibiting casing pressure consistent with gas production. The successful completion of our first well in this seam is a significant step forward in de-risking and proving the potential of Coal Seam 15 and one that was matched by CNPC, our partner in GCZ.

Continued de-risking of our assets

2015 was marked by our tenth consecutive increase in both 1P and 2P reserves with net 1P reserves increasing by 17% to 173 bcf and net 2P reserves up 29% to 549 bcf. Importantly, 2015 saw the initial booking of 1P and 2P reserve volumes on GSN, reflecting the delivery by CNOOC on its investment commitment made as part of the framework agreement entered in 2014.

Our exploration focus in 2015 has largely been on the GGZ block in Guizhou province where we drilled and successfully completed six exploration wells during the year. Two of the six wells are currently producing gas and three are showing casing pressure consistent with gas desorption.

The positive results of these wells are particularly encouraging as we move toward certified reserves in 2016 as the first step toward developing an Overall Development Programme for this block. The investment in GGZ demonstrates our commitment to continually de-risk our significant acreage position and to provide line of sight to a credible pipeline of development opportunity. The decade we spent developing technology and knowledge of the Chinese coal seams accelerates the timeline to commerciality for all the remaining blocks in exploration, our activities in GGZ is such a demonstration.

Liquidity and capital resources

The Group closed the year with $26.9 million of cash on hand. Cash from operations increased significantly in the year to $12.4 million reflecting the continued strong sales performance from GSS and the commencement of cash receipt on GCZ. Our partner on GCZ, CNPC, reached cost recovery in September 2015 since which time we have been regularly receiving our 47% share of GCZ gross sales proceeds and separately settling cash calls for our share of costs, yielding net cash monthly. We expect our cash performance in 2016 will be enhanced as we continue to receive cash proceeds from GCZ and GSS profitable gas sales.

People

We have made a number of key management appointments in 2015 and into 2016. We have strengthened our operational and finance teams to support the business as it continues to grow in the coming years. Enhancing our management team not only provides important bandwidth to our organisation at a time of production growth but has also brought additional skill sets on managing commercial operations rather than purely development. We succeeded in the timely organisation of this management transition to support the growth trajectory.

In 2015 we also continued to focus on our future leaders programme aimed at developing and nurturing key talent within the Group to build a sustainable management team, providing personal and professional development opportunities to our young leaders and give a clear path to succession planning within our business.

In addition to professional development, I am particularly proud that the focus of our future leaders programme has extended to community based projects with our future leaders team devoting time to a school for orphans giving English lessons to students and organising a range of group activities for the children. As an international Company operating in China, we have a consistent long track record of working closely with our communities and enhancing them.

I wish to thank all of our tireless employees that continue to achieve higher accomplishments through a passionate commitment to working hard in delivering on the Group's business plan.

Looking forward

I am genuinely excited for what the future holds for Green Dragon with the excellent team we have assembled. From the exploration and production teams in the field, to our gas stations through to the administrative support teams and management, we continue to strengthen in key areas with a focus on developing our people and Group organisation.

The Group has succeeded in its transition from an explorer and CBM technology developer into a commercial gas producing, profitable company. Green Dragon has succeeded in de-risking a 25 Tcf gas resource across 7,600 km2 over the last fifteen years and can now focus on ways to expand our production profile and generate incremental cash. The emerging market challenges have been well over-come.

With the assets successfully de-risked, and cooperative partnerships with CNPC, Petrochina and CNOOC, we are poised to provide our shareholders returns on their long committed investments and support. The transition from an explorer and CBM technology developer into a commercial gas producing profitable company was particularly successful. The bandwidth and skill was added to the organisation timely for the next phase of Green Dragon's growth.

We have continually de-risked our asset based through hard work and the application of deep CBM knowledge and experience. Our growth trajectory has been steady and consistent and I believe we are truly poised to deliver the full potential from our world class asset portfolio.

Our maiden profit in 2015 initialises the trajectory of rewards we have worked so hard to achieve.

I look forward to continuing to report on our well managed and disciplined growth in future years.

Randeep S. Grewal
Founder & Chairman

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Revenue	3	32,715	33,787
Revenue - subsidy income	3	5,000	1,761
Total revenue		37,715	35,548
Cost of sales		(15,549)	(20,865)
Gross profit		22,166	14,683
Selling and distribution costs		(1,639)	(1,829)
Litigation interest and penalty written back		-	6,937
Other administrative expenses		(5,530)	(13,935)
Total administrative expenses		(5,530)	(6,998)
Profit from operations	4	14,997	5,856
Other income and finance income	5	797	105
Change in fair value of financial derivative		-	(30,096)
Other finance costs	6	(15,924)	(12,128)

Total finance costs		(15,924)	(42,224)
Loss before income tax		(130)	(36,263)
Income tax credit	9	212	450
Profit/(loss) for the year attributable to owners of the company		82	(35,813)
Other comprehensive expense, net of tax:			
- Exchange differences on translating foreign operations		(41,937)	(1,652)
Total comprehensive expense for the year attributable to owners of the company		(41,855)	(37,465)
Basic and diluted earnings/(loss) per share	10	0.0005	(0.229)

All results for the year relate to continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2015 US$'000	As at 31 December 2014 US$'000
Assets		
Non-current assets		
Property, plant and equipment	271,996	157,627
Gas exploration and appraisal assets	1,043,859	1,157,915
Other intangible assets	2,957	3,108
Non-current prepaid expenses	213	275
Deferred tax asset	2,169	2,241
	1,321,194	1,321,166
Current assets		
Inventories	109	112
Trade and other receivables	22,478	23,053
Cash and cash equivalents	26,866	80,037
Restricted cash	2,000	-
	51,453	103,202
Total assets	1,372,647	1,424,368
Liabilities		
Current liabilities		
Trade and other payables	15,413	22,103
Current tax liabilities	13	143
	15,426	22,246

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2015 US$'000	As at 31 December 2014 US$'000
Non-current liabilities		
Convertible notes	48,398	47,243
Bonds	86,807	85,072
CUCBM provision	370,217	367,027
Deferred tax liability	154,352	163,478
	659,774	662,820
Total liabilities	675,200	685,066
Total net assets	697,447	739,302
Capital and reserves		
Share capital	16	16
Share premium	808,981	808,981

Convertible note equity reserve	3,756	3,756
Share-based payment reserve	12,743	12,743
Foreign exchange reserve	22,016	63,953
Retained deficit	(150,065)	(150,147)
Total equity attributable to owners of the Parent	697,447	739,302
Total equity	697,447	739,302

The financial statements were authorised and approved by the Board on 26 April 2016 and signed on their behalf by

Randeep S. Grewal
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$'000	Share premium US$'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 2014	14	681,031	1,746	12,743	65,605	(114,334)	646,805
Loss for the year	-	-	-	-	-	(35,813)	(35,813)
Exchange differences on translating foreign operations	-	-	-	-	(1,652)	-	(1,652)
Total comprehensive income/(expense) for the year	-	-	-	-	(1,652)	(35,813)	(37,465)
Issue of share capital and share premium on exercise of warrants	1	92,951	-	-	-	-	92,952
Issue of share capital and share premium on exercise of convertible	1	34,999	(1,746)	-	-	-	33,254
Issue of convertible notes	-	-	3,756	-	-	-	3,756
At 31 December 2014	16	808,981	3,756	12,743	63,953	(150,147)	739,302
Profit for the year	-	-	-	-	-	82	82
Exchange differences on translating foreign operations	-	-	-	-	(41,937)	-	(41,937)
Total comprehensive expense for the year	-	-	-	-	(41,937)	82	(41,855)
At 31 December 2015	16	808,981	3,756	12,743	22,016	(150,065)	697,447

Exchange differences on translating foreign operations may be recycled through profit in future periods if certain conditions or events arise

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Operating activities			
Profit/(loss) after tax		82	(35,813)
Adjustments for:			
Depreciation	4	4,172	4,867
Amortisation of intangible assets		945	713
Loss on disposal of property, plant and equipment		-	848
Other income and finance income	5	(797)	(4)
Change in fair value of derivative		-	30,096
Other finance costs	6	15,924	12,128
Litigation interest and penalties written back		-	(6,937)
Taxation		(212)	(450)
Cash generated from operating activities before changes in working capital		20,114	5,448
Movement in inventory		3	(26)
Movement in trade and other receivables		1,600	2,015
Movement in trade and other payables		(9,265)	(6,655)

Net cash generated from operations	12,452	782
Income tax	(24)	(99)
Net cash generated from operating activities	12,428	683
Investing activities		
Payments for purchase of property, plant and equipment	(259)	(369)
Cash paid to settle provision	-	(40,000)
Payments for intangible assets - gas station licence	(794)	-
Payments for long-term prepaid expenses	192	(58)
Share of GCZ property plant and equipment purchases	(2,404)	(13,300)
Payments for exploration activities	(42,319)	(39,836)
Interest received	121	4
Deposits paid to PetroChina	(2,000)	-
Net cash used in investing activities	(47,463)	(93,559)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Financing activities			
Cash paid to redeem bonds and convertibles		-	(35,000)
Cash received from issuing convertible notes		-	50,000
Cash received from issuing bonds		-	84,042
Cash received from exercise of warrant		-	42,446
GCZ block finance provided by PetroChina		-	2,942
Other interest paid		(12,300)	(5,425)
Net cash generated (used in)/from financing activities		(12,300)	139,005
Net (decrease)/increase in cash and cash equivalents		(47,335)	46,129
Cash and cash equivalents at beginning of year		80,037	34,642
		32,702	80,771
Effect of foreign exchange rate changes		(5,836)	(734)
Cash and cash equivalents at end of year		26,866	80,037

ABRIDGED NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2015

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") that are effective for accounting periods beginning on or after 1 January 2015. 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.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk or cause a material adjustment to the carrying amounts of assets and liabilities within the period after the year/period are as follows.

CUCBM Framework Agreement

Judgment has been exercised in the recognition of the Group's share of the historic expenditure incurred by China United Coalbed Methane Gas ("CUCBM") on the Group's blocks. Further to the identification of drilling activities by third parties across several of the Group's blocks, the Group entered into a Framework Agreement signed with CUCBM in 31 March 2014 and as at 31 December 2014 has reached agreement with CUCBM regarding the historical exploration and infrastructure expenditure. CUCBM undertook significant historical exploration and infrastructure preparation work within several licence areas and incurred gross expenditure of $611,300,000. Under the PSC, the Group had the right to enforce its PSC interests in the asset but agreed to reimburse CUCBM for the Group's share of the historic expenditure by allowing CUCBM to recover its costs from ring fenced cash flows associated with the relevant wells. A constructive obligation is considered to exist given the nature of the transaction and the negotiation between the parties. The amount to be reimbursed through future cash flows from the relevant wells is considered sufficiently certain given the extent of well development, the levels of in place infrastructure and reserves associated with the wells, although settlement remains dependent upon sufficient future production arising. Accordingly, the Group has recorded its share of the assets and a provision. The Group has exercised judgment in considering the arrangement to create an obligation and its assessment that there is a reasonable expectation that the relevant wells will generate sufficient cash flows. This transaction is considered to be a 2014 event as the Framework Agreement affirmed the Group's entitlement to the assets. Further details are provided in note 26.

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

Depreciation of the gas production assets

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

Judgment 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 program" 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 program 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, the Group considers the Area 4 block of the GSS licence area to be in commercial production for 2015 as technical feasibility and commercial viability has been established despite the pending approval of the overall development program. 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 respect of the producing Area 4 block. 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 1P reserves to be capable of extraction using the assets and therefore an appropriate estimate of the asset's life.

Impairment reviews

Exploration and appraisal costs are assessed for indicators of impairment. 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 (1P) and probable (2P) reserves in such impairment tests.

3 REVENUE AND SEGMENT INFORMATION

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

During the year revenue of US$15,127,000 (2014: US$17,279,000) was recognised by the Sale of CBM gas segment in respect of 1 (2014: 1) customer representing 10% or more of the Group's total revenue for the year.

For the year ended 31 December 2015

	Sale of CBM gas US$'000	Retailing gas station sales US$'000	Corporate US$'000	Sub-total US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue:						
Sales to external customers	15,127	17,588	-	32,715	-	32,715
Inter-segment sales	10,874	-	25	10,899	(10,899)	-
Government subsidies	5,000	-	-	5,000	-	5,000
	31,001	8,577	25	43,614	(10,899)	37,715
Depreciation	(3,495)	(608)	(69)	(4,172)	-	(4,172)
Amortisation	-	(945)	-	(945)	-	(945)
Profit/(loss) from operations	18,473	(2,656)	(820)	14,997	-	14,997
Other income and financial income	-	113	684	797	-	797
Other finance costs	-	(469)	(15,455)	(15,924)	-	(15,924)
Income tax credit	123	89	-	212	-	212
Profit/(loss) for the year	18,096	(2,923)	(15,091)	82	-	82

Assets	1,338,275	23,844	857,023	2,199,143	(846,496)	1,372,647
Liabilities	533,374	4,958	626,548	1,164,881	(509,681)	655,200

Profit from operations generated from the sale of CBM gas have increased in 2015 as the Group has classified a portion of GSS as a producing gas asset. As result, the gross margins on sales from this area has been recognised in the income statement; which were capitalised in prior years.

These financial statements do not include the Group's share of CNOOC GSN transactions or operated GSS 1,388 wells' revenue, associated costs and resulting margins. During the year CNOOC has commissioned two additional gas gathering and sales stations in GSS for a distribution capacity of 22.7 bcf per annum. The sales revenues and volumes associated with the CNOOC operated areas of GSS and GSN will be reported in due course as they are currently being audited by independent auditors. The audit will complete the sales revenue since inception of the sales from all the wells operated by CNOOC in the areas under the Framework Agreement. Under the Framework Agreement, while the Company will record its share of revenue, costs and resulting margins, the resulting cash flow will be offset with the cost recovery account.

The Group has not recorded any estimated sales revenue and resulting net margins from its interest in the CNOOC legacy wells until such time as the independent audit of sales revenues and associated volumes is concluded.

For the year ended 31 December 2014

	Sale of CBM gas US$'000	Retailing gas station sales US$'000	Corporate US$'000	Sub-total US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue:						
Sales to external customers	17,757	16,030	-	33,787	-	33,787
Inter-segment sales	6,048	-	-	6,048	(6,048)	-
Government subsidies	1,761	-	-	1,761	-	1,761
	25,566	16,030	-	41,596	(6,048)	35,548
Depreciation	(4,165)	(662)	(40)	(4,867)	-	(4,867)
Amortisation	-	(713)	-	(713)	-	(713)
Litigation interest and penalties written back	-	-	6,937	6,937	-	6,937
Profit/(loss) from operations	6,193	(1,065)	728	5,856	-	5,856
Other income and financial income	-	103	2	105	-	105
Change in fair value of derivative	-	-	(30,096)	(30,096)	-	(30,096)
Other finance costs	-	-	(12,128)	(12,128)	-	(12,128)
Income tax credit	293	157	-	450	-	450
Profit/(loss) for the year	6,486	(805)	(41,494)	(35,813)	-	(35,813)
Assets	1,321,850	15,799	1,081,985	2,419,634	(995,266)	1,424,368
Liabilities	554,014	5,497	636,476	1,195,987	(510,921)	685,066

4 PROFIT/(LOSS) FROM OPERATIONS

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

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the annual financial statements	385	360
Fees payable to the Company's auditors for the review of the interim results	40	39
Staff costs (note 7)	1,357	3,832
Depreciation of property, plant and equipment	4,172	4,867
Operating lease expense (property)	370	1,231
Amortisation of intangible assets	945	713
Reversal of provision for ConocoPhillips interest and penalties	-	(6,937)

5 OTHER INCOME AND FINANCE INCOME

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Bank interest	121	4
Exchange gain	303	101
Sundry income	373	-
	797	105

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

6 FINANCE COSTS

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Convertible notes (coupon at 7% plus effective interest adjustments)	4,655	3,902
Bonds (coupon at 7% plus effective interest adjustments)	-	7,060
Bonds (coupon at 10% plus effective interest adjustments)	10,535	1,166
Exchange loss	734	-
	15,924	12,128

7 STAFF COSTS

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Staff costs (including Directors' emoluments) comprise:		
Wages and salaries	5,841	7,125
Employer's national social security contributions	1,134	396
Other benefits	1,181	1,231
	8,156	8,752
Less: expenses capitalised as gas exploration and appraisal assets	(6,799)	(4,920)
Total staff costs charged to profit or loss (note 4)	1,357	3,832

8 SHARE-BASED PAYMENTS - PRIOR YEARS

Details of the Group's share options as follows:

Number of share options granted historically	3,408,750
Number of share options exercised historically	(2,029,375)
Number of share options outstanding at 1 January 2014, 31 December 2014	1,379,375
Number of share options outstanding at 31 December 2015	-

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

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

Share options granted on	25 January 2011	31 December 2009	28 February 2008	1 October 2008
Weighted average share price	US$11.13	US$6.67	US$6.04	US$8.25

Weighted average exercise price	US$6.50	US$6.50	US$6.50	US$6.50
Expected volatility	35%	25%	39%	44%
Risk free rate	0.27%	2.76%	3.08%	4.06%
Expected dividend yield	N/A	N/A	N/A	N/A

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

The 1,379,375 outstanding share options since 1 January 2012, which had a weighted average exercise price of US$6.5 fully expired on 31 December 2015.

9 TAXATION

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Current tax - PRC Enterprise Tax		
Tax creditforthe current year	(25)	(47)
Deferred tax		
Temporary timing differences	(9)	(581)
Previously unrecognised deferred tax assets assessed as recoverable at the end of the year	(178)	178
Total tax credit	(212)	(450)

Other comprehensive income includes a charge of US$Nil (2014: credit, US$396,000) in respect of deferred tax movements on exchange gains and on the retranslation of foreign subsidiaries.

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

	Year ended 31 December 2015 US$'000	Year ended 31 December 2014 US$'000
Accounting loss before tax	(130)	(36,263)
Expected tax credit based on the standard rate of corporation tax in the PRC of 25% (2014:25%)	(32)	(9,065)
Effect of:		
Different tax rates applied in overseas jurisdictions	57	9,112
Temporary differences applied in overseas jurisdictions at different tax rates	(237)	(403)
Income tax credit	(212)	(450)

Taxation for the Group's operations in the PRC is provided at the applicable current tax rate of 25% (2014: 25%) on the estimated assessable profits for the year.

10 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 2015 US$'000	Year ended 31 December 2014 US$'000
Profit/(loss) for the year attributable to owners of the Company used in basic and diluted earnings/(loss) per share	82	(35,813)

	Year ended 31 December 2015 Number	Year ended 31 December 2014 Number
Weighted average number of ordinary shares for basic and diluted earnings per share	156,072,289	156,072,289

	Year ended 31 December 2015	Year ended 31 December 2014
Basic and diluted earnings/(loss) per share (US$)	0.0005	(0.229)

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.

11 JOINT ARRANGEMENTS

The Group currently operates under five (2014: five) 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 abovementioned (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 thirty years, with a production period of not more than twenty 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 all the six blocks covered by these five production sharing contracts are formally in the exploration stage based on the PSC requirement for ODP approval before transition to production period . In 2015 the assets associated with a portion of the GSS block were reclassified as property, plant and equipment due to the substantive nature of the production operations and associated cash generation from this area.

PSCs held with PetroChina (CNPC)

Chengzhuang Block ("GCZ")

In August 2014, the Group finalised and signed the Cooperation Agreement with PetroChina in respect of the GCZ Block in accordance with an memorandum of understanding previously entered in December 2013. GZC lies within the GSS licence area and prior to the Cooperation agreement was governed exclusively 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 CNPC through its share of future production.

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

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

	2015 US$'000
Capital expenditure	2,404

Revenue	15,126
Total operational costs and expenses	(3,248)
Net Profit	11,878

Amount due from/(to) CNPC	USD$'000
Balance as at 1 January 2015	(4,407)
Capital expenditure for GCZ block	(2,404)
Share of profit for GCZ block	11,878
Cash received	(3,293)
Balance as at 31 December 2015	1,774

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

Baotian-Qingshan Block ('GGZ')

In addition, GrekaGuizhou E&P Ltd, a subsidiary of the Company, is party to a PSC with PetroChina to explore for and develop coal bed methane resources in Guizhou Province. The Group is entitled to earn a 60% interest in GGZ by funding up to US$8,000,000 in respect of an exploration pilot programme and has provided a performance bond against this commitment in the amount of US$2,000,000. At 31 December 2015 the cumulative investment made by the Group in GGZ was US$30,287,000, of which US$ 7,382,000 was invested in 2015.

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

PSCs held with CUCBM (CNOOC)

Framework Agreement with CUCBM

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

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

* unchanged

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

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

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

Settlement remains dependent upon sufficient future production arising from the ring fenced wells.

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

	31 December 2015 US$'000	31 December 2014 US$'000
Opening balance	367,027	13,000
Capital additions in the year	23,012	354,027
FX gain	(19,822)	-
Closing provision for amounts due to CUCBM	370,217	367,027

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

Under the original Shizhuang South PSC and as reaffirmed by the Framework Agreement US$13,000,000 included within provisions (2014: US$13,000,000) represent amounts payable to CUCBM in respect of exploration costs incurred by CUCBM on GSS prior to the original PSC between the parties. This amount is to be settled out of the Group's share of future revenue from the Shizhuang South Block. The balance is unsecured, interest-free and is not expected to be repayable within the next 12months. Discounting is considered immaterial. On satisfaction of the payable to CUCBM, the Group's interest in the GSS PSC will be revised to 70%. The obligation is classified as a provision given the uncertain nature of its timing.

Shizhuang North PSC

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

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

12 SUBSEQUENT EVENTS

There were no significant subsequent events that happened after 31 December 2015 up to the date of approval of the Group's Annual Report for the year ended 31 December 2015.

13 PUBLICATION OF NONSTATUTORY ACCOUNTS

The financial information for the years ended 31 December 2015 and 31 December 2014 set out in this announcement does not constitute the Group's statutory financial information but is extracted from the Company's audited financial statements for those years. The auditors have reported on the full accounts for both periods and their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports.

14 ANNUAL REPORT

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