Green Dragon Gas

ANNUAL REPORT 2016

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

STRATEGIC REPORT

: HIGHLIGHT

Financial: Continued cash generation but impacted by FX and downstream

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 Green Dragon Gas 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 area 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

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

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

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

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

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

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

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

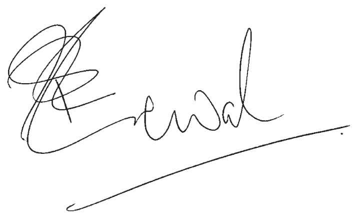
GDG established its downstream business in order to provide a route to market for its gas where previously there were limited options. With a number of entities developing downstream operations within the Qinshui basin adjacent to our GSS block this optionality is no longer needed. Consequently we have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

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

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

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

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



Randeep S. Grewal
Chairman

STRATEGIC REPORT

: REVIEW OF OPERATIONS

DELIVERING VAL
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LUE FROM OUR ASSET BASE

The upstream operational focus for 2016 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

The upstream operational focus for 2016 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.

During 2016, the gross production exit-rate across all licence areas was 12.05 bcf per annum (2015: 12.12 bcf per annum) with gross production in the period increasing by 9% to 11.22 bcf (2015: 10.31 bcf). The end-of-year gross production capacity exit rate calculation and gross production capacity calculations have been impacted by a change in measurement methodology by CNOOC in respect of their operated well stock where flared gas is excluded from capacity statistics. The figures reflect the Group's focus on GSS and follow the delivery of significant investments made by our partner, CNOOC, which were agreed as part of the Framework Agreement in 2014. At the end of the year 795 wells were on line out of a total well stock of 2,037 across all licence areas. Of the wells on line, 568 wells were producing gas.

In 2016, the Group continued its exploration programme focused on the GSN and 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, 2016 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 for the first time. 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.

Shizhuang South (GSS)

GDG: 60% (op)			
CNOOC: 40%	**2016**	2015	
388 km²	**Net, bcf**	Net, bcf	+/-
1P	**166**	153	8%
2P	**457**	473	-3%

Location: Shanxi Province

Our primary focus in our operated GSS area in 2016 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.

In 2016, 10 new LiFaBriC connections were made on GSS, increasing the number of producing LiFaBriC wells to 56 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 101 from a total stock of 126 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 2015. The compression project will continue into 2017.

In 2015, 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.

UPSTREAM

We continued to strengthen our relationships with our partner CNOOC, with 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 2017. Approval of ODP is expected to widen available debt funding opportunities.

Chengzhuang (GCZ)

GDG: 47%			
CNPC: 53% (op)	**2016**	2015	
67 km^2	**Net, bcf**	Net, bcf	+/-
1P	**14**	15	-7%
2P	**29**	31	+6%

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, that 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.

Shizhuang North (GSN)

GDG: 50% CNOOC: 50% (op) 375 km²	**2016** **Net, bcf**	2015 Net, bcf	+/-
1P	**5**	5	n/a
2P	**18**	10	n/a

Location: Shanxi Province

A significant milestone was reached on GSN in 2015 with the first-time booking of 1P and 2P reserves. 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 where we exchanged a 10% interest for an additional US$100 million investment commitment from CNOOC.

Boatian-Quingshan (GGZ)

GDG: 60% (op) CNPC: 40% 947 km²	**2016** **Net, bcf**
2P	**30**
Unrisked prospective resources, best estimate	**106**

Location: Guizhou Province

The GGZ Block was a major area of exploration focus in 2016, 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) planned for 2017. Submission of the CRR is an important exploration milestone and a precursor to the ODP.

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 2017.

PSC	Location (province)	Area km²	GDG share (op)	Unrisked prospective resource – best estimate Net, bcf
GQY A	Shanxi	3,665	10%	951
GQY B			60%	
GFC	Jiangxi	1,541	49%	116
GPX	Anhui	584	60%	17

STRATEGIC REPORT

: REVIEW OF OPERATIONS

RESERVES MIGRATION

The Group updated its estimates of gas reserves and resources at 31 December 2016 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 2,037 wells operated by Green Dragon, CNOOC, CNPC and PetroChina across all blocks in which the Group has an equity interest.

Highlights from the reserves report include:

- Net 1P reserves increase of 6% to 184 bcf (2015: 173 bcf)
- Net 2P reserves increase of 2% to 559 bcf (2015: 549 bcf)
- Net 3P reserves increase of 0.3% to 2,386 bcf (2015: 2,379 bcf)
- Total Original Gas In Place increase of 6% to 27.1 tcf (2015: 25.6 tcf)

The results of the reserve report represent the eleventh consecutive increase in 1P and 2P reserve volumes and include the initial booking of reserves volumes on the GGZ Block.

The summary reserves report at 31 December 2016, with associated NPV 10 valuations, is below:

	31 December 2016 (Net, bcf)			31 December 2015 (Net, bcf)		
PSC (Block)	1P	2P	3P	1P	2P	3P
Chengzhuang (GCZ)	14	29	52	15	31	52
Shizhuang South (GSS)	166	457	1,330	153	473	1,379
Shizhuang North (GSN)	5	18	686	5	18	721
Fengcheng (GFC)	–	24	212	–	26	228
Baotian-Qingshan (GGZ)	–	30	106	–	–	–
Total*	**184**	**559**	**2,386**	**173**	**549**	**2,379**

	31 December 2016 (Net NPV 10, USD $ million)			31 December 2015 (Net NPV 10, USD $ million)		
PSC (Block)	1P	2P	3P	1P	2P	3P
Chengzhuang (GCZ)	116	233	376	124	238	362
Shizhuang South (GSS)	1,170	3,282	9,320	1,068	3,344	9,429
Shizhuang North (GSN)	37	125	4,221	36	121	3,754
Fengcheng (GFC)	–	313	2,582	–	319	2,666
Baotian-Qingshan (GGZ)	–	373	1,306	–	–	–
Total*	**1,323**	**4,326**	**17,805**	**1,228**	**4,022**	**16,213**

31 December 2016 PSC (Block)	Contingent Gas Resources Net, 2C, bcf	Un-risked prospective gas resources Net, best estimate, bcf
Quinyuan (GQY)	18	951
Fengcheng (GFC)	5	116
Panxie East (GPX)	–	17
Boatian-Quingshan (GGZ)	871	599
Total*	**894**	**1,683**

* Totals may not add due to rounding.

The estimates in the reserve report have been prepared in accordance with definitions and guidelines set forth in the 2007 Petro-leum Resources Management System (PRMS) approved by the Society of Petroleum Engineers. The information in this announce-ment pertaining to Green Dragon Gas'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$10.19/Mcf (RMB2.499) (2017), increasing to US$12.38/Mcf (RMB3.037) (2021), and escalated 3% p.a. thereafter

2. Operating costs relating to direct lease and field level costs – US$1,200 per well per month and US$0.054/Mcf of gas produced (no corporate G&A included), and escalated 2% p.a. from 2017

STRATEGIC REPORT

: REVIEW OF OPERATIONS

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 2016, including our 47% share of GCZ sales, were 3.73 bcf (2015: 3.71 bcf) of which 1.88 bcf (2015: 1.41 bcf) represented sales of GSS production and 0.32 bcf (2015: 0.47 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 commercial focus of the downstream business in 2016 will be on the diversification of the customer base and routes to market to provide a variety of additional sales channels as production increases. We consider that the Group's diversified sales channels represent a strategic advantage in a competitive marketplace and we intend to exploit that advantage further in future.

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 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 2016 amounted to 3.41 bcf (2015: 3.23 bcf) representing 91% of gross production (2015: 87%). PNG sales from the Group's operated property on GSS were 1.47 bcf (2015: 1.07 bcf) representing an increase of 37% over 2015, reflecting the new well connections made in the year and the continued improvement in our sales to production ratio.

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 2016 amounted to 0.14 bcf (2015: 0.12 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 eight retail gas stations. In addition, we are actively working with the airport authorities regarding the relocation of our airport station following significant redevelopment of the area around Zhengzhou airport.

CBM pricing is unregulated, with prices set on a market or negotiated basis. The exception to this is retail CNG pricing that follows the city-gate pricing levels set by the Central Government. In November 2015, the Central Government announced a reduction in the retail city-gate pricing structure resulting in a reduction in our forecourt prices from 4.2 RMB/m^3 to 3.6 RMB/m^3. Nevertheless, retail CNG continues to provide the highest margins of our available sales channels for equity gas.

Total retail CNG sales for 2016 amounted to 0.36 bcf (2015: 0.51 bcf). Of the total 2016 retail sales volume, 0.04 bcf (2015: 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 13% (2015: 12%) of total sales from the Group's operated property on GSS.

STRATEGIC REPORT

: FINANCIAL REVIEW

INCOME STATEMENT

Total revenue decreased by 23% in 2016 to US$29.1 million (2015: US$37.7 million) as a result of to an approximate 20% decrease in gas prices and a 7% decline in the RMB/USD exchange rate year on year. Total sales volumes are stable year-on-year with revenue in 2015.

Sales volumes by channel in 2016 compared to 2015 were as follows:

	2016 bcf	2015 bcf
PNG	**3.0**	2.9
CNG – Industrial	**0.1**	0.1
CNG – Retail	**0.4**	0.5
Power	**0.2**	0.2

PNG sales volumes from our operated GSS area were 3% higher in 2016 than in 2015 as a result of the increase in new well connections during 2016 and the initial results from the compression upgrade. This activity is entirely aimed at increasing sales volumes from investments already made. Offsetting the increase in PNG sales from GSS, our share of sales volumes (47%) from GCZ was 16% lower than in 2015 reflecting the relative maturity of the GCZ area. 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 2016 were lower than 2015 primarily due to the suspension of operations at the Zhengzhou Airport CNG station during the year. Operations at the station were suspended pending its relocation to a new site following a significant redevelopment of the airport campus.

Subsidy revenue has increased by 30% compared to 2015 as a result of the increase in rates compared to 2015. 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 5% in 2016 to US$16.4 million (2015: US$15.5 million). Production processing and associated power cost are variable in nature, with other costs being relatively fixed in nature. The majority of the underlying items included in cost of sales are denominated in RMB. The depreciation of the RMB against the US Dollar during the year has not resulted in reduction in the reported cost of sales figure.

Selling and distribution costs were US$1.0 million (2015: US$1.6 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 eight stations in operation in both periods. The costs are incurred wholly in RMB with the decline in reported cost being almost entirely due to the depreciation of the RMB during the period and the suspension of service of the airport gas station.

Other administrative costs are US$3.4 million higher in 2016 at US$8.9 million (2015: US$5.5 million) due to the reduction of capitalisation of directly attributable costs as part of exploration and appraisal assets in the current year.

LIQUIDITY AND CAPITAL RESOURCES

The Group closed the year with US$7.3 million (2015: US$26.9 million) of cash on hand and US$2.0 million (2015: US$2.0 million) of restricted cash related to a performance bond given to PetroChina in relation to the Group's exploration activities on the GGZ Block. During the year, US$8.5 million (2015: US$12.4 million) was generated from operations with US$10.5 million (2015: US$44.7 million) invested in the exploration and production acreage. The decrease in investment in exploration and production acreage is largely due to availability of the capital fund.

The cash used for debt service in 2016 is at the same level of 2015 reflects the interest paid in respect of the US$88.0 million bond entered in late 2014 and carrying a coupon of 10%, together with the convertible bond also taken out in late 2014, with principal of US$50.0 million and a coupon of 7%.

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 De-cember 2020 (subject to a one-time redemption option exercisable by GIC on the current maturity). The Bond is convertible into ordinary shares at a conversion price of US$2.83 per share representing a 25% premium over the 13 December 2016 closing price. 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.

The Company is in discussions with Bond Trustee of the $88 million senior secured bonds and certain key bondholders regarding a request for certain waivers of its financial covenants. The 2015 Financial Statements did not include the Group's share of the CUCBM operated Shizhuang North Block ("GSN") transactions or operated Shizhuang South Block ("GSS") 1,388 wells' revenue, associated costs, resulting margins and EBITDA. In order to allow the Company to resolve completion of the CUCBM audit so that it will be able to give a final and conclusive statement of its results for the year to 31 December 2015, and deliver to the Bond Trustee the adjusted financial covenant ratios reflecting the audited figures, the Company has requested the Bond Trustee to convene a meeting of the bondholders to consider a waiver in respect of the Interest Coverage Ratio and the Leverage Ratio in each case for the reporting period ended on 31 December 2015 and 30 June 2016. The request is still in progress.

ASSET ADDITIONS

Total additions to upstream CBM assets in 2016 amounted to US$15.2 million (2015: US$45.4 million). Of the total additions, US$0.1 million (2015: US$3.3 million) related to capex additions in respect of the GCZ production block. Additions to exploration assets totalled US$10.5million (2015: US$42.3 million) primarily related to the GSS Block and GGZ. In 2016, due to the substantive nature of operations and the cash generation from GSS, a portion of this asset was transferred from exploration and appraisal assets to property plant and equipment. An amount of US$Nil million (2015: US$121.0 million) was transferred to property, plant and equipment in respect of GSS. On transfer to property plant and equipment the elimination of margin on test revenue was ceased and depreciation was recognised in respect of this area in accordance with the Group's accounting policies.

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, 2016 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 ongoing 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.

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 Green Dragon 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 whom have studied languages and translation at university level.

GOVERNANCE

: BOARD OF DIRECTORS

Randeep S. Grewal

Chairman and CEO
Year of appointment: 2006

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

From April 1997 to September 1997, Mr. Grewal served as Chairman and Chief Executive Officer for Horizontal Ventures, Inc., 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

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 – Dec 2005), Hysan Development Co Ltd (May 2005 – Jan 2006) and Air China Ltd (May 2005 – Dec 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
Chairman, Seabury Aviation and Aerospace – Asia

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

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

Green Dragon Gas 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, Green Dragon Gas 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 Green Dragon Gas.

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.

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.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

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 Green Dragon Gas, 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.greendragongas.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 auditors rotation arrangements for key audit personnel and areas of potential conflicts of interest.

Communication with shareholders and continuous disclosure

The Directors attach importance to the provision of clear and timely information to shareholders and the broader investment community. Information about the Company is available on its website (www.greendragongas.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.greendragongas.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.greendragongas.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 Green Dragon Gas Ltd. have pleasure in submitting their Report with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

Green Dragon Gas Ltd (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. Green Dragon Gas 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 2016 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 2016 are contained in the Consolidated Statement of Changes in Equity and in notes 24 and 25 of the financial statements.

RESULTS AND DIVIDENDS

An overview of the Group's results, covering the year ended 31 December 2016, is provided in the Financial Review on page 18. Detailed financial information is included from page 31 to page 77 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 2016 was as follows:

	Fees US$'000	Salaries US$'000	Bonuses US$'000	Other emoluments (benefits) US$'000	**2016 US$'000**	2015 US$'000
Executive Directors						
Randeep S. Grewal	–	1,000	1,000	1,220	**3,220**	3,024
Sub-total	–	1,000	1,000	1,220	**3,220**	3,024
Non-Executive Directors						
David Turnbull	49	–	–	–	**49**	56
Wayne Roberts	49	–	–	–	**49**	57
Stewart John	52	–	–	–	**52**	61
Gong Da Bing	49	–	–	–	**49**	57
Sub-total	199	–	–	–	**199**	231
Total	199	1,000	1,000	1,220	**3,419**	3,255

DIRECTORS AND THEIR INTERESTS

The table below sets out the interests of the Directors in Green Dragon Gas Ltd as at 31 December 2016.

	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 2016, no options were granted and no Director options were exercised. The interests of the Directors to subscribe for Ordinary Shares expired at the year-end of 2015.

Further details of the above share option scheme can be found in note 10.

DIRECTORS' SHARE OPTIONS

The Directors who held office at the reporting date did not held any interest in the share option during the year ended 31 December 2016.

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 2016:

	Number of Ordinary Shares	% of issued share capital
GDGH Limited and related holdings	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.

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 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, 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 Randeep S. Grewal, Stewart John and Gong Da Bing.

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.greendragongas.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 (2015: US$25,000). The Board intends to maintain the level of cover provided under annual or more frequent review, as appropriate.

GOVERNANCE

: DIRECTORS' REPORT

GOING CONCERN

Based on the Group's budgets and cash flow projections for 2017, 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 2017 Annual General Meeting, will be announced in due course. The Notice of Meeting, together with an explanation of the items of special business if any, 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
26 April 2017

FINANCIAL STATEMENTS

: INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GREEN DRAGON GAS LIMITED

We have audited the financial statements of Green Dragon Gas Limited for the year ended 31 December 2016, 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 the notes forming part of the financial statements. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards ("IFRS") as adopted by the European Union.

This report is made solely to the Company's members, in accordance with the terms of 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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland). Those standards require us to comply with the UK Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with applicable law and IFRS as adopted by the European Union.

FINANCIAL STATEMENTS

: INDEPENDENT AUDITOR'S REPORT

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. The Group will require additional funding in order to meet its liabilities as they fall due. The Directors believe, based upon discussions with a number of banks, that the Group will be able to raise debt finance and therefore secure the necessary funds within the required timescale, but there are currently no binding agreements in place. These conditions, along with the other matters explained in note 2 to the Consolidated Financial Statements, indicate the existence of a material uncertainty which may cast significant doubt about 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.

BDO LLP
Chartered Accountants
London
United Kingdom
26 April 2017

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

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2016 US$'000**	Year ended 31 December 2015 US$'000
Revenue	4	**29,143**	37,715
Cost of sales		**(16,393)**	(15,549)
Gross profit		**12,750**	22,166
Other income	5	**1,711**	373
Selling and distribution costs		**(977)**	(1,639)
Administrative expenses		**(8,901)**	(5,530)
Profit from operations	6	**4,583**	15,370
Finance income	7	**356**	424
Finance costs	8	**(17,207)**	(15,924)
Loss before income tax		**(12,268)**	(130)
Income tax credit	12	**216**	212
(Loss)/profit for the year attributable to owners of the company		**(12,052)**	82
Amounts that may be recycled to profit or loss:			
Other comprehensive expense, net of tax:			
– Exchange differences on translating foreign operations		**(40,963)**	(41,937)
Total comprehensive expense for the year attributable to owners of the company		**(53,015)**	(41,855)
Basic and diluted (loss)/earnings per share	13	**(0.077)**	0.001

All results for the year relate to continuing operations.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Assets			
Non-current assets			
Property, plant and equipment	14	272,583	271,996
Gas exploration and appraisal assets	15	1,034,117	1,043,859
Other intangible assets	16	2,210	2,957
Non-current prepaid expenses		192	213
Deferred tax asset	17	2,079	2,169
		1,311,181	1,321,194
Current assets			
Inventories	18	94	109
Trade and other receivables	19	22,911	22,478
Restricted cash	27	2,000	2,000
Cash and cash equivalents	20	7,324	26,866
		32,329	51,453
Total assets		1,343,510	1,372,647
Liabilities			
Current liabilities			
Trade and other payables	21	13,883	15,413
Convertible notes	22	47,347	–
Bonds	23	88,795	–
Current tax liabilities		–	13
		150,025	15,426

	Notes	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Non-current liabilities			
Convertible notes	22	–	48,398
Bonds	23	–	86,807
CUCBM provision	27, 32	401,702	370,217
Deferred tax liability	17	144,831	154,352
Share buyback option liability	22	7,924	–
		554,457	659,774
Total liabilities		704,482	675,200
Total net assets		639,028	697,447
Capital and reserves			
Share capital	24	16	16
Share premium	25	808,981	808,981
Share redemption reserve	25	(8,255)	–
Convertible note equity reserve	25	2,851	3,756
Share-based payment reserve	25	–	12,743
Foreign exchange reserve	25	(18,947)	22,016
Retained deficit	25	(145,618)	(150,065)
Total equity attributable to owners of the Parent		639,028	697,447
Total equity		639,028	697,447

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

Mr. Randeep S. Grewal
Director

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

FINANCIAL STATEMENTS

: CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Operating activities			
(Loss)/profit after tax		**(12,052)**	82
Adjustments for:			
Depreciation	14	**5,154**	4,172
Amortisation of intangible assets	16	**723**	945
Loss on disposal of property, plant and equipment		**4**	–
Finance income	7	**(356)**	(797)
Other finance costs	8	**16,691**	15,924
Accelerated finance charge	22	**516**	–
Taxation		**(216)**	(212)
Cash generated from operating activities before changes in working capital		**10,464**	20,114
Movement in inventory		**15**	3
Movement in trade and other receivables		**(427)**	1,600
Movement in trade and other payables		**(1,530)**	(9,265)
Net cash generated from operations		**8,522**	12,452
Income tax		**(33)**	(24)
Net cash generated from operating activities		**8,489**	12,428

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**Year ended 31 December 2016 US$'000**	Year ended 31 December 2015 US$'000
Investing activities			
Payments for purchase of property, plant and equipment	14	**(4,709)**	(259)
Proceed from disposal of property, plant and equipment		**748**	–
Payments for intangible assets – gas station licence	16	**–**	(794)
Payments for long-term prepaid expenses		**–**	192
Share of GCZ property plant and equipment purchases		**–**	(2,404)
Payments for exploration activities	15	**(10,468)**	(42,319)
Interest received		**25**	121
Deposits paid to PetroChina	27	**–**	(2,000)
Net cash used in investing activities		**(14,404)**	(47,463)
Financing activities			
Interest paid		**(12,300)**	(12,300)
Net cash generated used in financing activities		**(12,300)**	(12,300)
Net decrease in cash and cash equivalents		**(18,215)**	(47,335)
Cash and cash equivalents at beginning of year		**26,866**	80,037
		8,651	32,702
Effect of foreign exchange rate changes		**(1,327)**	(5,836)
Cash and cash equivalents at end of year	20	**7,324**	26,866

Refer to note 20 for significant non-cash items.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 GENERAL

Green Dragon Gas 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 are effective for accounting periods beginning on or after 1 January 2016. The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

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.

FINANCIAL STATEMENTS

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Going concern

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

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

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

- The Company has an $88.0 million bond which is due for repayment on 20 November 2017. The bond contains a number of financial covenants that are measured by reference to EBITDA and calculated at each reporting date. As announced on 2 Sep-tember 2016, during 2016 the Company did not meet two of its financial covenants. As yet this breach has not been formally waived, however no default notice has been issued by the Bondholder Trustee, and the Company has continued to make in-terest payments as they fall due. Further details of the terms of the instrument are included in note 23.

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

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

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

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

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

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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 (Green Dragon Gas 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

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

The International Accounting Standards Board (IASB) has issued the following new and revised standards, amendments and interpretations to existing standards that are not effective for the financial year ending 31 December 2016 and have not been adopted early. The Group is currently assessing the impact of these standards on the financial statements.

	Effective date
New standards	
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 16 Leases*	1 January 2019
Amendments to existing standards	
Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)*	1 January 2017
Disclosure Initiative: Amendments to IAS 7*	1 January 2017
Clarifications to IFRS 15 revenue from Contracts with Customers*	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*	1 January 2018
Annual Improvements to IFRSs (2014 - 2016 Cycle)*	1 January 2017 & 1 January 2018

* Not yet adopted by the European Union.

The Directors have not fully assessed the impact of all standards.

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 and CUCBM 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 27. 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Other property, plant and equipment (continued)

No depreciation is provided in respect of construction in progress.

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Gas exploration and appraisal assets

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

The costs of exploring for and evaluating hydrocarbon resources are accumulated and capitalised as intangible assets by reference to appropriate cash generating units ("CGU") on a pooled basis. Such cost pools are based on geographic areas and are not larger than a segment. The Group currently has one exploration and evaluation cost pool being the PRC.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Gas exploration and appraisal assets (continued)

Intangible exploration and appraisal assets are not depreciated and are carried forward, subject to the provisions of the Group's impairment of exploration and appraisal policy, until the technical feasibility and commercial viability of extracting coal bed methane gas are demonstrable. The Group's definition of technically feasible and commercially viable reserves ("commercial reserves") for such purpose are those which are classified as proven and probable reserves on an entitlement basis for which approval has been obtained from the PRC Government in respect of the overall development programme ("ODP") related to the relevant licence/prospect. In certain circumstances, delays obtaining the overall development programme approval can be encountered. As a result, the Group also considers factors such as the extent to which infrastructure is in place to process the gas and the levels of production, the substantive nature of operations and cash generation from producing assets.

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

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

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

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

- Whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- Whether substantive expenditure on further exploration for and appraisal of mineral resources in a specific area is neither budgeted nor planned.
- Whether exploration for and evaluation of coal bed methane gas in a specific area have not led to the discovery of commercially viable quantities of coal bed methane and the Group has decided to discontinue such activities in the specific area.
- Whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Gas exploration and appraisal assets (continued)

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

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

Farm outs

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

Decommissioning

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

Other intangible assets acquired in a business combination

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

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

Payments for leasehold land held for own use under operating leases

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

Inventories

Inventories are initially recognised at cost, and subsequently measured at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Convertible debt and bonds (continued)

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

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

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

Bonds issued by the Group are initially recorded at fair value and subsequently measured at amortised cost.

Where there is a significant amendment to a financial liability, the financial original liability is de-recognised and a new financial liability is recognised 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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

CUCBM Framework Agreement

Judgement has been exercised in the recognition of the Group's share of the historic expenditure incurred by China United Coalbed Methane Gas ("CUCBM") on the Group's blocks. Further to the identification of drilling activities by third parties across several of the Group's blocks, the Group entered into a Framework Agreement signed with CUCBM on 31 March 2014. CUCBM undertook significant historical exploration and infrastructure preparation work within several licence areas and incurred significant gross expenditure. Under the PSC, the Group had the right to enforce its PSC interests in the asset but agreed to reimburse CUCBM for the Group's share of the historic expenditure by allowing CUCBM to recover its costs from ring fenced cash flows associated with the relevant wells. A constructive obligation is considered to exist given the nature of the transaction and the negotiation between the parties. The amount to be reimbursed through future cash flows from the relevant wells is considered sufficiently certain given the extent of well development, the levels of in place infrastructure and reserves associated with the wells, although settlement remains dependent upon sufficient future production arising. Accordingly, the Group recorded its estimated share of the assets and a provision as at 31 December 2014. Subsequent to 2014 the Group has continued to progress negotiations with CUCBM regarding agreement over the reimbursable costs and has continued to make its best estimate of the amount due to CUCBM, based on the terms within the PSC and the Framework Agreement and has recorded its estimated share of the assets and increase in provision in relation to further expenditure which CUCBM has incurred on behalf of the Group and any changes in estimated amount. The Group has exercised judgement in considering the arrangement to create an obligation, the amount of the obligation, and its assessment that there is a reasonable expectation that the relevant wells will generate sufficient cash flows. Further details are provided in note 27.

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

Depreciation of the gas production assets

The Group has exercised judgement in depreciating its property, plant and equipment associated with its gas assets which have achieved commercial production. These assets have been depreciated on a units of production basis. Judgement was required in determining the reserves used in this calculation and the Group considers the economics and well performance of each individual fields to determine the suitable reserves basis. The Group considers 2P (2015: 1P) reserves for Area 4 GSS block and 2P reserves for the GCZ Block to be capable of extraction using the assets and therefore an appropriate estimate of the respective asset's life. It is noted that significant 3P reserves have been estimated to exist and such reserves would significantly extend the estimate useful life. However, 3P reserves are not included until such time as they are transferred to 2P reserves as part of the Group's independent reserves audit.

Determination of commercial production

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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

Impairment reviews

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

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

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.

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.

During the year, there was a single group of customers representing more than 10% of the Group's total revenue, being Chinese state owned entities which contributed 53% (2015: 60%) to the Group's revenue.

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

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

For the year ended 31 December 2016

	Upstream US$'000	Downstream US$'000	Corporate US$'000	Sub-total US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue:						
Sales to external customers	9,923	12,725	–	22,648	–	22,648
Inter-segment sales	12,395	–	–	12,395	(12,395)	–
Government subsidies	6,495	–	–	6,495	–	6,495
	28,813	12,725	–	41,538	(12,395)	29,143
Depreciation	(3,390)	(1,742)	(22)	5,154	–	5,154
Amortisation	–	(723)	–	(723)	–	(723)
Profit/(loss) from operations	16,428	(6,889)	(4,956)	4,583	–	4,583
Financial income	1	9	346	356	–	356
Finance costs	8	(336)	(16,879)	(17,207)	–	(17,207)
Income tax credit	50	166	–	216	–	216
Profit/(loss) for the year	16,487	(7,050)	(21,489)	(12,052)	–	(12,052)
Assets	1,413,005	37,637	759,973	2,210,615	(867,105)	1,343,510
Liabilities	897,022	61,382	535,390	1,493,794	(789,312)	704,482
PPE additions	21,864	2,706	–	24,570	–	24,570
Gas exploration additions	47,683	–	–	47,683	–	47,683

FINANCIAL STATEMENTS

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

4 REVENUE AND SEGMENT INFORMATION (continued)

For the year ended 31 December 2015

	Upstream US$'000	Downstream US$'000	Corporate US$'000	Sub-total US$'000	Eliminations US$'000	Consolidated US$'000
Segment revenue:						
Sales to external customers	15,127	17,588	–	32,715	–	32,715
Inter-segment sales	10,874	–	25	10,899	(10,899)	–
Government subsidies	5,000	–	–	5,000	–	5,000
	31,001	17,588	25	48,614	(10,899)	37,715
Depreciation	(3,495)	(608)	(69)	(4,172)	–	(4,172)
Amortisation	–	(945)	–	(945)	–	(945)
Profit/(loss) from operations	18,473	(2,656)	(447)	15,370	–	15,370
Financial income	–	113	311	424	–	424
Finance costs	–	(469)	(15,455)	(15,924)	–	(15,924)
Income tax credit	123	89	–	212	–	212
Profit/(loss) for the year	18,596	(2,923)	(15,591)	82	–	82
Assets	1,338,275	23,844	857,023	2,199,142	(846,495)	1,372,647
Liabilities	883,591	4,958	626,548	1,515,097	(859,897)	655,200
PPE additions	3,055	1,477	–	4,532	–	4,532
Gas exploration additions	65,331	–	–	65,331	–	65,331

5 OTHER INCOME

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

6 PROFIT FROM OPERATIONS

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

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the annual financial statements	**450**	435
Fees payable to the Company's auditors for the review of the interim results	**81**	40
Staff costs (note 9)	**4,480**	1,357
Depreciation of property, plant and equipment	**5,154**	4,172
Operating lease expense (property)	**1,472**	370
Amortisation of intangible assets	**723**	945

7 FINANCE INCOME

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Bank interest	**25**	121
Exchange gain	**–**	303
Change in value of the share buyback option liability	**331**	–
	356	424

8 FINANCE COSTS

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

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

9 STAFF COSTS

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Staff costs (including Directors' emoluments) comprise:		
Wages and salaries	**6,130**	5,841
Employer's national social security contributions	**816**	1,134
Other benefits	**1,440**	1,181
	8,386	8,156
Less: expenses capitalised as gas exploration and appraisal assets	**(3,906)**	(6,799)
Total staff costs charged to profit or loss (note 7)	**4,480**	1,357

10 SHARE-BASED PAYMENTS

Details of the Group's share options as follows:

Number of share options granted historically	3,408,750
Number of share options exercised historically	(2,029,375)
Number of share options outstanding at 1 January 2015	1,379,375
Number of share options outstanding at 31 December 2015 and 31 December 2016	–

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

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

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. No new share options have been issued during 2016.

11 DIRECTORS' AND OTHER KEY MANAGEMENT REMUNERATION

The remuneration of Directors for the year ended 31 December 2016 was as follows:

	Fees US$'000	Salaries US$'000	Bonuses US$'000	Other emoluments (benefits) US$'000	**2016 US$'000**	2015 US$'000
Executive Directors						
Randeep Grewal	–	1,000	1,000	1,220	**3,220**	3,024
Sub-total	–	1,000	1,000	1,220	**3,220**	3,024
Non-Executive Directors						
David Turnbull	49	–	–	–	**49**	56
Wayne Roberts	49	–	–	–	**49**	57
Steward John, OBE	52	–	–	–	**52**	61
Gong Da Bing	49	–	–	–	**49**	57
Sub-total	199	–	–	–	**199**	231
Total	199	1,000	1,000	1,220	**3,419**	3,255

Key management are considered to be the Directors.

12 TAXATION

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Current tax – PRC Enterprise Tax		
Tax charge/(credit) for the current year	**12**	(25)
Deferred tax		
Temporary timing differences (note 17 (b))	**(178)**	(9)
Previously unrecognised deferred tax assets assessed as recoverable at the end of the year (note 17 (a))	**(50)**	(178)
Total tax credit	**(216)**	(212)

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

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

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

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

13 EARNINGS AND LOSS PER SHARE

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

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

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Weighted average number of Ordinary Shares for basic and diluted earnings per share	**156,072,289**	156,072,289

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

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

14 PROPERTY, PLANT AND EQUIPMENT

	Gas assets US$'000	Buildings and structures US$'000	Construction in progress US$'000	Motor vehicles US$'000	Fixtures, fittings and equipment US$'000	Total US$'000
Cost						
At 1 January 2015	165,794	1,041	1,978	899	4,566	174,278
Additions	3,055	–	132	1,185	160	4,532
Transfer from gas exploration & appraisal assets (Note 3)	121,010	–	–	–	–	121,010
Exchange differences	(7,001)	–	–	–	–	(7,001)
At 31 December 2015	282,858	1,041	2,110	2,084	4,726	292,819
Additions	2,002	246	266	1,904	291	4,709
Share of costs from CUCBM	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**
Depreciation						
At 1 January 2015	14,114	406	–	717	1,414	16,651
Provided for the year	3,495	41	–	151	485	4,172
At 31 December 2015	17,609	447	–	868	1,899	20,823
Provided this year	3,365	144	–	1,364	281	5,154
Eliminated on 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**
Net book value						
At 31 December 2016	**266,098**	**641**	**1,493**	**1,674**	**2,677**	**272,583**
At 31 December 2015	265,249	594	2,110	1,216	2,827	271,996
At 1 January 2015	151,680	635	1,978	182	3,152	157,627

In year of 2015, the Group transferred US$121,010,000 from its gas exploration and appraisal assets to property, plant and equipment as these assets are considered to be in commercial production. Refer to note 3 for the significant judgements made in this regard and note 27 for further detail. No transfer has been made during the year of 2016.

In respect of the Group's share of costs from CUCBM of $19,861,000 (2015 – $nil), 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. Notes 3 and 27 provide further details of the estimate made.

FINANCIAL STATEMENTS

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

15 GAS EXPLORATION AND APPRAISAL ASSETS

	US$'000
Cost	
At 1 January 2015	1,157,915
Additions	31,949
Capitalisation of internal costs	10,370
Share of gas exploration and appraisal assets from CUCBM (note 27)	23,012
Transfer to property, plant and equipment	(121,010)
Exchange differences	(58,377)
At 31 December 2015	1,043,859
Additions	4,076
Capitalisation of internal costs	6,392
Share of gas exploration and appraisal assets from CUCBM (note 27)	37,215
Exchange differences	(57,425)
At 31 December 2016	**1,034,117**
Net book value	
At 31 December 2016	**1,034,117**
At 31 December 2015	1,043,859
At 1 January 2015	1,157,915

In respect of the Group's share of gas exploration and appraisal assets from CUCBM of $37,215,000 (2015 – $23,012,000), 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. Notes 3 and 27 provide further details of the estimate made.

16 OTHER INTANGIBLE ASSETS

	Gas station operation licence US$'000
Cost	
At 1 January 2015	7,517
Additions	794
At 31 December 2015	8,311
Exchange differences	(24)
At 31 December 2016	**8,287**
Accumulated amortisation	
At 1 January 2015	4,409
Charge for the year	945
At 31 December 2015	5,354
Charge for the year	723
At 31 December 2016	**6,077**
Net book value	
At 31 December 2016	**2,210**
At 31 December 2015	2,957

17 DEFERRED TAXATION

(a) Deferred tax assets

	US$'000
At 1 January 2015	2,241
Exchange differences	(250)
Reversal of temporary difference in respect of overseas tax losses	178
At 31 December 2015	2,169
Exchange differences	(140)
Reversal of temporary difference in respect of overseas tax losses	50
At 31 December 2016	**2,079**

(b) Deferred tax liabilities

	US$'000
At 1 January 2015	163,478
Reversal of temporary difference	(9)
Exchange differences	(9,117)
At 31 December 2015	154,352
Reversal of temporary difference	(178)
Exchange difference	(9,343)
At 31 December 2016	**144,831**

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'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	**(144,831)**	(154,352)
Tax losses – overseas	**2,079**	2,169
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following:		
Tax losses – overseas	**6,503**	888
Potential unrecognised tax benefit at PRC rate of 25%	**1,626**	222

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.

FINANCIAL STATEMENTS

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

18 INVENTORIES

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Raw materials and consumables	**64**	48
Finished goods	**30**	61
	94	109

19 TRADE AND OTHER RECEIVABLES

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Trade receivables	**3,227**	1,933
Prepayments	**2,446**	3,367
Other receivables	**6,321**	5,817
Amount due from related company (note 28)	**10,917**	11,361
	22,911	22,478

The Group's maximum exposure to credit risk is as disclosed in note 31 (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.

20 CASH AND CASH EQUIVALENTS

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

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Cash and bank balances	**7,324**	26,866
	7,324	26,866

Significant non-cash transactions are as follows:

	Year ended 31 December 2016 US$'000	Year ended 31 December 2015 US$'000
Investing activities		
Additional CUCBM provision	**57,076**	23,012

21 TRADE AND OTHER PAYABLES

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Trade payables	**6,640**	10,654
Other payables	**6,325**	3,319
Amounts due to related parties (note 28)	**918**	1,440
	13,883	15,413

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.

22 CONVERTIBLE NOTES

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Brought forward from prior year	**48,398**	47,243
Accrued interest	**4,784**	4,655
Amendment of convertible notes	**(2,851)**	–
Accelerated finance change	**516**	–
Interest paid	**(3,500)**	(3,500)
	47,347	48,398

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Repayable within 1 year	**47,347**	–
Repayable over 1 year	**–**	48,398
	47,347	48,398

At 31 December 2016, the Company had one (2015: 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

22 CONVERTIBLE NOTES (continued)

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.

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 25 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 25 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 23).

Share buyback option liability

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Balance brought forward from prior year	**–**	–
Issue of share buyback option	**8,255**	–
Revaluation of share buyback option	**(371)**	–
	7,924	–

23 BONDS AND DERIVATIVE FINANCIAL INSTRUMENT

On 8 December 2014, Green Dragon Gas 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 107%,105%,103% of par at the 12, 18, and 24 month anniversaries. The Bond is secured by a pledge over the shares of Greka Gas China, a wholly-owned subsidiary of Green Dragon Gas. 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:

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Brought forward from prior year	**86,807**	85,072
Accrued interest	**10,788**	10,535
Repayments of interest	**(8,800)**	(8,800)
	88,795	86,807

As announced on 2 September 2016, 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. The Company is in the process of obtaining waiver from the bond holders for this non-compliance. No default notice has been issued by the Bond Trustee. The bonds are disclosed as a current liability at the year end of 2016 as it matures with one year.

24 SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares	**US$**	**Number of shares**	**US$**
At 31 December 2015 and 31 December 2016, Ordinary Shares of US$0.0001 each	500,000,000	50,000	156,072,289	15,607

25 RESERVES

Nature and purposes of reserves

(i) Share premium

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

(ii) Share redemption reserve

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

(iii) Convertible note equity reserve

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

(iv) Share-based payment reserve

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

FINANCIAL STATEMENTS

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

25 RESERVES (continued)

(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.

26 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 2016 Percentage of ownership interest held**		As at 31 December 2015 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 2015 and 2016 (note 23): a Cayman Islands law governed first ranking equitable share mortgage over shares in Greka Gas China Ltd.

27 JOINT ARRANGEMENTS

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

Background

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

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

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

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

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

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

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

27 JOINT ARRANGEMENTS (continued)

PSCs held with PetroChina (CNPC)

Chengzhuang block ("GCZ")

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

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

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

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

	2016 US$'000	2015 US$'000
Capital expenditure	**–**	2,404
Revenue	**11,764**	15,126
Total operational costs and expenses	**(4,998)**	(3,248)
Net Profit	**6,766**	11,878
Amount due from/(to) PetroChina		
Balance as at 1 January 2015	**1,774**	(4,407)
Capital expenditure for GCZ block	**–**	(2,404)
Share of profit for GCZ block	**6,766**	11,878
Cash received	**(7,053)**	(3,293)
Balance as at 31 December 2015	**1,487**	1,774

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

27 JOINT ARRANGEMENTS (continued)

PSCs held with PetroChina (CNPC) (continued)

Baotian-Qingshan block ('GGZ')

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

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

PSCs held with CUCBM (CNOOC)

Framework Agreement with CUCBM

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

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

* Unchanged.

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

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

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

27 JOINT ARRANGEMENTS (continued)

PSCs held with CUCBM (CNOOC) (continued)

Framework Agreement with CUCBM (continued)

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

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

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

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

The cumulative expenditure by CUCBM across the PSCs, which the Group is reimbursing through future production, bears interest at 9%, which is expected to apply prospectively once an agreement with CUCBM has been reached. No discounting of the provision applies given the prospective interest bearing nature. No entries have been made in relation to the interest as the Group remains in discussions with CUCBM over accounting for the interest – see note 3 for further details.

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

Shizhuang North PSC

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

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

28 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 2016, 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$10,917,000 (2015: US$9,587,000).
- Net payable to the Greka Engineering and Technology group of US$918,000 (2015: US$1,440,000).

During the year, the Group has incurred drilling costs of US$3,300,000 (2015: US$23,912,000) on services provided by wholly-owned subsidiaries of Greka Drilling Limited. The Group has also incurred infrastructure services costs of US$5,790,000 (2015: US$4,957,000) from wholly-owned subsidiaries of Greka Engineering and Technology Limited. During the year, the Group has sold gas of US$ 1,158,000 (2015: US$899,000) to a wholly-owned subsidiary of Greka Engineering and Technology Limited for power generation.

In year of 2015, the Group also completed its acquisition of the transportation business from Greka Engineering and Technology, acquiring net assets of US$1,876,000 for consideration of the same amount. Both companies are under common control.

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 11 to the financial statements.

Ultimate controlling party

The ultimate controlling party is Randeep Grewal.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

29 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:

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
No later than 1 year	**2,017**	3,546
Later than 1 year and no later than 5 years	**1,071**	2,421
	3,088	5,967

30 CAPITAL COMMITMENTS

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Capital expenditure contracted but not provided for in respect of		
– additions to exploration costs and appraisal assets	**7,017**	7,473
– acquisition of property, plant and equipment	**–**	77
	7,017	7,550

31 FINANCIAL INSTRUMENTS

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Financial Assets		
Loans and receivables:		
Trade and other receivables	**20,465**	17,337
Restricted Cash	**2,000**	2,000
Cash and cash equivalents	**7,324**	26,866
Total financial assets	**29,789**	46,203
Financial Liabilities		
At amortised cost:		
Trade and other payables	**13,883**	15,413
Convertible notes	**47,347**	48,398
Bonds (Level 1 Valuation)	**88,795**	86,807
Share buyback option liability	**7,924**	–
Total financial liabilities	**157,949**	150,618

The carrying value of the financial assets and liabilities is approximately equal to their fair value at 31 December 2016 and 2015.

31 FINANCIAL INSTRUMENTS (continued)

Interest rate risk

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

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

		As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Cash and cash equivalents			
USD	Non-interest bearing	**1,280**	–
USD	Floating rate	**145**	1,261
GBP	Non-interest bearing	**65**	–
GBP	Floating rate	**325**	18,579
CAD	Floating rate	**56**	53
RMB	Non-interest bearing	**–**	19
RMB	Floating rate	**5,363**	6,863
HKD	Non-interest bearing	**90**	3
HKD	Floating rate	**–**	88
Other financial assets			
USD	Non-interest bearing	**2,000**	2,000
RMB	Non-interest bearing	**19,976**	16,874
HKD	Non-interest bearing	**489**	463
		29,789	46,203

The weighted average interest rate earned during the year was 0.14% (2015: 0.12%) on floating rate US dollar cash balances, 0.58% (2015: 0.52%) on floating rate GBP balances and 0.35% (2015: 0.3%) 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:

		As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Loans and borrowings, convertible notes and bonds and derivative financial liability			
USD	Fixed rate	**136,142**	135,205
Other financial liabilities			
USD	Non-interest bearing	**8,951**	1,635
RMB	Non-interest bearing	**11,924**	13,773
GBP	Non-interest bearing	**762**	–
HKD	Non-interest bearing	**170**	5
		157,949	150,618

The interest rates payable during the year was 7%% (2015: 7%) on US dollars convertible notes and 10% (2015: 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$676,000 (2015: US$676,000) higher/lower and there will be no impact on other components of equity.

31 FINANCIAL INSTRUMENTS (continued)

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 2016	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

As at 31 December 2015	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	–	–	16,874	–	463	17,337
Restricted cash	–	2,000	–	–	–	2,000
Cash and cash equivalents	53	1,261	6,882	18,579	91	26,866
	53	3,261	23,756	18,579	554	46,203
Financial Liabilities						
Trade and other payables	–	1,635	13,773	–	5	15,413
Convertible notes and bonds	–	135,205	–	–	–	135,205
	–	136,840	13,773	–	5	150,618

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 2016 being US$537,000 (2015: US$379,000) higher or lower respectively

31 FINANCIAL INSTRUMENTS (continued)

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 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**
	151,729	**1,873**	**15,893**	**1,095**	**170,650**	**(12,701)**	**157,949**

	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 2015							
Trade and other payables	15,413	–	–	–	15,413	–	15,413
Convertible notes and bonds	6,150	6,150	150,300	–	162,600	(27,395)	135,205
	21,563	6,150	150,300	–	178,013	(27,395)	150,618

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.

: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

31 FINANCIAL INSTRUMENTS (continued)

Credit risk

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

	31 December 2016		31 December 2015	
	Carrying value US$'000	**Maximum exposure US$'000**	Carrying value US$'000	Maximum exposure US$'000
Current assets				
Trade and other receivables	**20,465**	**20,465**	17,337	17,337
Restricted cash	**2,000**	**2,000**	2,000	2,000
Cash and cash equivalents	**7,324**	**7,324**	26,866	26,866
	29,789	**29,789**	46,203	46,203

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 2016 the Group holds approximately 19% (2015: 11%) of its cash in US dollars and 6% (2015: 64%) in British Pound with Baa2 (2015: 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$10,917,000 (2015: US$9,587,000), 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.

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 2016 and 2015 are as follows:

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
Current liabilities	**150,025**	15,426
Non-current liabilities	**554,457**	659,774
Cash and cash equivalents	**(7,324)**	(26,866)
Net debt	**697,158**	648,334
Equity	**639,028**	697,447
Debt-to-equity ratio	**1.09**	0.93

31 FINANCIAL INSTRUMENTS (continued)

Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2016 and 2015.

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.

32 PROVISIONS

	As at 31 December 2016 US$'000	As at 31 December 2015 US$'000
CUCBM provision	**401,702**	370,217

Details regarding the provision, along with movements in the year have been disclosed in Note 27. At 31 December 2016 US$388,702,000 (2015: US$357,217,000) represents the value of future production related to the enhanced cost recovery from the ring fenced CUCBM legacy wells that the Group has agreed in the Framework Agreement with CUCBM will be used to satisfy the Group's proportionate share of investment made by CUCBM in GSS. The balance will be paid in kind from future production. There is no constructive or substantive obligation on the Group to repay these amounts in cash should future production from the ring-fenced legacy wells be insufficient to recover the balance.

No discounting has been applied to the provision as it bears interest at 9.0% prospectively.

The CUCBM provision also includes US$13,000,000 (2015: US$13,000,000) in respect of exploration costs incurred by CUCBM prior to the PSC period. This balance is to be settled from the Group's share of future production from Shizhuang South or could be paid in cash at any time. The amount is unsecured and is expected to bear interest at 9% prospectively. On satisfaction of the payable amount, the Group's interest in the GSS PSC will increase to 70% (currently 60%).

33 SUBSEQUENT EVENTS

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

In relation to the convertible loan note disclosed in note 22, an agreement was made with the note holder to extend the one-time early redemption option to 26 June 2017, to require early repayment of the loan note no earlier than 30 May 2017. The option to require early repayment is at the note holder's sole discretion. Further details of the terms of the instrument are included in notes 2 and 22.

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