

DANA GAS PJSC

Report of the Directors

The Board of Directors of Dana Gas PJSC (“Dana Gas” or the “Company”) are pleased to announce the consolidated financial results of the Company, its subsidiaries and joint arrangements (together referred to as the “Group”) for the period ended 30 June 2021.

Principal Activities

Dana Gas was incorporated in the Emirate of Sharjah (“Sharjah”), United Arab Emirates, as a public joint stock company on 20 November 2005 pursuant to incorporation decree number 429/2005 issued by the Ministry of Economy.

Dana Gas is the Middle East’s first and largest private sector natural gas company. The Group currently operates in the MENASA (Middle East, North Africa & South Asia) Region across the natural gas value chain; from exploration and production, through gas processing and transportation, to the distribution, marketing and utilisation of gas as feedstock and fuel to the petrochemical, industrial and the power sectors. Since its establishment, the Company has grown to be a regional natural gas Company with presence in the United Arab Emirates, Egypt, and the Kurdistan Region of Iraq (KRI) and headquartered in Sharjah, United Arab Emirates.

Results for first half of 2021

During the first half of 2021 (the “period”), the Group earned gross revenues of USD 216 million (AED 792 million) as compared to USD 181 million (AED 664 million) in the first half of 2020, an increase of 19%. This increase was mainly due to higher realised prices during the period which contributed USD 37 million to the top line. Realised price averaged USD 48/bbl for condensate and USD 32/boe for LPG compared to USD 30/bbl and USD 28/boe respectively in 1H 2020. Impact of increased production in Kurdistan was offset by a decline in production in Egypt during the period.

The Group’s share of production for 181 days was 11.58 million barrels of oil equivalent or 64,000 barrels of oil equivalent per day (“boepd”), an increase of 1% compared to the corresponding quarter production of 11.5 million boe (63,250 boepd). Production in Kurdistan Region of Iraq increased by 8% whereas in Egypt it declined by 6% during the first half of the year.

The Group achieved a net profit after tax of USD 139 million (AED 511 million) as compared to a loss of USD 19 million (AED 69 million) in 1H 2020. The increase in net profit was due to higher revenue as explained above, reversal of impairments in Egypt, following termination of the Sale and Purchase agreement, and reduction in finance costs due to lower borrowing base.

Excluding impairment, the Group reported an adjusted net profit of USD 61 million (AED 225 million) as compared to corresponding period adjusted net profit of USD 18 million (AED 66 million), an increase of 239%, reflecting strong underlying operating performance.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) was higher at USD 110 million (AED 403 million) in 1H 2021 compared to USD 77 million (AED 283 million) in 1H 2020.

Results for quarter ended 30 June 2021

During the quarter ended 30 June 2021, the Company earned gross revenues of USD 110 million (AED 403 million) as compared to USD 77 million (AED 282 million) in the second quarter of 2020, an increase of 43% reflecting higher realised prices during the period. Realised prices during the current period were higher by 92% and averaged USD 51/bbl for condensate and USD 31/boe for LPG compared to USD 20/bbl and USD 25/boe respectively in Q2 2019.

The Group’s share of production for the 91 days was 5.75 million barrels of oil equivalent or 63,200 barrels of oil equivalent per day (“boepd”), an increase of 0.5% compared to corresponding quarter production of 5.7 million boe (62,800 boepd).

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Results for quarter ended 30 June 2021 (continued)

The Group reported net profit after tax of USD 115 million (AED 423 million) for Q2 2021 as compared to a net loss of USD 36 million (AED 131 million) in Q2 2020. During the quarter an impairment of USD 78 million (AED 286 million) was reversed following termination of the Sale and Purchase Agreement for sale of assets in Egypt. Excluding the reversals, the Group reported a net profit of USD 36 million (AED 133 million) as compared to an adjusted net loss (excluding impairments) of USD 3 million (AED 11 million) in quarter 2 2020. This increase in adjusted net profit was mainly due to higher realised prices during the quarter and lower finance cost as explained above.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) in Q2 2021 increased to USD 60 million (AED 220 million) up 140% from USD 25 million (AED 92 million) in Q2 2020.

Discontinued operations/Asset held for Sale

The Company announced on 25 October 2020 that it had entered into an agreement with IPR Wastani Petroleum Ltd, a member of the IPR Energy Group (“IPR”) for the sale of its onshore Egyptian producing oil and gas assets for consideration of up to USD 236 million including contingent payments. The perimeter of the transaction was to include Dana Gas’ 100% working interests in the El Manzala, West El Manzala, West El Qantara and North El Salhiya onshore concessions and associated development leases. These assets produced 30,300 boepd in 2020.

All the assets and liabilities directly associated with these assets had been classified as held for sale at their fair values.

On 23 April 2021 the Company terminated its agreement for the sale of its Egyptian assets, previously announced on 25 October 2020.

A number of conditions precedent to the transaction could not be completed to the satisfaction of both parties prior to the long stop date of the Sale and Purchase Agreement (SPA), which was Wednesday 14 April 2021. The Board therefore decided to retain and operate the assets in Egypt alongside the highly prospective exploration acreage offshore Block-6.

IPR Wastani Petroleum Limited, the counterparty to the terminated SPA, had notified Dana Gas Egypt (“DGE”) that it has submitted a Request for Arbitration disputing DGE’s right to terminate the SPA.

By an award dated 17 July 2021 the Tribunal dismissed IPR’s claim in its entirety, and ruled that Dana Gas’ termination of the SPA was valid.

Liquidity and Financial Resources

Cash and bank balance at period end stood at USD 125 million (AED 458 million), an increase of 16% compared to the year-end balance of USD 108 million (AED 396 million). Cash includes USD 61 million (AED 224 million) being 35% share of cash held at Pearl Petroleum.

The Group collected a total of USD 185 million (AED 678 million) during the period with Egypt and KRI contributing USD 98 million (AED 359 million) and USD 87 million (AED 319 million), respectively. During the period ended 30 June 2021, the Company paid a dividend of USD 105 million (AED 385 million).

Business Update

In line with its outlined strategy, the Dana Gas Group continues to focus on maximising the value of its existing hydrocarbon assets and projects, while pursuing growth through a strategy of organic exploration opportunities in our heartland areas and new business development in the upstream and midstream value chains. We continue to balance our capital expenditure with the available sources of cash to ensure we maintain a robust financial position.

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Reserves & Resources

Pearl Petroleum Company Limited

As reported previously, Dana Gas and Crescent Petroleum, joint operators of Pearl Petroleum Company Limited (“PPCL”), estimates that the P50 total geologically risked¹ resources of petroleum initially in-place (PIIP) of the Khor Mor and Chemchemical Fields at 75 Tscf (of wet gas) and 7 billion barrels of oil.

PPCL appointed Gaffney Cline Associates (“GCA”) to carry out a certification of the reserves for these fields as at 15 May 2019. The certification is based on the earlier work carried by GCA but updated to take into account the current understanding of the field, production data and incorporating the recent appraisal well drilling and test results.

In their report, GCA estimates the following reserves:

Khor Mor

- Proved plus probable (2P) gas, condensate and LPG reserves are 6.9 Tscf, 173 MMbbl and 18 MMt, respectively, of which Dana Gas’ 35% share equates to 2.4 Tscf of dry gas, 61 MMbbl of condensate and 6 MMt of LPG.
- Proved plus probable (2P) oil reserves of 51.3 MMbbl of which Dana Gas’ 35% share equates to 18 MMbbl.

Chemchemical

- Proved plus probable (2P) gas, condensate and LPG reserves are 5.7 Tscf, 215 MMbbl and 20 MMt, respectively, of which Dana Gas’ 35% share equates to 2 Tscf of dry gas, 75 MMbbl of condensate and 7 MMt of LPG.

Dana’s share of the proved plus probable (2P) hydrocarbon reserves have increased by 10% following the 2019 certification of reserves. Management’s estimate of the total share of Dana Gas is equivalent to 1,087 MMboe, up from 990 MMboe when GCA first certified the field in April 2016. This confirms that the fields located in the KRI could be the biggest gas fields in the whole of Iraq.

The balance between these 2P reserves figures and the joint operator’s estimated risked initially in place (gas and oil) resources (PIIP) are classified as Contingent Resources² and Prospective Resources³.

Dana Gas Egypt

Gaffney, Cline & Associates (GCA), a leading advisory firm carried out an independent evaluation of Dana Gas Egypt’s hydrocarbon reserves as at 31 December 2020. Following this review, the Group’s gross proved reserves (1P) as at 31 December 2020 were assessed at 35 MMboe (31 December 2019: 49 MMboe). The gross proved and probable reserves (2P) as at 31 December 2020 were estimated at 59 MMboe (31 December 2019: 73 MMboe) and the gross provided, probable and possible reserves (3P) as at 31 December 2020 were estimated to be 85 MMboe (31 December 2019: 106 MMboe).

¹ Risked PIIP figures have been calculated by means of a stochastic aggregation using GeoX software with risk factors accounting for geological uncertainties calibrated by surrounding producing oil and/or gas fields.

² Those quantities of petroleum estimated to be potentially recoverable but not yet considered mature enough for commercial development due to one or more contingencies.

³ Those quantities of petroleum estimated to be potentially recoverable from undiscovered accumulations by future development projects.

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E&P Operations

(a) Pearl Petroleum Company Limited (KRI) E&P Operations

Dana Gas's share (35%) of gross production in the KRI for the 91 days of operations in Q2 2021 was 3.04 MMboe, i.e. averaging 33,400 boe per day (Q2 2020 – DG Share 35%: 2.8 MMboe, averaging 31,000 boe per day), an increase of 8% when compared with corresponding period.

Dana Gas share of collections for the period stood at USD 87 million (AED 319 million) and hence realised 100% of the period's revenue. At period end, Dana Gas' 35% share of trade receivable balance stood at USD 39 million (AED 143 million) as compared to USD 39 million (AED 143 million) at year end 2020.

Pearl is proceeding with the development of two world-class gas fields with in-place volumes of approximately 75 trillion cubic feet of wet gas and 7 billion bbls of oil. In January 2020, Pearl appointed an engineering, procurement and construction ('EPC') contractor for the first of two 250 MMscf/d gas processing trains planned at Khor Mor gas processing plant. The appointment of a contractor follows final approval by the Ministry of Natural Resources of the Kurdistan Regional Government, which oversees the project. The contract award marks a key milestone in Pearl Petroleum's long-term expansion plan. The second phase will take total production to 900 MMscfd.

As a result of the impacts of COVID 19 on business operations both globally and in the KRI and specifically on (a) the supply chain for EPC contract and (b) local site access for construction preparatory works due to flight and other disruptions, had resulted in the contractor declaring Force Majeure under the terms of the EPC contract. In March 2020, Pearl replicated a back-to-back declaration of Force Majeure to the Contractor under the EPC contract and to the KRG pursuant to the terms of the GSA 2 due to the COVID 19 pandemic. Throughout the remainder of 2020, both the contractor and Pearl took all commercially reasonable steps to mitigate the impact of COVID 19 on the delivery of the project and its timelines.

In April 2021, Pearl lifted Force Majeure under the GSA 2 with the Kurdistan Regional Government, agreeing a new target start date for first gas deliveries of 30 April 2023. In June 2021, Pearl and the Contractor also lifted Force Majeure under the EPC Contract and have agreed on a new completion date of 30 April 2023. The restarting of the expansion plans in the KRI demonstrates that all the parties working on the project are fully committed to executing the expansion project as quickly and as safely as possible. The Pearl consortium remains focused on completing the first 250 MMscf/d gas processing train by 30 April 2023 and is also examining ways to bring forward the current schedule. During the year it will prepare for the drilling of up to five development wells in the KRI which will begin the following year.

(b) Egypt E&P operations

The Group's production in Egypt for the 91 days of operations in Q2 2021 was 2.66 MMboe i.e. averaging 29,200 boepd (June 2020: 2.8 MMboe i.e. averaging 31,200 boepd), a decrease of 6% over the corresponding period. The decline in production is mainly due to natural decline in fields and increased formation water production from some wells of the Balsam Field. This decline was partially compensated by putting in place production optimization strategies at the field and plant level.

In Egypt, the Group collected a total USD 98 million (AED 359 million) during the period and hence realized 196% of the period's revenue. At period end, the trade receivable balance stood at USD 82 million (AED 301 million) as compared to USD 130 million (AED 477 million) at the end of 2020.

Egypt Gulf of Suez – Gas Liquids Extraction Plant

The Company, through its subsidiary Danagaz Bahrain, is a 26.4% owner (effective) in Egyptian Bahraini Gas Derivative Company (Joint Venture) that has built, owns and operates a Natural Gas Liquids Extraction Plant in Egypt in partnership with the Egyptian National Gas Company (EGAS) and the Arab Petroleum Investments Corporation (APICORP). The plant has a capacity to process 150 mmscf/d of gas. During the period the Company sold its complete interest in Egyptian Bahraini Gas Derivative Company and realised USD 10 million.

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UAE Gas Project

The UAE Gas Project to process and transport imported gas continues to await the commencement of gas supplies from the National Iranian Oil Company ('NIOC') to Crescent Petroleum. Dana Gas has a 35% interest in Crescent National Gas Corporation Limited (CNGCL) which is entitled to market the gas and owns 100% of UGTC and Saj Gas, the entities that own the offshore riser platform, the offshore and onshore pipelines and the sour gas processing plant to transport and process the gas.

Arbitration Cases

- a) The Gas Sales & Purchase Contract between Dana Gas' partner Crescent Petroleum and the National Iranian Oil Company ('NIOC') for the supply of gas to the UAE has been the subject of international arbitration since June 2009. In August 2014, Dana Gas was notified by Crescent Petroleum that the Arbitral Tribunal has issued a Final Award on the merits, determining that the 25-year Contract between it and NIOC is valid and binding upon the parties, and that NIOC had been in breach of its contractual obligation to deliver gas under the Contract since December 2005.

On 18 July 2016, the English High Court finally dismissed the NIOCs remaining grounds of appeal against the 2014 arbitration award. The 2014 arbitration award had found in favour of Dana Gas' partner Crescent Petroleum and Crescent Gas Corporation Limited on all issues. The finalisation of the appeal in July 2016 confirmed that the 2014 award was final and binding and that NIOC had been in breach of its gas supply obligations since 2005.

Crescent Petroleum has informed Dana Gas that the final hearing of the remedies phase against NIOC for non-performance of the contract (including claims for damages and indemnities for third party claims up to 2014) took place in November 2016. Some members of the Tribunal which heard the case resigned prior to the issuing of an Award and as result a new Tribunal was constituted. The new Tribunal agreed that it could issue an Award on the basis of the existing evidence following a clarification hearing which was held in August 2020. The final award on damages for the period 2005 to 2014 is awaited from the Tribunal.

Dana Gas has been informed that Crescent Petroleum has commenced a second arbitration with a new Tribunal, to address the claims for damages from 2014 until the end of the contract period in 2030.

- b) MOL Earn Out payment arbitration: The Company, together with Crescent Petroleum, commenced arbitration proceedings against MOL Hungarian Oil and Gas Public Limited Company ('MOL') on 14 February 2020 arising out of MOL's attempts to avoid paying reserve based earn out payments to the Company and Crescent Petroleum in accordance with the terms of the Sale and Purchase Agreement entered into between the Parties in 2009, through which MOL acquired its 10% shareholding in Pearl Petroleum.

The reserve based earn out payment obligations are the same obligations which MOL illegitimately sought to avoid and which was the subject of the 20 September 2017 arbitration award against MOL.

The arbitration will also address the separate and additional crude oil earn out payments arising out of the same 2009 Sale and Purchase Agreement.

- c) OMV Earn Out payment arbitration: The Company, together with Crescent Petroleum, commenced arbitration proceedings against OMV Upstream International GMBH ('OMV') on 14 February 2020 arising out of OMV's attempts to avoid paying reserve based earn out payments to the Company and Crescent Petroleum in accordance with the terms of the Sale and Purchase Agreement entered into between the Parties in 2009, through which OMV acquired its 10% shareholding in Pearl Petroleum.

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Dividend

At the General Assembly of the Company held on 28 April 2021, the shareholders approved a cash dividend of AED 0.055 per share for the year 2020 (2019: AED 0.055 per share).

Directors

1. Mr. Hamid Dhiya Jafar, Chairman
2. Mr. Rashid Saif Al-Jarwan, Deputy Chairman
3. Mr. Abdullah Ali Al Majdouie (to 28 April 2021)
4. Mr. Ajit Vijay Joshi (from 28 April 2021)
5. Mr. Hani Abdulaziz Hussein
6. Mr. Jassim MohamadRafi Alseddiqi
7. Mr. Majid Hamid Jafar
8. Ms. Najla Ahmed Al-Midfa (from 28 April 2021)
9. Mr. Nureddin Sehweil (to 28 April 2021)
10. Mr. Said Arrata (to 28 April 2021)
11. Mr. Shaheen Al-Muhairi
12. Mr. Varoujan Nerguizian
13. H.E. Younis Al Khoori (from 28 April 2021)
14. Mr. Ziad Abdulla Ibrahim Galadari

Auditors

The Company auditors, Ernst & Young, have issued their review report on the interim condensed consolidated financial information of the Group.

On behalf of the Board of Directors



Director
10 August 2021