

DANA GAS PJSC

Report of the Directors

The Board of Directors of Dana Gas (“Dana Gas” or the “Company”) are pleased to announce the interim consolidated financial results of the Company, its subsidiaries and joint arrangements (together referred to as the “Group”) for the three months and six months periods ended 30 June 2020.

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 2020

During the first half of 2020 (the “period”) the Company earned gross revenues of USD 181 million (AED 664 million) as compared to USD 242 million (AED 887 million) in the first half of 2019. The decrease in revenue was due to lower realized prices during the period together with lower production in Egypt. Realised prices during the first half were lower by 34% and impacted the topline by USD 42 million (AED 154 million), whilst reduced production negatively impacted the topline by USD 19 million (AED 70 million). Realised prices averaged USD 30/bbl for condensate and USD 28/boe for LPG compared to USD 51/bbl and USD 33/boe respectively in 1H 2019.

The Group share of production for 182 days was 11.5 million barrels of oil equivalent or 63,250 barrels of oil equivalent per day (“boepd”), a reduction of 7% compared to corresponding period production of 12.4 million boe (68,200 boepd).

The Group reported a net loss after tax of USD 19 million (AED 69 million) as compared to a profit of USD 140 million (AED 513 million) in the first half of 2019. Due to current economic environment and sharp decline in oil prices, the Group recognized an impairment of USD 37 million (AED 135 million) during the period. Excluding this impairment, the Group’s net profit for the period is USD 18 million (AED 66 million) as compared to an adjusted net profit (excluding exceptional income & impairment) of USD 52 million (AED 191 million) in first half 2019. The decrease in net profit during the period was mainly due to lower realised prices.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) in 1H 2020 decreased to USD 77 million (AED 283 million) down 62% from USD 205 million (AED 751 million) in 1H 2019.

Results for quarter ended 30 June 2020

During the quarter ended 30 June 2020, the Company earned gross revenues of USD 77 million (AED 282 million) as compared to USD 123 million (AED 451 million) in the second quarter of 2019, a decrease of 37% reflecting sharp decline in realized prices during the period. Realised prices during the current period remained lower by 51% and impacted the topline by USD 37 million (AED 136 million). Realised price averaged USD 20/bbl for condensate and USD 25/boe for LPG compared to USD 53/bbl and USD 34/boe respectively in Q2 2019.

The Group’s share of production for the 91 days was 5.7 million barrels of oil equivalent or 62,800 barrels of oil equivalent per day (“boepd”), a reduction of 7% compared to corresponding quarter production of 6.16 million boe (67,700 boepd).

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Results for quarter ended 30 June 2020 (continued)

The Group reported a net loss after tax of USD 36 million (AED 131 million) for Q2 2020 as compared to a net profit of USD 105 million (AED 385 million) in Q2 2019. During the quarter an impairment of USD 33 million (AED 120 million) was recognised following the decline in oil prices. Excluding this impairment, the Group reported a net loss of USD 3 million (AED 11 million) as compared to an adjusted net profit (excluding exceptional income & impairment) of USD 24 million (AED 89 million) in quarter 2 2019. This decline in net profit was mainly due to lower realised prices as explained above.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) in Q2 2020 decreased to USD 25 million (AED 92 million) down 82% from USD 137 million (AED 502 million) in Q2 2019.

Liquidity and Financial Resources

Cash and bank balance at period end stood at USD 366 million (AED 1,341 million), a decrease of 14% compare to year-end balance of USD 425 million (AED 1,558 million). Cash includes USD 58 million (AED 213 million) being 35% share of cash held at Pearl Petroleum. The Group collected a total of USD 90 million (AED 330 million) during the period with Egypt and KRI contributing USD 43 million (AED 158 million) and USD 47 million (AED 172 million), respectively. During the period ended 30 June 2020, the Company paid a dividend of USD 104 million (AED 383 million) and bought back Sukuk amounting to USD 17.8 million – nominal value (AED 66 million). Subsequent to period end, the Group bought back Sukuk amounting to USD 70.7 million – nominal value (AED 259 million) bringing the outstanding Sukuk to USD 309 million (AED 1,133 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.

Reserves & Resources

(a) 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 2019. Following this review, the Group’s gross proved reserves (1P) as at 31 December 2019 were assessed at 49 MMboe (31 December 2018: 54 MMboe). The gross proved and probable reserves (2P) as at 31 December 2019 were estimated at 73 MMboe (31 December 2018: 89 MMboe) and the gross proved, probable and possible reserves (3P) as at 31 December 2019 were estimated to be 106 MMboe (31 December 2018: 134 MMboe). The decrease in reserves was on account of production during the year, which was not replaced.

(b) 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 Chemchemal Fields at 75 Tscf (of wet gas) and 7 billion barrels of oil.

PPCL appointed Gaffney Cline Associates 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.

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.

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Reserves & Resources (continued)

(b) Pearl Petroleum Company Limited (continued)

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

Chemchemal

- 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 recent 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.

E&P Operations

a) Egypt E&P Operations

The Company production in Egypt for the 91 days of operations in Q2 2020 was 2.8 MMboe i.e. averaging 31,200 boepd (June 2019: 3.09 MMboe i.e. averaging 33,950 boepd) a decrease of 8% over the corresponding period. The decline in production was mainly due to natural decline in fields and increase of formation water production from some wells of Balsam field. The decline was partially compensated by putting in place production optimization strategies at fields and plant level.

In Egypt, the Company collected a total USD 43 million (AED 158 million) during first half of 2020 and hence realized 88% of the period's revenue. Out of the total, USD 23 million (AED 84 million) was received in US Dollars, USD 19 million (AED 70 million) in equivalent Egyptian pounds and USD 1 million in the form of offset against payables. During the period, the Company sold a total of 6 monthly shipments of incremental condensate to EGPC with average shipment volume of 100,000 bbls and collected an amount of USD 23 million (AED 84 million) through irrevocable letter of credit. At period end, the trade receivable balance stood at USD 117 million (AED 429 million) as compared to USD 111 million (AED 407 million) at year end.

b) 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 2020 was 2.8 MMboe, i.e. averaging 31,000 boe per day (Q2 2019 – DG Share 35%: 2.9 MMboe, averaging 32,100 boe per day), a decrease of 3% when compared with corresponding period.

Dana Gas share of collections for the period stood at USD 47 million (AED 172 million) and hence realised 76% 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 24 million (AED 88 million) at year end.

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 (continued)

b) Pearl Petroleum Company Limited (KRI) E&P Operations (continued)

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. During the period, 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 implementation of the first 250 MMscfd gas processing train was planned to be carried out with first gas by Q1-2022. The second phase will take total production to 900 MMscfd.

As a result of the impacts of COVID 19 on business operations across the world and KRI and specifically for (a) supply chain for EPC contract and (b) local site access for construction preparatory works due to flight and other disruptions, the contractor has declared Force Majeure with respect to the execution of the project timeline under the terms of the EPC contract. Pearl has replicated Force Majeure similarly to the KRG pursuant to the terms of the GSA signed in 2019. The EPC contractor has assured Pearl that it is committed to the EPC project and is taking all commercially reasonable steps to mitigate the impact of COVID 19 on the project.

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 Saj Gas and UGTC, 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.

For further updates see "Arbitration Cases".

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 and has produced 1,890 boepd of propane (DG Share 26.4%: 499 boepd) and 422 boepd of butane (DG Share 26.4%: 111 boepd) during the period.

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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 has 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 found in favour of Dana Gas' partner Crescent Petroleum and Crescent Gas Corporation Limited on all issues. NIOC appealed the 2014 arbitration award to the English High Court. Most of the grounds of appeal were previously heard and dismissed by the Court in March 2016. The finalisation of the appeal in July 2016 confirms that the 2014 award is final and binding and that NIOC has 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. The final award on damages for the period 2005 to 2014 is awaited from the Tribunal, and in the meantime 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 arising out of 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 sought to illegitimately avoid in the 20 September 2017 arbitration against MOL.

The arbitration will also address the separate and additional crude oil earn out payments arising out of the said 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 arising out of 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 21 April 2020, the shareholders approved a cash dividend of AED 0.055 per share for 2019 (2018: 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
4. Mr. Hani Abdulaziz Hussein
5. Mr. Jassim MohamadRafi Alseddiqi
6. Mr. Majid Hamid Jafar
7. Mr. Nureddin Sehweil
8. Mr. Said Arrata
9. Mr. Shaheen Al-Muhairi
10. Mr. Varoujan Nerguizian
11. Mr. Ziad Abdulla Ibrahim Galadari

Auditors

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

On behalf of the Board of Directors



Director
13 August 2020