

# **Dana Gas PJSC and Subsidiaries**

## **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**31 MARCH 2017 (Unaudited)**

## **DANA GAS PJSC**

### **Report of the Directors**

The Board of Directors of Dana Gas (“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 31 March 2017.

#### **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, Bahrain, and the Kurdistan Region of Iraq (KRI) and headquartered in Sharjah, United Arab Emirates.

#### **Results for the quarter ended 31 March 2017**

During the quarter ended 31 March 2017, the Company earned gross revenues of USD 118 million (AED 432 million) as compared to USD 82 million (AED 301 million) in the first quarter of 2016, an increase of 44% equally from increased production in Egypt and higher realised hydrocarbon prices during the period.

The Group’s share of production for the first 90 days was 6.3 million barrels of oil equivalent [69,900 barrels of oil equivalent per day (“boepd”)], an increase of 16% compared to corresponding quarter production of 5.5 million boe (60,500 boepd). Production in Egypt, Kurdistan and Zora was higher by 24%, 4% and 37%, respectively.

Realised prices were up by 43% as compared to the same period last year. Realised price averaged USD 47/bbl for condensate and USD 34/boe for LPG compared to USD 30/bbl and USD 29/boe respectively in Q1 2016.

The Group achieved a net profit after tax of USD 11 million (AED 40 million) as compared to USD 6 million (AED 22 million) in Q1 2016, an increase of 83%. Current year profitability reflects increased revenue, reduction in operating cost and recognition of USD 5 million (AED 18 million) of “Other Income”. In Q1 2016, net profit included incremental interest of USD 8 million (AED 29 million) which was reversed at year end, following Tribunal order allowing interest only at Libor plus 2%. Excluding this, net profit for Q1 2016 would have been a loss of USD 2 million (AED 7 million) against a net profit of USD 11 million (AED 40 million) in Q1 2017.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) in Q1 2017 increased to USD 69 million (AED 252 million) compared to USD 47 million (AED 172 million) in Q1 2016.

#### **Liquidity and Financial Resources**

Cash and bank balance at period end stood at USD 298 million (AED 1,092 million), similar to year-end balance of USD 302 million (AED 1,107 million). The Group collected a total of USD 48 million (AED 176 million) during the period with Egypt, Kurdistan Region of Iraq (KRI) and U.A.E. contributing USD 13 million (AED 48 million), USD 31 million (AED 113 million) and USD 4 million (AED 15 million), respectively. Subsequent to quarter end, in early May, the Company prepaid the Zora outstanding loan amounting to USD 60 million (AED 220 million) plus applicable interest/costs.

On 3 May 2017 the Company announced that, due to continued challenges it faces around cash collections and the resulting need to focus on short to medium term cash preservation, it will commence restructuring discussions with holders of both of its Sukuk dated 8th May 2013. Accordingly, Dana Gas invites Sukuk holders to form a committee to represent them and contact the Company.

# **DANA GAS PJSC**

## **Report of the Directors**

### **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 2016. Following this review, the Group's gross proved reserves (1P) as at 31 December 2016 were assessed at 89 MMboe (31 December 2015: 83 MMboe); an increase of 7 %. The gross proved and probable reserves (2P) as at 31 December 2016 were estimated at 132 MMboe (31 December 2015: 130 MMboe); an increase of 2 % and the gross proved, probable and possible reserves (3P) as at 31 December 2016 were estimated to be 184 MMboe (31 December 2015: 185 MMboe); a decrease of 1%. The 2P reserve replacement ratio for 2016 was 115%.

#### ***(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 risked<sup>1</sup> 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 31<sup>st</sup> December 2015 based on a comprehensive data set comprising ca. 1200 km 2D seismic, the 11 wells drilled in the two fields to date plus field production data over a period of seven years.

In their report dated April 2016, GCA provided the following reserves estimates for both fields<sup>2</sup>:

- Proved plus Probable (2P) gas and condensate reserves for Khor Mor are 8.5 Tscf and 191 MMbbl respectively of which Dana Gas' 35% share equates to 3 Tscf of dry gas and 67 MMbbl of condensate.
- For Chemchemical, Proved plus Probable (2P) gas and condensate reserves are 6.6 Tscf and 119 MMbbl respectively, with Dana Gas' 35% share being 2.3 Tscf of dry gas and 42 MMbbl of condensate.

The above figures are based on data from 2 of the 12 defined compartments in the Khor Mor Field and 1 of the 3 compartments in the Chemchemical Field. Total Dana Gas share of the Khor Mor and Chemchemical 2P reserves is therefore 5.3 Tscf gas and 109 MMbbls condensate, equivalent to 990 MMboe.

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 Resources<sup>3</sup> and Prospective Resources<sup>4</sup>.

GCA's report confirms Dana Gas' and Crescent Petroleum's belief that Khor Mor and Chemchemical have the potential to be the largest gas fields in the KRI and indeed in the whole of Iraq and thus makes them world class assets.

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<sup>1</sup> 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.

<sup>2</sup> The reported hydrocarbon volumes are estimates based on professional judgment and are subject to future revisions, upwards or downwards, as a result of future operations or as additional information becomes available.

<sup>3</sup> Those quantities of petroleum estimated to be potentially recoverable but not yet considered mature enough for commercial development due to one or more contingencies.

<sup>4</sup> Those quantities of petroleum estimated to be potentially recoverable from undiscovered accumulations by future development projects.

## **DANA GAS PJSC**

### **Report of the Directors**

#### **Reserves & Resources (continued)**

##### ***(c) Sharjah Western Offshore – Zora Field***

Following signing of concession agreement with Ajman in January 2014, Dana Gas has a 100% working interest in the Zora field which spans the territorial waters of Sharjah and Ajman. Gaffney, Cline & Associates carried out an independent evaluation of Sharjah Western Offshore – Zora Field's hydrocarbon reserves as on 31 December 2016. Following this review, the Group's gross proved reserves (1P) as at 31 December 2016 were assessed at 17 MMboe (31 December 2015: 16 MMboe). The gross proved and probable reserves (2P) as at 31 December 2016 were estimated to be 33 MMboe (31 December 2015: 31 MMboe) and the gross proved, probable and possible reserves (3P) as at 31 December 2016 were estimated to be 65 MMboe (31 December 2015: 64 MMboe).

#### **E&P Operations**

##### ***a) Egypt E&P Operations***

The Company production in Egypt for the first 90 days of operations in 2017 was 3.7 MMboe i.e. averaging 40,950 boepd (March 2016: 3.0 MMboe, i.e. averaging 33,000 boepd) an increase of 24% over the corresponding period. The higher production is a result of increased drilling activities in 2016 which led to additional reserves for the Nile Delta fields and reflects Dana Gas commitment made under the Gas Production Enhancement Agreement ("GPEA").

In Egypt, the Company collected USD 13 million (AED 48 million), and hence realised just over 41% of the quarter's revenue. At period end the trade receivable balance increased to USD 283 million (AED 1,037 million) from USD 265 million (AED 971 million) at end of 2016. Subsequent to the period end, the Company achieved an important milestone with the first international sale of condensate under the GPEA. The first cargo of approximately 150,000 barrels of Wastani condensate was loaded on 15 April 2017. The buyer issued a letter of credit under which payment amounting to USD 7.2 million will be made directly to the Company in USD. The cargo is the first to be exported by the Company under the GPEA signed with the Egyptian Government in August 2014. Cash generated from the export of Government's share of the incremental condensate will be used to pay down the outstanding receivables owed to the Company by the Egyptian Government.

During the period, the BP operated Mocha-1 exploration well in Block 3 was completed. It reached total depth at 5,940 metres, making it the deepest onshore Nile Delta well drilled to date. Whilst the Messinian objective encountered wet gas, the primary Oligocene target did not encounter gas in commercial quantities and the well has been P&A'ed. Under the terms of the agreement signed in June 2015, BP agreed to carry Dana Gas for its 50% share of the cost of the well. Consequently, Dana Gas has achieved its objective of drilling this important calibration well at no cost to itself.

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

In April 2007, the Group entered into agreements with the Kurdistan Regional Government of Iraq for developing the significant petroleum (including gas) resources in the Khor Mor and Chemchemal fields. Since then, the focus has been on developing, processing and transporting natural gas from the Khor Mor Field including processing and extracting LPG and condensate and providing natural gas supplies to domestic power generation plants near Erbil and Sulaimaniya. Further development of both fields is planned following resolution of the ongoing legal dispute. As envisaged under the agreements, such further development is expected to provide significant natural gas supplies for future expansion of power generation and local industries as well as for export and sale abroad as and when the political circumstances permit.

On 27 November 2015, Dana Gas and Crescent sold an equity interest of 5% each in Pearl Petroleum to RWE Middle East Holding BV ("RWE"). The shareholding interest in Pearl Petroleum is now as follows: Dana Gas: 35%, Crescent: 35%, OMV: 10%, MOL: 10% and RWE: 10%.

## **DANA GAS PJSC**

### **Report of the Directors**

#### **E&P Operations (continued)**

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

Dana Gas's share (35%) of gross production in the KRI for the first 90 days of operations in 2017 was 2.4 MMboe, i.e. averaging 26.5 thousand BOE per day (March 2016: 2.3 MMboe, averaging 25.5 thousand BOE per day).

Dana Gas share of collections for the period stood at USD 31 million (AED 113 million). At period end, Dana Gas' 35% share of trade receivable balance stood at USD 712 million (AED 2,610 million) – (2016: USD 713 million / AED 2,613 million).

##### ***c) Zora Gas Field***

The Zora gas field lies partly in the Sharjah Western Offshore Concession area and extends into the adjacent Ajman Concession area with approximately 50% of the volume on each side as agreed under the initial unitization agreement. The field produces slightly sour gas via an unmanned platform in approximately 24 meters of water depth located about 33km offshore. The platform is connected by means of 12" subsea and onshore pipeline system to a gas processing plant located within Sharjah Hamriyah Free Zone.

The gas plant has been in continuous production since 28 February 2016, currently delivering approximately 10 mmscfd sales gas to Sharjah power station and producing 120 bbl/day of condensate. Production from the Zora field during the quarter was 163,710 boe or 1,819 boepd (March 2016: 119,273 or 1,300 boepd). As the current production rate of the Sharjah-2 well has continued to decline a detailed geo-technical study is being carried out, based on production data to determine the range of well intervention options which could enhance production and to assess their economic viability. This work is now being further extended to evaluate possible future options for further development and to determine the gas price required to make such further development economically viable. Any final decision on future expenditure will also be subject to the outcome of negotiations on sales gas price.

During the period, collection stood at USD 4 million (AED 15 million). At period end, the trade receivable balance stood at USD 2 million (AED 7 million) (31 December 2016: USD 2 million / AED 7 million).

##### ***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 Sajaa Gas and UGTC, the entities that own the offshore riser platform, the offshore and onshore pipelines and the sour gas processing plant.

##### ***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 mmscfd of gas and has produced 2,250 boepd of propane (DG Share 26.4%: 594 boepd) and 115 boepd of butane (DG Share 26.4%: 30 boepd) during the period.

## **DANA GAS PJSC**

### **Report of the Directors**

#### ***Arbitration Cases***

On 21 October 2013, Dana Gas, along with Crescent Petroleum and Pearl Petroleum (the Consortium which holds petroleum rights in the KRI), together “the Claimants”, commenced international arbitration proceedings at the London Court of International Arbitration (LCIA), in accordance with the dispute resolution mechanism of the agreement signed with the Kurdistan Regional Government (KRG) on 04 April 2007 and governed by English Law.

With effect from July 2013, the date upon which the Claimants initiated mediation proceedings with the LCIA, the KRG ceased making any payments for the liquid products that it continued to lift and sell from the Khor Mor plant. On 21 March 2014, the Consortium filed an interim measures application with the Tribunal, which was successful on 10 July 2014 when the Tribunal ordered the KRG to restore the previous regular payments to the Consortium as of 21 March 2014, the date of the application, and until the case is concluded.

The KRG failed to comply with and challenged the Tribunal’s order, although from September 2014, the Company was permitted to commence local sales of condensate and LPG to third parties. On 17 October 2014, the Tribunal dismissed the KRG’s challenge and re-affirmed its order for interim measures of 10 July 2014. In addition, the Tribunal ordered the KRG to pay the Consortium USD 100 million within a timeframe of 30 days (by 17 November 2014) in the form of a Peremptory Order. In default of its legal obligations, the KRG failed to make payment by the stipulated deadline. Consequently, the Tribunal’s order became peremptory in nature, enabling its enforcement by the English High Court. On 12 December 2014, and with the Tribunal’s permission, an application to the High Court was made for the enforcement of the order, with the prospect of sanctions being imposed on the KRG for non-compliance. The Court heard the Claimants’ application for the enforcement of the order during a hearing on 28 and 29 October 2015.

On 20 November 2015, the Court handed down its decision, in which it enforced the Peremptory Order and ordered the KRG to pay the Peremptory Order within 14 days. Following receipt of the judgment, the KRG applied to challenge the Court’s order, by way of seeking (1) a discharge of the Peremptory Order; (2) an appeal; and (3) alternatively, an extension of time to pay the Peremptory Order. At the same time as the KRG made its application it also applied to the Tribunal to discharge the Peremptory Order.

At the hearing before the Court on 17 December 2015, the Court decided to (1) adjourn the discharge application to allow the Tribunal to decide whether or not the Peremptory Order should be discharged; (2) refused permission for the KRG to appeal; and (3) extended the time for the KRG to pay the Peremptory Order to 26 February 2016. However, as a condition of this extension, the Court ordered the KRG to pay in the meantime 3 installments of USD 8 million each by 31 December 2015, 15 January 2016 and 19 February 2016 to the Consortium. All three instalments were paid.

The KRG also applied to the Tribunal to discharge the Peremptory Order, which was the subject of a short hearing before the Tribunal on 8 January 2016. The parties then went back before the English High Court on 5 February 2016, in which the Court dismissed the KRG’s discharge application and upheld the Peremptory Order. The KRG then applied to the English Court of Appeal for permission to appeal the High Court’s judgment. The hearing for permission took place on 12 May 2016, with the Court of Appeal refusing the KRG’s application and upholding the Peremptory Order.

Separately, in March 2016 the Claimants and the KRG independently reached an agreement whereby the Peremptory Order will be paid down by the KRG in monthly instalments. As at 31 March 2017, the KRG has paid the Claimants an amount of USD 68.35 million.

In relation to the arbitration proceedings on merits a one-week hearing took place in London commencing 20 April 2015 at which selected issues in the arbitration were considered.

## **DANA GAS PJSC**

### **Report of the Directors**

#### ***Arbitration Cases (continued)***

On 3 July 2015, the Arbitral Tribunal issued a Partial Final Award dated 30 June 2015 (“First PFA”) confirming the Consortium’s contractual rights including a number of important issues addressed at the 20 April 2015 hearing. Among other things, the First Partial Final Award confirmed:

- The Consortium’s exclusive long-term rights to develop and produce gas and petroleum from both the Khor Mor and Chemchemical fields for the duration of the Contract, being not less than 25 years.
- The KRG’s contractual obligation to pay the Consortium for the produced condensate and LPG at international prices, including the pricing methodology for each.
- That Dana Gas and Crescent Petroleum were entitled to farm out part of their own interests to MOL and OMV, and that the KRG was not entitled to a share of the farm-out proceeds.

On 21 September 2015, a one-day hearing was held during which the Consortium made an application to the Tribunal for monetary award of USD 1.963 billion against the KRG, being the outstanding unpaid invoices (as of 30 June 2015) for the produced condensate and LPG calculated as per the pricing methodology determined by the Tribunal in the First Partial Final Award. The Tribunal considered the parties’ claims and their submissions. On 27 November 2015, the Tribunal handed down its Second Partial Final Award (dated 27 November 2015 and updated by Memorandum of Correction dated 20 January 2016) (“Second PFA”) in which it ordered the KRG to pay the Consortium within 28 days (i.e. by 26 December 2015) the sum of USD 1.963 billion for outstanding unpaid invoices for the produced condensate and LPG up to 30 June 2015, as per the pricing methodology already determined by the Tribunal in the First PFA.

The Second PFA is final, binding and internationally enforceable, and does not depend upon any further hearings or the parties’ outstanding claims and counter-claims that are yet to be determined in the arbitration.

The KRG has not yet paid the USD 1.963 billion<sup>5</sup>, and on 22 December 2015, launched a challenge to the Second PFA in the English High Court on the limited procedural grounds allowed for in arbitration. The hearing for the KRG’s challenge was set for 28-30 November 2016. However, on 20 October 2016 the KRG filed a notice of discontinuance in the High Court, formally withdrawing the challenge.

The Claimants’ remaining claims, including the Consortium’s substantial damage claim (currently quantified at no less than USD 17.5 billion, excluding interest) for wrongful interference with the Consortium’s long term rights over the Khor Mor and Chemchemical fields (as affirmed by the First PFA) initially fell to be determined (along with KRG’s various counterclaims against the Claimants) between 5-16 September 2016.

In July 2016, the hearing become bifurcated, with the result that the September 2016 hearing addressed the remainder of the Claimant’s claims but not the quantification of its claim for the wrongful late development of the Khor Mor and Chemchemical fields, along with the various counterclaims alleged by the KRG against the Claimants (save for its mirror counterclaim against the Consortium for wrongful late development).

On 13 February 2017, the Tribunal handed down its Third Partial Final Award dated 30 January 2017 (“Third PFA”).

Importantly, the Tribunal held in the Third PFA the following:

- a. **Delayed Development Claim:** The Tribunal found in the Claimants’ favor that the KRG wrongfully prevented the Claimants from carrying out appraisals and such other activities as are necessary to enable the Consortium to put forward a proposal for field development in respect of Khor Mor and Chemchemical and thereby delayed the Claimants opportunity to develop those areas. The Tribunal further declared that the KRG is not entitled to reject a proposal from the Consortium for a field development plan otherwise than on reasonable grounds in accordance with good petroleum industry practice.

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<sup>5</sup> Save that, as the Peremptory Order is included in the USD 1.96 billion awarded pursuant to the Second PFA, the amount of the Second PFA now outstanding has been reduced by USD 68.35 million.

**DANA GAS PJSC**  
**Report of the Directors**

***Arbitration Cases (continued)***

- b. Update on Liquid Receivables: The Tribunal ordered the KRG to pay to the Claimants USD 121,095,282 in respect of condensate and LPG lifted by or on behalf of the KRG between 30 June 2015 and 31 March 2016.
- c. Entitlement to Interest: The Tribunal determined that the Claimants are entitled to interest on all overdue liquids receivables for each day that such sums are overdue at the rate of LIBOR + 2% compounded monthly.
- d. Dismissal of KRG Counter Claims: The Tribunal dismissed in totality all of the KRG's counterclaims against the Claimants and found that the project was delivered within a reasonable time.

The quantification of the Claimants' damages for the delayed development claim will be determined by the Tribunal at a further hearing scheduled for 12-20 September 2017.

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 National Iranian Oil Company ('NIOC's) remaining grounds of appeal against the 2014 arbitration award. The 2014 arbitration award found in favour of Dana Gas' partner Crescent Petroleum Company International Limited 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) took place in November 2016. Due to a long post-hearing submissions timetable, the final damages award is expected in the second half of 2017.



**DANA GAS PJSC**  
**Report of the Directors**


**Board of Directors**

1. H.H. Sheikh Ahmed Bin Sultan Al-Qasimi, Honorary Chairman
2. Mr. Hamid Dhiya Jafar, Chairman
3. Mr. Rashid Saif Al-Jarwan, Deputy Chairman
4. Dr. Patrick Allman-Ward, Chief Executive Officer
5. H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al-Qasimi
6. Mr. Abdullah Ali Al Majdouie
7. Mr. Majid Hamid Jafar
8. Mr. Nasser Al Nowais
9. Mr. Said Arrata
10. Mr. Varoujan Nerguizian
11. Mr. Ziad Abdulla Ibrahim Galadari
12. Mr. Hani Abdulaziz Hussein
13. Ms. Fatima Obaid Al-Jaber

**Auditors**

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

On behalf of the Board of Directors



Director

11 May 2017



Building a better  
working world

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## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF DANA GAS PJSC

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Dana Gas PJSC ("the Company") and its subsidiaries ("the Group") as at 31 March 2017 comprising the interim condensed consolidated statement of financial position as at 31 March 2017 and the related interim condensed consolidated statements of income, comprehensive income, cash flows and changes in equity for the three month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

### *Emphasis of matters*

- (i) We draw attention to note 5 to the interim condensed consolidated financial statements which discloses that the continued delay in commencement of gas supplies has prompted a key supplier of the Group to initiate arbitration proceedings against its ultimate supplier;
- (ii) We also draw attention to note 1 to the interim condensed consolidated financial statements which discloses arbitration proceedings entered into with the Kurdistan Regional Government of Iraq; and
- (iii) We also draw attention to note 11a to the interim condensed consolidated financial statements which discloses the Company's intention to restructure its Sukuk maturing in October 2017.

Our conclusion is not qualified in respect of the above matters.

For Ernst & Young

Signed by:

Thodla Hari Gopal

Partner

Registration No. 689

11 May 2017

Sharjah, United Arab Emirates

# Dana Gas PJSC and Subsidiaries

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 31 March 2017 (Unaudited)

	Notes	Three months ended			
		31 March 2017		31 March 2016	
		USD mm	AED mm	USD mm	AED mm
Revenue		118	432	82	301
Royalties		(45)	(165)	(25)	(92)
Net revenue		73	267	57	209
Operating costs		(10)	(37)	(13)	(48)
Depreciation and depletion		(25)	(92)	(22)	(81)
Gross profit		38	138	22	80
General and administration expenses		(3)	(11)	(3)	(11)
Investment and finance income		7	26	13	48
Other income	7	5	18	-	-
Reversal of surplus over entitlement	12	6	22	9	33
Other expenses		(2)	(7)	(2)	(7)
Provision for impairment		(1)	(4)	-	-
Share of loss of a joint venture		-	-	(1)	(4)
Exploration expenses		(8)	(29)	-	-
Finance cost		(20)	(73)	(26)	(95)
<b>PROFIT BEFORE INCOME TAX</b>		<b>22</b>	<b>80</b>	<b>12</b>	<b>44</b>
Income tax expense		(11)	(40)	(6)	(22)
<b>PROFIT FOR THE PERIOD</b>		<b>11</b>	<b>40</b>	<b>6</b>	<b>22</b>
<b>PROFIT ATTRIBUTABLE TO:</b>					
- Equity holders of the parent		11	40	6	22
- Non-controlling interest		-	-	-	-
		11	40	6	22
<b>EARNINGS PER SHARE:</b>					
- Basic earnings per share (USD/AED per share)	4	0.001	0.005	0.0008	0.003
- Diluted earnings per share (USD/AED per share)	4	0.001	0.005	0.0008	0.003

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Dana Gas PJSC and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 March 2017 (Unaudited)

	<i>Three months ended</i>			
	<i>31 March</i>		<i>31 March</i>	
	<i>2017</i>		<i>2016</i>	
	<i>USD mm</i>	<i>AED mm</i>	<i>USD mm</i>	<i>AED mm</i>
<b>Profit for the period</b>	<b>11</b>	<b>40</b>	<b>6</b>	<b>22</b>
<b>Other comprehensive income</b>	-	-	-	-
<b>Other comprehensive income / (loss) for the period</b>	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>11</b>	<b>40</b>	<b>6</b>	<b>22</b>
<b>ATTRIBUTABLE TO:</b>				
- Equity holders of the parent	11	40	6	22
- Non-controlling interest	-	-	-	-
	<b>11</b>	<b>40</b>	<b>6</b>	<b>22</b>

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017 (Unaudited)

		31 March 2017		31 December 2016 (Audited)	
	Notes	USD mm	AED mm	USD mm	AED mm
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment		1,132	4,148	1,105	4,050
Intangible assets	5	644	2,361	690	2,529
Investment property	6	24	87	24	87
Interest in joint ventures		560	2,053	560	2,053
		<u>2,360</u>	<u>8,649</u>	<u>2,379</u>	<u>8,719</u>
<b>Current assets</b>					
Inventories		48	176	49	180
Trade and other receivables	7	1,042	3,820	1,026	3,761
Financial assets at fair value through profit or loss	8	9	33	9	33
Cash and bank balance	9	298	1,092	302	1,107
		<u>1,397</u>	<u>5,121</u>	<u>1,386</u>	<u>5,081</u>
<b>TOTAL ASSETS</b>		<u><u>3,757</u></u>	<u><u>13,770</u></u>	<u><u>3,765</u></u>	<u><u>13,800</u></u>
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the Parent</b>					
Share capital	10	1,903	6,977	1,901	6,969
Statutory reserve		108	395	108	395
Legal reserve		108	395	108	395
Retained earnings		614	2,250	603	2,210
Other reserves		2	7	3	11
Convertible bonds- equity component		58	212	58	212
		<u>2,793</u>	<u>10,236</u>	<u>2,781</u>	<u>10,192</u>
<b>Attributable to equity holders of the Parent</b>		<u>2,793</u>	<u>10,236</u>	<u>2,781</u>	<u>10,192</u>
Non-controlling interest		1	4	1	4
<b>Total equity</b>		<u><u>2,794</u></u>	<u><u>10,240</u></u>	<u><u>2,782</u></u>	<u><u>10,196</u></u>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	11	55	202	62	227
Provisions		14	51	11	40
		<u>69</u>	<u>253</u>	<u>73</u>	<u>267</u>
<b>Current liabilities</b>					
Borrowings	11	724	2,654	731	2,680
Trade payables and accruals		140	513	138	506
Provision for surplus over entitlements (net)	12	30	110	41	151
		<u>894</u>	<u>3,277</u>	<u>910</u>	<u>3,337</u>
<b>Total liabilities</b>		<u><u>963</u></u>	<u><u>3,530</u></u>	<u><u>983</u></u>	<u><u>3,604</u></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>3,757</u></u>	<u><u>13,770</u></u>	<u><u>3,765</u></u>	<u><u>13,800</u></u>

Director

11 May 2017

Director

11 May 2017

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 March 2017 (Unaudited)

	<i>Note</i>	<i>Three months ended</i>			
		<i>31 March 2017</i>		<i>31 March 2016</i>	
		<i>USD mm</i>	<i>AED mm</i>	<i>USD mm</i>	<i>AED mm</i>
<b>OPERATING ACTIVITIES</b>					
Profit before income tax		22	80	12	44
Adjustments for:					
Depreciation and depletion		25	92	22	81
Investment and finance income		(7)	(26)	(13)	(48)
Other income		(5)	(18)	-	-
Reversal of surplus over entitlement		(6)	(22)	(9)	(33)
Provision for impairment		1	4	-	-
Share of loss of a joint venture		-	-	1	4
Exploration expenses		8	29	-	-
Finance costs		20	73	26	95
		<u>58</u>	<u>212</u>	<u>39</u>	<u>143</u>
Changes in working capital:					
Trade and other receivables		(16)	(58)	(17)	(62)
Inventories		1	4	(4)	(15)
Trade payables and accruals		2	7	7	26
		<u>45</u>	<u>165</u>	<u>25</u>	<u>92</u>
Net cash generated from operating activities					
Income tax		(11)	(40)	(6)	(22)
		<u>34</u>	<u>125</u>	<u>19</u>	<u>70</u>
Net cash flows from operating activities					
<b>INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(6)	(21)	(43)	(158)
Expenditure on intangible assets		(1)	(4)	(11)	(40)
Investment and finance income received		2	7	1	4
		<u>(5)</u>	<u>(18)</u>	<u>(53)</u>	<u>(194)</u>
Net cash flows used in investing activities					
<b>FINANCING ACTIVITIES</b>					
Proceeds from borrowings		-	-	7	25
Repayment of loan		(18)	(66)	(9)	(33)
Finance costs paid		(15)	(56)	(17)	(62)
Deposit – Murabaha facility		8	29	-	-
		<u>(25)</u>	<u>(93)</u>	<u>(19)</u>	<u>(70)</u>
Net cash flows used in financing activities					
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>4</b>	<b>14</b>	<b>(53)</b>	<b>(194)</b>
Cash and cash equivalents at the beginning of the period		292	1,070	441	1,615
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>9</b>	<b>296</b>	<b>1,084</b>	<b>388</b>	<b>1,421</b>

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Period ended 31 March 2017 (Unaudited)

### Attributable to the equity holders of the parent

	Share capital		Statutory reserve		Legal reserve		Retained earnings		Other reserves		Convertible bonds-equity component		Non-controlling interest		Total	
	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED
	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm
As at 1 January 2017	1,901	6,969	108	395	108	395	603	2,210	3	11	58	212	1	4	2,782	10,196
Profit for the period	-	-	-	-	-	-	11	40	-	-	-	-	-	-	11	40
Total comprehensive income for the period	-	-	-	-	-	-	11	40	-	-	-	-	-	-	11	40
Share based payment	-	-	-	-	-	-	-	-	1	4	-	-	-	-	1	4
Issuance of shares to employees	2	8	-	-	-	-	-	-	(2)	(8)	-	-	-	-	-	-
<b>As at 31 March 2017</b>	<b>1,903</b>	<b>6,977</b>	<b>108</b>	<b>395</b>	<b>108</b>	<b>395</b>	<b>614</b>	<b>2,250</b>	<b>2</b>	<b>7</b>	<b>58</b>	<b>212</b>	<b>1</b>	<b>4</b>	<b>2,794</b>	<b>10,240</b>
As at 1 January 2016	1,901	6,969	108	395	108	395	693	2,540	2	7	58	212	1	4	2,871	10,522
Profit for the period	-	-	-	-	-	-	6	22	-	-	-	-	-	-	6	22
Total comprehensive income for the period	-	-	-	-	-	-	6	22	-	-	-	-	-	-	6	22
As at 31 March 2016	1,901	6,969	108	395	108	395	699	2,562	2	7	58	212	1	4	2,877	10,544

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS At 31 March 2017 (Unaudited)

### 1 CORPORATE INFORMATION

Dana Gas PJSC (“Dana Gas” or the “Company”) was incorporated in the Emirate of 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 shares are listed on the Abu Dhabi Securities Exchange (ADX).

The Company, its subsidiaries, joint operations and joint ventures constitute the Group (the “Group”). The Group is engaged in the business of exploration, production, ownership, transportation, processing, distribution, marketing and sale of natural gas and petroleum related products, including the development of gas related projects and services.

The Company’s registered head office is at P. O. Box 2011, Sharjah, United Arab Emirates with presence in Bahrain, Cairo, Kurdistan Region of Iraq and London.

Principal subsidiaries and joint arrangements of the Group at 31 March 2017 and the Company percentage of ordinary share capital or interest are set out below:

<i><b>Subsidiaries</b></i>	<i><b>%</b></i>	<i><b>Country of incorporation</b></i>	<i><b>Principal activities</b></i>
Dana Gas LNG Ventures Limited	100	British Virgin Islands	Oil and Gas exploration & production
Dana Gas Egypt	100	Barbados	Oil and Gas exploration & production
Dana Gas Exploration FZE	100	UAE	Oil and Gas exploration & production
Sajaa Gas Private Limited Company (“SajGas”)	100	UAE	Gas Sweetening
United Gas Transmissions Company Limited (“UGTC”)	100	UAE	Gas Transmission
Danagaz (Bahrain) WLL	66	Bahrain	Gas Processing
<i><b>Joint Operations</b></i>	<i><b>%</b></i>	<i><b>Area of operation</b></i>	<i><b>Principal activities</b></i>
Pearl Petroleum Company Limited (“Pearl Petroleum”)*	35	Kurdistan Region of Iraq	Oil and Gas exploration & production
UGTC/ Emarat JV	50	Emirate of Sharjah	Gas Transmission
<i><b>Joint Ventures</b></i>	<i><b>%</b></i>	<i><b>Country/Area of operation</b></i>	<i><b>Principal activities</b></i>
Egyptian Bahraini Gas Derivative Company (“EBGDCO”)	26.4	Egypt	Gas Processing
Crescent National Gas Corporation Limited (“CNGCL”)	35	Emirate of Sharjah	Gas Marketing
GASCITIES Ltd	50	MENASA	Gas Cities



### 1 CORPORATE INFORMATION (continued)

\* On 15 May 2009, Dana Gas and Crescent signed a Share Sale Agreement with OMV and MOL wherein an equity interest of 5% each was sold by Dana Gas and Crescent to OMV and MOL respectively. On 27 November 2015, Dana Gas and Crescent further transferred an equity interest of 5% each in Pearl Petroleum to RWE Middle East Holdings BV ("RWE"). Consequently, the shareholding interest in Pearl Petroleum is now as follows: 35% to Dana Gas, 35% to Crescent, 10% to OMV, 10% to MOL and 10% to RWE. In accordance with the terms of the Joint Venture Agreement dated May 15, 2009, the shareholders of Pearl Petroleum appointed Crescent and Dana Gas as Subcontract Operator to conduct the business of the Company on a no-profit, no-loss basis.

Pearl Petroleum and its shareholders since 18 May 2009 are engaged in an ongoing dialogue with the Ministry of Natural Resources ("MNR") of the Kurdistan Regional Government ("KRG") as to the interpretation of the agreement with the KRG ("the Authorisation").

Failing satisfactory progress with that dialogue, Dana Gas, along with Crescent Petroleum and Pearl Petroleum (the Consortium that holds petroleum rights in the Kurdistan Region of Iraq), together "the Claimants", commenced international arbitration proceedings on 21 October 2013 at the London Court of International Arbitration (LCIA), in accordance with the dispute resolution mechanism of the agreement signed with the KRG on 04 April 2007 and governed by English Law. The objective of the arbitration is to obtain confirmation of the long-term contractual rights for the development and marketing in respect of the Khor Mor and Chemchemical fields including the outstanding receivables owed by the MNR of KRG.

Following a hearing in London between 20-24 April 2015, on 3 July 2015, the Tribunal issued a Partial Final Award (dated 30 June 2015) confirming Pearl's long-term exclusive rights for the development and marketing in respect of the Khor Mor and Chemchemical fields, and its entitlement to be paid by KRG for condensate and LPG invoices at the contractually specified international prices.

On 21 September 2015, a one-day hearing was held during which the Consortium made an application to the Tribunal for monetary award of USD 1.963 billion against KRG, being the outstanding unpaid invoices (as of 30 June 2015) for the produced condensate and LPG calculated as per the pricing methodology determined by the Tribunal in the Partial Final Award. The Tribunal considered the parties' claims and their submissions made on 21 September 2015.

On 27 November 2015, the Tribunal handed down its Second Partial Final Award (dated 27 November 2015 and updated by Memorandum of Correction dated 20 January 2016) ("Second PFA") in which it ordered the KRG to pay the Consortium within 28 days (i.e. by 26 December 2015) the sum of USD 1.963 billion for outstanding unpaid invoices for the produced condensate and LPG up to 30 June 2015, as per the pricing methodology already determined by the Tribunal in the First PFA.

Following a 2-week hearing from 5-16 September 2016, on 13 February 2017, the Tribunal handed down its Third Partial Final Award dated 30 January 2017 ("Third PFA"). The Third PFA relates to the hearing that took place between 5-16 September 2016, which addressed the balance of the Claimants claims against the KRG (save for the quantification of the Claimants' delayed development claim), along with the counterclaims alleged by the KRG against the Claimants.

Importantly, the Tribunal held in the Third PFA the following:

- a. **Delayed Development Claim:** The Tribunal found in the Claimants' favor that the KRG wrongfully prevented the Claimants from carrying out appraisals and such other activities as are necessary to enable the Consortium to put forward a proposal for field development in respect of Khor Mor and Chemchemical and thereby delayed the Claimants opportunity to develop those areas. The Tribunal further declared that the KRG is not entitled to reject a proposal from the Consortium for a field development plan otherwise than on reasonable grounds in accordance with good petroleum industry practice.
- b. **Update on Liquid Receivables:** The Tribunal ordered the KRG to pay to the Claimants USD 121,095,282 in respect of condensate and LPG lifted by or on behalf of the KRG between 30 June 2015 and 31 March 2016.
- c. **Entitlement to Interest:** The Tribunal determined that the Claimants are entitled to interest on all overdue liquids receivables for each day that such sums are overdue at the rate of LIBOR + 2% compounded monthly.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
At 31 March 2017 (Unaudited)

**1 CORPORATE INFORMATION (continued)**

- d. Dismissal of KRG Counter Claims: The Tribunal dismissed in totality all of the KRG's counterclaims against the Claimants and found that the project was delivered within a reasonable time.

The quantification of the Claimants' damages for the delayed development claim will be determined by the Tribunal at a further hearing scheduled for 12-20 September 2017.

In the meantime, KRG remains in default of the Tribunal's peremptory order of 17 October 2014 to pay the Claimants USD 100 million on an interim basis ("Peremptory Order"). Accordingly, the Claimants applied to the English High Court for enforcement of this interim order. The Court heard the Claimants' application for the enforcement of the Peremptory Order during a hearing on 28 and 29 October 2015.

On 20 November 2015, the High Court handed down its decision, in which it enforced the Peremptory Order and ordered the KRG to pay the Peremptory Order within 14 days. Following receipt of the judgment, the KRG applied to challenge the Court's order, by way of seeking (1) a discharge of the Peremptory Order; (2) an appeal; and (3) alternatively, an extension of time to pay the Peremptory Order. At the same time as the KRG made its application it also applied to the Tribunal to discharge the Peremptory Order. At the hearing before the Court on 17 December 2015, the Court decided to (1) adjourn the discharge application to allow the Tribunal to decide whether or not the Peremptory Order should be discharged; (2) refused permission for the KRG to appeal; and (3) extended the time for the KRG to pay the Peremptory Order to 26 February 2016. However, as a condition of this extension, the Court ordered the KRG to pay in the meantime 3 installments of USD 8 million each by 31 December 2015, 15 January 2016 and 19 February 2016 to the Consortium. All three instalments were paid.

The KRG also applied to the Tribunal to discharge the Peremptory Order, which was the subject of a short hearing before the Tribunal on 8 January 2016. The parties then went back before the High Court on 5 February 2016, in which the Court dismissed the KRG's discharge application and upheld the Peremptory Order. The KRG then applied to the English Court of Appeal for permission to appeal the High Court's judgment. The hearing for permission took place on 12 May 2016, with the Court of Appeal refusing the KRG's application and upholding the Peremptory Order.

Separately, in March 2016 the Claimants and the KRG independently reached an agreement whereby the Peremptory Order will be paid down by the KRG in monthly instalments. As at 31 March 2017, the KRG has paid the Claimants an amount of USD 68.35 million. As the Peremptory Order is included in the USD 1.96 billion awarded pursuant to the Second PFA, the amount of the Second PFA now outstanding has been reduced by USD 68.35 million.

The KRG has not yet paid the USD 1.963 billion, and on 22 December 2015, launched a challenge to the Second PFA in the English High Court on the limited procedural grounds allowed for in arbitration. The hearing for the KRG's challenge was set for 28-30 November 2016. However, on 20 October 2016 the KRG filed a notice of discontinuance in the High Court, formally withdrawing the challenge. The Claimants are now able to actively consider its options to pursue enforcement of the Second PFA.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for investment property and financial assets at fair value through profit or loss account that have been measured at fair value. The consolidated financial statements are presented in United States Dollars (USD), which is the Company's functional currency, and all the values are rounded to the nearest million except where otherwise indicated. The United Arab Emirates Dirhams (AED) amounts have been presented solely for the convenience to readers of the consolidated financial statements. AED amounts have been translated at the rate of AED 3.6655 to USD 1.

**Statement of compliance**

The interim condensed consolidated financial statements of the Group are prepared in accordance with International Accounting Standard (IAS) No 34, Interim Financial Reporting. Hence, the interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards and should be read with the Group's annual financial statement as at 31 December 2016. In addition, results for the three month period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the full financial year ending 31 December 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
At 31 March 2017 (Unaudited)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards and Interpretations**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations as of 1 January 2017. These new standards and interpretations did not have any major impact on the accounting policies, financial position or performance of the Group.

The Group did not early adopt any standard, interpretation or amendment that was issued but is not yet effective.

**3 SEGMENTAL INFORMATION**

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions. The CEO considers the business from a geographic perspective which is divided into three geographical units.

**Period ended 31 March 2017**

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Total USD mm</i>
Revenue net of royalties	5	42	26	73
Gross profit				38
General and administration expenses				(3)
Investment and finance income				7
Other income				5
Reversal of surplus over entitlement				6
Other expenses				(2)
Provision for Impairment				(1)
Exploration expenses				(8)
Finance cost				(20)
Profit before income tax				22
Income tax expense				(11)
<b>PROFIT FOR THE PERIOD</b>				<b>11</b>
Segment assets as at 31 March 2017	1,655	1,102	1,000	3,757
Segment liabilities as at 31 March 2017	777	126	60	963

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS At 31 March 2017 (Unaudited)

### 3 SEGMENTAL INFORMATION (continued)

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Total USD mm</i>
<b>Other segment information</b>				
<b>Capital expenditure:</b>				
Property, plant and equipment	-	6	-	6
Intangible assets	-	1	-	1
<b>Total</b>	-	7	-	7
<b>Operating costs</b>	2	4	4	10
Depreciation, depletion & amortisation	4	17	4	25
Exploration expenses	-	8	-	8

Period ended 31 March 2016

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Total USD mm</i>
Revenue net of royalties	4	34	19	57
Gross profit				22
General and administration expenses				(3)
Investment and finance income				13
Reversal of surplus over entitlement				9
Other expenses				(2)
Share of loss of a joint venture				(1)
Finance cost				(26)
Profit before income tax				12
Income tax expense				(6)
<b>PROFIT FOR THE PERIOD</b>				6
Segment assets as at 31 March 2016	1,763	1,102	1,028	3,893
Segment liabilities as at 31 March 2016	853	139	24	1,016
<b>Other segment information</b>				
<b>Capital expenditure:</b>				
Property, plant and equipment	2	19	-	21
Intangible assets	-	11	-	11
<b>Total</b>	2	30	-	32
<b>Operating costs</b>	2	6	5	13
Depreciation, depletion & amortisation	2	17	3	22

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS At 31 March 2017 (Unaudited)

#### 4 EARNINGS PER SHARE

(a) Basic earnings per share is calculated by dividing net profit for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

	<i>Three months ended 31 March</i>	
	<i>2017</i>	<i>2016</i>
<b>Earnings:</b>		
Net profit for the period - USD mm	<u>11</u>	<u>6</u>
<b>Shares:</b>		
Weighted average number of shares outstanding for calculating basic EPS- million	<u>6,977</u>	<u>6,969</u>
<b>EPS (Basic) – US per share:</b>	<u>0.001</u>	<u>0.0008</u>

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible sukuk and restricted shares. The convertible sukuk is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the finance cost effect. For the restricted shares the total numbers of shares which will vest over the period are considered to calculate dilution.

	<i>Three months ended 31 March</i>	
	<i>2017</i>	<i>2016</i>
<b>Earnings:</b>		
Net profit for the period – USD mm	11	6
Finance cost on exchangeable Sukuk – USD mm	6	6
	<u>17</u>	<u>12</u>
<b>Shares:</b>		
Weighted average number of shares outstanding for calculating basic EPS- million	6,977	6,969
<b>Adjustments for:</b>		
Restricted shares (million)	19	19
Assumed conversion of exchangeable Sukuk (million)*	1,713	1,713
Weighted average number of ordinary shares for diluted earnings per share (million)	<u>8,709</u>	<u>8,701</u>
<b>EPS (Diluted) – USD per share:</b>	<u>0.001</u>	<u>0.0008</u>

\* As per the agreement, the conversion rate for the Convertible sukuk was set at a 50% premium to the 75 calendar day volume-weighted average price, measured over a period commencing on 1 December 2012 (with a floor of AED 0.75 and cap of AED 1.00). The initial effective exchange price for the convertible sukuk was determined on 13 February 2013 and has been fixed at AED 0.75 per share (floor price).

Note: The conversion of exchangeable Sukuk is anti-dilutive and has no impact on the EPS for the period ended 31 March 2017 and 2016.

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS At 31 March 2017 (Unaudited)

#### 5 INTANGIBLE ASSETS

	<i>Oil and gas Interests USD mm</i>	<i>Transmission &amp; sweetening rights USD mm</i>	<i>Gas processing rights USD mm</i>	<i>Development cost USD mm</i>	<i>Goodwill USD mm</i>	<i>Total USD mm</i>
Cost at 1 January 2017	195	289	7	2	308	801
Less: impairment	(102)	-	(7)	(2)	-	(111)
At 1 January 2017	93	289	-	-	308	690
Additions	1	-	-	-	-	1
Transfer to property, plant and equipment	(39)	-	-	-	-	(39)
Exploration expenses	(8)	-	-	-	-	(8)
At 31 March 2017	47	289	-	-	308	644
At 31 December 2016(audited)	93	289	-	-	308	690

#### (a) Oil and Gas Interests

Oil and gas interests of USD 47 million relates to Dana Gas Egypt which has a number of concessions and development leases in Egypt as described below in more detail:

- El Wastani Development Lease – This development lease is held with a 100% working interest and represents approximately 5% of current production in Dana Gas Egypt. El Wastani production includes both gas and associated gas liquids. This lease has 13,017 acres of land included within its boundary and is located in the Nile Delta of Egypt.
- South El Manzala Development Leases – These development leases are held with a 100% working interest and are not currently producing. These development leases have 16,055 acres of land included within their boundaries and are located in the Nile Delta of Egypt.
- West El Manzala Development Leases (West El Manzala Concession) – These development leases are held with a 100% working interest. These development leases have 146,039 acres of land included within their boundaries and are located in the Nile Delta of Egypt. To date, eleven development leases are producing both natural gas and associated liquids representing approximately 86% of Dana Gas Egypt current production.
- West El Qantara Development Leases (West El Qantara Concession) – These development leases are held with a 100% working interest. These development leases have 4,324 acres of land included within their boundaries and are located in the Nile Delta of Egypt. To date, two development leases are producing both natural gas and associated liquids representing approximately 9% of Dana Gas Egypt current production.
- North Al Arish Offshore (Block-6) - In April 2013, Dana Gas Egypt was awarded a 100% working interest in the North El Arish Offshore (Block 6) concession area. The area is located offshore Nile Delta, in the eastern part of the Mediterranean Sea. A 3D seismic acquisition was recently carried out in the Block, covering 1,830 full fold sq. Km.
- North Al Salhiya Onshore (Block-1) - In September 2014, Dana Gas Egypt was awarded a 100% working interest in the North El Salhiya Onshore (Block 1) concession area. The area is located onshore Nile Delta.

**5 INTANGIBLE ASSETS (continued)**

**(a) Oil and Gas Interests (continued)**

- El Matariya Onshore (Block-3) - In September 2014, Dana Gas Egypt was awarded a 50% working interest in the Block 3 concession area. The area is located onshore Nile Delta. As per the concession agreement, Dana Gas Egypt as a partner and BP as an operator will participate on a 50:50 basis. The first deep target exploration well in the concession was spud in May 2016. During the period, the BP operated Mocha-1 exploration well in Block 3 has been completed. It reached total depth at 5,940 metres, making it the deepest onshore Nile Delta well drilled to date. Whilst the Messinian objective encountered wet gas, the primary Oligocene target did not encounter gas in commercial quantities and the well has been P&A'ed. Under the terms of the agreement signed in June 2015, BP agreed to carry Dana Gas for its 50% share of the cost of the well. Consequently, Dana Gas has achieved its objective of drilling this important calibration well at no cost to itself.

**(b) Transmission and sweetening rights**

Intangible assets include USD 289 million which represent the fair value of the rights for the transmission and sweetening gas and related products acquired by the Company through its shareholdings in SajGas and UGTC. The fair value of the rights acquired in 2005 was determined by reference to valuation exercises undertaken by professionally qualified independent third parties based on the expected future cash flows arising from the underlying contractual relationships. The intangible assets will be amortised over 25 years from the date of commencement of commercial activity in accordance with the terms of the contracts to which they relate. Commercial activity has not yet commenced. In July 2010, National Iranian Oil Company (NIOC) introduced gas into its completed transmission network and Dana Gas' UGTC pipeline and SajGas processing facilities in Sharjah for commissioning purposes. However, subsequently as it pressured up, NIOC discovered significant leaks in its offshore gas transmission system which needs rectification. Notwithstanding this, Crescent Petroleum is continuing with international arbitration to seek a ruling on its binding 25 years gas supply contract with NIOC.

The Company was notified by Crescent Petroleum on 10 August 2014 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 National Iranian Oil Company ('NIOC's) remaining grounds of appeal against the 2014 arbitration award. The 2014 arbitration award found in favour of Dana Gas' partner Crescent Petroleum Company International Limited 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) took place in November 2016. Due to a long post-hearing submissions timetable, the final damages Award is expected in the second half of 2017.

In accordance with IAS 36 requirement relating to intangible assets not yet available for use, management had undertaken an impairment review of the intangible assets as at 31 December 2016. Management has reviewed the various inputs into the original valuation model and believes that the inputs into the original valuation model have not materially changed.

**(c) Goodwill**

Goodwill of USD 308 million relates to the acquisition of Dana Gas Egypt in January 2007 which enabled Dana Gas to acquire the upstream business qualification and therefore the rights to develop the gas fields in the Kurdistan Region of Iraq. As per the requirement of IAS 36, an impairment review has to be carried out annually by the management and the last such review was carried out in December 2016.

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS At 31 March 2017 (Unaudited)

#### 6 INVESTMENT PROPERTY

The movement in investment property during the period/year is as follows:

	<b>31 March 2017</b> <b>USD mm</b>	<b>31 Dec 2016</b> <b>USD mm</b> <i>(Audited)</i>
Balance at 1 January	24	25
Change in fair value	-	(1)
Balance at 31 March / 31 December	<u>24</u>	<u>24</u>

Investment property consists of industrial land owned by SajGas, a subsidiary, in the Sajaa area of the Emirate of Sharjah, United Arab Emirates. The Group considers a portion of the land to be surplus to their operational requirements and will be used for earning rentals or held for capital appreciation.

Investment property is stated at fair value which has been determined based on a valuation performed by an independent firm of qualified property consultants, with reference to comparable market transactions. The latest valuation exercise was carried out by the consultants as at 31 December 2016.

#### 7 TRADE AND OTHER RECEIVABLES

	<b>31 March 2017</b> <b>USD mm</b>	<b>31 Dec 2016</b> <b>USD mm</b> <i>(Audited)</i>
Trade receivables (net)	999	982
Prepaid expenses	2	3
Due from joint ventures	21	22
Other receivables	27	26
Less: provision for impairment of other receivables	(7)	(7)
	<u>1,042</u>	<u>1,026</u>

- Trade receivables are interest bearing and are generally on 30-60 days credit period.
- The Group's share of trade receivables in Pearl Petroleum is in respect of condensate and LPG deliveries amounting to USD 712 million (31 December 2016: USD 713 million) – refer note 1.
- The ageing analysis of trade receivables is as follows:

	<i>Total</i> <i>USD mm</i>	<i>Neither past due nor impaired</i> <i>USD mm</i>	<i>Past due but not impaired</i>				
			<i>&lt;30 days</i> <i>USD mm</i>	<i>30-60 days</i> <i>USD mm</i>	<i>61-90 days</i> <i>USD mm</i>	<i>91-120 days</i> <i>USD mm</i>	<i>&gt;120 days</i> <i>USD mm</i>
<b>31 March 2017</b>	999	70	8	12	-	27	882
31 Dec. 2016	982	46	36	3	26	74	797

- As part of the settlement agreement, the Company is entitled to further confined payments from RWE only in case and in the amount dividends are distributed to RWE by Pearl (based on RWE's 10% equity share in Pearl). During 2017, the Company anticipates receipt of US\$ 5 million towards such confined payments. Accordingly, on an accrual basis this amount has been recognised in other income and other receivables.



# Dana Gas PJSC and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS At 31 March 2017 (Unaudited)

### 8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>31 March 2017</b> <b>USD mm</b>	<b>31 Dec 2016</b> <b>USD mm</b> <i>(Audited)</i>
Balance at 1 January	9	8
Change in fair value	-	1
	<u>9</u>	<u>9</u>
Balance at 31 March / 31 December	<u>9</u>	<u>9</u>

This represents an investment in the Abraaj Infrastructure fund. The valuation is based on the latest indicative fair value of the fund as of 31 December 2016.

### 9 CASH AND BANK BALANCES

	<b>31 March 2017</b> <b>USD mm</b>	<b>31 Dec 2016</b> <b>USD mm</b> <i>(Audited)</i>
Cash at bank and on hand		
- Local Banks within UAE	23	37
- Foreign Banks outside UAE	14	7
Short term deposits		
- Local Banks within UAE	259	248
Cash and cash equivalent	<u>296</u>	<u>292</u>
Deposit (Murabaha facility)	2	10
Cash and Bank Balance	<u>298</u>	<u>302</u>

Cash at bank earns profit at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one week and twelve months, depending on the immediate cash requirements of the Group, and earn profit at the respective short-term deposit rates. The fair value of cash and bank balance including short-term deposits is USD 298 million (2016: USD 302 million). The effective profit rate earned on short term deposits ranged 1.75% to 7.5% (2016: 0.3% to 9.0%) per annum. As at 31 March 2017, 95 % (31 December 2016: 94%) of cash and bank balance were held with UAE banks and the balance held outside UAE. Out of the total cash and bank balance of USD 298 million, 4% of the amount was held in Egyptian pounds (31 December 2016: 5%).

Deposit (Murabaha facility) is EGP pledged with Mashreq Bank PSC, Egypt branch against fully secured facility of USD 25 million (note 11 e). As per the arrangement, Dana Gas Egypt will maintain EGP deposit equal in value to 115% of the outstanding principal amount of loan in USD. The tenor of the facility was one year from the date of drawdown which was completed on 9 April 2015. The facility term was extended for a further period of one year with a revised facility amount of USD 21.5 million and requires Dana Gas Egypt to maintain EGP deposit equal in value to 120% of the outstanding principal amount of USD. The pledged EGP deposit as of 31 March 2017 stood at USD 2 million in equivalent EGP (31 December 2016: USD 10 million).

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

### 10 SHARE CAPITAL

	<i>31 March 2017</i> <i>USD mm</i>	<i>31 Dec 2016</i> <i>USD mm</i> <i>(Audited)</i>
<i>Authorised:</i>		
9,000,000,000 common shares of AED 1 each (USD 0.2728 each) – Note 10b		
<i>Issued and fully paid up:</i>		
6,976,623,422 (2016: 6,968,616,114) common shares of AED 1 each (USD 0.2728 each)	<u>1,903</u>	<u>1,901</u>

- a. The conversion period for Exchangeable sukuk issued on 8 May 2013 commenced on 31 October 2013 and will expire 25 trading days prior to the scheduled redemption date of 31 October 2017. During this period sukuk holders have the right to convert all or part of the Exchangeable sukuk into ordinary shares of the Company.
- b. The Annual General Assembly of Shareholders on 28 April 2016, approved the amendments to the Memorandum and Article of Association of the Company in accordance with the New Companies Commercial Law No.2 for the year 2015. This included approval of Authorised share capital of the Company to be AED 9 billion i.e. 9 billion shares of AED 1 each.

### 11 BORROWINGS

	<i>31 March 2017</i> <i>USD mm</i>	<i>31 Dec 2016</i> <i>USD mm</i> <i>(Audited)</i>
<b>Non-current</b>		
Bank Borrowings – Zora Gas Field Project Finance (b)	33	39
Equipment loan (c)	11	12
Egypt Building loan (d)	11	11
	<u>55</u>	<u>62</u>
<b>Current</b>		
Ordinary Sukuk (a)	350	350
Convertible Sukuk (a)	343	340
Bank Borrowings – Zora Gas Field Project Finance (b)	27	27
Bank Borrowings – Murabaha facility (e)	2	12
Equipment loan (c)	1	1
Egypt Building loan (d)	1	1
	<u>724</u>	<u>731</u>
<b>Total Borrowings</b>	<u>779</u>	<u>793</u>

**11 BORROWINGS (continued)**

**a) EXCHANGEABLE SUKUK**

In October 2007, the Group arranged to issue convertible Sukuk-al-Mudarabah (the “Sukuk”) for a total value of USD 1 billion in the form of Trust Certificates through a special purpose company (the “Issuer”). The Sukuk, which were drawn up to conform to the principles of Islamic Sharia, were approved by the Company’s shareholders at an Extraordinary General Meeting held in July 2007. Pursuant to the conditions of the Sukuk, the proceeds were used for the acquisition and development of assets (the “Mudarabah Assets”) owned by Dana LNG Ventures Limited. The Sukuk matured on 31 October 2012 and had a profit rate of 7.5% payable quarterly from profits of the Mudarabah Assets. In 2008, Dana Gas purchased some of the Sukuk from the market with a nominal value of USD 80 million.

The Company announced on 10 December 2012 that a standstill and lockup agreement has been reached with an “Ad-Hoc committee” of Sukuk certificate holders for a refinancing transaction (the “Transaction”) in relation to the Sukuk. The standstill and lockup agreement also includes a detailed set of terms, conditions and implementation schedule.

The Company launched the consent solicitation on 26 March 2013 to seek Sukuk holders consent in a meeting of Sukuk Certificate holders (“Sukuk holders EGM”) to be held on 23 April 2013. Also, the Company issued an invitation to its Shareholders to attend the Extra Ordinary General Assembly (“Shareholders EGM”) to consider and approve the Sukuk deal.

On 23 April 2013, both Sukuk holders EGM and Shareholders EGM approved the Sukuk refinancing deal. On 8 May 2013 successful completion was achieved and the Company made the cash pay-down of USD 69.9 million and paid the accrued profit from 31 October 2012 to 7 May 2013 amounting to USD 38.4 million. Following this, the Company also perfected the required securities and issued a compliance certificate dated 10 July 2013.

The salient features of the agreement were a reduction in the Company’s outstanding Sukuk amount from USD 1 billion to USD 850 million via USD 70 million of cash pay-down and cancellation of another USD 80 million of the existing Sukuk already owned by the Company. The remaining USD 850 million will be split into two tranches being a USD 425 million Ordinary sukuk and USD 425 million Exchangeable Sukuk (together the “New Sukuks”), each with 5-year maturity to ensure long term financing. The Ordinary Sukuk and Exchangeable Sukuk have a profit rate of 9% and 7% per annum, respectively.

As per the agreement, the conversion rate for the Exchangeable sukuk was set at a 50% premium to the 75 calendar day volume-weighted average price, measured over a period commencing on 1 December 2012 (with a floor of AED 0.75 and cap of AED 1.00). The initial effective exchange price for the exchangeable sukuk was determined on 13 February 2013 and has been fixed at AED 0.75 per share (floor price). The Company has the option to pay down the outstanding principal amount of the New Sukuks prior to the new maturity date of 31 October 2017, subject to the applicable call premium on the Ordinary Sukuk and the soft call provisions on the Exchangeable Sukuk. The Exchangeable sukuk at the option of the certificate holders can be exchanged into ordinary shares of the Company on or after 31 October 2013 until 25 trading days prior to the Scheduled Redemption Date.

The Ordinary and Exchangeable sukuk are secured against the shares of Dana LNG Ventures Limited (BVI), Sajaa Gas Company Limited (Sharjah) and United Gas Transmission Company Limited (Sharjah). In addition to the above, the security package available to holders of the New Sukuks was enhanced by USD 300 million of value comprising security over certain receivables of the Company’s Egyptian assets, Company’s interest in Danagaz W.L.L. and Sajaa Gas industrial land.

As noted above, the Sukuk is due to mature in October 2017. The Board of Directors has considered the future operating and capital cash flow requirements of the Group and is fully confident of meeting the Group’s license obligation despite the challenges and uncertainties in the markets in which the Group operates.

On 3 May 2017 the Company announced that, due to continued challenges it faces around cash collections and the resulting need to focus on short to medium term cash preservation, it will commence restructuring discussions with holders of both of its Sukuk dated 8th May 2013. Accordingly, Dana Gas invites Sukuk holders to form a committee to represent them and contact the Company.

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2017 (Unaudited)

### 11 BORROWINGS (continued)

#### a) EXCHANGEABLE SUKUK (continued)

During the previous year, the Company bought back Ordinary Sukuk amounting to USD 50.3 million (par value). During 2015, the Company had bought back Ordinary and Exchangeable Sukuk amounting to USD 24.9 million (par value) and USD 2.2 million (par value), respectively. All the bought back Sukuk were cancelled in accordance with the terms and conditions of the respective Sukuk.

As of 31 March 2017 par value of outstanding Ordinary and Exchangeable sukuk amounted to approx. USD 350 million (2016: USD 350 million) and approx.. USD 350 million (2016: USD 350 million), respectively.

The Exchangeable Sukuk recognised in the statement of financial position is calculated as follows:

	<b>31 March 2017</b> <b>USD mm</b>	<b>31 Dec 2016</b> <b>USD mm</b> <i>(Audited)</i>
Liability component at 1 January	<b>340</b>	329
Finance expense for convertible sukuk	<b>9</b>	35
Profit paid	<b>(2)</b>	(20)
	<b>347</b>	344
Current portion of profit classified under trade payables and accruals	<b>(4)</b>	(4)
Liability component at 31 March / 31 December	<b>343</b>	340

The conversion option embedded in the convertible instrument is valued at the issuance of the Exchangeable sukuk and disclosed separately under Equity – USD 58 million (2016: USD 58 million).

#### b) BANK BORROWINGS – ZORA GAS FIELD PROJECT FINANCE

	<b>31 March 2017</b> <b>USD mm</b>	<b>31 Dec 2016</b> <b>USD mm</b> <i>(Audited)</i>
Loan facility	<b>66</b>	91
Less: Unamortised portion of loan arrangement fees	-	-
Less: Repayment during the period/year	<b>(7)</b>	(26)
Add: Amortisation of loan arrangement fees	<b>1</b>	1
Net Loan facility	<b>60</b>	66
Loan facility is payable as follows:		
Within one year	<b>27</b>	27
After one year	<b>33</b>	39
Loan facility	<b>60</b>	66

On 25 June 2014, Dana Gas Explorations FZE (100% subsidiary of Dana Gas PJSC) entered into a Common Terms Agreement with Emirates NBD Bank, Commercial Bank International, Commercial Bank of Dubai and Barwa Bank (Lenders) for USD 100 million Term Facility for the Zora Field Development Project. Emirates NBD Bank acted as the Global Facility Agent, Term Facility Agent, Security Agent and Account Bank while Barwa Bank acted as the Murabaha Investment Agent for the Shariah tranche of this loan.

**11 BORROWINGS (continued)**

**b) BANK BORROWINGS – ZORA GAS FIELD PROJECT FINANCE (continued)**

The repayment for the Term Facility was over a period of 15 quarterly instalments which commenced from Q4 2015, subject to a cash sweep mechanism and carries variable rate of LIBOR + Margin during the repayment period. As of the balance sheet date, the loan amount outstanding was at USD 60 million.

Project Security covered, commercial mortgage over mortgage-able Zora gas field project assets (onshore & offshore), assignment of rights under Gas Sales Purchase Agreements, assignment of all Dana Gas Exploration FZE bank accounts, assignment of Zora Project Insurance proceeds, Project performance Guarantees from Contractors & Irrevocable Letter of Credits from Sharjah Petroleum Council. Dana Gas PJSC pledged the shares of Dana Gas Explorations FZE in favor of security agent. Dana Gas PJSC was also a Guarantor for the entire tenure of the term facility.

The loan has since been settled in full on 2 May 2017 in accordance with the terms and conditions of the facility agreement.

**c) EQUIPMENT LOAN**

Dana Gas Egypt (“DGE”) has entered into a “Sale and Lease back” finance lease arrangement with Corporate Leasing Company Egypt SAE on 29 January 2015, for certain inventory equipment (casings, wellheads, piping etc.) that belong to DGE that have not been used till date. The total facility consisting of three contracts amounts to USD 12.6 million and have been fully drawn down up to 30 June 2015. After the full draw down, an additional contract of USD 1.1 million (note 11d) was added to the facility thereby increasing the facility to USD 13.7 million. The payments are over a period of 29 quarters commencing from Quarter 3 2015 including grace period of 2 quarters for interest and principal. As of the reporting date, the amount outstanding toward principal is USD 12 million.

**d) EGYPT BUILDING LOAN**

Pearl Properties Egypt (“PPE”) has entered into a “Sale and Lease back” finance lease arrangement for Egypt Building with Corporate Leasing Company Egypt SAE on 9 June 2015. The total facility originally consisted of three contracts amounting to USD 13.8 million which was reduced by USD 1.1 million to USD 12.7 million. The facility was fully drawn down up to 30 April 2016. The payments are over a period of 29 quarters including grace period of 2 quarters for lease payments. As of the reporting date, the amount outstanding toward principal is USD 12 million.

**e) MURABAHA FACILITY**

Dana Gas Egypt Ltd (Barbados) entered into Commodity Murabaha agreement with facility limit of USD 25 million with Mashreq bank PSC (UAE) on 30 March 2015. This was a fully secured facility wherein Dana Gas Egypt Ltd was required to maintain EGP deposit (pledged) equal in value to 115% of the outstanding principal amount of loan in USD held with Mashreq bank PSC, Egypt branch acting as Security Agent. The profit rate on the facility is LIBOR + Margin & the EGP deposit attracts a deposit rate that closely reflects the profit rate on the loan. The drawdown of the said facility was completed on 9 April 2015. The facility term was extended for a period of one year with a revised facility amount of USD 21.5 million with a slightly different profit rate (LIBOR + Margin) and a different deposit rate on EGP deposit. This fully secured facility requires Dana Gas Egypt Ltd to maintain EGP deposit (pledged) equal in value to 120% of the outstanding principal amount of USD until December 2016. As of the reporting date, the amount outstanding toward principal was USD 2 million. The loan has since been settled in full on 9 April 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
At 31 March 2017 (Unaudited)

**12 PROVISION FOR SURPLUS OVER ENTITLEMENTS (NET)**

	<i>31 March 2017</i> <i>USD mm</i>	<i>31 Dec 2016</i> <i>USD mm</i> <i>(Audited)</i>
Surplus over Entitlements (a)	108	114
Less: Interest receivable on overdue invoices (b)	(72)	(67)
Less: Other receivables	(6)	(6)
	<u>30</u>	<u>41</u>

**a) Surplus over Entitlements**

As per the terms of the Authorisation, Pearl takes title to all petroleum produced and accordingly recognises 100% revenue from the sale of condensate and LPG. From such revenue received in cash, Pearl is entitled to retain the petroleum costs and remuneration fee as per the Authorisation ("Entitlements") and any residual amount is to be paid to the KRG ("Surplus"). The right under the Authorisation to receive such revenue in full was upheld by the Arbitration Tribunal in its second Partial Final Award dated 27 November 2015 (note 1).

On an accruals basis, the cumulative revenue recognised by Pearl to date exceeds its net Entitlements under the Authorisation, if all invoices and outstanding receivables were to be paid by the KRG. Such estimated Surplus amounts to USD 310 million (DG Share 35%: USD 108 million) as at 31 March 2017 (31 December 2016: USD 326 million – DG Share 35%: USD 114 million). Reduction in Surplus has been recognised in the Income Statement. This notional Surplus is only due on the assumption that all the outstanding liquid petroleum invoices as at 31 March 2017 had been paid in full by the KRG as of that date, which they have not. Accordingly, Pearl's net Entitlements will need to be recalculated from time to time until Pearl has recovered its full entitlement under the Authorisation.

Such Surplus crystallises and becomes payable to KRG only when Pearl has actually recovered its Entitlements as per the terms of the Authorisation which is very much dependent upon the timing of actual receipt of funds from the KRG in respect of accrued revenue in addition to any future Petroleum Costs incurred by Pearl. It should be noted that as at 31 March 2017, Pearl has not recovered its Petroleum Costs in full.

Furthermore, Pearl has a right under the terms of the Authorisation to offset this Surplus, when payable, against any other outstanding payments due from the KRG. Accordingly, as at 31 March 2017, the aforementioned Surplus has been reduced by other outstanding amounts due from KRG, the net result being that a net amount of USD 85 million (DG Share 35%: USD 30 million) would be repayable to the KRG, even if the entire amount of USD 2.03 billion (DG Share 35%: USD 712 million) in outstanding receivables to Pearl by 31 March 2017 were to be settled in full. Furthermore due to the terms of the Authorisation, further delay in payment by the KRG will further increase Pearl's Entitlements and reduce the net amount re-payable to the KRG.

**b) Interest and other receivable from KRG (net)**

Pearl Petroleum ("Pearl") is contractually entitled to charge interest cost on overdue receivables due from KRG. Previously, without giving up its contractual entitlement to actual interest costs, Pearl invoiced interest on overdue KRG invoices at the rate of LIBOR plus 2%. In the absence of settlement of overdue invoices, Pearl decided to invoice by applying 9% interest (quarterly compounded) on 50% of the total overdue receivables, while the remaining 50% overdue receivables were subject to an interest rate of LIBOR plus 2% which is the minimum specified under the Authorisation.

As part of the Third Award received on 13 February 2017 the Tribunal ruled that Pearl is entitled to interest on overdue receivable at Libor plus 2% compounded monthly.

Based on the above, Dana Gas share (35%) of the total interest on overdue receivables (for condensate and LPG sales and transportation costs paid on behalf of KRG) from KRG as at 31 March 2017 stands at USD 72 million (31 December 2016: USD 67 million).

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS At 31 March 2017 (Unaudited)

#### 13 CONTINGENCIES AND COMMITMENTS

##### Dana Gas Egypt

In March 2006, Dana Gas Egypt entered into an agreement with CTIP Oil and Gas Limited ("CTIP") to acquire a 25% percent working interest in the West El Manzala and West El Qantara Concessions. Following the closing of this acquisition, the Company held a 100% participating interest in each of these Concessions. As agreed under the terms of the said acquisition agreement Dana Gas Egypt has paid USD 13 million as a result of the first Government approved plan of Development in the West El Manzala Concession. In addition, Dana Gas Egypt has agreed to pay additional payments that could total up to a further USD 12.5 million as and when total Proved Reserves for both El Manzala and West El Qantara concessions collectively and in the aggregate exceeds 1 Trillion cubic feet of natural gas. Dana Gas Egypt has also granted a three percent net profits interest to CTIP on future profit from the Concessions.

In April 2013, Dana Gas Egypt was awarded a 100% working interest in the North El Arish Offshore (Block 6) concession area. The area is located offshore Nile Delta, in the eastern part of the Mediterranean Sea. As per the concession agreement, Dana Gas Egypt has committed to spend USD 25.5 million on the block during the first phase of exploration which is 4 years and expires on 11 February 2018. To-date Dana Gas Egypt has spent circa. USD 14.3 million out of the total commitment.

In October 2014, Dana Gas Egypt was awarded a 100% working interest North El Salhiya (Block 1) concession area. The area is located in Nile delta next to DGE existing development leases. As per the concession agreement, Dana Gas Egypt has committed to spend USD 20 million on the block during the first phase of exploration which is 3 years.

In October 2014, Dana Gas Egypt was also awarded El Matariya (Block 3) onshore concession area in the Nile Delta. Dana Gas Egypt with BP Exploration (Delta) Limited "BP" as partner and operator will participate in the concession on a 50:50 basis. Dana Gas Egypt and BP have committed to spend USD 60 million on the block during the first phase of exploration which is 3 years. As per the terms of the agreement with BP, BP will fund all of the cost (including Dana Gas's share) of the first exploration well up to an agreed maximum limit. BP also has the option to acquire 50% in the deep potential of some of Dana Gas' adjacent Development leases. The Mocha-1 exploration well costs have fulfilled the commitment of USD 60 million.

#### OTHER INFORMATION

	<i>Three months ended</i> <i>31 March</i>	
	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
<b>Reported Net profit for the period</b>	<b>11</b>	<b>6</b>
<b>Adjustment:</b>		
Interest on overdue receivable reversed in Q4 2016 included in Q1 2016 Profit	-	(8)
<b>Adjusted Net profit / (loss) for the period</b>	<b>11</b>	<b>(2)</b>