

Dana Gas PJSC and Subsidiaries

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2010 (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 results of the Company and its subsidiaries (together referred to as the “Group”) for the period ended 30 June 2010.

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 from a small core team at its head office in Sharjah to a regional, as well as international natural gas company with over 300 professional staff. It has offices in Sharjah, Egypt, Saudi Arabia, Bahrain, the Kurdistan Region of Iraq and in the United Kingdom

Results for quarter ended 30 June 2010

During the quarter, the Company earned gross revenues of AED 428 million as compared to AED 303 million in same period last year; an increase of 41%. This increase in revenue was mainly due to higher hydrocarbon prices coupled with increased production, both in Egypt and in the Kurdistan Region of Iraq. The oil and gas production increased to 4.9 million barrels of oil equivalent (BOE) as compared to 3.7 million BOE in Q2, 2009.

The Group achieved a gross profit of AED 179 million during the current quarter as compared to a gross profit of AED 97 million in the same period last year. This increase was mainly due to higher realised prices on the sale of hydrocarbons, together with increased production in Egypt and Kurdistan. Net profit after tax stood at AED 33 million as compared to AED 392 million in the same period last year. This decrease was mainly due to a one off gain on the sale of a 10% interest in Kurdistan which was included in Q2, 2009 profits. Earnings before interest, tax, depreciation, amortisation and exploration (EBITDAX) also decreased by 72% from AED 914 million to AED 252 million due to the same reason.

The above net profit **excludes** an unrealised loss of AED 213 million recorded in this quarter on the Company’s investment in MOL (the Hungarian oil and Gas Company, who are one of our partners in Kurdistan). This is booked directly to equity under “Comprehensive Income” in line with the Company’s published accounting policy.

Results for Six Months ended June 2010

During the six months ended June 2010 (“the period”) the Company earned revenues of AED 839 million as compared to AED 550 million in the corresponding period. This 53% increase in revenue was due to increased production in Egypt and Kurdistan, coupled with higher hydrocarbon prices.

Gross profit of AED 341 million for the six months was higher by 107% compared to the corresponding period in 2009, due to the contribution from condensate sales in Kurdistan and an increase in production from Egypt. This helped the Company achieve gross profit margins of 58% in the period, as compared to 45% in first half of 2009.

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Results for Six Months ended June 2010 (continued)

The Group achieved a net profit after tax of AED 66 million as compared to AED 360 million in June 2009. This decrease was mainly due to the one off gain on the sale of a 10% interest in Kurdistan, which was recognized in Q2 2009.

The results for the quarter and six months ended 30 June 2010 are set out in detail on page 6 of the interim condensed consolidated financial statements.

Liquidity and Financial Resources

During the period, the operating cash flow and the Group's cash and bank balances were principally used to fund its capital expenditure programme in Egypt, Kurdistan and Offshore Sharjah.

The Group's cash and bank balances as at 30 June 2010 stood at AED 722 million (31 December 2009: AED 781 million), of which 95% was held with local banks in the UAE.

Business Update

In line with its outlined strategy, the Dana Gas Group continues to maximise the value of its existing oil and gas assets and projects, while pursuing growth through a strategy of targeted acquisitions and new business development across the gas value chain. We continue to balance our capital expenditure with the available sources of finance to ensure we maintain a robust Balance Sheet.

Egypt E&P operations

The Company's production for the 91 Days of operations in Q2, 2010 was 3.8 million BOE i.e. averaging 41.7 thousand BOE per day (2009: 3.19 million BOE, averaging 35 thousand BOE per day). During the period, the company added one more gas discovery to its portfolio, "Ward Delta" which was located in the West El Manzala concession.

The U.K. based advisory firm, Gaffney, Cline & Associates carried out an independent evaluation of Dana Gas Egypt's hydrocarbon reserves as at 31 December 2009. Following this review, the Company's gross proved reserves (1P) as at 31 December 2009 were estimated to be 47 MMBOE (31 December 2008: 55 MMBOE). The gross proved and probable reserves (2P) as at 31 December 2009 were estimated to be 132 MMBOE (31 December 2008: 94 MMBOE). The gross proved, probable and possible reserves (3P) as at 31 December 2009 were estimated to be 228 MMBOE (31 December 2008: 158 MMBOE). Note: All volumes reported are on a "working interest" basis.

Kurdistan Region of Iraq (KRI) Project (Pearl Petroleum Company Limited)

In April 2007, the Group entered into agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources on the Khor Mor and Chemchemical gas fields. Since then, the focus has been on developing, processing and transporting natural gas on a fast-track basis, from the Khor Mor field including processing and the extraction of LPG and condensate, provide natural gas supplies to fuel domestic electric power generation plants near the major urban centers of Erbil and Suleymania. Further development of the gas reserves are planned to supply natural gas as feedstock and energy for local industries.

During the 91 days of operation, production in the Kurdistan Region of Iraq (Dana's 40% share) was 1.06 million BOE. The first train of the LPG plant is in partial operation, producing gas and condensate. Production of LPG will start in Q3 when the LPG storage area is brought into commission, with the second train to be commissioned either in late 2010 or in early 2011.

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Kurdistan Region of Iraq (KRI) Project (Pearl Petroleum Company Limited) (continued)

Dana Gas now holds a 40% share of the total assets of Pearl Petroleum Company. As at 30 June 2010, Dana Gas investment in Kurdistan exceeds AED 1.2 billion.

Gas Cities

Dana Gas has a 50% interest in a joint venture known as GASCITIES Ltd for the development of a series of “Gas Cities” across the MENASA region.

On 9 September 2009, GASCITIES Ltd signed a Memorandum of Understanding to carry out a series of pre-feasibility studies to establish gas and land allocations for a potential Gas City in the Hodeidah Region of Yemen.

The company is also assessing the feasibility for Gas Cities in Egypt and in Kurdistan.

UAE Gas Project

The UAE Gas Project to process and transport imported gas continues to await the commencement of gas supplies by National Iranian Oil Company (“NIOC”) to Crescent Petroleum. Dana Gas has a 35% interest in Crescent National Gas Corporation Limited (CNGCL) and owns 100% of SajGas and UGTC. After a delay of over 4 years, we understand that NIOC has recently introduced hydrocarbons into the completed upstream facilities (within Iran) to progress the commissioning and testing activities. This potentially allows for contractual gas deliveries to commence. Notwithstanding this, Crescent Petroleum has served NIOC with an arbitration notice in July 2009 and the legal process is underway.

Egypt Gulf of Suez – Gas Liquids (LPG) Plant

The Company, through Danagaz Bahrain, is a 26.4% owner in a joint venture to build, own and operate a Liquids Extraction Plant in Egypt in partnership with the Egyptian National Gas Company (EGAS) and the Arab Petroleum Investments Corporation (APICORP). The formation of the joint venture company in Egypt and the acquisition of the land for the plant have been completed. The contract for the LPG plant was awarded in June 2009, with the construction phase expected to be completed in the first half of 2011.

Sharjah Western Offshore Concession

In March 2008, Dana Gas was awarded a twenty-five year oil and gas concession by the Government of Sharjah for the exploration and development of the Western Offshore Concession in Sharjah, UAE. The concession award marks Dana Gas’ entry into the GCC exploration and production sector and will also be the first offshore upstream asset for the Company. The concession agreement covers a total area of over 1,000 square kilometers including part of the Zora Gas Field, which has established gas reserves and a ready market.

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Sharjah Western Offshore Concession (continued)

The project consists of construction and installation of a new unmanned platform, together with 2-3 horizontal gas production wells, to be located approx 33 km offshore, linked by a new 12” gas and condensate pipeline, to a new onshore gas processing plant which will be located adjacent to the SEWA facility within the Sharjah Hamriya Free Zone Area. The award of a comprehensive integrated engineering contract is imminent which will place the concept, FEED, and detailed engineering, for all 3 main project components (platform, pipeline and plant), in the hands of one single design entity. Engineering and procurement will proceed in parallel to shorten the project schedule as much as possible. Long lead procurement will begin early on in FEED (within 2010) and suitable potential construction contractors will be brought in early during the design phase for project familiarization and the best prospect of achieving the earliest start. The planned gas production of 50-60 million scfd will likely be on-stream in early 2012, unless construction and installation streamlining can be achieved, to enable a quicker startup.

Appropriations

The shareholders in the Annual General Meeting held on 21 April 2010 approved the issuance of 10% bonus shares to shareholders. These bonus shares were issued during the Quarter and have been recorded in the interim consolidated statement of changes in equity on page 10.

Directors

The Directors who served during the period were:

H.H. Sheikh Ahmed Bin Sultan Al-Qasimi, Honorary Chairman
Mr. Hamid Dhiya Jafar, Chairman
Dr. Adel Khalid Al-Sabeeh, Deputy Chairman
Mr. Ahmed Rashid Al-Arbeed, Chief Executive Officer
Mr. Rashid Saif Al-Jarwan, Executive Director
H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al-Qasimi
H.H Shaikha Hanadi Al Thani
Mr. Abdulaziz Hamad Aljomaih
Mr. Abdullah Ali Al majdouie
Mr. Adib Abdullah Al-Zamil
Mr. Khalid Abdul Rahman Saleh Al-Rajhi
Mr. Majid Hamid Jafar
Mr. Nasser Al Nowais
Mr. Rashad Mohammed Al-Zubair
Mr. Said Arrata
Dr. Tawfeeq Abdulrahman Almoayed
Mr. Varoujan Nerguizian
Mr. Ziad Abdulla Ibrahim Galadari

Auditors

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

On behalf of the Board of Directors


Director

09 August 2010



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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Dana Gas PJSC (“the Company”) and its subsidiaries (“the Group”) as at 30 June 2010, the related interim consolidated income statement and the interim consolidated statement of comprehensive income for the three month and six month periods then ended, the interim consolidated statements of cash flows and changes in equity for the six 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 matter

Without qualifying our conclusion 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. Based on the information available at this time, the Directors and management are confident of a positive outcome.



Signed by
Joseph A. Murphy
Partner
Registration No. 492

Sharjah
9 August 2010

Dana Gas PJSC and Subsidiaries

INTERIM CONSOLIDATED INCOME STATEMENT

Period ended 30 June 2010 (Unaudited)

	Notes	Six months ended		Three months ended	
		30 June 2010	30 June 2009	30 June 2010	30 June 2009
		USD mm	USD mm	USD mm	USD mm
Revenue		229	150	117	83
Less: royalties		(68)	(49)	(34)	(27)
Net revenue		161	101	83	56
Cost of sales		(14)	(17)	(6)	(8)
Depreciation and depletion		(54)	(39)	(28)	(21)
Gross profit		93	45	49	27
Investment and finance income		5	4	2	2
Other income/expense (net)		-	294	(1)	292
Provision for impairment		-	(84)	-	(84)
Change in fair value					
of investment property	7	(2)	(55)	(2)	(55)
General and administration expenses		(16)	(14)	(7)	(7)
Finance costs		(28)	(30)	(14)	(14)
Exploration expenses		(2)	(42)	(1)	(42)
PROFIT BEFORE TAX		50	118	26	119
Income tax expense		(32)	(20)	(17)	(12)
PROFIT FOR THE PERIOD		18	98	9	107
Basic and diluted earnings per share					
(USD / AED per share) - Restated	4	0.003	0.015	0.001	0.016
				0.005	0.059

The attached explanatory notes 1 to 14 form part of these interim condensed consolidated financial statements.

Dana Gas PJSC and Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Period ended 30 June 2010 (Unaudited)

	Six months ended		30 June 2009		30 June 2010		Three months ended		30 June 2009		30 June 2010	
	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm
Profit for the period	18	66	98	360	9	33	107	392				
Fair value (loss)/ gain on available-for-sale financial asset (note 6)	(20)	(73)	10	37	(58)	(213)	10	37				
Other comprehensive income for the period	(20)	(73)	10	37	(58)	(213)	10	37				
Total comprehensive income for the period	(2)	(7)	108	397	(49)	(180)	117	429				

Dana Gas PJSC and Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010 (Unaudited)

	Notes	30 June 2010		31 December 2009 (Audited)	
		USD mm	AED mm	USD mm	AED mm
ASSETS					
Non-current assets					
Property, plant and equipment		968	3,548	941	3,449
Intangible assets	5	1,392	5,102	1,379	5,055
Available-for-sale financial asset	6	263	964	283	1,037
Investment property	7	37	136	39	143
		<u>2,660</u>	<u>9,750</u>	<u>2,642</u>	<u>9,684</u>
Current assets					
Inventories		51	187	46	169
Accounts receivable and prepayments	8	181	662	199	728
Due from related parties		1	3	2	7
Financial assets at fair value through profit or loss	9	10	37	9	33
Cash and cash equivalents	10	197	722	213	781
		<u>440</u>	<u>1,611</u>	<u>469</u>	<u>1,718</u>
TOTAL ASSETS		<u>3,100</u>	<u>11,361</u>	<u>3,111</u>	<u>11,402</u>
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	11	1,801	6,600	1,637	6,000
Statutory reserve		30	113	30	113
Legal reserve		30	113	30	113
Retained earnings		95	341	243	882
Other reserves		88	323	107	392
Convertible bonds- equity component	12	48	176	48	176
		<u>2,092</u>	<u>7,666</u>	<u>2,095</u>	<u>7,676</u>
Attributable to shareholders of the Company		2,092	7,666	2,095	7,676
Minority interest		4	15	4	15
		<u>2,096</u>	<u>7,681</u>	<u>2,099</u>	<u>7,691</u>
Total equity		<u>2,096</u>	<u>7,681</u>	<u>2,099</u>	<u>7,691</u>
LIABILITIES					
Non-current liabilities					
Borrowings	12	881	3,229	871	3,193
Provisions		15	55	14	51
		<u>896</u>	<u>3,284</u>	<u>885</u>	<u>3,244</u>
Current liabilities					
Accounts payable and accruals		108	396	127	467
		<u>108</u>	<u>396</u>	<u>127</u>	<u>467</u>
Total liabilities		<u>1,004</u>	<u>3,680</u>	<u>1,012</u>	<u>3,711</u>
TOTAL EQUITY AND LIABILITIES		<u>3,100</u>	<u>11,361</u>	<u>3,111</u>	<u>11,402</u>

Director
09 August 2010

Director
09 August 2010

The attached explanatory notes 1 to 14 form part of these interim condensed consolidated financial statements.

Dana Gas PJSC and Subsidiaries

INTERIM CONSOLIDATED CASH FLOW STATEMENT

Period ended 30 June 2010 (Unaudited)

	Notes	Six months ended 30 June			
		2010		2009	
		USD mm	AED mm	USD mm	AED mm
OPERATING ACTIVITIES					
Profit for the period before tax		50	183	118	433
Adjustments for:					
Depreciation and depletion		54	198	39	143
Investment and finance income		(5)	(18)	(4)	(15)
Change in fair value of investment property	7	2	7	55	202
Other income / expense (net)		-	-	(294)	(1,077)
Finance costs		28	103	30	110
Exploration expenditure		2	7	42	154
Provision for impairment		-	-	84	307
Board compensation		(2)	(7)	(2)	(7)
		<u>129</u>	<u>473</u>	<u>68</u>	<u>250</u>
Change in working capital:					
Accounts receivable and prepayments		(27)	(99)	9	26
Inventories		(5)	(18)	1	3
Accounts payable and accruals		(9)	(34)	3	8
Due from related parties		1	4	-	-
Income tax		(32)	(117)	(20)	(73)
Net cash generated from operating activities		<u>57</u>	<u>209</u>	<u>61</u>	<u>214</u>
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(65)	(240)	(89)	(325)
Expenditure on intangibles	5	(15)	(55)	(35)	(126)
Proceeds from sale of interest in joint venture		-	-	177	650
Proceeds from sale of interest in Komombo (net)		35	128	-	-
Investment and finance income		4	15	3	11
Net cash (used in) / generated from investing activities		<u>(41)</u>	<u>(152)</u>	<u>56</u>	<u>210</u>
FINANCING ACTIVITY					
Proceeds from borrowings	12	3	11	-	-
Finance costs		(35)	(127)	(35)	(126)
Net cash used in financing activity		<u>(32)</u>	<u>(116)</u>	<u>(35)</u>	<u>(126)</u>
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		<u>(16)</u>	<u>(59)</u>	<u>82</u>	<u>298</u>
Cash and cash equivalents at the beginning of the period		<u>213</u>	<u>781</u>	<u>217</u>	<u>798</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u><u>197</u></u>	<u><u>722</u></u>	<u><u>299</u></u>	<u><u>1,096</u></u>

The attached explanatory notes 1 to 14 form part of these interim condensed consolidated financial statements.

Dana Gas PJSC and Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 30 June 2010 (Unaudited)

Attributable to shareholders of the Company

	Share capital		Statutory reserves		Legal reserves		Retained earnings		Other reserve		Convertible bonds-equity component		Minority interest		Total	
	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm
At 1 January 2010	1,637	6,000	30	113	30	113	243	882	107	392	48	176	4	15	2,099	7,691
Other comprehensive income	-	-	-	-	-	-	-	-	(20)	(73)	-	-	-	-	(20)	(73)
Share based payment	-	-	-	-	-	-	-	-	1	4	-	-	-	-	1	4
Profit for the period	-	-	-	-	-	-	18	66	-	-	-	-	-	-	18	66
Total comprehensive income for the period	-	-	-	-	-	-	18	66	(19)	(69)	-	-	-	-	(1)	(3)
Issue of bonus shares (note 11)	164	600	-	-	-	-	(164)	(600)	-	-	-	-	-	-	-	-
Board compensation	-	-	-	-	-	-	(2)	(7)	-	-	-	-	-	-	(2)	(7)
At 30 June 2010	1,801	6,600	30	113	30	113	95	341	88	323	48	176	4	15	2,096	7,681
At 1 January 2009	1,637	6,000	28	104	28	104	225	819	4	15	48	176	1	3	1,971	7,221
Other comprehensive income	-	-	-	-	-	-	-	-	10	37	-	-	-	-	10	37
Share based payment	-	-	-	-	-	-	-	-	1	3	-	-	-	-	1	3
Board compensation	-	-	-	-	-	-	(2)	(7)	-	-	-	-	-	-	(2)	(7)
Net income and expense directly recognised in equity	-	-	-	-	-	-	(2)	(7)	11	40	-	-	-	-	9	33
Profit for the period	-	-	-	-	-	-	98	360	-	-	-	-	-	-	98	360
Total income and expense for the period	-	-	-	-	-	-	96	353	11	40	-	-	-	-	107	393
At 30 June 2009	1,637	6,000	28	104	28	104	321	1,172	15	55	48	176	1	3	2,078	7,614

The attached explanatory notes 1 to 14 form part of these interim condensed consolidated financial statements.

Dana Gas PJSC and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

1 ACTIVITIES

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 and its Subsidiaries 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 P. O. Box 2011, Sharjah, United Arab Emirates with offices in Al-Khobar, London, the Kurdistan Region of Iraq, Bahrain and Cairo.

Principal subsidiaries and jointly controlled entities of the Group at 30 June 2010 and the group percentage of ordinary share capital or joint venture interest are set out below:

Subsidiaries	%	Country of incorporation	Principal activities
Dana Gas LNG Ventures	100	British Virgin Island	Oil and Gas exploration & production
Dana Gas Egypt (previously Centurion)	100	Barbados	Oil and Gas exploration & production
Sajaa Gas Private Limited Company (“SajGas”)	100	Emirate of Sharjah, UAE	Gas Sweetening
United Gas Transmissions Company Limited (“UGTC”)	100	Emirate of Sharjah, UAE	Gas Transmission
Danagaz (Bahrain) WLL	66	Bahrain	Gas Processing
Joint Ventures	%	Country of operations	Principal activities
Pearl Petroleum Company* Limited (“PPCL”)	40	Kurdistan Region of Iraq	Oil and Gas exploration & production
UGTC / Emarat	50	Emirate of Sharjah, UAE	Gas Transmission
CNGCL	35	Emirate of Sharjah, UAE	Gas Marketing
EBGDGO	26.4	Egypt	Gas Processing
GASCITIES Ltd	50	MENASA	Gas Cities

*On 15 May 2009, Dana Gas and Crescent signed a Share Sale Agreement with OMV Upstream International GmbH (“OMV”) and MOL Hungarian Oil and Gas Public Limited Company (“MOL”) wherein an equity interest of 5% each was sold by Dana Gas and Crescent to OMV and MOL respectively. Consequently, the new shareholding interest in PPCL is as follows: 40% to Dana Gas, 40% to Crescent, 10% to OMV and 10% to MOL.

Pearl Petroleum and its shareholders since 18 May 2009 are engaged in an ongoing dialogue with the Ministry of Natural Resources of the KRG as to the interpretation of the agreements (“the Authorisation”).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

1 ACTIVITIES (continued)

Pearl Petroleum and its shareholders have assessed the legal position with advice from their legal advisers and are fully confident of Pearl Petroleum's rights under the Authorisation in accordance with applicable law. Pearl Petroleum and the shareholders' judgment, based on such assessment and the progress of the continuing dialogue with the KRG, is that these discussions should result in satisfactory outcome which should not have a material adverse impact on the state of the Pearl Petroleum or the carrying values of its assets.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for investment properties, available-for-sale financial assets and financial assets at fair value through profit and loss account that have been measure at fair value. The interim condensed consolidated financial statements are presented in United States Dollar (USD), which is the Group's functional currency, and all the values are rounded to the nearest million except where otherwise indicated. The United Arab Emirates Dirhams (AED) amount have been presented solely for the convenience to readers of the interim condensed 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 Company and its subsidiaries 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 disclosure required for full financial statements prepared in accordance with International Financial Reporting Standards.

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 2009.

Dana Gas PJSC and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

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 30 June 2010

	<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				
External sales net of royalties	2	123	36	161
Total revenue net of royalties	<u>2</u>	<u>123</u>	<u>36</u>	<u>161</u>
Gross Profit	2	57	34	93
Investment and finance income				5
Change in fair value of investment property				(2)
General and administration expenses				(16)
Finance costs				(28)
Exploration cost write-off				(2)
Profit before income tax				<u>50</u>
Income tax expense				(32)
PROFIT FOR THE PERIOD				<u>18</u>
Segment assets at 30 June 2010	<u>1,622</u>	<u>1,042</u>	<u>436</u>	<u>3,100</u>
Segment liabilities at 30 June 2010	<u>899</u>	<u>83</u>	<u>22</u>	<u>1,004</u>

Dana Gas PJSC and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

3 SEGMENTAL INFORMATION (continued)

Period ended 30 June 2009

	<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				
External sales net of royalties	2	82	17	101
Total revenue net of royalties	<u>2</u>	<u>82</u>	<u>17</u>	<u>101</u>
Gross Profit	2	30	13	45
Investment and finance income				4
Other income				294
Provision for Impairment				(84)
Change in fair value of investment property				(55)
General and administrative expenses				(14)
Finance costs (net)				(30)
Exploration cost write-off				(42)
Profit before income tax				118
Income tax expense				(20)
PROFIT FOR THE PERIOD				<u>98</u>
Segment assets at 31 December 2009	<u>1,697</u>	<u>1,045</u>	<u>369</u>	<u>3,111</u>
Segment liabilities at 31 December 2009	<u>905</u>	<u>77</u>	<u>30</u>	<u>1,012</u>

Dana Gas PJSC and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (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>Six months ended</i>	
	<i>30 June</i>	
	<i>2010</i>	<i>2009</i>
Earnings:		
Net Profit for the period- USD mm	<u>18</u>	<u>98</u>
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	<u>6,600</u>	<u>6,600</u>
EPS (Basic) – USD:	<u>0.003</u>	<u>0.015</u>

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible sukuk and share options. 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 share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	<i>Six months ended</i>	
	<i>30 June</i>	
	<i>2010</i>	<i>2009</i>
Earnings:		
Net Profit for the period- USD mm	<u>18</u>	<u>98</u>
Finance cost on convertible sukuk	<u>35</u>	<u>35</u>
	<u>53</u>	<u>133</u>
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	<u>6,600</u>	<u>6,600</u>
Adjustments for:		
Assumed conversion of convertible Sukuk (million)*	<u>1,908</u>	<u>1,908</u>
Stock options (million)**	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares for diluted earnings per share (million)	<u>8,508</u>	<u>8,508</u>

*As disclosed in Note 12, on 7 July 2008, the conversion rate for the convertible sukuk was determined and has been fixed at 17,343.3 shares for every USD 10,000 Sukuk Certificate. The shareholders in the Annual General Meeting on 21 April 2010 approved the issuance of 10% bonus shares, due to which the conversion exchange ratio was reset from 17,343.3 shares to 19,076.6 shares for every USD 10,000 Sukuk Certificate. As at 30 June 2010 the conversion had an anti-dilutive effect on the EPS of the Company.

**As at 30 June 2010 all the stock options issued to employees were out of money, hence no stock options have been assumed for calculating diluted earnings per share.

Dana Gas PJSC and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

5 INTANGIBLE ASSETS

	<i>Oil and gas interests</i> <i>USD mm</i>	<i>Purchase, transmission, sweetening and sale rights</i> <i>USD mm</i>	<i>Gas processing rights</i> <i>USD mm</i>	<i>Development cost</i> <i>USD mm</i>	<i>Goodwill</i> <i>USD mm</i>	<i>Total</i> <i>USD mm</i>
Cost at 1 January 2010	289	857	7	2	308	1,463
Less: Provision for impairment	(84)	-	-	-	-	(84)
At 1 January	205	857	7	2	308	1,379
Additions	15	-	-	-	-	15
Transfer to PP&E	(2)	-	-	-	-	(2)
At 30 June 2010	218	857	7	2	308	1,392
At 31 December 2009	205	857	7	2	308	1,379

(a) Oil and Gas Interests

Oil and gas interests of USD 218 million relates to Dana Gas Egypt which is the Upstream (Exploration and Production) Division of the Dana Gas Group. Dana Gas Egypt has a number of concessions and development leases in Egypt which are described below in more detail:

- El Wastani Development Lease – This development lease is held with a 100% working interest and represents approximately 36% of current production. El Wastani production includes both gas and associated gas liquids. This lease has 13,017 acres of land included within their boundaries 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 Exploration Concession – Dana Gas Egypt holds a 100% working interest in this Concession, which includes 476,216 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land is 30th June 2012. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt. To date, six development leases have been created from this exploration concession after adding Orchid contribution since April and produce approximately 58% of current volumes and produce both natural gas and associated liquids.
- West El Qantara Exploration Concession – Dana Gas Egypt holds a 100% working interest in this Concession, which includes 319,618 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land is 30th June 2012. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt and three discoveries have been made (Salma, Tulip and Sama) during the last year. One out of the three development leases started production this year namely Sama in February, 2010, and produces approximately 5% of current volumes.
- Kom Ombo Exploration Concession – Dana Gas Egypt holds a 50% working interest in this Concession, which includes 5,654,727 acres of exploration land with the balance of 50% interest held by Sea Dragon Energy Limited (“Sea Dragon”). To date one development lease has been created from this exploration concession and produces approximately 1.3% of current volumes and produces only oil.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

5 INTANGIBLE ASSETS (continued)

(a) Oil and Gas Interests (continued)

In addition to the above, Dana Gas has the following interests which were acquired as part of Centurion acquisition:

- Block 4 Sao Tome/Nigeria – a 9.5% working interest in the exploration block. The block is located off shore in the Nigeria/Sao Tome Joint Development Zone. The block has 15,876 acres (net share) of land in its boundaries. The carrying value of this interest was fully provided at the end of 2009.
- Tunisia Exploration Lease – exploration rights in relation to up to a 50 percent working interest in deeper prospective horizons that underlie upper producing horizons. The deeper prospects rights which have been retained potentially contain significant gas and petroleum liquid resources. This is based on the presence of a large neighboring structure involving the Triassic reservoir, which is one of the main producing horizons in Algeria and Tunisia. The carrying value of this interest was fully provided at the end of 2009.

Management had carried out a review in December 2009, of each of the oil and gas interest and had created a provision for impairment amounting to USD 84 million against JDZ Block-4, Tunisia and Komombo.

(b) Purchase, transmission, sweetening and sale rights

Intangible assets include USD 857 million which represent the fair value of the rights for the purchase, transmission, sweetening and sale of gas and related products acquired by the Company through its shareholdings in SajGas, UGTC and CNGCL. 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. We understand that the ultimate supplier of gas, NIOC, has after a delay of over 4 years completed the installation of all the main components of the required upstream facilities in Iran. Crescent Petroleum, which has the gas supply contract with NIOC, has announced that it is taking NIOC to international arbitration pursuant to its contract, in response to demands for performance by customers in the UAE given the four years of delays in delivery of the contractual quantities of natural gas by NIOC. Based on the information available at this time, the Directors and management are confident of a positive outcome.

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 2009. Management understands that progress had been made on the construction of the required facilities by the ultimate gas suppliers and has reviewed the various inputs into the original valuation model. Management believes that the inputs into the original valuation mode have not significantly changed.

(c) Goodwill

Goodwill of USD 308 million relates to the acquisition of Dana Gas Egypt (previously known as Centurion) 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 requirements 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 2009.

Dana Gas PJSC and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

6 AVAILABLE-FOR-SALE FINANCIAL ASSET

	<i>30 June 2010</i> <i>USD mm</i>	<i>31 Dec 2009</i> <i>USD mm</i> <i>(Audited)</i>
At 1 January	283	-
Additions	-	182
Change in fair value	(20)	101
At 30 June / 31 December	<u>263</u>	<u>283</u>

The Group holds 3,161,116 ordinary shares in MOL received as consideration for disposal of an interest in PPCL in 2009. These shares are listed on the Budapest Stock Exchange and have been fair valued with reference to published price quotation at 30 June 2010.

7 INVESTMENT PROPERTY

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

	<i>30 June 2010</i> <i>USD mm</i>	<i>31 Dec 2009</i> <i>USD mm</i> <i>(Audited)</i>
At 1 January	39	110
Change in fair value	(2)	(71)
At 30 June / 31 December	<u>37</u>	<u>39</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 now considers a portion of land to be surplus to their operational requirements and will be used for earnings rentals or held for capital appreciation.

Investment properties are 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. Last valuation exercise was carried out on 30 June 2010, which resulted in a decrease in the fair value by USD 2 million which was charged to the consolidated income statement.

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>30 June 2010</i> <i>USD mm</i>	<i>31 Dec 2009</i> <i>USD mm</i> <i>(Audited)</i>
Trade receivables	164	135
Prepaid expenses	1	1
Other receivables	25	82
Less: Provision for impairment of other receivables	(9)	(19)
	<u>181</u>	<u>199</u>

Trade receivables are non-interest bearing and are generally on 30-60 days terms.

Dana Gas PJSC and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As at 30 June, the ageing analysis of trade receivables is as follows:

	<i>Total USD mm</i>	<i>Neither past due nor impaired USD mm</i>	<i>Past due but not impaired</i>				
			<i><30 days USD mm</i>	<i>30-60 days USD mm</i>	<i>60-90 days USD mm</i>	<i>90-120 days USD mm</i>	<i>>120 days USD mm</i>
30 June 2010	164	53	10	9	16	12	64
31 Dec 2009	135	48	12	12	11	11	41

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>30 June 2010 USD mm</i>	<i>31 Dec 2009 USD mm (Audited)</i>
At 1 January	9	8
Change in fair value	1	1
At 30 June / 31 December	<u>10</u>	<u>9</u>

10 CASH AND CASH EQUIVALENTS

	<i>30 June 2010 USD mm</i>	<i>31 Dec 2009 USD mm (Audited)</i>
Cash at bank and on hand		
- Local Banks within UAE	7	20
- Foreign Banks outside UAE	9	8
Short term deposits		
- Local Banks within UAE	173	182
Cash in transit	8	3
	<u>197</u>	<u>213</u>

Cash at banks earn profit at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one week and three 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 cash equivalent is USD 197 million (2009: USD 213 million). The effective profit rate earned on short term deposits ranged between 2.5% to 5% (2009: between 2.5% and 6.1%) per annum. As at 30 June 2010, 95% of cash and cash equivalents were held with UAE banks.

Dana Gas PJSC and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

11 SHARE CAPITAL

	<i>30 June 2010 USD mm</i>	<i>31 Dec 2009 USD mm (Audited)</i>
<i>Authorised:</i>		
8,394,341,810 common shares of AED 1 each (USD 0.2728 each)		
<i>Issued and fully paid up:</i>		
6,600,000,000 common shares of AED 1 each (USD 0.2728 each)	<u>1,801</u>	<u>1,637</u>

At the Annual General Meeting held on 21 April 2010, the shareholders approved a 10% bonus issue amounting to USD 164 million (AED 600 million). Consequently, the Company's paid up share capital has increased to AED 6.6 billion comprising of 6.6 billion shares of AED 1 each (2009: 6 billion shares of AED 1 each).

12 BORROWINGS

	<i>30 June 2010 USD mm</i>	<i>31 Dec 2009 USD mm (Audited)</i>
Convertible bonds	878	871
Bank borrowings	3	-
At 30 June / 31 December	<u>881</u>	<u>871</u>

a) CONVERTIBLE BONDS

In October 2007, the Group issued convertible bonds in the form of Trust Certificates / Sukuk-al-Mudarabah ("the Sukuk") for a total value of USD 1 billion. The Sukuk, which is structured to conform to the principles of Islamic Shariah, was approved by the Company's shareholders at an Extraordinary General Meeting held in July 2007. The Sukuk matures in 2012 and has a fixed profit rate of 7.5% to be paid quarterly. The reference share price for conversion, based on the terms and conditions of the Sukuk issue, was determined on 7 July 2008. The exchange ratio has been set at 17,343.4 shares for every USD 10,000 Sukuk certificate (i.e. an effective conversion price of AED 2.118 per share). Each Trust Certificate may be redeemed at the option of the holder at any time after 7 July 2008 to the maturity date. It may be converted into shares, or at the option of Dana Gas, into the equivalent sum of money based on the prevailing share price at conversion. Dana Gas may also voluntarily redeem the Trust Certificates under certain conditions. At the Annual General Meeting held on 21 April 2010, the shareholders approved a 10% bonus issue and consequently conversion ratio for Sukuk was increased from 17,343.4 shares to 19,076.7 shares for every USD 10,000 Sukuk certificate.

The Sukuk is secured by way of a pledge over the shares of Dana LNG Ventures Ltd. (parent company of Dana Gas Egypt), SajGas and UGTC in accordance with the principles of Islamic Shariah.

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2010 (Unaudited)

12 BORROWINGS (continued)

b) BANK BORROWINGS

On 22nd April 2010, EBGDCO (Joint Venture) entered into a facility agreement with Commercial International Bank (Egypt) S.A.E. (CIB) for the financing of 70% (USD 66.5 Million) of the investment cost of the company's project comprising establishment of Gas Derivatives Project at Ras Shukeir. The facility matures in 12 years and carries variable rate of LIBOR + Margin during the repayment period. The first drawdown for the said facility was completed in June 2010 and Danagaz W.L.L. share of the drawdown was approx USD 3 Million.

As continuing security for the performance and full payment of liabilities under the Facility Agreement, Danagaz W.L.L. has pledged its entire share in share capital of EBGDCO in favour of CIB.

Dana Gas PJSC has given an undertaking "not to dispose" of its equity stake in Danagaz WLL except to a qualified investor approved by CIB, Egypt and not create any lien/pledge of its equity stake in Danagaz WLL. This facility is non-recourse to Dana Gas PJSC.

13 CONTINGENCIES AND COMMITMENTS

Egypt

Dana Gas Egypt has two drilling rigs under contract in connection with the Year 2010 budgeted drilling program in Egypt. In the event that Dana Gas Egypt does not proceed with planned drilling with these rigs, it would be obligated to pay the rig operators a variable rate based on days not utilised under the contracts. The maximum commitment at 30 June 2010 related to the EDC-67 contract is approximately USD 5.6 million which could be reduced by farm-outs to other operators. In April 2010 Dana Gas Egypt has hired an additional rig (ST-10) and the commitment for one year is USD 5.2 million.

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 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 discovery volumes equal or in excess of 1Tcf of Proved Reserves. Dana Gas Egypt has also granted a three percent net profits interest to CTIP on future profit from the Concessions.

On 14 March 2006, Dana Gas Egypt signed a Production Sharing Contract ("PSC") and formal granting by the Joint Development Authority of its 10 percent (gross) equity interest, 9.5 percent (net) in Block- 4 of the Nigeria/Sao Tome. Under the PSC Dana Gas Egypt paid USD 6.8 million being its share of the total signature bonus. Dana Gas was obligated to pay USD 5 million (net) for its share in the minimum expenditure of USD 53 million for the block which has been paid through 2009. This commitment is supported by a performance bond issued by BNP Paribas and supported by Export Development Canada. Dana Gas and another partner have withdrawn from the Concession in accordance with the relevant agreements (PSC/JOA) due to operator's decision to drill a third well without approval. The operator has disputed our position.

EBGDCO

EBGDCO, through its banker, CIB, has issued a letter of credit to a supplier amounting to USD 25 million (DG share USD 7 million).

Pearl Petroleum Company Limited

Dana Gas has incurred over USD 340 million in capital expenditure to date and has commitments amounting to approximately USD 6 million (40% share) for the development project in the Kurdistan Region of Iraq.

14 RECLASSIFICATION OF COMPARATIVES

Provision for impairment amounting to USD 69 million and USD 15 million previously included in "Other Income" and "General & Administration expenditure", respectively, have now been reclassified and shown as a separate line item under "Provision for impairments". This reclassification has been made to improve the quality of information presented.