

# **Dana Gas PJSC and Subsidiaries**

## **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**30 June 2008 (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 six month period ended 30 June 2008 (“the period”).

### **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 regional 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 into a regional, as well as international, natural gas company with over 300 professional staff and further offices in Canada, UK, Egypt, Saudi Arabia, Bahrain and the Kurdistan Region of Iraq.

### **Operating Results**

Following commencement of operating revenues on 10 January 2007, Dana Gas has continued to progressively build upon its operating performance.

#### **Quarter ended June 2008**

During the quarter, the Company earned revenue of USD 84 million; a 27% increase over the corresponding period mainly due to better realizations of LPG and Condensates.

Gross profit of USD 20 million generated during the quarter from the sale of hydrocarbons was up by 18% over the previous corresponding period, mainly due to higher LPG and Condensate prices.

The net profit for the quarter was USD 9 million after adjusting for non-cash depreciation and depletion of USD 21 million, and finance costs of USD 18 million on the USD 1 billion convertible sukuk issued last year.

The results of the Group for the quarter and six months ended 30 June 2008 are set out on page 7 of the Interim Condensed Consolidated Financial Statements.

### **Liquidity and Financial Resources**

During the period, the Company’s operating cash flow, cash and bank balances were used to fund its development program in the Kurdistan Region of Iraq.

The Group’s cash and bank balances as at 30 June 2008 stood at USD 380 million.

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

***Liquidity and Financial Resources - continued***

In line with its planned strategy, the Dana Gas Group continues to maximise the value of its existing oil and gas assets and projects, while pursuing aggressive growth through a strategy of targeted acquisitions and new business development across the natural gas value chain.

***Egypt Operations – Centurion Petroleum***

The Company's production for the 91 days of operations was 2.51 MMBOE, i.e. averaging 27.5 mboepd.

During this year the rig market remained very tight due to high demand, resulting in delay of the Company's planned drilling program. However, the Company has been able to secure its requisite drilling rigs during the last quarter, and is currently moving ahead with its drilling campaign. During the quarter, drilling commenced on the very important deep Sidi Salim well, which is expected to be tested in August.

In June, the Company made a discovery from a new oil zone in its Egyptian acreage, marking the first discovery in the Company's US\$ 170 million drilling campaign for 2008. The discovery well Al Baraka-2 reconfirmed the last year's discovery (Al Baraka-1) in the Abu Ballas formation and proved a new discovery in the underlying Six Hills formation. In addition to this discovery, the Company has commenced drilling of the West Baraka-1 exploration well in a new prospect in the Komombo concession.

The internationally renowned U.K. based engineers, Gaffney, Cline & Associates ("GCA") had carried out an independent evaluation of the Company's hydrocarbon reserves as at 31 December 2007. Based on their report and after adjusting for six months production, the Company's proved reserves as at 30 June 2008 are estimated to be 40.6 million barrels of oil equivalent ("MMBOE") (31 December 2007: 45.82 MMBOE). The proved and probable reserves at 30 June 2008 are estimated to be 61.5 MMBOE (31 December 2007: 66.75 MMBOE). An evaluation of the exploration potential of the Company's Egyptian exploration assets, the West Manzala, West Qantara and Komombo Concessions, was also carried out by GCA. Their report indicated that the risked gas potential of the blocks is in the region of 3.5 trillion cubic feet (Tcf) of gas.

***Kurdistan Region of Iraq (KRI) Project***

In April 2007, the Group entered into important agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources, initially to develop, process and transport natural gas on a fast-track basis from the Khor Mor Gas Field (Khor Mor Project), including the extraction of LPG and condensate, in order to provide natural gas supplies to fuel domestic electric power generation plants currently under construction (by third parties) near the major urban centers of Erbil and Suleymania. This project is being implemented jointly with Crescent Petroleum at an investment of US\$ 650 million. Further development of the gas reserves are planned to supply natural gas as feedstock and energy for local industries, specifically for the 42 square kilometer Kurdistan Gas City major industrial complex (described below).

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

**Business Update – continued**

***Kurdistan Region of Iraq (KRI) Project - continued***

The Khor Mor Project made good progress across all fronts including engineering, procurement and erection phases, and all equipment and materials have been safely delivered to site. Although the Project suffered some delays during the construction phase due slower rate of progress by local contractors compounded by the challenging and difficult terrain, the construction of the 180 km pipeline has now been completed and is in the process of testing and commissioning. First gas is anticipated by early September 2008 through the Early Production Facilities (EPF) at a rate of 75 million standard cubic feet per day of gas to be delivered to the Erbil Power Station via the 180 km pipeline.

The EPF will be supplemented by the main LPG Plant, with the first train of 150 million standard cubic feet per day expected to come on stream by the end of 2008 and the second train, for an additional 150 mmscfd, coming on stream in the first quarter of 2009. The acquisition of 400 kms of seismic has been completed, processing and interpretation in progress, and a drilling campaign starting shortly.

In addition, the Group is concurrently appraising the potential of the Chemchemal Gas Field for development: acquisition of 800 kms of 2D seismic is ongoing and the drilling campaign will commence in early 2009.

***Kurdistan Gas City***

Dana Gas in joint venture with Crescent Petroleum has been assigned a 461 million square feet site for the Kurdistan Gas City. The site has been officially allotted by the Kurdistan Regional Government (KRG) for development by Gas Cities LLC, a joint venture company between Dana Gas and Crescent Petroleum, following extensive surveys that have been completed on potential sites within the Kurdistan Region of Iraq.

The Kurdistan Gas City is a major new sustainable and synergistic gas-utilisation industrial complex designed to promote private sector investment in a variety of gas-related industries to further benefit the country's citizens through mass training, job creation in the many tens of thousands, and the promotion of general economic activity.

The Kurdistan Gas City is the first in a series of "Gas Cities" that are being developed across the Middle East, North Africa and South Asia (MENASA) region by Dana Gas' Affiliate, Gas Cities LLC.

***UAE Gas Project***

The UAE Gas Project to process and transport imported gas is now in its final stages of completion. The construction and interconnection of the Company's facilities in the UAE had been successfully completed in 2005 and awaits the commencement of gas supplies. The ultimate supplier of gas, NIOC, has completed the installation of all the main components of the required upstream facilities, as has been publicly reported. Hook-up and pre-commissioning of NIOC's upstream facilities is currently in progress, and gas supplies are expected to commence before the end of the year.

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

**Business Update - continued**

***Joint Venture with Emarat***

United Gas Transmissions Company Ltd (UGTC), a subsidiary of the Company, has implemented a joint venture project with Emarat (on a 50:50 basis) that is the largest gas pipeline in the UAE (48 inch diameter, 32 km length) with a design capacity of 1000 MMscfd to transport gas from Sajaa to the Hamriyah Freezone in Sharjah at a capital cost of USD 46 million. The construction of the pipeline was completed in April 2008. The pipeline will be utilised by 3 users:, SEWA, FEWA and CNGCL under a 25 year contract.

***Egypt Gulf of Suez – Gas Liquids (LPG) Plant***

The Company, through Danagaz, Bahrain, is leading a project to build, own and operate the Gulf of Suez Liquids Extraction Plant in Egypt in partnership with Egyptian National Gas Company (EGAS) and the Arabian Petroleum Investment Corporation (APICORP). The formation of a joint venture company in Egypt and the acquisition of the land for the Plant have been completed, and a shareholders meeting was held in January 2008 to implement the project. The contract award for the LPG Plant is planned in early 2009, with construction to take up to 18 months.

***Sharjah Western Offshore Concession***

In March 2008 Dana Gas was awarded a 25 year petroleum contract by the Government of Sharjah for the exploration and development of the Sharjah Western Offshore Concession. The deal marks Dana Gas's entry into the GCC exploration and production sector, and is also the first offshore upstream asset for the Company in the Middle East.

The Concession Agreement covers an offshore area of over 1,000 square kilometers, and includes the development of the Zora Gas Field within Sharjah, which was discovered in 1979. The development includes completing horizontal drilling of two wells, the installation of offshore platforms, and construction of a 25km pipeline. The Agreement also provides for exploration works within the concession area, including geological evaluation studies, followed by seismic surveys and the drilling of exploratory wells. The initial costs of the development phase are estimated at USD 55 million, while the exploration work is estimated at USD 65 million.

***LNG Opportunities***

UGTC has signed a co-operation agreement with SBM (a world leader in providing floating offshore solutions to the oil and gas industry) for the development and construction of LNG floating, storage and re-gasification facilities ("LNG Terminals"). The first such LNG Terminal is planned for Port Qasim near Karachi, Pakistan. Following the signing of a Memorandum of Understanding between UGTC and its partners, including SBM, site surveys have been completed and approvals obtained from local authorities in Pakistan for the location and design of the proposed terminal. The project sponsors have initiated discussions with potential gas buyers in Pakistan to set the basis of a long term gas sales and purchase agreement.

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

**Business Update - continued**

***Convertible Sukuk Price Setting***

Subsequent to quarter end, the Company completed the process of computing the conversion price and exchange ratio for the Sukuk based on the terms and conditions of the Sukuk issuance, which required determination on 7 July 2008. According to the terms of the Sukuk, the exchange ratio was to be determined in the future through application of a formula using the Dana Gas share price and the exchange rate from 13 May 2008 to 23 June 2008.

Based on the above, the exchange rate was set at 17,343.4 shares for every US\$ 10,000 Sukuk certificate (i.e. an effective conversion price of AED 2.118 per share), which resulted in a conversion premium of 29.3% over the share price of AED 1.64 at the time of issuance.

**Directors**

The directors who served during the period were:

Mr. Hamid Dhiya Jafar, Executive Chairman  
Dr. Adel Khalid Al-Sabèeh, Deputy Chairman  
Sheikh Sultan bin Ahmed bin Sultan Al-Qasimi  
Mr. Abdulaziz Hamad Aljomaih  
Mr. Abdulla Nasser Huwaileel Al-Mansoori  
Mr. Adib Abdullah Al-Zamil  
Mr. Ahmed Rashid Al-Arbeed  
Mr. Khalid Abdul Rahman Saleh Al-Rajhi  
Mr. Majid Hamid Jafar  
Mr. Rashad Mohammed Al-Zubair  
Mr. Said Arrata  
Dr. Tawfeeq Abdulrahman Almoayed  
Mr. Varoujan Nerguizian  
Mr. Ziad Abdulla Ibrahim Galadari  
Mr. Rashid Saif Al Jarwan (appointed on 30 January 2008)

**Auditors**

The Company auditors, Ernst & Young, have issued their review report on these Interim Condensed Consolidated Financial Statements of the Company.

On behalf of the Board of Directors



Director  
12 August 2008





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

### *Introduction*

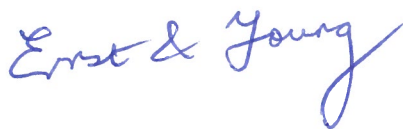
We have reviewed the accompanying interim consolidated balance sheet of Dana Gas PJSC (the "Company") and its subsidiaries ("the Group") as at 30 June 2008, the related interim consolidated statements of income for the three month and six month periods then ended and the statements of changes in equity and cash flows 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.



Signed by  
Edward Quinlan  
Partner  
Registration No. 93

Sharjah  
12 August 2008

# Dana Gas PJSC and Subsidiaries

## INTERIM CONSOLIDATED INCOME STATEMENT

Period ended 30 June 2008 (Unaudited)

	Notes	Six months ended				Three months ended			
		30 June 2008		30 June 2007		30 June 2008		30 June 2007	
		USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm
Revenue		158	581	121	443	84	309	66	241
Less: royalties		(71)	(262)	(50)	(182)	(35)	(131)	(28)	(103)
Net revenue		87	319	71	261	49	178	38	138
Cost of sales		(13)	(48)	(10)	(35)	(8)	(28)	(5)	(17)
Depreciation and depletion		(43)	(158)	(31)	(114)	(21)	(76)	(16)	(60)
Gross profit		31	113	30	112	20	74	17	61
Investment and finance income		8	29	4	13	4	15	1	5
Other income	8	21	77	2	6	9	32	-	1
Gain from change in fair value of investment property	7	28	103	32	118	13	47	16	59
General and administration expenses		(11)	(42)	(11)	(41)	(5)	(18)	(8)	(29)
Finance costs		(38)	(140)	(19)	(70)	(18)	(67)	(6)	(24)
Exploration expenses		(3)	(9)	(5)	(19)	(2)	(7)	(1)	(5)
<b>PROFIT BEFORE TAX</b>		36	131	33	119	21	76	19	68
Income tax expense		(20)	(72)	(19)	(69)	(12)	(42)	(11)	(39)
<b>PROFIT FOR THE PERIOD</b>		16	59	14	50	9	34	8	29
Basic and diluted earnings per share (USD / AED per share)	4	0.0027	0.0098	0.0023	0.008	0.0015	0.0056	0.0013	0.0048

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.



# Dana Gas PJSC and Subsidiaries

## INTERIM CONSOLIDATED BALANCE SHEET

Period ended 30 June 2008 (Unaudited)

		30 June 2008		31 December 2007 (Audited)	
	Notes	USD mm	AED mm	USD mm	AED mm
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment		762	2,792	641	2,353
Goodwill	6	308	1,128	308	1,128
Intangible assets	6	1,248	4,573	1,236	4,532
Investment property	7	105	385	77	282
		<u>2,423</u>	<u>8,878</u>	<u>2,262</u>	<u>8,295</u>
<b>Current assets</b>					
Inventories		46	168	40	145
Accounts receivable and prepayments		102	374	78	286
Financial assets through profit and loss account		12	44	-	-
Bank balances and cash		380	1,393	541	1,983
Assets held for sale	8	-	-	39	142
		<u>540</u>	<u>1,979</u>	<u>698</u>	<u>2,556</u>
<b>TOTAL ASSETS</b>		<u><b>2,963</b></u>	<u><b>10,857</b></u>	<u><b>2,960</b></u>	<u><b>10,851</b></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	9	1,637	6,000	1,637	6,000
Statutory reserve		25	92	25	92
Legal reserve		25	92	25	92
Retained earnings		214	782	200	732
Convertible bonds- equity component		52	191	52	191
<b>Total Equity</b>		<u><b>1,953</b></u>	<u><b>7,157</b></u>	<u><b>1,939</b></u>	<u><b>7,107</b></u>
<b>Non-current liabilities</b>					
Convertible bonds	10	923	3,384	916	3,358
Finance lease obligations		-	-	-	1
Asset decommissioning obligation		8	28	4	15
		<u>931</u>	<u>3,412</u>	<u>920</u>	<u>3,374</u>
<b>Current liabilities</b>					
Accounts payable and accruals		78	286	98	360
Short term portion of finance lease obligations		1	2	1	2
Liabilities directly associated with assets held for sale	8	-	-	2	8
		<u>79</u>	<u>288</u>	<u>101</u>	<u>370</u>
<b>Total Liabilities</b>		<u><b>1,010</b></u>	<u><b>3,700</b></u>	<u><b>1,021</b></u>	<u><b>3,744</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>2,963</b></u>	<u><b>10,857</b></u>	<u><b>2,960</b></u>	<u><b>10,851</b></u>

Director

Director

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## INTERIM CONSOLIDATED CASH FLOW STATEMENT

Period ended 30 June 2008 (Unaudited)

	Notes	Six months ended 30 June			
		2008		2007	
		USD mm	AED mm	USD mm	AED mm
<b>OPERATING ACTIVITIES</b>					
Profit for the period before tax		36	131	33	119
Adjustments for:					
Depreciation and depletion		43	158	31	114
Investment and finance income		(8)	(29)	(4)	(13)
Gain from change in fair value of investment property	7	(28)	(103)	(32)	(118)
Finance costs		48	176	19	70
Gain on disposal of assets held for sale	8	(12)	(45)	-	-
Asset retirement obligation		-	-	-	1
Board compensation		(2)	(9)	(2)	(9)
		<u>77</u>	<u>279</u>	<u>45</u>	<u>164</u>
Changes in Working Capital:					
Accounts receivable and prepayments		(24)	(88)	(7)	(27)
Inventories		(6)	(23)	-	-
Accounts payable and accruals		(21)	(74)	2	8
Due to related parties		-	-	14	50
Income tax		(20)	(72)	(19)	(69)
Net cash from operating activities		<u>6</u>	<u>22</u>	<u>35</u>	<u>126</u>
<b>INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(159)	(586)	(56)	(207)
Expenditure on intangibles	6	(12)	(41)	(23)	(85)
Investment in deposits with more than 3 months maturity		-	-	28	103
Finance assets through profit and loss account		(10)	(37)	-	-
Investment and finance income		6	22	4	13
Proceeds from sale of assets held for sale	8	46	170	-	-
Acquisition of a subsidiary	5	-	-	(1,057)	(3,873)
Net cash used in investing activities		<u>(129)</u>	<u>(472)</u>	<u>(1,104)</u>	<u>(4,049)</u>
<b>FINANCING ACTIVITIES</b>					
Proceeds from short term borrowings		-	-	470	1,723
Repayment of long term debt		-	-	(13)	(46)
Capital lease obligation		-	-	-	(1)
Finance costs		(38)	(140)	(19)	(70)
Net cash (used in) from financing activities		<u>(38)</u>	<u>(140)</u>	<u>438</u>	<u>1,606</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(161)</u>	<u>(590)</u>	<u>(631)</u>	<u>(2,317)</u>
Cash and cash equivalents at the beginning of the period		<u>541</u>	<u>1,983</u>	<u>746</u>	<u>2,736</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<u><u>380</u></u>	<u><u>1,393</u></u>	<u><u>115</u></u>	<u><u>419</u></u>

The attached explanatory notes 1 to 11 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 2008 (Unaudited)

	Share capital		Statutory reserves		Legal reserves		Retained earnings		Convertible bonds- Equity component		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
At 1 January 2008	1,637	6,000	25	92	25	92	732	52	191	1,939	7,107	
Board compensation	-	-	-	-	-	-	(9)	-	-	(2)	(9)	
Net income and expense recognised directly in equity	-	-	-	-	-	-	(9)	-	-	(2)	(9)	
Profit for the period	-	-	-	-	-	-	59	-	-	16	59	
Total income and expense for the period	-	-	-	-	-	-	59	-	-	16	59	
Balance At 30 June 2008	1,637	6,000	25	92	25	92	782	52	191	1,953	7,157	
At 1 January 2007	1,637	6,000	22	81	22	81	652	-	-	1,859	6,814	
Board compensation	-	-	-	-	-	-	(9)	-	-	(2)	(9)	
Net income and expense recognised directly in equity	-	-	-	-	-	-	(9)	-	-	(2)	(9)	
Profit for the period	-	-	-	-	-	-	50	-	-	14	50	
Total income and expense for the period	-	-	-	-	-	-	50	-	-	14	50	
Balance At 30 June 2007	1,637	6,000	22	81	22	81	693	-	-	1,871	6,855	

The attached explanatory notes 1 to 11 form part of these interim condensed consolidated financial statements.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (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 the 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, Saudi Arabia, Calgary, Bahrain, London and Cairo.

These interim condensed consolidated financial statements were approved by the Board of Directors on 12 August, 2008.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The interim condensed consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair values of certain financial assets and liabilities.

#### 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 2007, except for the adoption of new Standards and Interpretations and adoption of the policy for financial assets, noted below:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this Interpretation did not have any effect on the financial position or performance of the Group.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. As the Group's defined benefit schemes are currently in deficit, the Interpretation had no impact on the financial position or performance of the Group.

- Financial Assets

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the near term.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards and Interpretations (continued)**

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables'.

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gain or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'investment and finance income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payment is established.

The fair value of quoted investments is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These includes the use of recent arm's length transactions, by reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

Certain new standards, amendments to and interpretations of existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 but which the Group has not early adopted. Those that are applicable to the Group are as follows:

**1. IFRS 2 'Amendments to IFRS 2 – Vesting Conditions and Cancellations'** is required to be applied to periods beginning on or after 1 January 2009. This amendments clarifies the definition of non-vesting conditions and prescribes accounting treatment of an award that is cancelled because a non-vesting condition is not satisfied. This amendment is not expected to have a significant impact on the Group's financial statements.

**2. IFRS 8 'Operating Segments'** introduces the management approach to segment reporting. IFRS 8, which become mandatory for the Group's 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and allocate resources to them. Management is analysing the approach to be used in the segment information under IFRS 8.

**3. Revisions to IAS 23 'Borrowing Cost'** have removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This will have no impact on the Group's financial statements as its accounting policy in this regard requires capitalisation of borrowing costs.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards and Interpretations (continued)**

**4. IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation** introduces disclosure and allows limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The revised standard is applicable for periods beginning on or after 1 January 2009. This revision will have no impact on the Group's financial statements.

**3 SEGMENTAL INFORMATION**

*Primary segment information*

The Group's primary operations, based on the location of assets, are organised on a worldwide basis into three geographical segments: United Arab Emirates, Egypt and others. The accounting policies of the segments are the same as those described in note 2 above. The Group evaluates the performance of its segments and allocates resources to them based on this evaluation.

**Period ended 30 June 2008**

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Rest of the World USD mm</i>	<i>Total USD mm</i>
<b>Revenue</b>				
External sales net of royalties	1	86	-	87
<b>Total revenue net of royalties</b>	<u>1</u>	<u>86</u>	<u>-</u>	<u>87</u>
<b>Results</b>				
<b>Segment operating results</b>				
Profit before tax, finance cost, investment and finance income	<u>29</u>	<u>37</u>	<u>-</u>	66
Finance costs				(38)
Investment and finance income				8
Profit before income tax				36
Income tax expense				(20)
<b>Profit for the period</b>				<u>16</u>
Segment assets at 30 June 08	<u>1,894</u>	<u>776</u>	<u>293</u>	<u>2,963</u>
Segment liabilities at 30 June 08	<u>991</u>	<u>7</u>	<u>12</u>	<u>1,010</u>

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

### 3 SEGMENTAL INFORMATION (continued)

Period ended 30 June 2008 (continued)

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Rest of the World USD mm</i>	<i>Total USD mm</i>
<b>Other segment information</b>				
Capital expenditure for the six months:				
Property, plant and equipment	9	14	136	159
Intangible oil & gas assets	-	12	-	12
Charges:				
Depletion and depreciation	-	(43)	-	(43)
Exploration cost	-	(3)	-	(3)
Gain from change in fair value of investment property	28	-	-	28

#### Secondary segment information

The Group's secondary segment reporting format is business. For operational and management reporting purposes, the Group is organised in one major business segment of ownership, transportation, processing, distribution, marketing and sale of natural gas and petroleum related products, including the development of gas related projects and services.

Period ended 30 June 2007

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Rest of the World USD mm</i>	<i>Total USD mm</i>
<b>Revenue</b>				
External sales net of royalties	-	71	-	71
<b>Total revenue net of royalties</b>	<u>-</u>	<u>71</u>	<u>-</u>	<u>71</u>
<b>Results</b>				
<b>Segment operating results</b>				
Profit before tax, finance cost, investment and finance income	<u>6</u>	<u>42</u>	<u>-</u>	48
Finance costs				(19)
Investment and finance income				4
Profit before income tax				33
Income tax expense				(19)
<b>PROFIT FOR THE YEAR</b>				<u>14</u>
Segment assets at 31 December 2007	<u>1,990</u>	<u>798</u>	<u>172</u>	<u>2,960</u>
Segment liabilities at 31 December 2007	<u>946</u>	<u>63</u>	<u>12</u>	<u>1,021</u>



# Dana Gas PJSC and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

### 3 SEGMENTAL INFORMATION (continued)

Period ended 30 June 2007 (continued)

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Rest of the World USD mm</i>	<i>Total USD mm</i>
<b>Other segment information</b>				
Capital expenditure for the six months:				
Property, plant and equipment	10	33	13	56
Intangible oil & gas assets	-	23	-	23
Charges:				
Depletion and depreciation	-	(31)	-	(31)
Exploration cost	-	(5)	-	(5)
Gain from change in fair value of investment property	32	-	-	32

### 4 EARNINGS PER SHARE

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.

Diluted earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The information necessary to calculate basic and diluted earnings per share is as follows:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>USD mm</b>	<b>USD mm</b>
<b>Earnings:</b>		
Profit for the period	<b>16</b>	<b>14</b>
<b>Shares:</b>		
Weighted average number of shares outstanding for calculating basic EPS	<b>6,000</b>	<b>6,000</b>
Weighted average number of shares which may be issued upon conversion of the convertible notes	<b>1,734</b>	<b>-</b>
Weighted average number of shares outstanding for calculating diluted EPS	<b>7,734</b>	<b>-</b>

As disclosed in Note 10, subsequent to period end on 7 July 2008, conversion rate for convertible sukuk was determined and has been fixed at 17,343.3 shares for every USD 10,000 Sukuk Certificate. As at 30 June 2008 the conversion had an anti-dilutive effect on the EPS of the company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

5 BUSINESS COMBINATIONS

Acquisition of Centurion Energy International Inc

On 10 January 2007, Dana Gas PJSC completed a Plan of Arrangement ("Plan") with Centurion Energy International Inc. ("Centurion"). Under the terms of this Plan, Dana Gas acquired all of the issued and outstanding common shares of Centurion for CAD 12.00 in cash per common share for an aggregate acquisition cost of CAD 1.1 billion (approximately AED 3,614 million) and retired debt of USD 127 million (AED 467 million). The Plan was approved by the Centurion common share holders during a special meeting on 8 January 2007 and subsequently by the Queen's bench of Alberta Court. The results of Centurion have been consolidated from 10 January 2007. The Centurion acquisition has been funded from internal cash and an Islamic Shariah compliant facility provided by Citibank of USD 470 million (AED 1.7 billion).

The fair value of the identifiable assets and liabilities as at the date of the acquisition was:

	Fair value recognised on acquisition USD mm	Carrying Value USD mm
Property, plant and equipment	356	189
Intangible assets	357	24
Other non-current assets	-	2
Current assets	163	163
<b>Total Assets</b>	<b>876</b>	<b>378</b>
Non-current liabilities	(31)	(145)
Current liabilities	(42)	(42)
<b>Value of net assets</b>	<b>803</b>	<b>191</b>
<b>Goodwill arising on acquisition</b>	<b>318</b>	<b>-</b>
<b>Consideration Paid</b>	<b>1,121</b>	
<b>Cash flow on acquisition:</b>		<b>USD mm</b>
Net cash acquired with the subsidiary		57
Cash paid		(1,121)
<b>Net cash outflow</b>		<b>(1,064)</b>

The total consideration of USD 1,121 million represents a cash settlement of USD 973 million, acquisition and related expenses of USD 21 million and debt repayment of USD 127 million.

Centurion is an independent oil and gas exploration and production company operating principally in the Egyptian Nile Delta whose common shares had previously been listed on the Toronto Stock Exchange and the London AIM. Centurion now forms the Upstream (Exploration and Production) Division of the Dana Gas Group. Centurion has a number of concessions and development leases in Egypt:

- El Wastani Development Lease – These development leases are held with a 100% working interest and represent approximately 85% of current production. El Wastani production includes both gas and associated gas liquids. These leases have 13,017 acres of land included within their boundaries and are located in the Nile Delta of Egypt.
- South El Manzala Development Leases – These development leases are held with a 100% working interest and represent approximately 2% of current production. South El Manzala has only gas production. These development leases have 16,055 acres of land included within their boundaries and are located in the Nile Delta of Egypt.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

**5 BUSINESS COMBINATIONS (continued)**

**Acquisition of Centurion Energy International Inc (continued)**

- West El Manzala Exploration Concession – Centurion holds a 100% working interest in this Concession, which includes 476,216 acres of exploration land. 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, two development leases have been created from this exploration concession and produce approximately 10% of current volumes and produce both natural gas and associated liquids.
- West El Qantara Exploration Concession – Centurion holds a 100% working interest in this Concession, which includes 319,618 acres of exploration land. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt.
- Kom Ombo Exploration Concession – Centurion holds a 50% working interest in this Concession, which includes 5,654,727 acres of exploration land. The Farm-out Agreement was completed in 2007 which gave a 50% working interest to the Kuwait International Oil and Environmental Co. (KIOEC). Centurion remains the Operator of the Concession. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the southern desert of Egypt. To date one development lease has been created from this exploration concession and produces approximately 1% of current volumes and produces only oil.

In addition to the above concessions and leases in Egypt, Centurion also has the following lease:

- Block 4 Sao Tome/Nigeria – Centurion holds 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.
- Tunisia Exploration Lease – Centurion has retained the exploration rights in relation to up to a 50 percent working interest in deeper prospective horizons that underlie upper producing horizons. The deeper prospects to which Centurion has retained the rights 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.

**Centurion Projects**

*Kom Ombo Farm-out*

On 17 April 2007, the Company completed a Farm-out Agreement with Kuwait International Oil and Environmental Co. (KIOEC) related to the Kom Ombo concession. Under the terms of the farmout, KIOEC has received a 50% working interest in the Kom Ombo concession. In consideration for the working interest, KIOEC will fund 100 percent of the first USD 4.4 million of work program expenditures in the concession. Thereafter, KIOEC and the Group will share future expenditures equally.

*Luzi Development Lease*

On 11 April 2007, the Company was granted formal approval of its first Plan of Development Lease in the West El Manzala Concession (Luzi Development Lease). As a result of this formal granting, the Company will be required to make the first payment under the terms of the CTIP acquisition agreement, totaling USD 12.5 million. The first of the two installments were paid in 2007 and the second installment was paid on 3 January 2008.

**Acquisition of Danagaz (Bahrain)**

The Company entered into a Heads of Agreement on 30 September 2006 with the majority shareholder (acting for itself and other shareholders) to acquire a controlling interest (66% of the shares) in a Bahrain registered company, named Danagaz (Bahrain) subject to the fulfillment of certain conditions. It subsequently entered into a Share Purchase Agreement with all the shareholders of Danagaz Bahrain on 29 April 2007 and following fulfillment of conditions precedent to the completion of the acquisition the Company paid the initial provisional purchase price of USD 7 million in December 2007 and retained 10%, being USD 700,000 for potential claims.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

**5 BUSINESS COMBINATIONS (continued)**

**Acquisition of Danagaz (Bahrain) (continued)**

Danagaz (Bahrain) is developing a project that involves the installation of a plant in Egypt to extract LPG's from the existing gas network. Danagaz, in partnership with Egyptian Natural Gas Holding Company and Arab Petroleum Investments Corporation (APICORP), will build, own, and operate such plant through an Egyptian incorporated Company named Egyptian Bahraini Gas Derivative Company (EBGDCO). Danagaz will own 40% of EBGDCO, a further 40% will be held by the Egyptian Natural Gas Holding Company and the remaining 20% by APICORP. The project involves the engineering, fabrication, installation and operation of a high-efficiency LPG extraction plant on the western shore of the Gulf of Suez. The key project agreements (gas supply and product offtake) and the land and sea berth arrangements have already been executed. The estimated project cost is around USD 72 million and it is intended to arrange limited-recourse financing for 65% of the project costs through APICORP. The requisite documentation and implementation of the project to Financial Close has already commenced and project construction is expected to be completed within two years.

**6 INTANGIBLE ASSETS**

	<i>Oil and gas interests USD mm</i>	<i>Purchase, transmission, sweetening and sale rights USD mm</i>	<i>Gas processing rights USD mm</i>	<i>Total USD mm</i>	<i>Goodwill USD mm</i>
At 1 January 2008	372	857	7	1,236	308
Additions	12	-	-	12	-
<b>At 31 June 2008</b>	<b>384</b>	<b>857</b>	<b>7</b>	<b>1,248</b>	<b>308</b>
At 31 December 2007	372	857	7	1,236	308

Additions of USD 12 million during the period relate to exploratory and evaluation expenses incurred, which qualify for capitalisation under IFRS 6 - Exploration for and evaluation of mineral resources.

During 2005 the Company acquired a 100% interest in SajGas and UGTC and a 35% interest in Crescent National Gas Corporation Limited ("CNGCL"). 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 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. The ultimate supplier of gas has completed the installation of all the main components of the required upstream facilities, as has been publicly reported. Hook up and pre-commissioning of the upstream facilities is now taking place and gas supplies are expected to commence in the fourth quarter of 2008.

In accordance with the IAS 36 requirement in respect of intangible assets not yet available for use, management has undertaken an impairment review of the intangible assets. Management has reviewed the progress on the construction of the required facilities by the ultimate gas supplier and the various inputs into the original valuation model. Management believes that construction is now fairly well advanced. Management believes that the inputs into the original valuation model have not significantly changed so as to require a formal calculation of the recoverable amount of the intangible assets.

Goodwill relates to the acquisition in January 2007 of Centurion (Note 5) which enabled Dana Gas to acquire the upstream business qualification and therefore the rights to develop the gas fields in Kurdistan region of Iraq. As per 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 2007.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

**7 INVESTMENT PROPERTY**

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

	<b>30 June 2008</b> <b>USD mm</b>	<b>31 Dec 2007</b> <b>USD mm</b> <i>(Audited)</i>
Balance at 1 January	77	-
Transferred from property, plant and equipment	-	21
Change in fair value of investment property	<b>28</b>	56
Balance at 30 June / 31 December	<b>105</b>	77

Investment properties consist of freehold land transferred from property, plant and equipment. This freehold land is an industrial land owned by SajGas in the Sajaa area of the Emirate of Sharjah, United Arab Emirates. This transfer has been effected as the Group now considers a portion of land to be surplus to their operational requirements and will be used for earning rentals or capital appreciation.

Investment properties are stated at fair value which has been determined based on a valuation performed by a firm of qualified independent property consultants. This valuation resulted in an increase in the fair value by USD 28 million which was credited to the consolidated income statement.

**8 ASSETS HELD FOR SALE**

On 9 January 2008, the Company entered into a binding sale and purchase agreement for the sale of its 30% working interest held in the West Gharib Concession, completion of which took place in early February 2008. The sale yielded a profit of USD 12 million during the period which has been classified under "Other income".

**9 SHARE CAPITAL**

	<b>30 June</b> <b>2008</b> <b>USD mm</b>	<b>31 December</b> <b>2007</b> <b>USD mm</b> <i>(Audited)</i>
<i>Authorised:</i>		
6,060,000,000 common shares of AED 1 each (USD 0.2728 each)		
<i>Issued and fully paid up:</i>		
6,000,000,000 common shares of AED 1 each (USD 0.2728 each)	<b>1,637</b>	1,637

**10 BORROWINGS**

**Convertible Sukuk**

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. Subsequent to the quarter the reference share price for the 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. Each Trust Certificate may be redeemed at the option of the holder at any time after 6 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.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2008 (Unaudited)

### 11 CONTINGENCIES AND COMMITMENTS

Centurion has contracted five drilling rigs in connection with the 2008 and 2009 budgeted drilling program in Egypt. Four of these rigs will be supplied in 2008. In the event that Centurion does not proceed with planned drilling with these rigs, Centurion 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 2008 related to these contracts is approximately USD 34.5 million which could be reduced by farm-outs to other operators.

In March 2007, Centurion entered into a Purchase commitment for casing and tubing with Tenaris for an amount of USD 23.6 million. As at 30 June 2008, inventory of USD 15.6 million was still outstanding and will be received and paid for by 31 December 2008.

In May 2004, Centurion was awarded the West El Manzala and West El Qantara blocks in the Nile Delta of Egypt. Centurion has committed to spend USD 11 million on the West El Manzala block and USD 7 million on the West El Qantara block during the first phase of exploration. These commitments are supported by performance bonds issued by BNP Paribas and supported by Export Development Canada. As at 31 December 2007, Centurion has fulfilled its spending commitment related to the West El Manzala block and was notified that the USD 11 million West El Manzala letter of guarantee has been released by the Egyptian Government. To date, Centurion has incurred costs in excess of its commitment related to the West El Qantara block and the guarantee is expected to be released in 2008, subject to Government audit and approval of the costs.

In March 2006, Centurion 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 percent participating interest in each of these Concessions. As agreed under the terms of the acquisition agreement Centurion has paid USD 13 millions as a result of the first Government approved Plan of Development in the West El Manzala Concession. In addition, Centurion has agreed to pay additional payments that could total up to a further USD 12.5 million as and when specific discovery volumes and development objectives are met. Centurion has also granted a three percent net profits interest to CTIP on future production from the Concessions.

On 14 March 2006, Centurion signed a Production Sharing Contract ("PSC") and formal granting by the Joint Development Zone of its 10 percent (gross) equity interest, 9.5 percent (net) in Block 4 of the Nigeria/Sao Tome. Under the PSC Centurion has paid USD 6.8 million being its share of the total signature bonus. Centurion is obligated to pay USD 5 million (net) for its share in the minimum expenditure of USD 53 million for the block. This obligation is expected to be paid through 2008. This commitment is supported by a performance bond issued by BNP Paribas and supported by Export Development Canada.

#### **Kurdistan Region of Iraq (KRI) Project**

In April 2007, the Group entered into certain agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources. Under the terms of the Strategic Alliance Protocol, the Kurdistan Regional Government, Dana Gas, and its affiliate, Crescent Petroleum will jointly review the natural gas resources in the Kurdistan Region of Iraq with a view to the optimisation, development and utilisation of those substantial resources. This initiative also includes the launch of the Kurdistan Gas City, which is a major new gas-utilisation industrial complex designed to promote private sector investment in a variety of gas-related industries, thereby creating high value gas markets, and to benefit the country's citizens through job creation, training, and the promotion of general economic activity.

In addition, the Group was appointed on a long term contract to develop, process and transport natural gas from the Khor Mor Gas Field, and to also concurrently appraise the potential of the Chemchamal Gas Field for subsequent development, in order to provide natural gas supplies to fuel domestic electric power generation plants currently under construction (by others) near Erbil and Suleymania, starting in third quarter 2008, as well as subsequently to supply surplus gas to industries and potentially for export.

The Khor Mor Field development will involve the hook up, testing and re-completion of 6 existing wells, appraisal of the reservoir including the drilling of at least 4 additional gas wells, installation of separation facilities and an LPG extraction plant, and laying of around 180 kms of pipelines. The initial gas production from Khor Mor development is expected to be circa 75 MMscfd, increasing to 150 MMscfd, and thereafter rising to 300 MMscfd in 2009. The investment in the Khor Mor development is expected to be around USD 600 million.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS**

At 30 June 2008 (Unaudited)

**11 CONTINGENCIES AND COMMITMENTS (continued)**

The Chemchamal appraisal programme includes acquiring seismic data, and drilling 2 appraisal wells. The estimated cost of this work programme is around USD 50 million.

The initial costs for the Khor Mor Field development and the Chemchamal appraisal programme will be funded equally by the Company and its affiliate, Crescent Petroleum Company International Limited.

Dana Gas and Crescent have each incurred over USD 195 million expenditure to date although commitments, not yet accrued, amount to over USD 130 million (each) in relation to the purchase of pipeline and equipment for the development project in the Kurdistan Region of Iraq.