

## **DANA GAS PJSC**

### **Report of the Directors**

The Board of Directors of Dana Gas (“Dana Gas” or the “Company”) are pleased to announce the consolidated financial results of the Company, its subsidiaries and joint arrangements (together referred to as the “Group”) for the three months and nine months periods ended 30 September 2019.

#### **Principal activities**

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

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

#### **Results for quarter ended 30 September 2019**

During the quarter ended 30 September 2019, the Company earned gross revenues of USD 115 million (AED 422 million) same as that earned in Q3 2018. Realised prices during the current period remained lower by 19% and impacted the topline by USD 11 million (AED 40 million). This impact, however, was fully offset by an increase in production in Kurdistan Region of Iraq. Realised price averaged USD 47/bbl for condensate and USD 33/boe for LPG compared to USD 64/bbl and USD 34/boe respectively in Q3 2018.

The Group’s share of production for the 92 days was 6.0 million barrels of oil equivalent or 64,650 barrels of oil equivalent per day (“boepd”), an increase of 9% compared to corresponding quarter production of 5.46 million boe (59,350 boepd). In Kurdistan Region of Iraq production increased to 30,500 boepd in Q3 2019 from 25,100 boepd in Q3 2018. This increase was due to additional production from the completed debottlenecking project that came on stream in October 2018.

The Group reported a net profit after tax of USD 2 million (AED 8 million) for Q3 2019 as compared to a net profit of USD 17 million (AED 61 million) in Q3 2018. The decline in net profit was due to impairment of USD 60 million against Merak-1 exploratory well in Block-6 Egypt. The well was completed in July 2019 and reached a depth of 3,890 meters and encountered 36m of sand in the Miocene objective interval but did not encounter commercial hydrocarbons. This was partly offset by increase in other income during the quarter following recognition of financial assets at fair value through profit or loss. Excluding this impairment & recognition of financial asset, on a like-for-like basis, Group achieved a net profit after tax of USD 17 million (AED 61 million) similar to that achieved in Q3 2018.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) in Q3 2019 increased to USD 90 million (AED 331 million) up 60% from USD 56 million (AED 204 million) in Q3 2018.

#### **Results for nine months of 2019**

During the nine months of 2019 (the “period”) the Company earned gross revenues of USD 357 million (AED 1,309 million) as compared to USD 351 million (AED 1,287 million) in the nine months of 2018. This increase in revenue was due to increased production in Kurdistan Region of Iraq partly offset by lower realized prices. Realised prices averaged USD 50/bbl for condensate and USD 33/boe for LPG compared to USD 61/bbl and USD 34/boe respectively in 9M 2018.

# DANA GAS PJSC

## Report of the Directors

### Results for nine months of 2019 (continued)

The Group achieved a net profit after tax of USD 142 million (AED 521 million) as compared to USD 41 million (AED 149 million) in the nine months of 2018. The increase in net profit was mainly due to higher other income and lower finance cost, following successful restructuring of the Sukuk in 2018, partly offset by provision for impairment of USD 60 million against Merak-1 exploration well in Block-6 Egypt. Excluding this recognition of financial asset and impairment, Group achieved a net profit after tax of USD 76 million (AED 279 million) as compared to USD 41 million (AED 149 million) in corresponding nine months of 2018. This increase of 85% in operating profit was mainly due to higher production in KRI and lower finance cost.

### Liquidity and Financial Resources

Cash and bank balance at period end stood at USD 392 million (AED 1,437 million), a decrease of 4% compare to year-end balance of USD 407 million (AED 1,492 million). The Group collected a total of USD 230 million (AED 843 million) during the period with Egypt, KRI and UAE contributing USD 105 million (AED 385 million), USD 118 million (AED 432 million) and USD 7 million (AED 26 million), respectively. During the quarter ended 30 September 2019, the Company bought back shares amounting to USD 3 million (AED 11 million).

### Business Update

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

### Reserves & Resources

#### *(a) Dana Gas Egypt*

Gaffney, Cline & Associates (GCA), a leading advisory firm carried out an independent evaluation of Dana Gas Egypt's hydrocarbon reserves as at 31 December 2018. Following this review, the Group's gross proved reserves (1P) as at 31 December 2018 were assessed at 54 MMboe (31 December 2017: 75 MMboe). The gross proved and probable reserves (2P) as at 31 December 2018 were estimated at 89 MMboe (31 December 2017: 117 MMboe) and the gross proved, probable and possible reserves (3P) as at 31 December 2018 were estimated to be 134 MMboe (31 December 2017: 160 MMboe). The decrease in reserves was on account of production during the year, which was not replaced and downgrade of reserves for early water production in two fields and poor production performance from one of the fields.

#### *(b) Pearl Petroleum Company Limited*

As reported previously, Dana Gas and Crescent Petroleum, joint operators of Pearl Petroleum Company Limited ("PPCL"), estimates that the P50 total geologically risked<sup>1</sup> resources of petroleum initially in-place (PIIP) of the Khor Mor and Chemchemal Fields at 75 Tscf (of wet gas) and 7 billion barrels of oil.

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

In their report, GCA estimates the following reserves:

---

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

## **DANA GAS PJSC**

### **Report of the Directors**

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

##### **Khor Mor**

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

##### **Chemchemical**

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

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

The balance between these 2P reserves figures and the joint operator's estimated risked initially in place (gas and oil) resources (PIIP) are classified as Contingent Resources<sup>2</sup> and Prospective Resources<sup>3</sup>.

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

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

The Company production in Egypt for the 92 days of operations in Q3 2019 was 3 MMboe i.e. averaging 32,500 boepd (September 2018: 2.96 MMboe i.e. averaging 32,250 boepd) an increase of 1% over the corresponding period.

The Company completed the drilling operations at its deepwater Merak-1 well, located in 755 meters of water in the North El Arish (Block 6) Concession. The well was drilled to a total depth of 3,890 meters and encountered 36 m of sand in the Miocene objective interval but did not encounter commercial hydrocarbons. The well was temporarily plugged and abandoned and the cost fully provided for in Q3 2019. The Block 6 Concession area contains at least three other independent prospects with material resource potential that are unaffected by the Merak-1 well result.

In Egypt, the Company collected a total USD 105 million (AED 385 million) during nine months of 2019 and hence realized 125% of the period's revenue. During the nine months period, the Company sold a total of 3 cargoes of condensate with average cargo volumes of 157,000 bbl and collected an amount of USD 28 million (AED 103 million). Starting 1 July 2019, EGPC elected to purchase the full volume of incremental condensate and provided an irrevocable letter of credit for the value of estimated incremental condensate in Q3 2019. An amount of USD 13 million was collected through the letter of credit during the period with an additional USD 6 million collected subsequently. At period end, the trade receivable balance stood at USD 119 million (AED 436 million) as compared to USD 140 million (AED 513 million) at year end.

---

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

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

## **DANA GAS PJSC**

### **Report of the Directors**

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

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

Dana Gas's share (35%) of gross production in the KRI for the 92 days of operations in Q3 2019 was 2.8 MMboe, i.e. averaging 30,500 boe per day (Q3 2018 – DG Share 35%: 2.3 MMboe, averaging 25,100 boe per day), an increase of 22% when compared with corresponding period. The increase in production was due to completion of debottlenecking project in quarter four of 2018.

Dana Gas share of collections for the period stood at USD 118 million (AED 433 million) and hence realised 100% of the period's revenue. At period end, Dana Gas' 35% share of trade receivable balance stood at USD 9 million (AED 33 million) and represents amounts due against local sales for the month of September 2019.

Pearl is proceeding with the development of two world-class gas fields with in-place volumes of approximately 75 trillion cubic feet of wet gas and 7 billion bbls of oil. Pearl has begun a multi well drilling programme at Khor Mor and Chemchemical, with expansion plans to progress and grow gas production by a further 500 MMscfd and liquids production by a further 20,000 bblpd over the coming three years.

Earlier in the year, Pearl Petroleum signed a 20-year gas sale agreement with the KRG that will facilitate the production and sale of an additional 250 MMscf/d of gas. Pearl's expansion plan will see output increase to 650 MMscf/d in 2022 and then to 900 MMscf/d by 2023 from the current 390 MMscf/d.

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

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

Production from the Zora field averaged 950 boepd in Q3 2019 (Q3 2018: 1,200 boepd). Production ceased on 3 September 2019 following instructions from Sharjah Petroleum Council upon acceptance of the relinquishment notice. Planning is underway for decommissioning of the Zora assets and for "Plug & Abandonment" of SHJ-2 well.

During the period, collections stood at USD 7 million (AED 26 million). At period end, the trade receivable balance stood at Nil (AED: Nil) (31 December 2018: USD 1 million / AED 4 million).

##### ***UAE Gas Project***

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

For further updates see "Arbitration Cases".

##### ***Egypt Gulf of Suez – Gas Liquids Extraction Plant***

The Company, through its subsidiary Danagaz Bahrain, is a 26.4% owner (effective) in Egyptian Bahraini Gas Derivative Company (Joint Venture) that has built, owns and operates a Natural Gas Liquids Extraction Plant in Egypt in partnership with the Egyptian National Gas Company (EGAS) and the Arab Petroleum Investments Corporation (APICORP). The plant has a capacity to process 150 mmscf/d of gas and has produced 2,150 boepd of propane (DG Share 26.4%: 568 boepd) and 523 boepd of butane (DG Share 26.4%: 138 boepd) during the period.

## **DANA GAS PJSC**

### **Report of the Directors**

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

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

On 18 July 2016, the English High Court finally dismissed the NIOCs remaining grounds of appeal against the 2014 arbitration award. The 2014 arbitration award found in favour of Dana Gas' partner Crescent Petroleum and Crescent Gas Corporation Limited on all issues. NIOC appealed the 2014 arbitration award to the English High Court. Most of the grounds of appeal were previously heard and dismissed by the Court in March 2016. The finalisation of the appeal in July 2016 confirms that the 2014 award is final and binding and that NIOC has been in breach of its gas supply obligations since 2005.

Crescent Petroleum has informed Dana Gas that the final hearing of the remedies phase against NIOC for non-performance of the contract (including claims for damages and indemnities for third party claims up to 2014) took place in November 2016. The final award on damages for the period 2005 to 2014 is awaited from the Tribunal, and in the meantime Dana Gas has been informed that Crescent Petroleum has commenced a second arbitration with a new Tribunal, to address the claims for damages from 2014 until the end of the contract period in 2030.

- b) The Company, together with Crescent Petroleum, commenced arbitration proceedings against MOL Group ('MOL') on 20 September 2017 arising out of MOL's conduct as a 10% shareholder in Pearl Petroleum relating to the settlement of the arbitration with the KRG.

On 30 August 2017, the Company announced settlement of the long running dispute between itself, Crescent Petroleum and Pearl Petroleum Company Limited ("Pearl") and the Kurdistan Regional Government of Iraq (the "KRG") on beneficial terms which paved the way for immediate development of world class resources in Khor Mor and Chemchemal to maximise their potential for mutual benefit as well as the benefit of the people of the Kurdistan Region and all of Iraq.

The Settlement Agreement with the KRG was welcomed and endorsed by Dana Gas, Crescent Petroleum, OMV and RWE, together holding 90% of the shares of Pearl Petroleum. MOL (a 10% shareholder of Pearl) unreasonably sought to link its endorsement of the settlement to a renegotiation of the terms by which it first secured its participation in Pearl back in May 2009 (namely its commitment to certain contingent payments). MOL therefore complained about Dana Gas and Crescent Petroleum's handling of the settlement, expressing dissatisfaction with the outcome as compared to the alternative of pursuing a final litigation and enforcement outcome against the KRG. MOL then issued a default notice under the terms of the Pearl Petroleum shareholders agreement alleging that the actions of Dana Gas and Crescent Petroleum in concluding the Settlement Agreement amounted to a breach of the Pearl Petroleum shareholders agreement.

Dana Gas and Crescent Petroleum rejected the allegations and the default notice, and were forced to initiate arbitration in The London Court of International Arbitration ('LCIA') in order to obtain a formal declarations to resolve these matters. The hearing of these matters took place in London over a three week period commencing on 26 November 2018.

The Company on 14 May 2019 received an award dated 10 May 2019 from the LCIA. The Tribunal's award is a welcome and complete vindication for Dana Gas and Crescent Petroleum ("claimant"), finding that they as Claimants were "overwhelmingly successful in this arbitration" and ruling in their favour on all key points while awarding 100% of their external legal costs.

In dismissing all of MOL's claim and finding that the default notices issued by MOL were invalid, the Tribunal considered that MOL's focus on linking the waiver of its deferred payment obligations in exchange for endorsing the settlement was "illegitimate". MOL was also ordered to pay all the costs of the arbitration and 100% of the external legal costs of Dana Gas and Crescent within 30 days.

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

**Dividend**

At the General Assembly of the Company held on 17 April 2019, the shareholders approved a cash dividend of AED 0.055 per share for 2018 (2017: AED 0.05 per share)

**Directors**

H.H. Sheikh Ahmed Bin Sultan Al-Qasimi, Honorary Chairman

1. Mr. Hamid Dhiya Jafar, Chairman
2. Mr. Rashid Saif Al-Jarwan, Deputy Chairman
3. Mr. Abdullah Ali Al Majdouie
4. Mr. Hani Abdulaziz Hussein
5. Mr. Jassim MohamadRafi Alseddiqi
6. Mr. Majid Hamid Jafar
7. Mr. Nureddin Sehweil
8. Mr. Said Arrata
9. Mr. Shaheen Al-Muhairi
10. Mr. Varoujan Nerguizian
11. Mr. Ziad Abdulla Ibrahim Galadari

**Auditors**

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

On behalf of the Board of Directors



---

Director

13 November 2019