

# **Dana Gas PJSC and Subsidiaries**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2019**

## **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 year ended 31 December 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 the year ended 31 December 2019**

During the year, the Company earned gross revenues of USD 459 million (AED 1.68 billion) as compared to USD 470 million (AED 1.72 billion) in 2018, a decrease of 2% due to lower realised prices and lower levels of production in Egypt. This decline was partly offset by production increase in Kurdistan which added USD 40 million to the top line. Realised price averaged USD 49/bbl for condensate and USD 30/boe for LPG compared to USD 59/bbl and USD 34/boe respectively in 2018.

The Company ended the year with an average production of 66,200 barrels of oil equivalent per day (boepd), an increase of 5% compared to last year’s production of 63,050 boepd. In Kurdistan production increased to 31,500 from 26,650 in 2018, an increase of 18%. This increase was partly offset by a 4% drop in production in Egypt.

Net profit for the year was USD 157 million (AED 575 million) as compared to a loss of USD 186 million (AED 682 million) in 2018. Increase in net profit was mainly due to higher other income and lower finance cost, partly offset by provision for impairment of USD 60 million (AED 220 million) against the Merak-1 exploration well in Block-6 Egypt. The loss in 2018 was mainly due to a one-off non-cash impairment provision of USD 250 million (AED 916 million) recognised mainly in respect of Zora assets.

On a like for like basis, excluding one off impairments and earn out and deferred income, profit from core operations increased by USD 51 million (AED 187 million) to USD 115 million (AED 422 million) as compared to USD 64 million (AED 235 million) in 2018, reflecting the strong underlying operations performance.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) increased to USD 341 million (AED 1,249 million) compared to USD 230 million (AED 842 million) in 2018.

## **DANA GAS PJSC**

### **Report of the Directors**

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

Cash and bank balance at year-end stood at USD 425 million (AED 1,558 million), an increase of 4% compare to year-end balance of USD 407 million (AED 1,492 million). The Group collected a total of USD 285 million (AED 1,044 million) in 2019 with Egypt, KRI and U.A.E. contributing USD 138 million (AED 506 million), USD 139 million (AED 510 million) and USD 8 million (AED 29 million), respectively. During the year, the Company executed a share buyback amounting to USD 9 million (AED 33 million).

#### **Business Update**

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

#### **Reserves & Resources**

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

Gaffney, Cline & Associates (GCA), a leading advisory firm carried out an independent evaluation of Dana Gas Egypt's hydrocarbon reserves as at 31 December 2019. Following this review, the Group's gross proved reserves (1P) as at 31 December 2019 were assessed at 49 MMboe (31 December 2018: 54 MMboe). The gross proved and probable reserves (2P) as at 31 December 2019 were estimated at 73 MMboe (31 December 2018: 89 MMboe) and the gross proved, probable and possible reserves (3P) as at 31 December 2019 were estimated to be 106 MMboe (31 December 2018: 134 MMboe). The decrease in reserves was on account of production during the year, which was not replaced.

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

As reported previously, Dana Gas and Crescent Petroleum, joint operators of Pearl Petroleum Company Limited ("PPCL"), estimates that the P50 total geologically 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:

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

## DANA GAS PJSC

### Report of the Directors

#### Reserves & Resources (continued)

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

###### Khor Mor

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

###### Chemchemal

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

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

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

#### E&P Operations

##### *(a) Egypt E&P operations*

Dana Gas Egypt ended 2019 with production for the full year of operations of 12.0 MMboe i.e. averaging 33,000 boepd (2018: 12.6 MMboe, i.e. averaging 34,500 boepd), a decrease of 4% over the corresponding year. The decline in production was mainly due to natural decline in fields and increased formation water production from some wells of the Balsam Field. This decline was partially compensated by putting in place production optimization strategies at the fields and plant level.

During the year, 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 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 138 million (AED 506 million) and hence realized 127% of the year's revenue. Out of the total, USD 97 million was received in USD Dollar, USD 36 million in equivalent Egyptian pounds and USD 5 million in the form of offsets against payables. During the year, 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 2H of 2019. An amount of USD 30 million was collected through the letter of credit during the year. At year end, the trade receivable balance reduced by 21% to USD 111 million (AED 407 million) from USD 140 million (AED 513 million) at end of 2018.

<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 2019 was 11.5 MMboe, i.e. averaging 31,500 boe per day (2018 – DG Share 35%: 9.7 MMboe, averaging 26,650 boe per day), an increase of 18% when compared with corresponding year. The increase in production was due to the full year impact of production coming online from the debottlenecking project which was completed in quarter four of 2018.

Dana Gas share of collections for the year stood at USD 139 million (AED 510 million) and hence realised 91% of the period's revenue. At year end, Dana Gas' 35% share of trade receivable balance stood at USD 24 million (AED 88 million) and represents amounts due against local sales for the month of November and December 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 continued with a multi well appraisal drilling programme at Khor Mor and Chemchemal begun in 2018, 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.

During the year, Pearl completed two appraisal wells in Khor Mor and one appraisal well in Chemchemal and embarked upon and completed 5 workovers in Khor Mor. The Company's expansion plan in the KRI is on schedule, with delivery from the first gas train expected early in 2022. This will raise production to 650 MMscf/d from the current rate of circa 400 MMscf/d.

Earlier in the year, Pearl Petroleum signed a 20-year gas sale agreement with the KRG for the production and sale of these incremental volumes of 250 MMscf/d of gas.

##### *(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 the Sharjah Hamriyah Free Zone.

Production from the Zora Field averaged 1,000 boepd in 2019 (2018: 1,200 boepd). Production ceased on 3 September 2019 following instructions from Sharjah Petroleum Council upon acceptance of the relinquishment notice. Zora onshore and offshore facilities have now been fully shutdown, with all hydrocarbon and chemical removed, and are being kept in preservation mode.. Engineering design and project planning is ongoing for the "Plug & Abandonment" of the SHJ-2 well.

#### **UAE Gas Project**

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

For further updates see "Arbitration Cases".

## **DANA GAS PJSC**

### **Report of the Directors**

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

##### **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 2,050 boepd of propane (DG Share 26.4%: 541 boepd) and 472 boepd of butane (DG Share 26.4%: 125 boepd) during the year.

#### **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 PJSC**

### **Report of the Directors**

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

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.

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.

- c) MOL Earn Out payment arbitration: The Company, together with Crescent Petroleum, commenced arbitration proceedings against MOL Hungarian Oil and Gas Public Limited Company ('MOL') on 14 February 2020 arising out of MOL's attempts to avoid paying reserve based earn out payments to the Company and Crescent Petroleum arising out of the terms of the Sale and Purchase agreement entered into between the Parties in 2009, through which MOL acquired its 10% shareholding in Pearl Petroleum.

The reserve based earn out payment obligations are the same obligations which MOL sought to illegitimately avoid in the 20 September 2017 arbitration against MOL (see note above).

The arbitration will also address the separate and additional crude oil earn out payments arising out of the said 2009 Sale and Purchase agreement.

- d) OMV Earn Out payment arbitration: The Company, together with Crescent Petroleum, commenced arbitration proceedings against OMV Upstream International GMBH ('OMV') on 14 February 2020 arising out of OMV's attempts to avoid paying reserve based earn out payments to the Company and Crescent Petroleum arising out of the terms of the Sale and Purchase agreement entered into between the Parties in 2009, through which OMV acquired its 10% shareholding in Pearl Petroleum.

## **DANA GAS PJSC**

### **Report of the Directors**

#### **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 Mohamad Rafi 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 financial statements have been audited by PricewaterhouseCoopers.

On behalf of the Board of Directors

To the best of our knowledge, the financial information included in the report fairly presents in all material respects the financial condition, results of operation and cash flows of the company as of, and for, the periods presented in the periodic report.



**Director**  
**11 March 2020**





## Independent auditor's report to the shareholders of Dana Gas PJSC

### Report on the audit of the consolidated financial statements

#### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Dana Gas PJSC (the "Company") and its subsidiaries (together the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2019;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

#### Our audit approach

##### Overview

Key Audit Matters	<ul style="list-style-type: none"><li>• Carrying value of UAE Gas project assets and legal arbitration</li><li>• Estimation of fair value of financial assets at fair value through profit or loss</li><li>• Impairment of Goodwill and Oil and Gas interests</li></ul>
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Douglas O'Mahony, Rami Sarhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy



## Independent auditor's report to the shareholders of Dana Gas PJSC (continued)

### Our audit approach (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matter	How our audit addressed the Key audit matter
<p><i>Carrying value of UAE gas project assets and legal arbitration</i></p> <p>The Group's statement of financial position includes assets related to the UAE Gas Project as at 31 December 2019 comprising of:</p> <ul style="list-style-type: none"> <li>a. Property, plant and equipment of USD 208 million (note 12);</li> <li>b. intangible assets of USD 289 million (note 13b); and</li> <li>c. investment in joint venture of USD 555 million (note 15), collectively "the UAE gas project assets" (Note 3.1)</li> </ul> <p>As disclosed in Note 3, management has determined that the carrying value of the UAE Gas project assets depends on the commencement of gas supplies by the National Iranian Oil Company ("NIOC") to Crescent Petroleum, which is in turn dependent upon the final Tribunal Award on the damages claim against NIOC and the resultant share of Dana Gas.</p> <p>We focused on this area because it is fundamental to users' understanding of the financial statements in view of</p> <ul style="list-style-type: none"> <li>a) the amounts relating to the UAE gas project are material to the consolidated financial statements;</li> <li>b) continued delay in commencement of gas supplies has prompted a key supplier of the Group to initiate arbitration proceedings against the ultimate supplier;</li> <li>c) the uncertainty surrounding the timing and final outcome of those arbitration proceedings; and</li> <li>d) management had to exercise judgement and make assumptions on a number of uncertain factors and events, including the supply of gas by NIOC, the final outcome of the arbitration, timing of cash flows, pricing, and discount rate.</li> </ul>	<p>Our procedures in relation to management's assessment of the recoverability of the UAE gas project assets included:</p> <ul style="list-style-type: none"> <li>• Inspecting legal documents including the decision of the English High Court of July 2016 relating to dismissal of the NIOC challenge of the Award, discussing the progress and status with the Group's legal department, and inspecting the legal advice provided to management by external lawyers involved in the arbitration;</li> <li>• Assessing management's assumptions around the probability of receipt of the award and whether the award will be sufficient to cover damages from losses;</li> <li>• Assessing management's judgement in respect of supply of gas and supply volumes;</li> <li>• Comparing management's hydrocarbon price assumptions for reasonableness against third party forecasts, peer information, contractual arrangements and relevant market data;</li> <li>• Assessing the reasonableness of the discount rates used in impairment tests with input from PwC valuation specialists;</li> <li>• Inspecting publicly available information of case involving Iran in international arbitrations, Iran's adherence to the decisions by courts, form and timing of related settlements;</li> <li>• Assessing the adequacy of the related disclosures in the consolidated financial statements, including management's judgements surrounding the carrying value of the assets and the uncertainty over the amount and timing of the arbitration award.</li> </ul>





## Independent auditor's report to the shareholders of Dana Gas PJSC (continued)

### Our audit approach (continued)

#### *Estimation of fair value of financial assets at fair value through profit or loss*

As disclosed in Note 19 to the consolidated financial statements, the Group has financial assets at fair value through profit or loss of USD 111 million at 31 December 2019. USD 109 million of these are the assets arising from certain reserve based earn out entitlements from Joint Operations Partners MOL Hungarian Oil and Gas Public Limited Company ('MOL'), OMV Upstream International GMBH ('OMV') and certain confined payments from RWE. Estimating the fair value of these assets is complex and involves a high estimation uncertainty. As disclosed in note 35 subsequent to the year end, the Group together with Crescent Petroleum commenced arbitration proceedings against MOL and OMV due to their attempts to avoid paying reserve based earn out payments to the Group and Crescent Petroleum arising out of the terms of the Sale and Purchase agreement entered into between the Parties in 2009 through which both MOL and OMV, acquired their respective 10% shareholding in Pearl Petroleum.

We focused on this area because the financial asset balances are material to the consolidated financial statements and the recognition of financial assets at fair value through profit or loss requires significant judgements and estimates by management.

Key estimates in management's fair value model are probability and discount rates.

Our procedures in relation to management's assessment of the fair value of financial assets included:

- Assessing reasonableness of management's rationale for concluding on the probability of the collection, reviewing the cash received during the year and reviewing independent external legal confirmations for disputes from Joint Operations Partners;
- Inspecting legal documents related to the filing of the arbitration;
- Independently assessing the reasonableness of discount rates used in the model with input from PwC valuation specialists; and
- Assessing the adequacy of the related disclosures in the consolidated financial statements, including management's judgements and estimation uncertainty surrounding the carrying value of the assets.



## Independent auditor's report to the shareholders of Dana Gas PJSC (continued)

### Our audit approach (continued)

#### *Impairment of Goodwill and Oil & Gas interests*

As at 31 December 2019, the Group has goodwill of USD 308 million (note 13) relating to Egyptian assets and tangible oil and gas interests of USD 682 million (note 12). As required by IAS 36 'Impairment of Assets', management performed annual impairment test of Goodwill and tangible Oil and Gas Interests with value in use model supported by an independent expert's reserve report.

We focused on this area because of the materiality of the balances, and because it requires significant management judgements and assumptions that are affected by future market conditions, particularly future hydrocarbon prices, expected reserves additions from the development activities currently in progress, commercial recoverability of resources from prospects considered for goodwill evaluation, and macro-economic conditions.

Our procedures in relation to management's assessment of the recoverability of goodwill and oil & gas assets included:

- Comparing management's hydrocarbon price assumptions against third party forecasts, peer information, contractual arrangements and relevant market data to determine whether the price assumptions were within the range of such forecasts;
- Assessing the reasonableness of the discount rates used in impairment tests with input from PwC valuation specialists;
- Inspecting reports provided by external experts and assessing their scope of work and conclusions, assessing the competence, capability and objectivity of external reserve experts;
- Reviewing reserves estimation methods applied by the experts;
- Comparing production forecasts and proved and probable reserves to reserve reports and our understanding of the life of fields, performing a look-back analysis to check for indications of bias over time.
- Verifying estimated future capital and operational costs by comparison to the approved budgets and assessed them with reference to field production forecasts;
- Assessing the adequacy of the Group's disclosures in relation to impairment, assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of oil and gas assets and goodwill, which are disclosed in note 3 to the consolidated financial statements.





## Independent auditor's report to the shareholders of Dana Gas PJSC (continued)

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### Other information

Management is responsible for the other information. The other information comprises information included in the Group's 2019 Annual Report but does not include the consolidated financial statements and our auditor's report thereon. We obtained the Report of the Directors prior to the date of this auditor's report, and we expect to obtain the Group's complete Annual report, which is expected to be made available to us after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read Group's 2019 Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and report the fact.

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### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process



## Independent auditor's report to the shareholders of Dana Gas PJSC (continued)

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### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.





## Independent auditor's report to the shareholders of Dana Gas PJSC (continued)

### Auditor's responsibilities for the audit of the consolidated financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Report of the Directors is consistent with the books of account of the Group;
- v) as disclosed in note 19 to the consolidated financial statements the Group has not purchased or invested in any shares during the year ended 31 December 2019;
- vi) note 30 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019.
- viii) note 34 to the financial statements discloses the social contributions made during the year ended 31 December 2019.

PricewaterhouseCoopers  
11 March 2020

Rami Sarhan  
Registered Auditor Number 1152  
Sharjah, United Arab Emirates

# Dana Gas PJSC and Subsidiaries

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	<i>Notes</i>	<b>2019</b>		<b>2018</b>	
		<b>USD mm</b>	<b>AED mm</b>	<b>USD mm</b>	<b>AED mm</b>
Gross Revenue	5	<b>459</b>	<b>1,682</b>	470	1,723
Royalties	5	<b>(174)</b>	<b>(638)</b>	(176)	(645)
Net revenue	5	<b>285</b>	<b>1,044</b>	294	1,078
Operating costs & Depletion	6	<b>(158)</b>	<b>(579)</b>	(154)	(564)
<b>Gross profit</b>		<b>127</b>	<b>465</b>	140	513
General and administration expenses		<b>(15)</b>	<b>(55)</b>	(16)	(59)
Investment and finance income	7	<b>15</b>	<b>55</b>	22	81
Other income	8	<b>135</b>	<b>495</b>	12	44
Other expenses		<b>(8)</b>	<b>(29)</b>	(22)	(81)
Impairment of oil & gas assets	13	<b>(60)</b>	<b>(220)</b>	(248)	(909)
Impairment of financial assets		<b>(6)</b>	<b>(22)</b>	(2)	(7)
Share of profit of a joint venture - net	15	<b>(1)</b>	<b>(4)</b>	1	4
Exploration expenses/write-off		-	-	(6)	(22)
Finance cost	9	<b>(16)</b>	<b>(59)</b>	(36)	(132)
<b>PROFIT / (LOSS) BEFORE INCOME TAX</b>		<b>171</b>	<b>626</b>	(155)	(568)
Income tax expense	10	<b>(14)</b>	<b>(51)</b>	(31)	(114)
<b>PROFIT / (LOSS) FOR THE YEAR</b>		<b>157</b>	<b>575</b>	(186)	(682)
<b>PROFIT / (LOSS) ATTRIBUTABLE TO:</b>					
- Equity holders of the parent		<b>157</b>	<b>575</b>	(187)	(686)
- Non-controlling interest		-	-	1	4
		<b>157</b>	<b>575</b>	(186)	(682)
<b>EARNINGS PER SHARE:</b>					
Basic & Diluted earnings / (loss) per share (USD/AED per share)	11	<b>0.022</b>	<b>0.082</b>	(0.027)	(0.098)

The attached notes 1 to 35 form part of these consolidated financial statements.



Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019		2018	
	<i>USD mm</i>	<i>AED mm</i>	<i>USD mm</i>	<i>AED mm</i>
<b>Profit / (loss) for the year</b>	<b>157</b>	<b>575</b>	(186)	(682)
Other comprehensive income	-	-	-	-
<b>Other comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>	<b>157</b>	<b>575</b>	(186)	(682)
<b>ATTRIBUTABLE TO:</b>				
- Equity holders of the parent	157	575	(187)	(686)
- Non-controlling interest	-	-	1	4
	<b>157</b>	<b>575</b>	(186)	(682)

The attached notes 1 to 35 form part of these consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

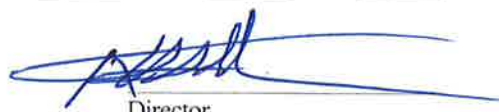
As at 31 December 2019

		2019		2018	
	Notes	USD mm	AED mm	USD mm	AED mm
ASSETS					
Non-current assets					
Property, plant and equipment	12	1,203	4,410	1,226	4,494
Intangible assets	13	636	2,331	649	2,379
Investment property	14	22	81	22	81
Interest in joint ventures	15	563	2,063	564	2,067
Financial assets at fair value through profit or loss	19	58	213	-	-
		2,482	9,098	2,461	9,021
Current assets					
Inventories	17	40	147	37	136
Trade and other receivables	18	175	641	191	700
Financial assets at fair value through profit or loss	19	53	194	2	7
Funds held for development	20	27	99	69	253
Cash and cash equivalents	21	425	1,558	407	1,492
		720	2,639	706	2,588
TOTAL ASSETS		3,202	11,737	3,167	11,609
EQUITY AND LIABILITIES					
Capital and reserves attributable to equity holders of the Company					
Share capital	22	1,908	6,995	1,903	6,977
Treasury shares	23	(9)	(33)	-	-
Legal reserve	24	132	483	116	424
Voluntary reserve	24	132	483	116	424
Retained earnings		463	1,697	443	1,624
Other reserve	25	4	15	7	26
Attributable to equity holders of the Company		2,630	9,640	2,585	9,475
Non-controlling interest		2	8	2	8
Total equity		2,632	9,648	2,587	9,483
Non-current liabilities					
Borrowings	26	54	198	414	1,517
Provisions	27	15	55	15	55
		69	253	429	1,572
Current liabilities					
Borrowings	26	402	1,474	-	-
Trade payables and accruals	28	99	362	151	554
		501	1,836	151	554
Total liabilities		570	2,089	580	2,126
TOTAL EQUITY AND LIABILITIES		3,202	11,737	3,167	11,609

Director  
11 March 2020



Director  
11 March 2020



The attached notes 1 to 35 form part of these consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

		2019		2018	
	Notes	USD mm	AED mm	USD mm	AED mm
<b>OPERATING ACTIVITIES</b>					
Profit / (loss) before income tax		171	626	(155)	(568)
Adjustments for:					
Depreciation and depletion	12	103	377	113	414
Investment and finance income	7	(15)	(55)	(22)	(81)
Other income		(135)	(494)	(14)	(51)
Provision for impairments		66	242	250	916
Change in fair value of investment property	14	-	-	2	7
Share of profit of a joint venture - net	15	1	4	(1)	(4)
Exploration expenses		-	-	6	22
Finance cost	9	16	59	36	132
Directors' fee		-	-	(2)	(7)
		207	759	213	780
Changes in working capital:					
Trade and other receivables		38	139	102	374
Funds held for development		42	154	71	260
Inventories		(3)	(11)	3	11
Trade payables and accruals		(17)	(63)	(43)	(157)
Net cash generated from operating activities		267	978	346	1,268
Income tax		(14)	(51)	(31)	(114)
Net cash flows generated from operating activities		253	927	315	1,154
<b>INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(105)	(385)	(38)	(140)
Expenditure on intangible assets	13	(51)	(188)	(32)	(117)
Investment and finance income received		13	48	13	48
Investment redeemed during the year		-	-	1	4
Net cash flows used in investing activities		(143)	(525)	(56)	(205)
<b>FINANCING ACTIVITIES</b>					
Dividends paid		(105)	(384)	(95)	(348)
Acquisition of treasury shares	23	(9)	(33)	-	-
Repayment of borrowings		(7)	(26)	(305)	(1,118)
Borrowings		49	180	10	37
Finance costs paid		(20)	(73)	(70)	(257)
Net cash flow used in financing activities		(92)	(336)	(460)	(1,686)
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>					
		18	66	(201)	(737)
Cash and cash equivalents at the beginning of the year	21	407	1,492	608	2,229
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>					
	21	425	1,558	407	1,492

The attached notes 1 to 35 form part of these consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

### Attributable to equity holders of the Company

	Share capital		Legal reserve		Voluntary reserve		Retained earnings		Other reserves		Treasury Shares		Convertible sukuk- equity component		Non-controlling interest		Total	
	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED
	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm
As at 1 January 2018	1,903	6,977	116	424	116	424	669	2,453	4	15	-	-	58	212	1	4	2,867	10,509
Loss for the year	-	-	-	-	-	-	(187)	(686)	-	-	-	-	-	-	1	4	(186)	(682)
Total comprehensive income for the period	-	-	-	-	-	-	(187)	(686)	-	-	-	-	-	-	1	4	(186)	(682)
Share based payment	-	-	-	-	-	-	-	-	3	11	-	-	-	-	-	-	3	11
Transfer	-	-	-	-	-	-	58	212	-	-	-	-	(58)	(212)	-	-	-	-
Dividend paid	-	-	-	-	-	-	(95)	(348)	-	-	-	-	-	-	-	-	(95)	(348)
Board compensation	-	-	-	-	-	-	(2)	(7)	-	-	-	-	-	-	-	-	(2)	(7)
As at 31 December 2018	1,903	6,977	116	424	116	424	443	1,624	7	26	-	-	-	-	2	8	2,587	9,483
Profit for the year	-	-	-	-	-	-	157	575	-	-	-	-	-	-	-	-	157	575
Total comprehensive income for the period	-	-	-	-	-	-	157	575	-	-	-	-	-	-	-	-	157	575
Share based payment	-	-	-	-	-	-	-	-	2	7	-	-	-	-	-	-	2	7
Transfer to reserves	-	-	16	59	16	59	(32)	(118)	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(105)	(384)	-	-	-	-	-	-	-	-	(105)	(384)
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	(9)	(33)	-	-	-	-	(9)	(33)
Issuance of shares to employees	5	18	-	-	-	-	-	-	(5)	(18)	-	-	-	-	-	-	-	-
As at 31 December 2019	1,908	6,995	132	483	132	483	463	1,697	4	15	(9)	(33)	-	-	2	8	2,632	9,648

The attached notes 1 to 35 form part of these consolidated financial statements.

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 1 Corporate information

Dana Gas PJSC ("Dana Gas" or the "Company") was incorporated in the Emirate of Sharjah, United Arab Emirates as a Public Joint Stock Company on 20 November 2005 pursuant to incorporation decree number 429/2005 issued by the Ministry of Economy. Dana Gas shares are listed on the Abu Dhabi Securities Exchange (ADX).

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

The Company's registered head office is at P. O. Box 2011, Sharjah, United Arab Emirates with presence in Cairo (Egypt) and Kurdistan Region of Iraq.

Principal subsidiaries and joint arrangements of the Group at 31 December 2019 and 2018 and the Company's (direct and indirect) percentage of ordinary share capital or interest are set out below:

<i><b>Subsidiaries</b></i>	<i><b>%</b></i>	<i><b>Country of incorporation</b></i>	<i><b>Principal activities</b></i>
Dana LNG Ventures Limited	100	British Virgin Islands	Intermediate holding company of Dana Gas Egypt
Dana Gas Red Sea Corporation	100	Barbados	Holding company of Dana Gas Egypt
Dana Gas Egypt Ltd	100	Barbados	Oil and Gas exploration ("Dana Gas Egypt") & production
Dana Gas Explorations FZE	100	UAE	Oil and Gas exploration & production
Sajaa Gas Private Limited Company ("SajGas")	100	UAE	Gas Sweetening
United Gas Transmissions Company Limited ("UGTC")	100	UAE	Gas Transmission
Danagaz (Bahrain) WLL	66	Bahrain	Gas Processing
<i><b>Joint Operations</b></i>	<i><b>%</b></i>		
Pearl Petroleum Company Limited ("Pearl Petroleum")	35	British Virgin Islands	Oil and Gas exploration & production
UGTC/ Emarat JV	50	Unincorporated	Gas Transmission
<i><b>Joint Ventures</b></i>	<i><b>%</b></i>		
Egyptian Bahraini Gas Derivative Company ("EBGDCO")	26.4	Egypt	Gas Processing
Crescent National Gas Corporation Limited ("CNGCL")	35	British Virgin Islands	Gas Marketing
GASCITIES Ltd	50	British Virgin Islands	Gas Cities

## **2 Summary of significant accounting policies**

### **2.1 Basis of preparation**

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

### **2.2 Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as issued by the International Accounting Standards Board (IASB).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

### **2.3 New and amended standards adopted by the Group**

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standard 2015-2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

These new standards and interpretations did not have any major impact on the accounting policies, financial position or performance of the Group. The Group had to change its accounting policies as a result of adopting IFRS 16 as discussed below.

#### **IFRS 16 Leases**

The Group has adopted IFRS 16 'Leases' issued in January 2016, with date of initial application of 1 January 2019. The Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information is not restated. The Group has assessed that adoption of IFRS 16 did not have any material impact on retaining earnings as at the reporting date and has presented right-of-use assets amounting to circa USD 524,843 within 'Property, plant and equipment' and corresponding lease liabilities of USD 678,475 within 'Trade and other payables' in the consolidated statement of financial position.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

## 2 Summary of significant accounting policies (continued)

### 2.3 New and amended standards adopted by the Group (continued)

#### IFRS 16 Leases (continued)

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprises IT-equipment.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

**2 Summary of significant accounting policies (continued)**

**2.3 New and amended standards adopted by the Group (continued)**

**Standards issued but not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

**2.4 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019.

*(a) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

Where the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement(s) with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owner of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.



**2 Summary of significant accounting policies (continued)**

**2.4 Basis of consolidation (continued)**

*(a) Subsidiaries (continued)*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gain or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Inter-company transactions, balances and unrealised gains on transaction between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss.

**2 Summary of significant accounting policies (continued)**

**2.4 Basis of consolidation (continued)**

*(d) Joint arrangements*

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Share of profit of a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interest in joint operations, the Group recognises its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from sale of its share of the output arising from the joint operations
- Share of the revenue from the sale of the output by the joint operations
- Expenses, including its share of any expenses incurred jointly.

**2 Summary of significant accounting policies (continued)**

**2.5 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating decision-maker. The Chief Operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

**2.6 Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD which is the Company's functional currency and AED is presented as the Group's presentation currency for the convenience of the users of the consolidated financial statements.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

*(c) Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a)* Assets and liabilities for each items of financial position presented are translated at the closing rate at the date of statement of financial position;
- (b)* income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c)* All resulting exchange differences are recognised in other comprehensive income.

**2 Summary of significant accounting policies (continued)**

**2.7 Property, plant and equipment**

Property, plant and equipment is stated at cost net of accumulated depreciation and/or accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land is not depreciated.

Depreciation/depletion is computed on a straight line basis over the estimated useful lives of the assets as follows:

Oil and gas interest	unit-of-production
Buildings	25 years
Plant and equipment	15 – 25 years/unit-of-production
Pipelines & related facilities	25 years/unit-of-production
Other assets	2-5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

The residual values and useful lives of property, plant and equipment are reviewed at each financial year end and adjusted prospectively if appropriate.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Capital work-in-progress is stated at cost. On commissioning, capital work-in-progress is transferred to property, plant and equipment and depreciated or depleted in accordance with Group policies.

Oil and gas properties are depleted using the unit-of-production method. Unit-of-production rates are based on proved reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods.

**2 Summary of significant accounting policies (continued)**

**2.8 Intangible assets**

Intangible assets acquired as part of a business combination relating to oil and gas properties are recognised separately from goodwill if the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life when the asset is available for use and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as a change in accounting estimate.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually either individually or at the cash-generating unit level. When development in respect of the oil and gas properties is internally approved, the related amount is transferred from intangible assets to property, plant and equipment and depleted in accordance with the Group's policy. If no future activity is planned, the remaining balance is written off.

**(a) Oil and gas assets**

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Pre-license costs are expensed in the period in which they are incurred. License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit. Exploration license and leasehold property acquisition costs are capitalised in intangible assets. Geological and geophysical costs are recognised in the income statement, as incurred.

Costs directly associated with an exploration well are capitalised as an intangible asset until the drilling of the well is complete and the results have been evaluated. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to a technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proven reserves of oil and natural gas are determined and development is sanctioned, capitalisation is made within property, plant and equipment.

**(b) Impairment – exploration and evaluation assets**

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less cost to sell and their value in use.

## 2 Summary of significant accounting policies (continued)

### 2.9 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of the non-controlling interest in the acquire.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

#### 2.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset or a cash generating unit (CGU) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's or CGU's recoverable amount. An asset's or CGU's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets in which case, the asset is tested as part of a large CGU to which it belongs. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assumptions of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset or CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

#### 2.11 Financial assets and liabilities

##### Financial assets

###### (a) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- Those to be measured at amortised cost

**2 Summary of significant accounting policies (continued)**

**2.11 Financial assets and liabilities (continued)**

**Financial assets (continued)**

*(a) Classification and measurement (continued)*

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows and is determined at the time of initial recognition. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

For assets measured at fair value, gain and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business mode for managing those assets changes.

*(b) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

**Debt Instruments**

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss. This category includes the Group's trade and other receivables.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses when are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is recycled to profit or loss and recognised in other gain/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises

**2 Summary of significant accounting policies (continued)**

**2.11 Financial assets and liabilities (continued)**

**Equity Instruments**

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payment is established.

Changes in the fair value of financial assets at FVPL are recognised in other gain/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

**Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment**

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable. The Group has established a matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.



**2 Summary of significant accounting policies (continued)**

**2.12 Profit-bearing loans and borrowings**

All profit-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument.

After initial recognition, profit-bearing loans and borrowings are subsequently measured at amortised cost using the effective profit rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

**2.13 Investment properties**

Investment properties are initially measured at cost, including transaction costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the consolidated income statement in the period in which it is accrued.

Subsequently investment properties are stated at fair value, which reflects market conditions at the reporting date. Any gains or loss arising from changes in fair values of investment properties are included in the income statement. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

**2.14 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of spares and consumables are determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**2.15 Trade and other receivables**

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable. The Group has established a matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

**2.16 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

**2.17 Trade payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**2 Summary of significant accounting policies (continued)**

**2.18 Provisions**

*General*

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

*Decommissioning liability*

Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of that particular asset. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset. The abandonment and site restoration costs initially recorded are depleted using the unit-of-production method based on proven oil and gas reserves. Subsequent revisions to abandonment and site restoration costs are considered as a change in estimates and are accounted for on a prospective basis.

*Employees' end of service benefits*

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**2.19 Royalty**

Royalty is recognised when associated revenue is earned. Royalties are government's share of sales and is either a per barrel amount from sales volume or a percentage of the revenue from sales of hydrocarbons. Accordingly, royalties are excluded to arrive at Net revenue.

**2.20 Income Taxes**

In Egypt, the Government receives production in lieu of income tax. The Group records this production as a current income tax expense.

**2.21 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of respective assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as finance cost in the income statement in the period in which they are incurred.

**2.22 Share based payment transactions**

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for either equity instruments ("equity settled transactions") or restricted shares. Service-based restricted shares are granted at no cost to key employees and generally vest one third each year over a three year period from the date of grant. Restricted shares vest in accordance with the terms and conditions established by the Board of Directors and are based on continued service.

The fair value of service-based restricted shares is determined based on the numbers of shares granted and the closing price of the Company's common stock on the date of grant. The cost is being amortised on a straight line method, based on the vesting period.

## 2 Summary of significant accounting policies (continued)

### 2.23 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period
- Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

### 2.24 Revenue recognition

The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15.

- Step 1. Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2. Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognise revenue when (or as) the Company satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- a) The Group's performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date.
- b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract-based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

## 2 Summary of significant accounting policies (continued)

### 2.24 Revenue recognition (continued)

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably.

The Company identified one performance obligation which is the delivery of condensate, LPG and gas to the customers as per the terms of the customer contracts. Accordingly, revenue is recognised point in time when the performance obligation is fulfilled.

#### *Finance income*

Income from surplus funds invested with financial institutions and interest charged to debtors for overdue receivables is recognised as the profit/interest accrues.

## 3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and accompanying disclosures, and the disclosure of contingent asset and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates if different assumptions were used and different conditions existed. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

- 3.1 Carrying value of UAE Gas project: This includes investment in CNGCL and assets relating to Sajgas and UGTC included under Property, plant and equipment (note 12) and Intangible asset (note 13). The Group assesses at each statement of financial position date whether there is any evidence of impairment in the carrying value of the UAE Gas Project assets. This requires management to estimate the value in use using estimates and assumptions such as long term hydrocarbon prices, supply volumes, discount rate, operating cost, future capital requirement and operating performance uncertainty. An increase by 10% in the discount rate will not result in an impairment.
- 3.2 Exploration and evaluation expenditures: The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.
- 3.3 Joint arrangements: As at 31 December 2019, the Group holds 35% (31 December 2018: 35%) of the voting rights in PPCL. The group has joint control over PPCL as under the contractual arrangements, unanimous consent is required from all parties to the arrangement for majority of the relevant activities. Though PPCL is structured as a limited liability company, the underlying agreements provide the company with rights and obligations to its share of jointly owned assets/income and jointly incurred liabilities/expenses. Therefore, this arrangement is classified as joint operations.

**3 Significant accounting judgements, estimates and assumptions (continued)**

**Estimates and assumptions**

The Group has identified the following areas where significant estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Changes in estimates are accounted for prospectively. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the consolidated financial statements. The Group based its assumptions and estimates on parameter available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

- 3.4 Impairment of goodwill: The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. The recoverable amount has been determined based on value in use calculation using cash flow projections approved by the senior management economic limit of the field, based on current estimate of reserves and resources. The estimated date of cessation of production depends on the interaction of a number of variables, such as recoverable quantities of hydrocarbons. The key assumptions used in the value in use calculation are hydrocarbon prices, production volumes, capital and operating expenditures and the discount rate. The actual outcomes may differ from the assumptions made. The calculation for value in use is most sensitive to the discount rate and oil prices. The future cash flows are discounted to their present value using a pre-tax discount rate of 10%. An increase by 10% in the discount rate will not result in any impairment. If the oil price forecast were to increase/decrease by 10%, the value in use would have been higher/lower by USD 51 million and would not result in any impairment. The carrying amount of goodwill at 31 December 2019 was USD 308 million (2018: USD 308 million).
- 3.5 Recoverability of oil and gas assets: The Group assesses at each statement of financial position date whether there is any evidence of impairment in the carrying value of its oil and gas assets in property, plant and equipment. This requires management to estimate the recoverable value of its oil and gas assets using estimates and assumptions such as long term hydrocarbon prices, discount rates, operating costs, future capital requirements, decommissioning costs, explorations potentials, reserves and operating performance uncertainty. These estimates and assumptions are subject to risk and uncertainty. The calculation for value in use is most sensitive to the discount rate and oil price. The future cash flows are discounted to their present value using a pre-tax discount rate of 10%. An increase by 10% in the discount rate will not result in any impairment. If the oil price forecast were to increase/decrease by 10%, the value in use of oil and gas assets in Egypt would have been higher/lower by USD 18 million and would result in an impairment of USD 12 million.
- 3.6 Financial assets through profit or loss: The Group based its assumptions and estimates on parameter available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur. The Group uses various models and assumptions in measuring fair value of financial assets. Judgement is applied in identifying the most appropriate model for each type of asset as well as determining the assumptions used in these models, including assumptions around probabilities and discount rates. A 10% increase/decrease in discount rate would impact the fair value of the financial asset at fair value through profit or loss by USD 4 million.
- 3.7 Decommissioning costs: Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The Group has used a discount rate of 2.25% in its calculation. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

**3 Significant accounting judgements, estimates and assumptions (continued)**

**Estimates and assumptions (continued)**

- 3.8 Hydrocarbon reserve and resource estimates: Oil and gas properties are depreciated on a UOP basis at a rate calculated by reference to total proved reserves determined in accordance with the Society of Petroleum Engineers' rules and incorporating the estimated future cost of developing those reserves. The Group estimates its commercial reserves based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates.

Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the relevant commercial arrangements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of oil and gas properties at 31 December 2019 is shown in Note 12.

As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- The carrying value of oil and gas properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows.
  - Depreciation and amortisation charges in profit or loss may change where such charges are determined using the UOP method, or where the useful life of the related assets change.
  - Provisions for decommissioning may change as the changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- 3.9 Investment Property: The Group carries its investment property at fair value, with changes in fair values being recognised in the consolidated income statement. The Group engaged a qualified independent property consultant to determine fair value reflecting market conditions at 31 December 2019.
- 3.10 Units of production depreciation of oil and gas properties: Oil and gas properties are depreciated using the units of production (UOP) method over total proved reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates changes. Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves and are accounted for prospectively.

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 4 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. Unallocated amounts are included in General & administration expenses, investment and finance income, other income, other expenses and finance cost.

#### Year ended 31 December 2019

	United Arab Emirates USD mm	Egypt USD mm	Kurdistan Region of Iraq USD mm	Total USD mm
Gross revenue	11	295	153	459
Royalties	(1)	(173)	-	(174)
Net revenue	10	122	153	285
Operating cost & depletion	(9)	(97)	(52)	(158)
Gross profit	1	25	101	127
General and administration expenses				(15)
Investment and finance income				15
Other income				135
Other expenses				(8)
Impairments	(6)	(60)	-	(66)
Share of profit of a joint venture				(1)
Finance cost				(16)
Profit before income tax				171
Income tax expense		(14)		(14)
Profit for the year				157
Segment assets as at 31 December 2019	1,613	766	823	3,202
Segment liabilities as at 31 December 2019	436	51	83	570
Other segment information				
Capital expenditure:				
Property, plant and equipment	-	19	57	76
Intangible assets	-	51	-	51
Total	-	70	57	127
Depreciation & depletion	2	70	31	103
Trade receivable	-	111	24	135

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 4 Segmental information (continued)

Year ended 31 December 2018

	United Arab Emirates USD mm	Egypt USD mm	Kurdistan Region of Iraq USD mm	Total USD mm
Gross revenue	16	326	128	470
Royalties	(1)	(175)	-	(176)
Net revenue	15	151	128	294
Operating cost & depletion	(23)	(91)	(40)	(154)
Gross profit	(8)	60	88	140
General and administration expenses				(16)
Investment and finance income				22
Other income				12
Other expenses				(22)
Provision for impairment	(189)	(59)	(2)	(250)
Share of profit of a joint venture - net				1
Exploration expenses	-	(6)	-	(6)
Finance cost				(36)
Loss before income tax				(155)
Income tax expense		(31)		(31)
Loss for the year				(186)
Segment assets as at 31 December 2018	1,481	868	818	3,167
Segment liabilities as at 31 December 2018	442	82	56	580
Other segment information				
Capital expenditure:				
Property, plant and equipment	20	24	50	94
Intangible assets	-	32	-	32
Total	20	56	50	126
Depreciation & Depletion	15	66	32	113
Trade receivable	5	140	18	163



# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 5 Revenue

	2019 USD mm	2018 USD mm
Gross revenue	455	466
Tariff fee	4	4
	<u>459</u>	<u>470</u>
Less: royalties	(174)	(176)
Net revenue	<u>285</u>	<u>294</u>

Royalties relate to Government share of production in Egypt and the United Arab Emirates.

Tariff fees relates to fixed pipeline capacity fees earned by UGTC. As the contract includes monthly fixed fee, revenue is recognised over a period of time when customers are invoiced.

### 6 Operating costs & Depletion

	2019 USD mm	2018 USD mm
Production costs	37	38
Staff costs	18	16
Depreciation and depletion (note 12)	103	113
Reversal of accrued operating cost	-	(13)
	<u>158</u>	<u>154</u>

### 7 Investment and finance income

	2019 USD mm	2018 USD mm
Gain on buyback of Sukuk	-	14
Profit on short term deposit	14	13
Fair value loss on financial assets at fair value through profit or loss (note 19)	-	(6)
Others	1	1
	<u>15</u>	<u>22</u>

### 8 Other income

	2019 USD mm	2018 USD mm
Financial asset recognised during the year (note 19)	126	14
Reimbursement of arbitration cost	6	-
Change in fair value of investment property (note 14)	-	(2)
Others	3	-
	<u>135</u>	<u>12</u>

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 9 Finance cost

	2019 USD mm	2018 USD mm
Profit on Sukuk (note 26a)	16	18
Consent fee	-	16
Egypt equipment and building loan	-	2
	<u>16</u>	<u>36</u>

### 10 Income tax expense

#### (a) UAE

The Company is not liable to corporate income tax in its primary jurisdiction (UAE). Dana Gas Exploration FZE is however, liable to income tax at a rate of 50%.

#### (b) Egypt

The income tax expense in the income statement relates to Dana Gas Egypt operations which is taxed at an average tax rate of 40.55% (2018: 40.55%). This tax is paid by Egyptian General Petroleum Corporation (EGPC)/Egyptian Natural Gas Holding Company (EGAS) on behalf of the Company from their share of production. Dana Gas Egypt does not have any deferred tax asset/liability at year end.

#### (c) Kurdistan Region of Iraq

The PDA provides that corporate income tax in the Kurdistan Region of Iraq will be paid directly by the KRG to the relevant tax authorities on behalf PPCL.

The relationship between the tax expense and the accounting profit can be explained as follows:

	2019 USD mm	2018 USD mm
Profit/(loss) before tax	171	(155)
Profit not subject to tax	137	232
Accounting profit subject to tax	<u>34</u>	<u>77</u>
Current income tax expense	<u>14</u>	<u>31</u>
UAE applicable income tax rate	<u>0%</u>	<u>0%</u>
Effective tax rate as percentage of accounting profit	<u>40.5%</u>	<u>40.5%</u>

### 11 Earnings per share

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

	2019 USD mm	2018 USD mm
<b>Earnings:</b>		
Net profit/(loss) for the year - USD mm	<u>157</u>	<u>(187)</u>
<b>Shares:</b>		
Weighted average number of shares outstanding - million	<u>6,983</u>	<u>6,977</u>
Earnings / (loss) per share (Basic) – USD:	<u>0.022</u>	<u>(0.027)</u>

#### EPS (Diluted)

Employee restricted shares are dilutive, however they have no material impact on the EPS for the year ended 31 December 2018.

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 12 Property, plant and equipment

#### Cost:

	Freehold Land USD mm	Building USD mm	Oil and gas interests USD mm	Plant and equipment USD mm	Other assets USD mm	Pipeline & related facilities USD mm	Capital work-in- progress USD mm	Total USD mm
At 1 January 2019	14	12	1,566	381	40	119	234	2,366
Additions	-	-	16	2	1	-	57	76
Transfer from capital work in progress	-	-	11	1	3	-	(15)	-
Transfer from intangible assets (note 13)	-	-	4	-	-	-	-	4
<b>At 31 December 2019</b>	<b>14</b>	<b>12</b>	<b>1,597</b>	<b>384</b>	<b>44</b>	<b>119</b>	<b>276</b>	<b>2,446</b>

#### Depreciation/ depletion:

At 1 January 2019	-	5	880	179	21	55	-	1,140
Depreciation/ depletion charge for the year	-	1	74	21	3	4	-	103
<b>At 31 December 2019</b>	<b>-</b>	<b>6</b>	<b>954</b>	<b>200</b>	<b>24</b>	<b>59</b>	<b>-</b>	<b>1,243</b>

#### Net carrying amount:

At 31 December 2019	14	6	643	184	20	60	276	1,203

#### Capital Work in Progress comprises:

	USD mm
SajGas plant and facilities	99
UGTC pipeline & related facilities	89
Kurdistan Region of Iraq project	88
	<u>276</u>

Sajgas and UGTC assets included in Property, plant & equipment amounted to USD 208 million (2018: USD 209 million).

Property, plant and equipment amounting to USD 137 million (DG Share 35%) – (2018: Nil) is pledged against loan facility (note 26).

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 12 Property, plant and equipment (continued)

#### Cost:

At 1 January 2018	Freehold Land USD mm	Building USD mm	Oil and gas interests USD mm	Plant and equipment USD mm	Other assets USD mm	Pipeline & related facilities USD mm	Capital work-in- progress USD mm	Total USD mm
Additions	14	12	1,604	450	39	162	208	2,489
Adjustment	-	-	32	11	1	-	49	93
Transfer from capital work in progress	-	-	-	-	-	1	-	1
Impairment*	-	-	-	12	-	-	(12)	-
Transfer from intangible assets (note 13)	-	-	(78)	(92)	-	(44)	(11)	(225)
At 31 December 2018	14	12	1,566	381	40	119	234	2,366

#### Depreciation/ depletion:

At 1 January 2018	-	4	804	154	19	46	-	1,027
Depreciation/ depletion charge for the year	-	1	76	25	2	9	-	113
At 31 December 2018	-	5	880	179	21	55	-	1,140

#### Net carrying amount:

At 31 December 2018	14	7	686	202	19	64	234	1,226
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#### Capital Work in Progress comprises:

	USD mm
SajGas plant and facilities	99
UGTC pipeline & related facilities	89
Kurdistan Region of Iraq project	46
	234

\*During 2018, an impairment of USD 225 million was recognized in respect of Zora and certain Egyptian assets.

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 13 Intangible assets

	<i>Oil and gas interests USD mm</i>	<i>Transmission &amp; sweetening rights USD mm</i>	<i>Gas processing rights USD mm</i>	<i>Development cost USD mm</i>	<i>Goodwill USD mm</i>	<i>Total USD mm</i>
Cost at 1 January 2019	167	289	7	2	308	773
Less: impairment	(115)	-	(7)	(2)	-	(124)
At 1 January 2019	52	289	-	-	308	649
Additions*	51	-	-	-	-	51
Transfer to property, plant and equipment (note 12)	(4)	-	-	-	-	(4)
Impairment	(60)	-	-	-	-	(60)
<b>At 31 December 2019</b>	<b>39</b>	<b>289</b>	<b>-</b>	<b>-</b>	<b>308</b>	<b>636</b>

	<i>Oil and gas interests USD mm</i>	<i>Transmission &amp; sweetening rights USD mm</i>	<i>Gas processing rights USD mm</i>	<i>Development cost USD mm</i>	<i>Goodwill USD mm</i>	<i>Total USD mm</i>
Cost at 1 January 2018	149	289	7	2	308	755
Less: impairment	(102)	-	(7)	(2)	-	(111)
At 1 January 2018	47	289	-	-	308	644
Additions	32	-	-	-	-	32
Transfer to property, plant and equipment (note 12)	(8)	-	-	-	-	(8)
Impairment/Exploration expense	(19)	-	-	-	-	(19)
<b>At 31 December 2018</b>	<b>52</b>	<b>289</b>	<b>-</b>	<b>-</b>	<b>308</b>	<b>649</b>

\* Additions relate to cash outflows in respect of cost of exploration and evaluation assets

#### (a) Oil and Gas Interests

Oil and gas interests in Property, plant and equipment and Intangible assets relates to Dana Gas Egypt which has a number of concessions and development leases in Egypt as described below in more detail:

- El Wastani Development Lease – This development lease is held with a 100% working interest and represents approximately 5% of current production in Dana Gas Egypt. El Wastani production includes both gas and associated gas liquids. This development lease has 40.7 sq. km of land included within its boundary and is located in the Nile Delta of Egypt.
- West El Manzala Development Leases (West El Manzala Concession) – These development leases are held with a 100% working interest. These development leases have 261.5 sq. km of land included within their boundaries and are located in the Nile Delta of Egypt. To date, eleven development leases are producing both natural gas and associated liquids representing approximately 88% of Dana Gas Egypt current production.
- West El Qantara Development Leases (West El Qantara Concession) – These development leases are held with a 100% working interest. These development leases have 76.5 sq. km of land included within their boundaries and are located in the Nile Delta of Egypt. To date, two development leases are producing both natural gas and associated liquids representing approximately 7% of Dana Gas Egypt current production.

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 13 Intangible assets (continued)

##### (a) Oil and Gas Interests

- North El Salhiya Development Lease – This development lease is held with a 100% working interest and is not yet producing (awaiting tie-in and hook up). This development lease has 11.6 sq.km of land included within its boundaries and is located in the Nile Delta of Egypt.
- North Al Arish Offshore (Block-6) - In April 2013, Dana Gas Egypt was awarded a 100% working interest in the North El Arish Offshore (Block 6) concession area. The area currently comprises 2,000 sq. km after relinquishment of 1/3 of the original area in July 2019, offshore Nile Delta/Sinai Peninsula, in the eastern part of the Mediterranean Sea. A 3D seismic survey acquisition was carried out in the Block, covering 1,830 full fold sq. Km. The Company completed the drilling operations at its deepwater Merak-1 well in July 2019. The well was drilled to a total depth of 3,890 meters and encountered 36m of sand in the Miocene objective interval but did not encounter commercial hydrocarbons. An amount of USD 60 million relating to cost of this well was impaired during the year.
- El Matariya Onshore (Block-3) - In September 2014, Dana Gas Egypt was awarded a 50% working interest in the Block 3 concession area. The area is located onshore Nile Delta. As per the concession agreement, Dana Gas Egypt as a partner and BP as an operator will participate on a 50:50 basis.

##### (b) Transmission and sweetening rights

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

The Company was notified by Crescent Petroleum on 10 August 2014 that the Arbitral Tribunal has issued a Final Award on the merits, determining that the 25 year contract between it and NIOC is valid and binding upon the parties, and that NIOC has been in breach of its contractual obligation to deliver gas under the Contract since December 2005.

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

Crescent Petroleum has informed Dana Gas that the final hearing of the remedies phase against NIOC for non-performance of the contract (including claims for damages and indemnities for third party claims 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. Moreover, we are aware that Crescent Petroleum has made provision in its damages claim against NIOC for reimbursement of the losses suffered by the Company including any third party claims where the damages would ultimately be assessed and decided by a court. Management believes that the final awards from both arbitrations will be sufficient to cover the existing carrying values of the related assets. However, the amount and timing of the damages award from the first arbitration and the outcome of the second arbitration remains uncertain.

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 2019. Management has reviewed the various inputs into the original valuation model and believes that the inputs into the original valuation model have not materially changed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

**13 Intangible assets (continued)***(c) Goodwill*

Goodwill of USD 308 million relates to the acquisition of Dana Gas Egypt in January 2007 which enabled Dana Gas to acquire the upstream business qualification and therefore the rights to development. Management has carried an impairment review during 2019. (refer note 3).

**14 Investment property**

	<b>2019</b> <b>USD mm</b>	2018 USD mm
Balance at 1 January	22	24
Change in fair value	-	(2)
Balance at 31 December	<u>22</u>	<u>22</u>

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

Investment property is stated at fair value which has been determined based on a valuation performed by a qualified property consultants, with reference to comparable market transactions. The latest valuation exercise was carried out by the consultants as at 31 December 2019 and resulted in a valuation of USD 22 million.

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 15 Interest in joint ventures

The following table summarises the statement of financial position of the joint ventures as at 31 December 2019:

	EBGDCO USD mm	Gas Cities USD mm	CNGCL USD mm	Total USD mm
<b>Current assets</b>				
Cash and cash equivalent	3	-	-	3
Other current assets	9	2	-	11
Total current assets	12	2	-	14
<b>Non-current assets</b>	76	-	1	77
<b>Current liabilities</b>				
Financial liabilities (exc. payable)	(8)	-	-	(8)
Other current liabilities	(18)	(9)	(41)	(68)
Total current liabilities	(26)	(9)	(41)	(76)
<b>Non-current liabilities</b>				
Financial liabilities (exc. payable)	(33)	-	-	(33)
Other non-current liabilities	(11)	-	-	(11)
Total non-current liabilities	(44)	-	-	(44)
<b>Net assets</b>	18	(7)	(40)	(29)
<b>Reconciliation to carrying amount</b>				
Opening net assets as of 1 January 2019	19	(7)	(36)	(24)
Loss for the year	(1)	-	(4)	(5)
Closing net assets as of 31 December 2019	18	(7)	(40)	(29)
Group share in %age	40%	50%	35%	
Group share of net assets	8	(3)	(14)	(9)
Fair value/adjustment	-	3	569	572
Carrying amount as of 31 December 2019	8	-	555	563



# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 15 Interest in joint ventures (continued)

The following table summarises the income statement of the joint ventures for the year ended 31 December 2019:

	EBGDCO USD mm	Gas Cities USD mm	CNGCL USD mm	Total USD mm
Revenue	25	-	-	25
Interest Income	-	-	-	-
Depreciation and amortisation	(7)	-	-	(7)
Interest expense	(3)	-	-	(3)
Income tax expense	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>(1)</b>	<b>-</b>	<b>(4)</b>	<b>(5)</b>

The Joint ventures had no other contingent liabilities or capital commitments as at 31 December 2019 and 2018 except as disclosed in note 29.

The following table summarises the statement of financial position of the joint ventures as at 31 December 2018:

	EBGDCO USD mm	Gas Cities USD mm	CNGCL USD mm	Total USD mm
<b>Current assets</b>				
Cash and cash equivalent	4	-	-	4
Other current assets	7	2	-	9
Total current assets	11	2	-	13
<b>Non-current assets</b>	83	-	1	84
<b>Current liabilities</b>				
Financial liabilities (exc. payable)	(8)	-	-	(8)
Other current liabilities	(20)	(9)	(37)	(66)
Total current liabilities	(28)	(9)	(37)	(74)
<b>Non-current liabilities</b>				
Financial liabilities (exc. payable)	(36)	-	-	(36)
Other non-current liabilities	(11)	-	-	(11)
Total non-current liabilities	(47)	-	-	(47)
<b>Net assets</b>	<b>19</b>	<b>(7)</b>	<b>(36)</b>	<b>(24)</b>

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 15 Interest in joint ventures (continued)

#### Reconciliation to carrying amount

Opening net assets as of 1 January 2018	13	(9)	(30)	(26)
Profit / (loss) for the year	6	2	(6)	2
Closing net assets as of 31 December 2018	19	(7)	(36)	24
Group share in %age	40%	50%	35%	
Group share of net assets	8	(3)	(13)	(8)
Fair value/adjustment	-	3	569	572
Carrying amount as of 31 December 2018	8	-	556	564

The following table summarises the income statement of the joint ventures for the year ended 31 December 2018:

	EBGDCO USD mm	Gas Cities USD mm	CNGCL USD mm	Total USD mm
Revenue	34	-	-	34
Interest Income	-	-	-	-
Depreciation and amortisation	(6)	-	-	(6)
Interest expense	(4)	-	-	(4)
Income tax expense	-	-	-	-
<b>Total comprehensive income / (loss) for the year</b>	<b>6</b>	<b>2</b>	<b>(6)</b>	<b>2</b>

Out of the total investment in joint ventures, USD 555 million relates to an interest in CNGCL which represents the fair value of the rights for the purchase and sale of gas and related products acquired by the Company through its 35% interest in 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.

Commercial activity in CNGCL has not yet commenced. In July 2010, National Iranian Oil Company ('NIOC') introduced gas into its completed transmission network and Dana Gas's UGTC pipeline and SajGas processing facilities in Sharjah for commissioning purposes. However, subsequently as it pressured up, NIOC discovered significant leaks in its offshore gas transmission system which required rectification. Notwithstanding this, Crescent Petroleum is continuing with international arbitration to seek a ruling on its binding 25 years gas supply contract with NIOC.

The Company was notified by Crescent Petroleum on 10 August 2014 that the Arbitral Tribunal has issued a Final Award on the merits, determining that the 25 year contract between it and NIOC is valid and binding upon the parties, and that NIOC has been in breach of its contractual obligation to deliver gas under the Contract since December 2005.

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

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 15 Interest in joint ventures (continued)

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. Moreover, we are aware that Crescent Petroleum has made provision in its damages claim against NIOC for reimbursement of the losses suffered by the Company including any third party claims where the damages would ultimately be assessed and decided by a court. Management believes that the final awards from both arbitrations will be sufficient to cover the existing carrying values of the related assets. However, the amount and timing of the damages award from the first arbitration and the outcome of the second arbitration remains uncertain.

#### 16 Interest in joint operations

##### (a) Kurdistan Region of Iraq Project

Pearl was incorporated in the British Virgin Islands as a BVI Business Company on 19 January 2009. The activities of the Company include exploration, development, production, ownership, transportation, processing, distribution, marketing and sale of natural gas and petroleum related products, including the development of gas related projects and services in the KRI. Pearl is owned 35% each by Crescent Petroleum and Dana and 10% each by OMV Upstream International GmbH ("OMV"), MOL Hungarian Oil and Gas Public Limited Company ("MOL") and RWE Middle East Holding BV ("RWE").

Pursuant to the Head of Agreement with the KRG dated 4 April 2007 (supplemented with a detailed accounting procedure dated 25 January 2008) which was subsequently amended on 30 August 2017 and termed as the "Petroleum Development Agreement" ("PDA"), Pearl is the contractor and consequently takes title to and enjoys exclusive rights to appraise, develop, produce, market and sell petroleum, including natural gas domestically and for export, from certain areas in the KRI. Crescent and Dana have been appointed as the Operator (for and on behalf of Pearl Petroleum) for the purposes of the implementation of the PDA.

The following amounts represent the Group's 35% share of the assets, liabilities and income of the joint operation:

	2019 USD mm	2018 USD mm
<b>Assets:</b>		
Non-current assets	713	687
Current assets	110	131
<b>Total Assets</b>	<b>823</b>	<b>818</b>
<b>Liabilities:</b>		
Non-current liabilities	55	11
Current liabilities	28	45
<b>Total Liabilities</b>	<b>83</b>	<b>56</b>
<b>Net Assets</b>	<b>740</b>	<b>762</b>
Revenue	153	128
Operating cost	(21)	(21)
Depreciation	(31)	(32)
Reversal of accrued operating cost	-	13
<b>Gross profit</b>	<b>101</b>	<b>88</b>

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 16 Interest in joint operations (continued)

##### (b) UGTC/ Emarat Joint Venture

The Group has a 50% interest in the UGTC/ Emarat jointly controlled operations which owns one of the largest gas pipelines in the UAE (48 inch diameter) with an installed capacity of 1,000 MMscfd, to transport gas in the Emirates of Sharjah from Sajaa to Hamriyah. The following amounts represent the Group's 50% share of the assets, liabilities and income of the joint operations:

	2019 USD mm	2018 USD mm
<b>Assets:</b>		
Non-current assets	15	16
Current assets	15	17
<b>Total Assets</b>	<u>30</u>	<u>33</u>
<b>Liabilities:</b>		
Current liabilities	-	-
<b>Net Assets</b>	<u>30</u>	<u>33</u>
Revenue	4	4
Operating cost	(1)	(1)
Depreciation	(1)	(1)
<b>Gross profit</b>	<u>2</u>	<u>2</u>

#### 17 Inventories

	2019 USD mm	2018 USD mm
Spares and consumables	59	57
Less: provision for impairment of inventory	(19)	(19)
Less: reclassification to property, plant and equipment	-	(1)
	<u>40</u>	<u>37</u>

Inventory recognized as an expense during the year ended 31 December 2019 was \$1.2 million (2018: \$1 million).

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

### 18 Trade and other receivables

	2019 USD mm	2018 USD mm
Trade receivables (net)	135	163
Prepaid expenses	7	7
Due from joint ventures	19	14
Accrued revenue (note c)	8	-
Other receivables	13	14
Less: provision for impairment of other receivables	(7)	(7)
	<u>175</u>	<u>191</u>

a) Trade receivables are interest bearing and are generally on 5-60 days credit period.

b) The ageing analysis of trade receivables is as follows:

	Total USD mm	Not past due USD mm	Past due				>120 days USD mm
			<30 days USD mm	30-60 days USD mm	61-90 days USD mm	91-120 days USD mm	
31 Dec. 2019	135	68	12	1	16	-	38
31 Dec. 2018	163	75	22	1	14	22	29

c) In 2019, a region-wide audit of the entire KRI pipeline metering system revealed metering issues at the Khor Mor field, which resulted in an over reporting by around 5.9% of the volume of gas supplied by Pearl to the KRG since November 2018. As an interim measure, the correct meter factors were configured on 31 July 2019, which satisfactorily addressed the estimated over reporting. It was also discovered that the way the gross heating value is measured to establish the energy content of the sales gas (which is the basis for billing) had potentially also resulted in an under reporting of the quantity of sales gas.

Pearl and the KRG have agreed a series of steps to put in place full fiscal metering by October 2020 with a provisional adjustment to invoices, pending final reconciliation. Pearl and the KRG agreed that a provisional adjustment be made against the invoices of July, August and September 2019 amounting to USD 23 million (DG Share: USD 8 million) relating to the period November 2018 to July 2019, with such provisional adjustment to be trued-up when the final adjustment and reconciliation is completed in 2020. This provisional adjustment to amounts due from the KRG has been reflected in these financial statements as accrued revenue.

### 19 Financial assets at fair value through profit or loss

	2019 USD mm	2018 USD mm
Balance at 1 January	2	9
Recognised during the year	126	-
Received during the year	(18)	(1)
Change in fair value	1	(6)
Balance at 31 December	<u>111</u>	<u>2</u>

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 19 Financial assets at fair value through profit or loss (continued)

Financial assets classification between non-current and current assets is as follows:

	2019 USD mm	2018 USD mm
Current assets	53	2
Non-current assets	58	-
	<u>111</u>	<u>2</u>

During the year, the Company has recorded certain reserve based earn out entitlements as financial assets at fair value through profit or loss. These are due from certain shareholders in Pearl Petroleum as considerations which were contingent upon proving up additional reserves in Pearl Petroleum.

In addition, as part of the settlement agreement with RWE Supply & Trading GmbH ("RWE") the Company is entitled to and has recognised certain confined payments which are due only in case and in the amount dividends are distributed to RWE by Pearl (based on RWE's 10% equity in Pearl). During the year, the Company has received an amount of USD 18 million towards such confined payments.

Financial asset at fair value through profit or loss also includes investment in the Abraaj Infrastructure Fund at USD 2 million fair value which is underpinned by the underlying assets. As the fund managing entity is under liquidation, the Company was not able to obtain an indicative fair value of the fund as of 31 December 2019. On a prudent basis, with reference to the last valuation as of 31 December 2018, the Company has estimated the fair value of this investment as at 31 December 2019.

The Company did not make any investment in shares or stock during the year ended 31 December 2019.

#### 20 Funds held for development

As part of the Settlement Agreement with the KRG, out of the USD 1 billion received from KRG (DG Share: USD 350 million), an amount of USD 400 million – restricted cash (DG Share: USD 140 million) was dedicated for investment exclusively for further development to substantially increase production in the Kurdistan Region of Iraq. Pearl is entitled to use any funds remaining in that account after the said development is complete or 29 February 2020, whichever occurs first. If to the reasonable satisfaction of the KRG, Pearl secures financing for all or part of the development specified in the agreement, Pearl shall be entitled to use funds from this USD 400 million (DG Share: USD 140 million) in the same amount as such financing without restriction. Up to the end of 2019, USD 322 million (DG Share: USD 113 million) has been released from these funds in accordance with the terms of the Settlement Agreement and the balance as at 31 December 2019 is USD 78 million (DG Share: USD 27 million).

#### 21 Cash and cash equivalents

	2019 USD mm	2018 USD mm
Cash at bank		
- Local Banks within UAE	12	15
- Foreign Banks outside UAE	6	20
Short-term deposits		
- Local Banks within UAE	407	372
Cash and cash equivalents	<u>425</u>	<u>407</u>

Cash at bank earns profit at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods ranging between one week and twelve months, depending on the immediate cash requirements of the Group, earn profit at the respective short-term deposit rates and are repayable on demand. The fair value of cash and bank balance including short-term deposits is USD 425 million (31 December 2018: USD 407 million). The effective profit rate earned on short term deposits ranged 1.6% to 3.75% (2018: 1.4% to 3.5%) per annum. As at 31 December 2019, 99 % (31 December 2018: 95%) of cash and bank balance were held with UAE banks and the balance held outside UAE. Out of the total cash and bank balance of USD 425 million, 1% of the amount was held in Egyptian pounds (2018: 4%).

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 22 Share capital

	2019 USD mm	2018 USD mm
Authorised: 9,000,000,000 common shares of AED 1 each (USD 0.2728 each)		
Issued and fully paid up: 6,995,373,373 (2018: 6,976,623,422) common shares of AED 1 each (USD 0.2728 each)	1,908	1,903

During the year, the Company issued 18,749,951 shares to its employees (note 25).

#### 23 Treasury Shares

During the year, the Company executed a share buyback and acquired 35,700,000 of its own shares at an average price of AED 0.94 per share totalling AED 33.6 million.

#### 24 Legal and voluntary reserve

	Legal reserve USD mm	Voluntary reserve USD mm
At 1 January 2018	116	116
Transfer for the year	-	-
At 31 December 2018	116	116
Transfer for the year	16	16
<b>At 31 December 2019</b>	<b>132</b>	<b>132</b>

##### (a) Legal Reserve

In accordance with the U.A.E. Federal Law No. (2) of 2015, the Company has established a legal reserve by appropriation of 10% of the Group's net profit for each year. The allocation may cease by the decision of the General Assembly when the reserve equals 50% of the Company's paid up capital. This reserve may not be distributed to the shareholders. However, the legal reserve in excess of 50% of the paid up capital may be distributed as profits to the shareholders in the years in which the Company does not make sufficient net profits.

##### (b) Voluntary Reserve

As per the Article of Association of the Company, 10% of the Group's net profit for each year will be allocated to the voluntary reserve. The General Assembly may stop the allocation upon the recommendation of the Board of Directors or when the reserve reaches 50% of the paid up capital. The voluntary reserve shall be expended in accordance with a resolution of the Board of Directors on matters that serve the interests of the Company.

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 25 Other reserve

	Share based reserve USD mm
At 1 January 2018	4
Recognised during the year	3
At 31 December 2018	7
Recognised during the year	2
Shares issued to employees	(5)
At 31 December 2019	4

During the year company issued shares to its employees under the share based payment plan. The amount recognised during the year was expensed in the consolidated income statement

#### 26 Borrowings

	2019 USD mm	2018 USD mm
<b>Non-current</b>		
Sukuk (a)	-	404
Loan facility (b)	54	10
	54	414
<b>Current</b>		
Sukuk (a)	397	-
Loan facility (b)	5	-
	402	-
<b>Total Borrowings</b>	456	414

##### (a) SUKUK

On 13 May 2018, the Company announced agreement with the Ad-Hoc Committee of the Sukukholders ("the AHC") on terms and conditions of an offer for the restructuring and refinancing of its Sukuk Al-Mudarabah, the nominal value of which on 31 October 2017 was USD 700 million. Sukukholders representing in excess of 52% of the aggregate amount of the existing Exchangeable Certificates and in excess of 30% of the existing Ordinary Certificates entered into a binding lock-up and standstill agreement with the Company in connection with the mutually agreed proposed restructuring.

The salient features of the agreement were as follows:

- For holders wishing to exit their principal; an opportunity to tender their claims at 90.5¢ per \$1 of the face value of their holdings, which included an early participation fee of 2.5¢ (if elections were received within 7 days from the date of launch of the Tender Offer and Consent Solicitation process).
- For holders electing to receive a partial pay down and exchange into a new instrument; a path to full recovery including a significant repurchase obligation at par with respect to the new certificates. Such holders also received arrears of profit distribution as per the Existing Certificates until 31 October 2017, and a 4% profit rate (see below) from 01 November 2017 until closing of the transaction. For elections received within 7 days from the date of launch of the Tender Offer and Consent Solicitation process, holders received an early participation fee of 2.5¢.
- The new certificates were constituted as a Wakala Sukuk instrument (based on an underlying Ijara and deferred payment obligation structure) with a 4% profit rate and 3 year tenor with maturity on 31 October 2020.



## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 26 Borrowings (continued)

The Company and members of the AHC involved in litigation also entered into a Litigation Dismissal Agreement that provided a mechanism for the disposal of all pending litigation and a release of certain claims.

Dana Gas launched the Tender offer and Consent Solicitation / Exchange offer on 22 May 2018 to consider approval for the terms and conditions of an offer for the restructuring and refinancing of its Sukuk Al-Mudarabah. The transaction was approved by the Sukukholders in a meeting on 13 June 2018. Also, Dana Gas issued an invitation to its Shareholders to attend the General Assembly to consider and approve issuance of the new Sukuk to replace the existing Sukuk, issued in May 2013, through a special issue to the holders of the existing Sukuk up to USD 560 million for 3 years with 4% profit rate per annum and to approve dismissal of all Sukuk litigation.

On 21 June 2018, the shareholders voted unanimously in favor of the consensual restructuring of USD 700 million Sukuk al-Mudarabah. The Transaction was completed on 13 August 2018 and the new Sukuk is now listed on Euronext Dublin (previously known as “Irish Stock Exchange”).

All legal proceedings have been completely brought to an end by the parties to the Sukuk litigation in all jurisdictions. The discontinuance in both the UK and UAE courts was agreed by all the parties following the consensual agreement to restructure the Sukuk reached in May 2018.

The Company paid USD 235 million on redemptions, profit payments and early participation fees. The size of new Sukuk was reduced to USD 530 million. It has a three-year life, maturing in October 2020 and a new profit rate of 4% per annum.

The New Certificates are secured against the shares of Dana LNG Ventures Limited (BVI), Sajaa Gas Company Limited (Sharjah) and United Gas Transmission Company Limited (Sharjah). In addition to the above, the security package available to holders of the New Sukuk holders includes security over certain receivables of the Company’s Egyptian assets and Sajaa Gas industrial land.

During 2018, the Company bought back Sukuk amounting to USD 126 million (nominal value). During the year, the Company bought back additional Sukuk amounting to USD 7 million (nominal value), thereby reducing the outstanding Sukuk to USD 397 million. All bought back Sukuk have been cancelled as per the terms and conditions. The outcome is that Dana Gas has now satisfied its obligations such that it will continue to pay a profit rate of 4% until maturity of the Sukuk at the end of October 2020.

Under the terms of the Sukuk, the Company is required to comply with the following financial covenants:

- Total Consolidated Financial Indebtedness to EBITDA over the last twelve months should be lower than 3:1
- Dividend cap of 5.5% of the paid up share capital.

The Company has complied with these covenants throughout the reporting period.

#### (b) Loan facility – Pearl Petroleum

Pearl Petroleum on 18 September 2018 signed a USD 150 million 5 year term loan facility “Facility Agreement” with a local UAE bank for financing its development activities. The Facility Agreement provides for a 2-year grace period and is repayable in equal quarterly instalments with the first repayment taking place in 31 December 2020. Pearl has since drawn down the full facility amount of USD 150 million (DG Share: USD 52 million) from the facility until 31 December 2019. The first repayment instalment of USD 12.5 million which is due on 31 December 2020 has been classified as current liabilities.

Pearl Petroleum signed a new term loan facility of USD 120 million on 12 December 2019 with a local UAE bank with final repayment date of 30 September 2023 for financing its development activities and working capital purposes. The facility has a 2.5 year grace period and is repayable in equal quarterly instalments, with the first repayment taking place on 30 June 2022. Pearl has since drawn down USD 20 million (DG Share: USD 7 million) from the facility until 31 December 2019.

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 26 Borrowings (continued)

##### (b) Loan facility – Pearl Petroleum (continued)

Pearl has agreed to provide security by assignment of revenue, insurance and registered pledge over Pearl's certain existing production facilities in Kurdistan for both the facilities. Assignment of revenue will be released and replaced after construction of new gas plant. This financing is non-recourse to the Company.

The borrowings under the non-current liabilities are stated net of transaction costs and are carried at amortised cost as at 31 December 2019.

Under the terms of the loan facility, Pearl is required to comply with the following financial covenants:

- Max Gearing Ratio: 4:1 (Debt/EBITDA)

Pearl has complied with these covenants throughout the reporting period.

#### 27 Provisions

	2019 USD mm	2018 USD mm
<b>Non-current</b>		
Asset decommissioning obligation (a)	12	12
Employee's end of service benefits (b)	3	3
	<u>15</u>	<u>15</u>

(a) The asset decommissioning provision is based on the Company's best estimate of the expenditure required to settle the obligation at the end of the field life. During the year an amount of USD 580,000 was added in relation to inflation/accretion.

(b) Provision for employee's end of service benefits represents the present value of the obligations to employees in accordance with the UAE Labor Law. During the year an additional provision of USD 673,263 was recognized as an expense and USD 359,600 of provision was utilized.

#### 28 Trade payables and accruals

	2019 USD mm	2018 USD mm
Trade payables	35	31
Accruals and other payables	30	82
Asset decommissioning obligation (note 27)	20	20
Other liabilities	14	18
	<u>99</u>	<u>151</u>

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 29 Commitments

##### Dana Gas Egypt

In March 2006, Centurion Petroleum Corporation ("CPC") (re-named Dana Gas Egypt on 3 April 2009) 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 ("CTIP transaction"), CPC held a 100% participating interest in each of these Concessions. As agreed under the terms of the said acquisition agreement CPC has granted a three percent net profits interest to CTIP on future profit from the Concessions.

On 26 February 2007, Dana Gas acquired CPC as part of the acquisition of Centurion Energy International Inc. and inherited the obligations and liabilities of CPC in relation to the CTIP transaction. CPC was re-named Dana Gas Egypt on 3 April 2009.

In April 2013, Dana Gas Egypt was awarded a 100% working interest in the North El Arish Offshore (Block 6) concession area. The area is located offshore Nile Delta, in the eastern part of the Mediterranean Sea. As per the concession agreement, Dana Gas Egypt has committed to spend USD 25.5 million on the block during the first phase of exploration which is 4 years and expired on 11 February 2018. Dana Gas Egypt was granted extension for the first phase of exploration till 10 June 2019. During the third quarter, Dana Gas Egypt applied for and received approval to enter into second phase of exploration, until 10 June 2023. To-date Dana Gas Egypt has spent circa. USD 70 million and has fulfilled the spend commitment of both the first and second phases of exploration.

##### Pearl Petroleum

As at 31 December 2019, Pearl had capital commitments of circa USD 1.9 million (DG Share: USD 0.7 million).

#### 30 Related party disclosures

Note 1 provides information about the Group's structure, including details of the subsidiaries and joint arrangement.

	2019		2018	
	Revenues USD mm	Fees for management services USD mm	Revenues USD mm	Fees for management services USD mm
Joint arrangement/Major shareholder	1	5	1	3
Major shareholder	-	(1)	-	(4)

Fees for management services for joint arrangement and major shareholder relates to actual cost charged in respect of time spend by Dana Gas personnel on Joint ventures activities and time spend by major shareholder personnel on activities related to Dana Gas.

Revenue relates to pipeline capacity charges billed by UGTC to CNGCL (Joint Venture) in which the Group holds 35% interest.

Due from related parties as at 31 December 2019 mainly represents amount Due from CNGCL and Pearl Petroleum (note 18) in respect of time cost and related charges, other cost incurred on behalf of the Company and pipeline capacity charges. In addition an amount of USD 430 thousand is due to Crescent Petroleum at year end.

Board committee fees for the year amounted to USD 2 million.

**30 Related party disclosures (continued)****Compensation of key management personnel**

The remuneration of members of key management during the year was as follows:

	2019 USD mm	2018 USD mm
Short-term benefits	4	5
Share based payment	2	2
	<u>6</u>	<u>7</u>

**31 Dividend**

At the Annual General Meeting of the Company held on 17 April 2019 the shareholders approved a cash dividend of AED 5.5 fils per share for 2018 (2017: AED 5 fils) amounting in total to USD 105 million (AED 384 million).

**32 Financial risk management objectives and policies****Financial risk factors**

The Group's principal financial liabilities comprise borrowings, decommissioning obligations (provisions), trade payables, other payables and due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk.

The Board of Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's senior management are responsible for developing and monitoring the risk management policies and report regularly to the Board of Directors on their activities.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

*(a) Foreign currency risk*

The Group is exposed to foreign currency risks in relation to its cash balance in Egyptian pounds held in Egypt with local banks and Egyptian pound payables amounting to USD 7 million.

At 31 December 2019, if the Egyptian pounds had strengthened/weakened by 10% against the USD with all other variables held constant, total comprehensive profit for the year would have been USD 0.5 million higher/ lower (2018: USD 2 million), as a result of foreign exchange gains/losses on translation of Egyptian pounds denominated cash and bank balance.

*(b) Profit rate risk*

The Group has minimal exposure to Profit rate risk on bank deposits. The Sukuk carries fixed profit rate and hence is not exposed to profit rate risk. The Group has exposure to interest rate risk on its share of borrowing in Pearl. If the interest rate would have increase/decrease by 10% with all other variable held constant, total comprehensive profit for the year would have been USD 0.4 million higher/lower (2018: USD 0.07 million).

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 32 Financial risk management objectives and policies (continued)

##### (c) Price risk

The Group is exposed to commodity price risk (oil price), however this is partially mitigated due to long term fixed price agreements for sale of natural gas which constitute approximately 43 % (2018: 38%) of the Group's gross revenue. At 31 December 2019, if the average price of oil for the year had increased/decreased by 10% with all other variable held constant the Group's total comprehensive profit for the year would have been USD 16 million higher/lower (2018: USD 14 million). The Group is also exposed to price risk on its investment in Abraaj's infrastructure fund (note 19).

##### (d) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from trade receivables and bank balances. Credit risk is managed on a group basis. Bank balances are placed with banks having investment grade rating. Out of the total bank balance, 70% of the balance was with one investment grade bank. The Group's trade receivable is considered to have low credit risk. The credit rating of the counterparties is monitored for any credit deterioration.

##### (i) Trade receivables

The trade receivables arise from its operations in UAE (Nil, 2018: USD 5 million), Egypt (USD 111 million, 2018: USD 140 million) and Kurdistan Region of Iraq (USD 24 million, 2018: USD 18 million). The requirement for impairment is analysed at each reporting date on an individual basis for major customers (Government related entities). The calculation is based on actual historical data and the status of the customer. The maximum exposure to credit risk at the reporting date is the carrying amount as illustrated in note 18.

##### (ii) Bank balances

Credit risk from balances with banks and financial institutions is managed by Group's Treasury in accordance with the Group policy. Investment of surplus funds is made only with counterparties approved by the Group's Board of Directors. Bank balances are placed with banks having investment grade ratings. Out of the total bank balance, 70% of the balance was with one investment grade bank. The Group's maximum exposure to credit risk in respect of bank balances as at 31 December 2019 is the carrying amount as illustrated in note 21.

##### (e) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings, trade payables and other payables. The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments:

Year ended 31 December 2019

	Less than 1 month USD mm	Less than 1 year USD mm	1 to 5 years USD mm	>5 years USD mm	Total USD mm
Borrowings (including profit)	4	418	61	-	483
Trade payables and accruals	3	96	-	-	99
Provisions	-	2	8	6	16
	<u>7</u>	<u>516</u>	<u>69</u>	<u>6</u>	<u>598</u>

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 32 Financial risk management objectives and policies (continued)

Year ended 31 December 2018

	Less than 1 month USD mm	Less than 1 year USD mm	1 to 5 years USD mm	>5 years USD mm	Total USD mm
Borrowings (including profit)	1	13	432	-	446
Trade payables and accruals	3	135	13	-	151
Provisions	-	2	6	8	16
	<u>4</u>	<u>150</u>	<u>451</u>	<u>8</u>	<u>613</u>

#### Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018. Capital comprises issued capital, retained earnings and other reserves attributable to the equity holders of the Parent and is measured at USD 2,630 million as at 31 December 2019 (2018: USD 2,585 million).

#### Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2019 USD mm	2018 USD mm
Cash and cash equivalent	425	407
Borrowings	<u>(456)</u>	<u>(414)</u>
Net debt	<u>(31)</u>	<u>(7)</u>

	Borrowing USD mm	Cash USD mm	Total USD mm
Net debt as at 1 January 2018	(723)	608	(115)
Cash flow movement during the year	295	(201)	94
Gain on buyback of Sukuk	<u>14</u>	<u>-</u>	<u>14</u>
Net debt as at 31 December 2018	(414)	407	(7)
Cash flow movement during the year	<u>(42)</u>	<u>18</u>	<u>(24)</u>
Net debt as at 31 December 2019	(456)	425	(31)

The gearing ratio at 31 December 2019 and 31 December 2018 were as follows:

	2019 USD mm	2018 USD mm
Net debt	31	7
Total equity	2,630	2,585
Net debt to equity ratio	1.2%	0.3%

Financial covenants relating to borrowings are disclosed in note 26.

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 33 Fair value estimation

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount 2019 USD mm	Fair value 2019 USD mm	Carrying amount 2018 USD mm	Fair value 2018 USD mm
<b>Financial assets</b>				
Trade and other receivables	175	175	191	191
Financial assets at fair value through profit or loss	111	111	2	2
Cash and short term deposits	425	425	407	407
<b>Financial liabilities</b>				
Borrowings	456	456	414	414
Trade payables and accruals	99	99	151	151

The fair value of borrowing is determined as the present value of discounted future cash flows using market based discount rate. The fair value is not materially different from its carrying value.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3)

Valuation of investment property is determined with reference to comparable market transactions.

The following table presents the Group's assets that are measured at fair value on 31 December 2019:

	Level 1 USD mm	Level 2 USD mm	Level 3 USD mm	Total USD mm
<b>Assets</b>				
Financial assets at fair value through profit or loss	-	2	109	111
Investment property	-	22	-	22
<b>Total</b>	-	24	109	133

## Dana Gas PJSC and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 33 Fair value estimation (continued)

The following table presents the Group' assets that are measured at fair value on 31 December 2018:

	Level 1 USD mm	Level 2 USD mm	Level 3 USD mm	Total USD mm
<b>Assets</b>				
Financial assets at fair value				
through profit or loss	-	2	-	2
Investment property	-	22	-	22
<b>Total</b>	-	24	-	24

There have been no transfers between Level 1 and Level 2 during the years 2019 and 2018.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

#### 34 Social contributions

As part of the Corporate Social Responsibility Initiatives, the Group spent USD 621,600 (2018: USD 370,058) during the year.

#### 35 Subsequent events

**MOL Earn out payment arbitration:** The Company, together with Crescent Petroleum, commenced arbitration proceedings against MOL Hungarian Oil and Gas Public Limited Company ('MOL') on 14 February 2020 arising out of MOL's attempts to avoid paying reserve based earn out payments to the Company and Crescent Petroleum arising out of the terms of the Sale and Purchase agreement entered into between the Parties in 2009, through which MOL acquired its 10% shareholding in Pearl Petroleum.

The reserve based earn out payment obligations are the same obligations which MOL sought to illegitimately avoid in the 20 September 2017 arbitration against MOL.

The arbitration will also address the separate and additional crude oil earn out payments arising out of the said 2009 Sale and Purchase agreement.

**OMV Earn out payment arbitration:** The Company, together with Crescent Petroleum, commenced arbitration proceedings against OMV Upstream International GMBH ('OMV') on 14 February 2020 arising out of OMV's attempts to avoid paying reserve based earn out payments to the Company and Crescent Petroleum arising out of the terms of the Sale and Purchase agreement entered into between the Parties in 2009, through which OMV acquired its 10% shareholding in Pearl Petroleum.