Financial statements of Energy Development Oman SAOC ("EDO") for the year ended 31 December 2021

Energy Development Oman SAOC

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PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF ENERGY DEVEOPMENT OMAN SAOC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Energy Development Oman SAOC (the "Company"), which comprise the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 1 'Background and basis of preparation' to the financial statements which describes the formation of the Company including key agreements defining the fiscal terms applicable to the Company, the basis of preparation and the basis of allocation of certain key financial statement elements to the financial statements. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the relevant requirements of the Commercial Companies Law of 2019, as amended, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
ENERGY DEVEOPMENT OMAN SAOC (continued)

Report on the audit of the financial statements (continued)

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

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

- Identify and assess the risks of material misstatement of the 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 Company'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 those charged with governance'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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF ENERGY DEVEOPMENT OMAN SAOC (continued)

Report on other legal and regulatory requirements

As required by the applicable provisions of the Commercial Companies Law of 2019 and the Ministerial Decision 146/2021, we report that:

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the Company has maintained accounting records and the financial statements are in agreement therewith;
- the Company has carried out physical verification of inventories;
- the financial information included in the Board of Directors' report is consistent with the books of accounts of the Company; and
- based on the information that has been made available to us, nothing has come to our attention, which causes us to believe that the Company has contravened, during the year ended 31 December 2021, any of the applicable provisions of the Commercial Companies Law of 2019 or its Articles of Association, which would materially affect the financial performance of the Company for the year ended 31 December 2021 or its financial position as at 31 December 2021.

Ernst & Young LLC

17 March 2022
Muscat

ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Board of Directors report

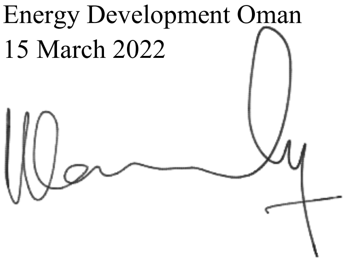
Responsibilities of the Board of Directors for the Energy Development Oman ("EDO") Financial Statements

The members of EDO Board hereby declare that, to the best of their knowledge, the financial statements for the year ended 31 December 2021, which have been prepared in accordance with the International Financial Reporting Standards ("IFRS") present fairly, in all material respects, the Financial Position of EDO as at 31 December 2021 and the related statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and explanatory notes.

The Board of Directors of EDO have approved the information contained in the financial statements of EDO.

On behalf of the Board

Mazin Al Lamki
Chief Executive Officer
Energy Development Oman
15 March 2022



Sultan Al Mamari
Chief Financial Officer
Energy Development Oman
15 March 2022

Energy Development Oman SAOC
Statement of profit or loss and other comprehensive income
For the year ended

	Note	**31 Dec 2021 US$ 000**	31 Dec 2020 US$ 000
Revenue		**11,532,298**	10,161,823
Other operating income	*5.1*	**45,192**	26,657
Finance income	*5.4*	**7,812**	22,196
Total revenues and other income		**11,585,302**	10,210,676
Production expenses	*7*	**(895,198)**	(954,615)
Royalty expenses	*8*	**(3,080,869)**	-
Depreciation, depletion and amortisation	*6*	**(3,217,626)**	(3,019,853)
Other operating expenses	*5.2*	**(46,385)**	(17,632)
Selling, distribution and general management expenses	*9*	**(73,556)**	(207,805)
Profit before interest and tax		**4,271,668**	6,010,771
Finance costs	*5.3*	**(211,896)**	(128,823)
Profit before tax		**4,059,772**	5,881,948
Income tax expenses			
			-
Income tax expenses	*31*	**(1,418,893)**	-
Profit for the year		**2,640,879**	5,881,948
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods			
Re-measurement of pension fund obligation	*26*	**(155,404)**	207,177
Total comprehensive income for the year		**2,485,475**	6,089,125

The attached notes 1 to 33 form part of these financial statements

Energy Development Oman SAOC
Statement of financial position
As at

	Note	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Non-current assets			
Property, plant, and equipment	*11a*	**23,358,520**	22,812,103
Right-of-use assets	*11b*	**1,090,820**	1,136,225
Net retirement benefit assets	*26*	**371,332**	328,756
Receivables and prepayments	*16*	**21,517**	21,001
Housing loans	*14*	**10,678**	18,553
Other non-current assets		**5,289**	9,512
Total of non-current assets		**24,858,156**	24,326,150
Assets held for sale	*28*	**724,859**	462,532
Current assets			
Inventories	*16*	**484,654**	333,276
National objective investment	*24*	**26,994**	5
Receivables and prepayments	*17*	**139,102**	843,777
Due from related parties	*21*	**1,584,388**	1,072,740
Housing loans	*14*	**2,116**	114,513
Cash and bank balances	*12*	**340,780**	1,268
Total of current assets		**2,578,034**	2,365,579
Total assets		**28,161,049**	27,154,261
Equity			
Share capital	*13*	**1,300**	-
Retained earnings		**18,757,909**	22,070,603
Total equity		**18,759,209**	22,070,603
Non-current liabilities			
Provision for staff end-of-service and other retirement benefits	*27*	**16,463**	21,133
Lease liabilities	*23*	**916,193**	958,545
Abandonment provision	*25*	**2,808,406**	2,198,671
Deferred tax liabilities	*31*	**475,328**	-
Term loan	*20*	**2,468,454**	-
Total of non-current liabilities		**6,684,844**	3,178,349
Liabilities associated with assets held for sale	*28*	**724,859**	491,348
Current liabilities			
Payables and accruals	*19*	**1,537,909**	1,044,510
Tax payables		**82,081**	-
Due to related parties	*21*	**95,816**	126,466
Lease liabilities	*23*	**247,526**	238,448
National objective liability	*24*	**28,805**	4,537
Total of current liabilities		**1,992,137**	1,413,961
Total liabilities		**9,401,840**	5,083,658
Total equity and liabilities		**28,161,049**	27,154,261

These financial statements were approved and authorised for issue by the Board of Directors on 6 March 2022 and are signed on their behalf by:

Mazin Al Lamki
Chief Executive Officer
Energy Development Oman SAOC
15 March 2022

Sultan Al Mamari
Chief Financial Officer
Energy Development Oman SAOC
15 March 2022

The attached notes 1 to 33 form part of these financial statements.

Energy Development Oman SAOC
Statement of changes in equity
For the year ended 31 December

	Note	Invested capital/	Share capital US$ 000	Retained earnings US$ 000	Total equity US$ 000
Balance at 1 January 2021		**22,070,603**	**-**	**-**	**22,070,603**
Net distribution to Government transferred to retained earnings	***18***	**(1,477,493)**	**-**	**-**	**(1,477,493)**
Distribution under PXF arrangement		**(152,190)**	**-**	**-**	**(152,190)**
Adjustments to give effect to Royal Decree and Fiscal Protocol	***1.2***	**(1,725,345)**	**-**	**-**	**(1,725,345)**
Transferred to Retained earnings as on the date of Royal Decree		**(18,715,575)**	**-**	**18,715,575**	**-**
Profit for the year		-	**-**	**2,640,879**	**2,640,879**
Other comprehensive income - Re-measurement of pension fund obligation	***26***	-		**(155,404)**	**(155,404)**
Total comprehensive income		-	**-**	**21,201,050**	**21,201,050**
Issue of share capital	***13***	-	**1,300**	**-**	**1,300**
Dividend paid	***21***	-	**-**	**(2,410,668)**	**(2,410,668)**
Distribution of assets in specie from the date of application of Fiscal Protocol		-	**-**	**(32,473)**	**(32,473)**
At 31 December 2021		**-**	**1,300**	**18,757,909**	**18,759,209**
Balance at 1 January 2020		-	-	21,470,737	21,470,737
Profit for the year		-	-	5,881,948	5,881,948
Other comprehensive income - Re-measurement of pension fund obligation	*26*	-	-	207,177	207,177
Total comprehensive income		-	-	27,559,862	27,559,862
Net distribution to Government as return on retained earnings	*18*	-	-	(4,794,591)	(4,794,591)
Depreciation on MNE assets	*11a*	-	-	846	846
Distribution under PXF arrangement		-	-	(695,514)	(695,514)
At 31 December 2020		-	-	22,070,603	22,070,603

The attached notes 1 to 33 form part of these financial statements

Energy Development Oman SAOC
Statement of cash flows
For the year ended

	Note	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Operating activities:			
Profit before tax		**4,059,772**	5,881,948
Adjustments for:			
Pension scheme costs	*26*	**61,094**	95,326
Depreciation, depletion, and amortisation	*6*	**3,133,251**	2,933,649
Depreciation on right-of-use assets	*6*	**84,375**	86,204
Assets written-off during the year	*11a, 5.2*	**29,391**	17,632
Gain on changes in abandonment estimates	*11a, 25*	**(10,361)**	-
Gain on disposals of property, plant, and equipment	*5.1*	**(12,000)**	(7,217)
Finance income	*5.4*	**(7,812)**	(21,517)
Finance cost	*5.3*	**211,896**	128,823
Contribution towards Omani staff pension scheme	*26*	**(143,324)**	(132,406)
Net movement in National objective investments		**(26,989)**	12,377
Net movement in Employee's end of service and other retirement benefits		**(4,670)**	17,270
		7,374,623	9,012,089
Working capital changes:			
Changes in inventories		**(183,851)**	(29,194)
Changes in receivables and prepayments		**(149,008)**	(771,452)
Changes in amounts due from related parties		**(1,594,705)**	(78,906)
Changes in payables and accruals		**365,731**	(104,294)
Changes in amounts due to related parties		**21,739**	3,569
Changes in National objective liability		**24,268**	(27,585)
		5,858,797	8,004,227
Income tax paid		**(977,254)**	-
Net cash from operating activities		**4,881,543**	8,004,227
Investing activities:			
Acquisition of property, plant, and equipment		**(3,063,678)**	(3,005,325)
Expenditure on exploration and evaluation assets	*11a*	**(169,025)**	(138,351)
Proceeds from disposal of property, plant, and equipment	*5.1*	**12,000**	7,217
Assets held for sale		**(262,327)**	(282,560)
Liabilities associated with assets held for sale		**233,511**	290,784
Net movement in housing loans and other non-current assets		**124,495**	126,954
Net cash used in investing activities		**(3,125,024)**	(3,001,281)
Financing activities:			
Loan received	*20*	**2,468,454**	-
Payment of advances	*22*	**-**	(137,723)
Share capital raised during the year		**1,300**	-
Dividend paid	*21*	**(2,283,000)**	-
Net distribution to the Government	*18*	**(1,477,493)**	(4,794,591)
Finance cost		**(25,148)**	
Finance income	*5.4*	**7,812**	21,517
Payment of principal portion of lease liabilities		**(65,924)**	(58,591)
Interest paid on lease liabilities	*5.3, 23*	**(43,008)**	(38,021)
Net cash used in financing activities		**(1,417,007)**	(5,007,409)
Increase in cash and bank balances		**339,512**	(4,463)
Cash and bank balances at beginning of the year	*12*	**1,268**	5,731
Cash and bank balances at end of year	*12*	**340,780**	1,268

For details of non-cash transactions refer note 11a and 23

The attached notes 1 to 33 form part of these financial statements.

Notes to the financial statements of the Energy Development Oman SAOC

1. Background and Basis of preparation

1.1 Background

Formation of EDO

Energy Development Oman SAOC ("EDO" or the "Company") was established on 3 December 2020 in the Sultanate of Oman. EDO was registered on 24 December 2020 through Royal Decree as a 100% owned subsidiary of the Government of the Sultanate of Oman (the "Government"). EDO has taken over the participating rights/interest of the Oil and Gas Operations of Block 6 from the Ministry of Energy and Minerals (the "MoEM"). Block 6 is the Sultanate's largest and significant oil and gas operation and covers a geographic area of approximately 90,000 square km., which includes a substantial part of the Oman Mountain Fold belt and Rub al Khali basins, including the Ghaba and Fahud salt basins.

The MoEM's 60% interest in Petroleum Development Oman LLC ("PDO"), a limited liability company registered in the Sultanate of Oman in accordance with the Commercial Companies Law, as amended, and 100% interest in Gas Operations were transferred to EDO on 24 February 2021 and 6 May 2021, respectively (also referred to as the "Royal Decree"). Gas Operations are managed by PDO.

PDO being responsible for the following activities:

i. undertaking all projects, operations, and activities directly or indirectly related to the exploration, development, extraction, transportation, storage, and delivery of crude oil in accordance with the terms of an "Oil Concession Agreement" (see below) for Block 6 (the "Oil Operations"); and

ii. undertaking all projects, operations, and activities directly or indirectly related to the exploration, development, extraction, and transportation of NAG in accordance with the terms of "Gas Agreements" (see below) between the Government and PDO (the "Gas Operations").

Under the Fiscal Protocol, which applies to EDO's share of crude oil, including the applicability of royalties and taxes under the pre-existing Block 6 Oil Concession agreement, various additional agreements have been entered into between the Government and EDO. The agreements define the fiscal terms applicable to EDO's revenue from the Block 6 Operations. The key agreements entered between the Government and EDO are as follows:

- the Block 6 Gas Concession Agreement which applies to NAG and condensate, including its related taxes
- the Oman Export Blend sale and purchase agreement; and
- the Natural gas sales agreement

Oil Concession Agreement

The Government and Private Oil Holdings Oman Limited ("POHOL") had entered into an Oil Concession Agreement for Block 6 effective 1 January 2005 and expiring on 31 December 2044. Under this agreement, PDO operated as a cost centre, wherein all costs related to the Block 6 oil operations were incurred. PDO had no entitlement to proceeds from crude oil. The property, plant and equipment ("PPE") relating to the Oil Operations were recognised in the books of PDO. The investment in PPE, operational costs and other costs were funded 60% by the Government and 40% by POHOL as shareholders' contributions. The Oil Concession Agreement includes the right to use associated gas, which was internally consumed by PDO as part of the production process relating to the Oil Operations.

The Government has novated the Oil Concession Agreement in favour of EDO effective 24 February 2021.

Gas Agreements and Gas Concession Agreements

In the capacity of the manager of the Gas Operations, PDO undertook all projects, operations, and activities directly or indirectly related to the exploration, development, extraction, and transportation of NAG in accordance with the directions of the Government. PDO had no entitlement to the proceeds from the sale of NAG. The gas sales agreements were entered into by the MoEM with the end customers. PDO had no ownership of the PPE relating to the Gas Operations. The investment in PPE, operational costs and other costs were fully funded by the Government.

The Government has granted EDO the rights to explore, search and drill for, produce, develop and sell NAG and Condensate in the Gas Concession Area in accordance with the terms of this Gas Concession Agreement effective 6 May 2021 and expiring on 31 December 2044. By virtue of this Gas Concession Agreement, EDO has exclusive ownership of all NAG at the point of gas production, exclusive ownership of condensate, and exclusive ownership of all gas assets, in accordance with the terms of this Gas Concession Agreement.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

1. Background and Basis of preparation (continued)

1.1 Background (continued)

Formation of EDO (continued)

Oman Export Blend Sale and Purchase Agreement

EDO has entered into an agreement with the Government for the sale of 'Oman Export Blend' crude oil (OEB). Under the terms of this agreement, EDO shall sell its share of crude oil and condensate production to the MoEM or designated MoEM customers at the Mina Al Fahal ("MAF") terminal or at the designated delivery point. The MoEM maintains all the contracts with the end customers. The sale price for OEB is set out in the relevant oil sales agreement between the MoEM and the MoEM's customers. EDO will deliver the OEB to the relevant MoEM customer at the vessel's permanent manifold flange connection.

Natural Gas Sales Agreement

EDO has entered into an agreement with the Government to sell its entire NAG production to the Government at agreed fixed prices for the first 5 years of the agreement as determined in the agreement effective 6 May 2021. Post the first 5 years, annual prices shall be determined for each subsequent 5 year period according to a blended transfer price calculation methodology, as defined in the agreement.

The Block 6 Operations

The Oil and Gas Operations of Block 6 (the "Block 6 Operations") were conducted by the MoEM, the Ministry of Finance (the "MOF") and PDO. PDO was a joint operation between the MoEM (60%) and Private Oil Holdings Oman Limited ("POHOL") (40%).

The Block 6 Operations did not have a separate legal entity or group of entities. The Government and the MoEM believed that the Oil & Gas Operations of Block 6 meets the definition of a reporting entity under the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), considering the revised Conceptual Framework for Financial Reporting (Conceptual Framework) issued in March 2018 by the International Financial Reporting Interpretations Committee ("IFRIC"). The Block 6 Operations represented a circumscribed area of economic activities whose financial information has the potential to be useful to existing and prospective investors, lenders and other creditors.

The following were included as part of the combined and carve-out financial statements of the Block 6 Operations, which circumscribes the area of economic activities with a predefined perimeter:

- 60% participating interest in PDO (joint operation). Proportionately accounting for 60% of assets, liabilities, and expenses of PDO's crude oil operations;
- 100% of the Gas Operations. All assets, liabilities and expenses relating to the Gas Operations;
- Revenue associated with the sale of crude oil, condensate and NAG from the MoEM relating to Block 6, including allocated operational and administrative costs from the MoEM; and
- Cash collections and contributions attributable to Block 6 activities from the MOF.

The crude oil volumes produced by PDO were transferred to the oil concession holders, the MoEM, and POHOL in proportion to their participating interests (60% to the MoEM and 40% to POHOL).

The entire NAG and condensate volumes produced were transferred by the Gas Operations to the MoEM. The MoEM entered into third-party sales arrangements in respect of its 60% share of the crude oil produced by Block 6 and 100% of condensate and NAG volumes produced by Block 6. The Ministry of Finance (the "MOF") undertook the cash collections relating to the sale of crude oil, condensate, and NAG for the Block 6 Operations.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

1. Background and Basis of preparation (continued)

1.2 Basis of Preparation

The financial statements for the year ended 31 December 2021 have been prepared in accordance with IFRS as issued by the IASB. The EDO financial statements have been prepared on a going concern basis under the historical cost convention, unless otherwise indicated.

The EDO financial statements for the year ended 31 December 2021 are the first set of financial statements of EDO after its formation. Although EDO was in existence from 24 December 2021, EDO effectively started operations from the date when the Oil concession was novated, i.e., 24 February 2021. Following the acquisition of Oil and Gas Operations respectively, the combining entities or businesses continued to be ultimately controlled by the Government, and the control was not transitory.

Acquisition of Operations – Business Combination Under Common Control ("BCUCC")

The transfer of the interest in the Oil Concession Agreement and the grant of the Gas Concession Agreement are acquisitions of business under common control. IFRS does not prescribe any specific guidance on BCUCC. Management, therefore, has used judgement in developing an accounting policy that provides relevant and reliable information in accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors* and applied by analogy the guidance relating to BCUCC as part of Appendix B of IFRS 3 – *Business Combination*. EDO has opted to retroactively account for the "Block 6 Operations" from 1 January 2021 to reflect that the operations were always combined. EDO has elected to adopt book value method to account for acquisition of the Oil and Gas operations at PDO and Gas Operation's book values.

EDO has replaced the Government Participant in the "Oil Concession Agreement" and "Gas Agreements" for Block 6. EDO's financial statements shall include the following:

- PDO as a joint operation, proportionately accounting for 60% of its assets, liabilities, and expenses of the PDO crude oil operations from 24 February 2021;
- 100% of the Gas Operations from 6 May 2021; and
- EDO standalone operations with respect to the revenues associated with the sale of crude oil, condensate and NAG from the respective Royal Decree dates and the operational costs.

Accordingly, the EDO financial statement for the year ended 31 December 2021 contains the full year operations as if the different businesses were always combined. The initial months (1 January 2021 up to 23 February 2021 for Oil Operations and 1 January 2021 up to 5 May 2021 for Gas Operations) are based on the principles of the combined and carve-out financial statements of the Block 6 Operations for the Oil and Gas Operations. All terms of the key agreements relevant to EDO are applicable from the effective date of Oil and Gas agreements in the financial statements.

The comparative information of EDO as of and for the year ended 31 December 2020 are presented based on the principles of the combined and carve-out financial statements of the Block 6 Operations.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

1. Background and Basis of preparation (continued)

1.2 Basis of Preparation (continued)

Adjustments to give effect to Royal Decree and Fiscal Protocol

On the date of transfer of each of the businesses i.e., 24 February 2021 for Oil Operations and 6 May 2021 for Gas Operations, the following adjustments are made in these financial statements:

- ***Account receivable***

All receivables as at 23 February 2021 relating to crude oil and as at 5 May 2021 relating to NAG and condensate are adjusted against Invested capital for the Block 6 Operations as the receivables are not transferred to EDO on acquisition.

- ***Finance receivable***

The finance receivables as at 5 May 2021 are adjusted against Invested capital for the Block 6 Operations as the receivables are not transferred to EDO on acquisition.

- ***Transportation cost payables***

The transportation costs payable as at 5 May 2021 are adjusted against Invested capital for the Block 6 Operations as these payables are not transferred to EDO on acquisition.

- ***Retained earnings***

Invested capital for Block 6 Operations (Oil Operations as of 24 February 2021; Gas Operations as of 6 May 2021) is transferred to EDO and is recorded as "Retained Earnings" in the financial statement of EDO.

- ***Deferred tax***

Opening deferred tax asset/ liability arising due to the timing difference between accounting base and tax base for abandonment asset and abandonment provisions and, the right-of-use assets and lease liabilities are recognized on the transfer of oil and gas business. Deferred tax liability is not recognized with respect to the timing difference between accounting base and tax base on property, plant and equipment as EDO has availed the initial recognition exemption under IAS 12 – *Income Taxes.*

The below table implies the impact of transfer of each of the businesses i.e., 24 February 2021 for Oil Operations and 6 May 2021 for Gas Operations, for the above adjustments:

	US$ 000
Adjustments to give effect to Royal Decree and Fiscal Protocol	
Trade receivables	(1,499,609)
Finance receivable	(278,125)
Transportation cost payables	52,389
Total	**(1,725,345)**

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

1. Background and Basis of preparation (continued)

1.3 Basis of allocation of certain key financial statement elements

1.3.1 Key Post-Acquisition adjustments

Certain assets and liabilities are accounted post the date of transfer of each of the businesses, i.e., 24 February 2021 for Oil Operations and 06 May 2021 for Gas Operations, based on the following principles as detailed below:

Statement of financial position

- ***Inventory***

Crude oil inventory held at the interior tanks and MAF tanks is recognised as 60% (the participating interest in PDO) of the total crude oil inventory of Block 6. The inventory held in MAF tanks is adjusted by the volumes over-lifted/under-lifted between EDO and POHOL, based on EDO's entitlement in Block 6. Further, the inventory held in MAF tanks is adjusted by the volumes over-lifted/under-lifted between EDO and the MoEM's share in other Blocks.

- ***Reserves***

The crude oil reserves as estimated by the management of PDO, are revised to give effect of the impact of royalties on the crude oil reserves. Further, the NAG reserves and condensate as estimated by the management of Gas Operations, are revised based on the applicability of the Gas concession Agreement, the Natural Gas Sales Agreement and to give effect of the impact of royalties on the condensate reserves.

The determination of EDO's reserves requires significant degree of estimates and assumptions to be applied. Management estimates its commercial reserves and resources 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 on an annual basis.

The management determines its commercial reserves for year ended 31 December 2021 based on the estimates of 31 December 2021 after considering technical additions in 2021. The management estimates for the year ended 31 December 2020 are determined using estimates of oil and gas in place and subsequent technical additions in 2020.

Statement of profit or loss and other comprehensive income

Revenue and certain expenses are accounted post the date of transfer of each of the businesses i.e., 24 February 2021 for Oil Operations and 06 May 2021 for Gas Operations, based on the following principles as detailed below:

- ***Revenue***

Revenue from sale of crude oil

EDO has entered into Oman Export Blend Sale and Purchase Agreement with the MoEM and sells its share of crude oil production to the MoEM, or designated customers at the price set out in agreements between the MoEM and the MoEM's customers and agreed with EDO. Crude oil sold by EDO from 24 February 2021 to 31 December 2021 is considered as revenue in the financial statements of EDO.

Revenue from sale of NAG

The Natural Gas Sales agreement is entered into by EDO with the MoEM on 6 May 2021, whereby EDO sells the entire NAG production to the MoEM at fixed annual transfer prices, determined for each 5 year period. NAG sold by EDO from 6 May 2021 to 31 December 2021 is considered as revenue in the financial statements of EDO.

Revenue from sale of condensate

EDO has entered into Oman Export Blend Sale and Purchase Agreement with the Government to sells its share of condensate production to the MoEM or designated customers at the price set out in agreements between the MoEM and the MoEM's customers. Condensate sold by EDO from 06 May 2021 31 December 2021 is considered as revenue in the financial statements of EDO.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

1. Background and Basis of preparation (continued)

1.3 Basis of allocation of certain key financial statement elements (continued)

1.3.1 Key Post-Acquisition adjustments (continued)

- ***Royalty***

EDO pays royalties on a weekly basis to the Government based on EDO's monthly revenue from the sale of crude oil and condensate calculated by applying the Oman export blend crude oil price (MOG Prices) for the nominated month of lifting times the number of barrels of crude oil and condensate taken by EDO at the petroleum delivery point in such month after deduction of the Government's obligation under the Forward Sale Arrangement. Royalty percentage is determined based on a progressive MOG Prices for the applicable month of lifting as stipulated in the Fiscal Protocol. Royalty expense from 24 February 2021 to 31 December 2021 is accounted for crude oil and from 6 May 2021 to 31 December 2021 is accounted for condensate in these financial statements.

- ***Income tax***

EDO pays tax, to the Government, on its income derived from its activities pursuant to the Oil and Gas Concession Agreements in accordance with the Income Tax Law. Such income tax is an amount equal to fifty-five percent (55%) of its income chargeable to tax (taxable income) for such year. Income tax expense from 24 February 2021 to 31 December 2021 is accounted for crude oil and from 6 May 2021 to 31 December 2021 is accounted for NAG & condensate in these financial statements.

2. Significant judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The judgments, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. However, the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions have a significant risk of causing a material adjustment to the carrying amounts of assets and/or liabilities in the future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

(a) Judgments

In the process of applying the accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant impact on the amounts recognised in the financial statements.

Revenue from contracts with customers

EDO applied the following judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Identifying performance obligations

At inception of the contract with customers, EDO assesses the performance obligations embedded in the contracts. Based on the assessment, EDO has concluded that there is generally only one performance obligation with respect to the sale of crude oil, condensate and NAG respectively. There are no other performance obligations or benefits derived by the customers from the contracts.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(a) Judgments (continued)

Revenue from contracts with customers (continued)

Determining method to estimate variable consideration and assessing the constraint

The contracts for the sale of goods may include a right of return and/or discounts that give rise to variable consideration. In estimating the variable consideration, EDO is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. Before including any amount of variable consideration in the transaction price, EDO considers whether the amount of variable consideration is constrained. EDO determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. However, considering the historical experience on returns and discounts, which were not significant, EDO has not recognised a refund liability and right to recover/return assets.

Determining the timing of satisfaction of performance obligation

EDO recognise revenue when (or as) EDO satisfies a performance obligation by transferring a promised good to customers. An asset is transferred when (or as) the customer obtains control of that asset, which is upon delivery of goods. Under the terms of existing contracts, EDO has determined that shipping or transportation services are not being provided to the customers, and the only performance obligation is sale of crude oil and petroleum products.

Determining transaction price and allocation

EDO considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which EDO expects to be entitled in exchange for transferring promised goods to a customer. Since sale of crude oil, condensate and NAG is the only performance obligation, the entire transaction price is allocated to sale of the product respectively.

Principal versus agent considerations

EDO enters into contracts with its customers for supply of crude oil, condensate and NAG. EDO determined that it controls the goods before they are transferred to customers, and it has the ability to direct the use of goods or obtain benefits from the goods. The following factors indicate that EDO controls the goods before they are being transferred to customers. Therefore, EDO determined that it is a principle in all its revenue arrangements.

- EDO is primarily responsible for fulfilling the promise to provide the specified goods.
- EDO has inventory risk before the specified goods have been transferred to the customers.
- EDO has discretion in establishing the price for the specified goods.

Consideration of significant financing component in a contract

Using the practical expedient in IFRS 15, EDO does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods to the customer and when the customer pays for that goods will be one year or less. EDO concluded that there is no significant financing component for those contracts where the customer elects to pay in advance considering the length of time between the customer's payment and the transfer of goods to the customer.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(a) Judgements (continued)

Determining the lease term of contracts with renewal and termination options – EDO as lessee

Management determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. EDO has lease contracts that include extension and termination options. Management applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, EDO reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Management included the renewal period as part of the lease term for leases of rigs, hoists, facilities, well service units, vehicles and cargo haulage equipment with a shorter non-cancellable period of 1-2 years. EDO typically exercises its option to renew these leases because based on the previous experience and the future intention of the management to continue, there is a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of certain production facilities, for example rigs, hoists, vehicles and well service units with longer non-cancellable lease periods (i.e., >5 years) are not included as part of the lease term as these are not reasonably certain to be exercised. Management has considered and evaluated the following factors before determining not to embrace the extension options beyond the original term:

- management's long-term strategy is to re-tender rig contracts and move towards mechanised rigs wherever possible.
- the economic benefit for continuing with the same supplier (same lease) is not proven, hence it is not reasonably certain to exercise the extension option, due to the fact that there are competitors in the market who are expected to offer competitive prices. which may result in a retendering process.
- the expected changes in technologies in the ensuing five years.
- New technologies in the market and strategic studies would reassess the economic feasibility of leases.

With reference to certain drilling equipment, hub offices, electronic equipment and certain equipment relating to rigs and hoists, these contracts are less than 12 months at the transition date and the management is of the view that most of the extension options may not be exercised. EDO could replace these assets without significant cost or business disruption. Therefore, these have not been included in the lease liabilities.

Determining the lease term of contracts with renewal and termination options – EDO as lessee (continued)

Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised. The lease term is reassessed if an option is actually exercised (or not exercised) or EDO becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Identification of non-lease components

In addition to containing a lease, EDO's services arrangement involves additional services, including personnel cost, maintenance, production related activities and other items. These are considered to be non-lease components and EDO has decided to separate these from the lease components. Judgement is required to identify these. The consideration in the contract is then allocated between the lease and non-lease components on a relative stand-alone price basis. This requires EDO to estimate stand-alone prices for each lease and non-lease component.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(a) Judgements (continued)

Accounting for leases and joint operations

Where EDO participates in a joint operation, determining whether to recognise and whether to measure a lease obligation involves judgement and requires identification of which entity has primary responsibility for the lease obligations entered into in relation to the joint operation's activities. Where the joint operation (including all parties to that arrangement) has the right to control the use of the identified asset and all parties have a legal obligation to make payments to the third-party supplier, each joint operation participant would recognise its proportionate share of the lease-related balances. This assessment would be based on the terms and conditions of each arrangement. EDO does not have any direct primary legal obligation to pay the third-party suppliers for the lease payments. Therefore, EDO has recognised only its share of lease liabilities, in addition to its share of right of use assets.

Identifying in-substance fixed rates versus variable lease payments

The lease payments used to calculate the lease-related balances under IFRS 16 include fixed payments, in-substance fixed payments and variable payments based on an index or rate. Variable payments not based on an index or rate are excluded from the measurement of lease liabilities and related assets. For some of EDO's drilling rig contracts, in addition to the fixed payments, there are payments that are contractually described as variable but are in-substance fixed payments because the contract terms require the payment of a fixed amount that is unavoidable. The payments are expressed as a rate paid for each operating day, hour or fraction of an hour and can change depending on when and how the asset is being used. Therefore, the management has had to apply judgement to identify in-substance fixed payments included in the lease payments used to calculate the lease-related balances. Other payments identified as variable, not based on an index or rate, are excluded from recognition and measurement of the lease related balances. Management has assessed that while there is variability in the pricing, there is a minimum rate which is considered to be the lowest rate that it would pay while the asset is available for its use, which is the standby or cold-stack rate. The major maintenance and inclement weather rates do not represent the minimum as these are only payable when the asset is not available for use. The additional full operating rates represent variable lease payments.

Functional currency

The functional currency for EDO, is the currency of the primary economic environment in which EDO operates. The functional currency of EDO is the US dollar (US$). Determination of functional currency may involve certain judgements to identify the primary economic environment in which EDO operates. This includes consideration of the currency which influences sales prices, the country whose competitive forces and regulations mainly determine the sale price of its goods, and the currency which influences the labour, materials, and other costs of providing goods or services differ.

Management considers US$ to be, the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. US$ is the currency in which EDO measures its performance and reports its results, as well as the currency in which it receives funds from the MoEM.

Going concern

Management has made an assessment of EDO's ability to continue as a going concern and is satisfied that EDO has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon EDO's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(a) Judgements (continued)

Joint arrangements

Judgement is required to determine when EDO has joint control over an arrangement, which requires an assessment of the relevant activities and an assessment of whether the decisions in relation to those activities require unanimous consent of the parties sharing control. The management has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work programme and budget for the joint arrangement, and the approval of chosen service providers for any major capital expenditure as required by the joint operating agreements applicable to the entity's joint arrangements.

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the management to assess their rights and obligations arising from the arrangement. Specifically, the management considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the management also considers the rights and obligations arising from:
- The legal form of the separate vehicle
- The terms of the contractual arrangement
- Other facts and circumstances, considered on a case-by-case basis

This assessment often requires significant judgement. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

Exploration and evaluation expenditure

The application of the EDO's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely from future 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, in itself, an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates have a direct impact on when EDO defers exploration and evaluation expenditure.

Allocation of expenses

For purposes of presenting the financial statements, allocations were required to determine certain costs and administrative activities performed by the MoEM, attributable to EDO. Management has identified staff costs relating to the following functions that are required to be allocated to EDO. These functions include sales and marketing, strategy and planning, finance and treasury, legal and compliance and audit. Assessing and identifying the relevant functions and associated expenses that are required to be attributed to EDO requires a reasonable degree of judgement.

Assessment of contingencies and claims

EDO is subject to claims and actions for which no provisions have been recognised. The facts and circumstances relating to particular cases are evaluated regularly in determining whether a provision relating to a specific litigation should be recognised or revised. Accordingly, significant management judgement relating to provisions and contingent liabilities is required, since the outcome of litigation is difficult to predict.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(b) Estimates and assumptions

The preparation of the financial statements, in conformity with IFRS, requires that the management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. EDO based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of EDO. Such changes are reflected in the assumptions when they occur.

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.

Proved hydrocarbon reserve and resource estimates

The determination of EDO’s reserves requires significant degree of estimates and assumptions to be applied. Hydrocarbon reserves are estimates of the measure of hydrocarbons that can be economically and legally extracted from EDO’s oil and gas properties.

Management estimates the hydrocarbon reserves according to the Code of Practice for Hydrocarbon Resource Volume Classification, Estimation and Reporting; CP-186. In relation to proven reserves, EDO complies with rules set by the Security and Exchange Commission (SEC) (except for the calculation of NAG prices, which is based on the management’s internal estimate). Management complies with the principles contained in the Petroleum Resources Management Reporting System (PRMS) framework as issued by the Society of Petroleum Engineers (SPE). EDO’s resources classification is set in conjunction with the industrial standard petroleum resource classification.

Management estimates its commercial reserves and resources 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 that are attributable to private shareholders as per the concession agreements. 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. These are regularly reviewed and updated.

Future commodity price assumptions tend to be stable because management does not consider short-term increases or decreases in prices as being indicative of long-term levels, but they are nonetheless subject to change. Expected production volumes, which comprise proved reserves, are used for the depreciation calculation of production wells and facilities. As discussed above, hydrocarbon reserves estimates are inherently imprecise. For 2021, the long-term Brent oil price assumption used in the estimation of commercial reserves is US$ 63.5 /bbl. (2020: US$ 46.21 /bbl.). For 2021, long-term gas price assumption used in the estimation of commercial reserves is US$ 2.51 /btu (2020: US$ 4.5 / btu).

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

- The carrying value of property, plant and equipment due to changes in estimated future cash flows and depreciation.
- Depreciation, depletion and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Unit of Production (UOP) method, or where the useful life of the related assets change.
- Provisions for decommissioning (may require revision — where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(b) Estimates and assumptions (continued)

Depreciation, depletion and amortisation (Unit-Of-Production (UOP) method)

Property, plant and equipment related to hydrocarbon production activities are depreciated on a unit-of-production basis over the proved developed oil and gas reserves of the cluster concerned, other than assets whose useful lives differ from the lifetime of the cluster which are depreciated applying the straight-line method. This results in a depreciation charge proportional to the depletion of the anticipated remaining production from the cluster. For the purpose of proved developed reserves, management uses the SEC-mandated yearly average oil prices and management's estimate of the fixed gas prices. Yearly average oil prices and the fixed gas prices are applied in the determination of proved reserves. Estimates of proved reserves are inherently imprecise, require the application of judgement and are subject to regular revision, either upward or downward, based on new information including details relating to the drilling of additional wells, the observation of long-term reservoir performance under producing conditions and the changes in economic factors, including commodity prices, unforeseen operational issues, contract terms, legislation or development plans.

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of production assets. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the cluster at which the asset is located. The calculation of the UOP rate of depreciation will 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 change.

Development, exploration and evaluation expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including services are capitalised within property, plant and equipment and is depreciated from the commencement of production. The capitalisation policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Cost incurred on unsuccessful development or delineation wells are written-off.

Significant estimates and assumptions are required to determine whether it is appropriate to continue to carry costs associated with exploration wells and exploratory type stratigraphic test wells on the balance sheet. This includes costs relating to exploration, seismic evaluation, geological and geophysical or other related costs. It is not unusual to have such costs being capitalised on the balance sheet while additional appraisal drilling and seismic work on the potential oil and natural gas cluster is performed or while the optimum development plans and timing are established. However, these seismic costs are part of the cluster that are producing developed petroleum recourses.

The costs are carried based on the current regulatory and political environment or any known changes to that environment. All such carried costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop, or otherwise extract value from, the discovery. These costs are incurred on the producing clusters and therefore, management estimates that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The carrying amount of capitalised costs are included as part of property, plant and equipment under producing assets.

Decommissioning (abandonment provision)

Liabilities for decommissioning costs are recognised when EDO has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Decommissioning costs will be incurred by EDO at the end of the operating life of some of EDO's facilities and properties. EDO assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, estimates of the extent and costs of decommissioning activities, the emergence of new restoration techniques or experience at other production sites. The discount rate has not changed from 2020 to 2021 and remain at 7.15%. (change in discount rate of 0.15% in 2019 from 7.30% in 2018) which are based on long-dated Oman government bonds.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(b) Estimates and assumptions (continued)

Decommissioning (abandonment provision)

The provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at future prices, depending on the expected timing of the activity, and discounted using the nominal discount rate. 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.

External valuers may be used to assist with the assessment of future decommissioning costs. The involvement of external valuers is determined on a case-by-case basis, taking into account factors such as the expected gross cost or timing of abandonment. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The provision at the reporting date represents management's best estimate of the present value of the future decommissioning costs required. A +0.5% change in the nominal discount rate could have an impact of approximately US$ 184,095 ('000) (2020: US$ (132,283) ('000)) on the value of EDO's provisions. A -0.5% change in the nominal discount rate could have an impact of approximately US$ 200,429 ('000) (2020 US$ 145,500 ('000)) on the value of EDO's provisions. A two-year change in the timing of expected future decommissioning expenditures does not have a material impact on the value of EDO's decommissioning provision. Management does not consider a change of greater than two years to be reasonably possible either in the next financial year or as a result of changes in the longer-term economic environment.

Provision for expected credit losses of financial assets

Trade receivables

For trade receivables, management applies a simplified approach in calculating ECLs. Therefore, management does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date. EDO have established a default rates that is based on its historical credit loss experience as adjusted for forward-looking factors. For instance, if forecast economic conditions (i.e., gross, domestic product, movements in crude oil price) are expected to deteriorate over the next year which can lead to an increased number of defaults amongst EDO's customers, the historical default rates are adjusted. In some cases, with respect to NAG receivables, delays in the payments were identified to be for reasons other than related to credit risk. Hence, for such receivables, ECL was continued to be calculated using the same historical default rates.

At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. EDO' historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Due from related parties, other receivables and other assets

For these categories of assets, management applies a general approach in calculating ECLs. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that EDO expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, EDO considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on EDO's historical experience and informed credit assessment, that includes forward-looking information. EDO's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(b) Estimates and assumptions (continued)

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices. The areas requiring significant judgment related to the valuation of inventories include estimating the shrinkage that has occurred between physical inventory counts. These judgments and estimates, under certain circumstances, produce varying financial results.

Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of profit or loss and other comprehensive income (Refer Note 16).

Leases - Estimating the incremental borrowing rate

Management cannot readily determine the interest rate implicit in its leases. Therefore, it uses the relevant incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that EDO would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what EDO would have to pay, which requires estimation when no observable rates are available and to make adjustments to reflect the terms and conditions of the lease. Management estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgements

Estimated useful lives of property, plant and equipment (excluding production wells and facilities) (straight line method)

Management determines the estimated useful lives of property, plant and equipment for calculating depreciation. The cost of property, plant and equipment is depreciated over the estimated useful life, which is based on the expected usage of the asset, expected physical wear and tear, and the repairs and maintenance program and the residual value. Management reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Management reviews the residual value at the end of each reporting period and changes are adjusted prospectively. For line fill, management believes that the residual value of the line fill is greater than the cost.

Useful lives of right-of-use assets

Management determines the estimated useful lives of its right-of-use assets for calculating amortisation. The cost of right-of-use assets are amortised over the estimated useful lives of the assets, which is based on shorter of the lease term and the estimated useful lives of the assets. Management reviews the estimated useful lives of right-of-use assets at the end of each annual reporting period. Any change in the lease term or pattern of consumption of these assets are adjusted prospectively.

Impairment of property, plant and equipment

Management assesses, at each reporting date, whether there is any indication that an asset or a group of assets is impaired. If any such indication exists, Management estimates the recoverable amount of the asset or group of assets. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset if the asset generates cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset 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 assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples like available fair value indicators.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

2. Significant judgements, estimates and assumptions (continued)

(b) Estimates and assumptions (continued)

Impairment of property, plant and equipment (continued)

The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). Significant estimates and associated assumptions are involved in determining the cash-generating units, expected future cash flows and discount rates. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Pension and other post-employment benefits

Accounting for defined benefit pensions involves making significant estimates when measuring the EDO's pension plan surpluses and deficits. These estimates require assumptions to be made about many uncertainties. Pensions and other post-retirement benefit assumptions are reviewed by management at the end of each year. These assumptions are used to determine the projected benefit obligation at the year end and hence the surpluses and deficits recorded in EDO's statement of financial position, and pension and other post-retirement benefit expense for the following year.

The present value of defined benefit pension plans is determined using actuarial valuations. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate, future salary increases, mortality rates and future pension increases. Any changes in these assumptions will impact the carrying amount of pension obligations. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumptions used vary from year to year, with resultant effects on future net income and net assets. Changes to some of these assumptions, in particular the discount rate and inflation rate, could result in reasonable changes to the carrying amounts of EDO's pension and other post-retirement benefit obligations within the next financial year. Any differences between these assumptions and the actual outcome will also affect future net income and net assets.

The values ascribed to these assumptions and a sensitivity analysis of the impact of changes in the assumptions on the benefit expense and obligation used are provided in Note 25.

Impairment of non-financial assets other than property, plant and equipment

Management assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. If any such indication exists, or when annual impairment testing for an asset is required, management estimates the asset's recoverable amount. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Basis of allocation financial statement elements

The allocation methodologies have been described within the notes to the financial statements where appropriate, and management believes that the assumptions and estimates used in the preparation of the financial statements are reasonable. Management believes that the allocation methodologies are reasonable; however, financial elements allocated to EDO are not necessarily indicative of the results that would have been incurred on a stand-alone basis nor are they indicative of amounts that may be reported in the future. Actual results could differ from these estimates. It is not practical to estimate the financial results that would have been achieved by EDO if it had operated on a stand-alone basis.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies

The accounting policies set out below, which comply with IFRS, have been applied consistently to all periods presented in these financial statements, unless stated otherwise. These describe the EDO's significant accounting policies adopted in the preparation of these financial statements, which are relevant for an understanding of the financial statements.

Revenue from contracts with customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The 5-step approach for revenue recognition is as follows:

- Step 1: Identify contracts with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

In addition to revenue, the standard also applies to:

- the cost to fulfil the contract; and
- the incremental costs of obtaining a contract.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the EDO expects to be entitled in exchange for those goods or services. EDO has concluded that it is the principal in all of its revenue arrangements since it controls the goods or services before transferring them to the customer

Revenue from sale of crude oil, condensate and NAG

The crude oil produced by the upstream operations is sold to external customers. Revenue from the sale of crude oil is recognised at the point in time when control of the product is transferred to the customer, which is generally when the product is physically transferred into a vessel, pipe or other delivery mechanism and the customer accepts the product and takes physical possession. For export sales of crude oil and condensate, the control passes to the customer when the crude oil or condensate passes the flange connection between the delivery hose and the customer's receiving vessel's permanent manifold connection. For domestic sales of crude oil and condensate, the control passes on to the customer once the oil is transported through the Main Oil Line ("MOL") from the EDO's tank farm connect to the customer's tank farm, i.e., at the Mina Al Fahal ("MAF") connect point. For NAG sales, the control of the natural gas transfers to the customer at the gas delivery point i.e., the inlet flange of the customer's plant. Consequently, EDO's performance obligations are considered to relate only to the sale of crude oil, condensate and NAG.

Under the terms of the relevant concession arrangements, EDO is entitled to its participating share in the crude oil based on its participating interest. Revenue from contracts with customers is recognised based on the actual volumes sold to customers. No adjustments are made to revenue for any differences between volumes sold to customers and unsold volumes which EDO is entitled to sell based on its participating interest. Revenue in respect of such volumes is only recognised when there is a transfer of output to EDO's customers.

Further, as regards to the pricing mechanism, EDO's sales of crude oil and condensate are priced based on market prices. The crude oil price is determined based on the daily market prices of the Oman Export Blend Crude Oil Future Contract, which is fixed and agreed at the time of delivery of crude oil and condensate. EDO also charges a premium for additional barrels nominated by the customers over and above the designated limit of oil barrels. The transaction price does not vary significantly under the terms of the contract. At the time of delivery, there is only a minimal risk of a change in the transaction price to be allocated to the crude oil volume sold. Accordingly, at the point of sale there is not a significant risk of revenue reversal relative to the cumulative revenue recognised, and there is no need to constrain any variable consideration under IFRS 15. The NAG price is determined based the Natural Gas Sales agreement between EDO and MoEM with effect from 6 May 2021.

The transportation and shipping cost associated with the transfer of the product to the point of sale is recognised as a selling cost. Revenue resulting from arrangements that are not considered contracts with customers is presented as other operating income.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Revenue from contracts with customers (continued)

Significant financing component

Using the practical expedient in IFRS 15, EDO does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less. EDO does not receive any long terms advances from customers in relation to its revenue arrangements.

Other operating revenue

Other operating revenue relates to EDO's share of compensation for the lower grade of crude oil and condensate produced by one of the oil fields that is blended and comingled with the Oman Crude Oil Blend in accordance with the Oman Blend Revenue Distribution Agreement ("OBRDA"). As per OBRDA a compensation is paid by the Operator of Mukhaizna Block to other oil producers in the Sultanate. The calculation is performed by a third party and the compensation is split based on the production volumes of each respective oil producer. These are recognised on a monthly basis when the calculation of the compensation is ascertained and agreed with the parties.

Finance income

For all financial instruments measured at amortised cost, interest income is calculated using the effective interest rate (EIR) method. EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included as finance income in the statement of profit or loss and other comprehensive income.

Supply of crude oil barrels to the Government

The Government raised a loan of US$ 4 billion in the form of a Pre-Export Facility (PXF) through Yibal Export B.V. The facility was structured as a pre-export financing ("PXF"). EDO shall transfer to the Government such barrels of crude oil as may be required and notified by the Government to perform its obligations under a Forward Sale Arrangement ('FSA Barrels') to satisfy the requirements under the PXF. These FSA barrels are transferred at free of charge and on a 'first priority basis', that is, from the first barrels of crude oil to reach the Petroleum Delivery Point in that month. The Government has the ownership rights of these FSA Barrels and is entitled to dispose of these barrels. EDO's obligations to transfer these FSA Barrels to the Government shall at all times take priority over other obligations. Therefore, FSA barrels are not considered as revenue for EDO.

Joint arrangements

Under IFRS 11, Joint Arrangements, an arrangement in which two or more parties have joint control is a joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement.

Where the EDO acts as a joint operator, EDO recognises its interest in relation to a joint operation. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of a joint arrangement. In relation to its interests in joint operations, EDO recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

PDO is classified as a joint operation by EDO, where the MoEM holds 60% participating interest in the joint operation.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Property, plant and equipment (Oil and gas properties – production wells and facilities)

Initial recognition

Production wells and facilities are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost (if the asset was previously classified as assets in development), and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

In certain cases, expenditure is transferred from 'exploration and evaluation assets' to 'production wells and facilities' once the work completed to date supports the future development of the asset and such development receives appropriate approvals. After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, is capitalised within 'production wells and facilities'. Expenditure incurred on exploration, seismic and other geological and geophysical costs are capitalised as part of 'production wells and facilities' as these are incurred on various clusters that are part of producing assets. Costs incurred on exploration and drilling of unsuccessful development or delineation wells are written off.

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off, is replaced and it is probable that future economic benefits associated with the item will flow to EDO, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset and is immediately written off. All other day-to-day repairs and maintenance costs are expensed as incurred.

Depreciation, depletion and amortisation

Production wells and facilities are in principle depreciated/amortised over the proved developed reserves of the field concerned, other than assets whose useful lives differ from the lifetime of the field which are depreciated applying the straight-line method. The unit-of-production rate calculation for the depreciation/amortisation of field development costs takes into account expenditures incurred to date. Estimates of oil and natural gas reserves determined in accordance with US Securities and Exchange Commission (SEC) guidelines, including the application of oil prices using 12-month historical price data in assessing the commerciality of technical volumes and management's estimate of the fixed gas prices, are typically used to calculate depreciation, depletion and amortisation charges for EDO's oil and gas properties. Therefore, where this approach is adopted, charges are not dependent on management forecasts of future oil prices.

Other assets which are part of production wells and facilities are generally depreciated on a straight-line basis over their estimated useful lives, which is generally 20 years.

Derecognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Property, plant and equipment (Exploration and evaluation assets)

Exploration, evaluation and development costs that relate to the acquisition and installation of production facilities, development drilling costs and applicable exploration costs that are expected to generate probable future economic benefits are capitalised. These costs are initially classified as ‘exploration and evaluation assets’ pending determination of successful exploration using the successful efforts method. Under the successful efforts method, exploration costs associated with exploratory wells are initially capitalised until the drilling of the well is complete and the results have been evaluated. If potential commercial quantities of hydrocarbons are found, these costs continue to be capitalised subject to further appraisal activities that would determine the commercial viability and technical feasibility of the reserves. If potentially commercial quantities of hydrocarbons have not been found, and no alternative use of the well is determined, the previously capitalised costs are written off.

Exploratory wells remain capitalised while additional appraisal drilling on the potential oil and/or gas field is performed or while optimum development plans are established. All such capitalised costs are not subject to amortisation, but are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When proved reserves of hydrocarbons are determined and there is a firm plan for development approved by management, the relevant capitalised costs are transferred to production wells and facilities.

The determination of whether potentially economic oil and natural gas reserves have been discovered by an exploration well is usually made within one year of well completion, but can take longer, depending on the complexity of the geological structure. Exploration wells that discover potentially economic quantities of oil and natural gas and are in areas where major capital expenditure (e.g., a platform or a pipeline) would be required before production could begin, and where the economic viability of that major capital expenditure depends on the successful completion of further exploration or appraisal work in the area, remain capitalised as long as such work is under way or firmly planned.

All other research and development expenditure are recognised in the statement of profit or loss and other comprehensive income as incurred. The expenditure incurred on drilling development wells is capitalised and written off when found to be dry.

Property, plant and equipment (Main oil / gas line, line fill and other facilities)

The main oil and gas pipelines are stated at cost less any depletion or impairment in value. Minimum quantities of crude oil, condensate and NAG (‘line fill’), which is necessary to bring a pipeline into working order, is treated as a part of the related pipelines and is classified as a part of property, plant and equipment. This is on the basis that it is not held for sale or consumed in a production process but is necessary to the operation of a facility during more than one operating cycle.

Property, plant and equipment (Abandonment assets)

Abandonment and restoration costs associated with provisions for asset retirement are capitalised and depreciated as per classified asset categories (either unit-of-production method or based on the useful life of the asset). EDO records a provision and a corresponding asset for abandonment/decommissioning activities in upstream operations for well plugging, site restorations and other abandonment activities. The abandonment asset and the related obligation for a well is recognised when it is drilled. For other assets, these are recognised in the period when sufficient information becomes available to estimate a range of potential settlement dates.

Property, plant and equipment (capital work-in-progress)

Capital work-in-progress is not depreciated. Capital work-in-progress is recorded at cost, less impairment. Allocated costs along with borrowing costs directly attributable to the construction of the asset are capitalised. Other capital work-in-progress is recorded at cost which represents the purchase price or cost of service required to complete an asset. The capital work-in-progress is transferred to the appropriate asset category and depreciated in accordance with EDO’s policies when construction of the asset is completed and commissioned.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Property, plant and equipment (all other assets)

Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Concession and preliminary expenses	Over the period of concession
Buildings, repair shop, airport and instrumentation	20 to 33 years
Movables, vehicles, software, computing and communication	5 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to EDO and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the financial statements during the financial period in which they are incurred. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the fair value less costs to sell and the carrying amount of the asset) is included in the financial statements in the year the asset is derecognised.

The carrying values are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists 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.

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 financial statements as the expense is incurred.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively, if appropriate at each reporting date.

Inventories

Crude oil

Crude oil inventory is stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out method. The cost of crude oil includes the purchase cost, the cost of refining, including the proportion of depreciation, depletion and amortisation, and overheads based on normal operating capacity. Net realisable value is determined by reference to sales prices existing at the reporting date, adjusted where the sale of inventories after the reporting period gives evidence about their net realisable value at the end of the period. Crude oil inventories include EDO's stock entitlement, with adjustment for over lift / under lift stock.

Consignment stock

NAG owned by EDO that is stored in pipelines owned by a related party is classified as inventory, under consignment stock. Since, these pipelines are not owned by EDO, the related line fill inventories used to operate the pipelines are not classified as part of property, plant and equipment. EDO recognise these line fill inventories as consignment stock, as they are possessed by a related party. Consignment stock is stated at cost of production. These consignment stocks are classified as non-current as they are not expected to be returned within 12 months from the reporting date.

Other inventories

Material stock, project bulk material stock and well advance stock are materials and supplies to be consumed in the production process and are valued at cost on a weighted average basis. Inventories are valued at cost less provision for obsolete, slow-moving and defective items. Cost is determined on the weighted average cost basis and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Leases

EDO as a lessee

EDO assesses at contract inception whether a contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is considered as a lease. EDO applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. EDO recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

EDO applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. EDO recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

EDO recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Production wells and facilities	
- Crude oil production facilities	10 to 25 years
- Rigs and hoists	2 to 25 years
- Well service units	2 to 12 years
Movables, vehicles, software, computing and communication	
- Logistics and other equipment	7 to 17 years
- Vehicles	2 to 15 years
- Corporate equipment	2 to 4 years

If ownership of the leased asset transfers to the EDO at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, EDO recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by EDO and payments of penalties for terminating the lease, if the lease term reflects EDO exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses unless they are incurred to produce inventories in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the EDO uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

iii) Use of hindsight

EDO applies the use of hindsight practical expedients to leases where EDO has determined the lease term as the lease contract contains an option to extend or terminate the lease. Based on this EDO has determined different lease terms for different leases based on the contract option.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Leases (continued)

iv) Short term leases and low-value assets

EDO applies the short-term lease recognition exemption to its short-term leases of certain assets (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain an extension or purchase option). It also applies the low-value assets recognition exemption to leases of certain office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

Impairment of non-financial assets

EDO assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, EDO estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell (FVLCS) and its value-in-use (VIU) 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset 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 assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. 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 entities or other available fair value indicators.

EDO bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of EDO’s cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a five-year period.

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, EDO estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and EDO’s business model for managing them. With the exception of trade receivables and due from related parties that do not contain a significant financing component, EDO 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 are measured at the transaction price.

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. EDO' business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

i) Financial assets (continued)

Initial recognition and measurement (continued)

The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that EDO commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost

This category is the most relevant to EDO. EDO measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

EDO' financial assets at amortised cost includes bank balances and cash, trade and other receivables, due from related parties, housing loan receivables and other non-current assets.

EDO does not have any financial assets at fair value through OCI or financial assets carried at fair value through profit or loss.

Impairment of financial assets

EDO recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that EDO expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages for due from related parties, other receivables and other financial assets. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, EDO applies a simplified approach in calculating ECLs as these financial assets do not contain a significant financing component and usually have a maturity of one year or less. Therefore, EDO does not track changes in credit risk, but instead recognises a loss allowance based on ECLs at each reporting date.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

i) Financial assets (continued)

Impairment (continued)

EDO has established default rates that is based on its historical credit loss experience and the probability of default associated with the Oman Government, adjusted for forward-looking factors specific to the customers and the economic environment, and taking into account any coverage by letters of credit. EDO considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, EDO may also consider a financial asset to be in default when internal or external information indicates that EDO is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by EDO. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets

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 statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- EDO 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) EDO has transferred substantially all the risks and rewards of the asset, or (b) EDO has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the EDO has transferred its rights to receive cash flows from an asset or has entered into a pass- through 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, EDO continues to recognise the transferred asset to the extent of its continuing involvement. In that case, EDO also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that EDO 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 EDO could be required to repay.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

EDO' financial liabilities include borrowings, trade and other payables, lease liabilities, due to related parties and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to EDO. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

This category generally applies to borrowings, trade and other payables, lease liabilities, due to related parties and other liabilities.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

ii) Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Current versus non-current classification

EDO presents assets and liabilities in the statement of financial position based on a current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the 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 classified as current when:

- It is expected to be settled in the 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

EDO classifies all other liabilities as non-current.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and bank

Cash and bank balances in the statement of financial position comprise cash at banks and cash in hand. For the purpose of the statement of cash flows, cash and cash equivalents consists of cash in hand and cash at bank, as defined above, as they are considered an integral part of EDO's cash management.

Borrowing costs

Borrowing costs include interest and direct costs such as underwriting, stamp duty, legal and other related costs in connection with borrowings. Costs other than interest are deferred when incurred and amortised over the contractual term of the debt. Interest costs are computed using the effective interest rate method in accordance with IFRS 9. Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete or suspended if the development of the asset is suspended.

Borrowing costs which are directly attributable to the construction of qualifying asse***ts***, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by EDO.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

EDO uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

There are no assets and liabilities for which fair value is measured or disclosed in the financial statements. The fair values of financial assets and financial liabilities are not significantly different from their carrying values largely due to the short-term nature of these instruments.

Provisions

Provisions are recognised when EDO has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where EDO expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Abandonment provision (Decommissioning costs)

Liabilities for decommissioning costs are recognised when EDO has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil and natural gas production or transportation facilities, this liability will be recognised on construction or installation. Similarly, where an obligation exists for a well, this liability is recognised when it is drilled. An obligation for abandonment may also crystallise during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its abandonment obligations. The provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at future prices, depending on the expected timing of the activity, and discounted using the nominal discount rate. Abandonment obligations are provided for at the present value of expected costs to settle the obligation using estimated cash flows. The value of the obligation is added to the carrying amount of the related asset and amortised over the useful life of the asset.

Changes in the estimated timing, cash flows or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to abandonment assets. Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss and other comprehensive income. If the change in estimate results in an increase in the abandonment provision and, therefore, an addition to the carrying value of the asset, EDO considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of abandonment provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Abandonment provision (Decommissioning costs) (continued)

The discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss as a finance cost. Other than the unwinding of discount on or utilisation of the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset where that asset is generating or is expected to generate future economic benefits.

Environmental expenditures and liabilities

Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognised when a clean-up is probable, and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognised is the best estimate of the expenditure required to settle the obligation. Provisions for environmental liabilities have been estimated using existing technology, at future prices and discounted using a nominal discount rate.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Omani staff pension scheme

PDO operates a defined benefit pension scheme (“the Scheme”) for its Omani staff engaged in the oil and gas operations, which requires contributions to be made to a separately administered fund which is governed by rules set out by PDO.

All Omani employees employed on a full-time basis are eligible to be a Member of the Scheme from the date of joining PDO if he or she is able to complete 15 actual years of service effective from 1 January 2014 with PDO before they reach the age of 60 years for male and 55 years for female (with an option to work until the age of 60 years). PDO contributes into the Scheme each month as determined by the Pensions Committee acting on Actuarial Advice and classifies the Scheme as a Plan Asset under IAS 19 Employee Benefits. The cost of providing benefit under the plan is determined by using the projected unit credit method with actuarial valuation being carried out at the end of each annual reporting period.

Re-measurement, comprising actuarial gain and losses, and the return of plan assets (excluding interest), is reflected immediately in the balance sheet with a charge/credit recognised in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive cost is reflected immediately in retained earnings and will not be reclassified to the statement of other comprehensive income. Past service cost is recognised in the statement of profit or loss in the period of the plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined liability/asset.

Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service costs as well as gains and losses on curtailment and settlements)
- Net interest expense/income

EDO presents the first two components of the defined benefit costs in the statement of profit or loss and other comprehensive income. The retirement benefit obligation recognised in the balance sheet represents the actual deficit or surplus in the defined benefit plan. Further details are contained in Note 25.

Non-Omani staff pension liabilities

Non-Omani terminal benefits are accounted for on an accrual’s basis. End-of-service benefits for seconded expatriate staff is based upon the liability accrued in accordance with the defined contributions of the irrespective pension schemes. End-of-service benefits for other expatriate staff are accrued in accordance with the provisions of the Oman Labour Law, 2003 (as amended). Further details are contained in Note 25.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Foreign currencies

EDO's financial statements are presented in United States Dollars, which is also its functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

Distribution of assets

Any transfer of non-financial assets, including inventories, under common control, without consideration are considered to be equity transactions either in specie distribution or contribution. EDO, which gives away the non-financial asset reflects the transaction as a distribution in specie to the Government and accounts for the transfer by derecognising the distributed asset at its carrying value against the invested capital within the equity.

Tax

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The charge for current tax is calculated based on the income reported by EDO, as adjusted for items that are non-taxable or disallowed elements, and other allowable expenses. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the jurisdiction where EDO operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Tax (continued)

Deferred tax (continued)

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

EDO offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Royalties

In accordance with the Fiscal Protocol, EDO shall pay royalties to the Government based in EDO’s weekly revenue from the sale of its participating interest share of crude oil and condensate. EDO pays royalties to the Government based on sliding scale royalty rate on the weekly revenue from the sale of crude oil and condensate calculated by applying the Oman export blend crude oil price (MOG Prices) for the nominated month of lifting times the number of barrels of crude oil and condensate lifted by EDO at the petroleum delivery point in such month after deduction of the Government’s share of FSA Barrels. The royalties payable by EDO meet the criteria to be treated as an expense, and accordingly, recognised in the statement of profit or loss.

Cash dividend

EDO recognises a liability to pay a dividend when the distribution is authorised, and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the Company’s shareholder. A corresponding amount is recognised directly in equity. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Changes in significant accounting policies

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 01 January 2021. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2021, but do not have an impact on the financial statements of the Company. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

3. Significant accounting policies (continued)

Changes in significant accounting policies (continued)

New and amended standards and interpretations (continued)

Interest Rate Benchmark Reform – Phase 2: ***Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

4. Revenue

2021	Crude oil US$'000	NAG & Condensate US$'000	Adjustments & eliminations US$'000	Corporates & others US$'000	Total US$'000
External customers - Crude Oil	**6,696,629**	**-**	**-**	**-**	**6,696,629**
External customers - NAG	**-**	**2,259,084**	**-**	**-**	**2,259,084**
External customers - Condensate	**-**	**2,576,585**	**-**	**-**	**2,576,585**
Inter Segment	**-**	**65,323**	**(65,323)**	**-**	**-**
Total revenue from contracts with customers	**6,696,629**	**4,900,992**	**(65,323)**	**-**	**11,532,298**
2020					
External customers - Crude Oil	5,837,773	-	-	-	5,837,773
External customers - NAG	-	2,599,550	-	-	2,599,550
External customers - Condensate	-	1,724,500		-	1,724,500
Inter Segment	-	238,031	(238,031)	-	-
Total revenue from contracts with customers	5,837,773	4,562,081	(238,031)	-	10,161,823

In terms of the timing of revenue recognition, revenue is recognised at a point in time, when the control of goods is transferred to the customer. EDO does not render any other services. There are no financing components with respect to the contracts with customers.

Contract balances
Refer Note 17 for trade receivables.

Contract liabilities represent advances received to deliver goods and are short-term in nature (Refer Note 19). These advances do not have any financing component and are customary in nature. The duration between the transfer of a promised goods or services to a customer and the payment for that goods or services will be less than a year. Therefore, it is not considered as variable consideration and did not have any impact on the transaction price.

There were no contract liabilities at the beginning of the year and at the beginning of the earliest period presented, as a result no revenue was recognised during 2021 and 2020 from the contract liabilities.

Information about EDO's performance obligation is summarised in Note 3 *Revenue from contracts with customers*.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

5. Other income and expenses

5.1 Other operating income

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
OBRDA compensation (Refer Note 3 *Other operating revenue*)	**22,607**	19,440
Changes in abandonment estimates (Refer Note 25)	**10,361**	-
Gains on disposals of property, plant and equipment	**12,000**	7,217
Foreign exchange gain	**224**	-
	45,192	26,657

The gains on disposals of property, plant and equipment represents the recovery of assets written off prior to 2020 and 2021.

5.2 Other operating expenses

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Assets written-off and/ or disposed (Refer Note 11a)	**(29,391)**	(17,632)
Bank charges	**(1)**	-
Other expenses	**(16,993)**	-
	(46,385)	(17,632)

5.3 Finance costs

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Unwinding cost on abandonment provision (Refer Note 25)	**(143,740)**	(90,802)
Interest expense on lease liabilities (Refer Note 23)	**(43,008)**	(38,021)
Bank interest	**(25,148)**	-
	(211,896)	(128,823)

5.4 Finance income

	31 Dec 2021	**31 Dec 2020**
	US$ 000	US$ 000
Interest income	**7,812**	22,196
	7,812	22,196

The interest income also includes unwinding of financing element of an outstanding receivable from 2016 relating to NAG sales to the related entity, an entity under common control, of US$ 7,428 (‘000) and US$ 21,517 (‘000) for the years ended 31 December 2021 and 2020, respectively. The receivables were provided with an extended credit term (more than a year).

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

6. Depreciation, depletion, and amortisation

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Depreciation on property, plant and equipment (Refer Note 11a)	**(3,133,251)**	(2,933,649)
Depreciation on right-of-use assets (Refer Note 11b)	**(84,375)**	(86,204)
	(3,217,626)	(3,019,853)

7. Production expenses

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Well production expenses	**(62,048)**	(247,325)
Surface operations and maintenance expenses	**(452,187)**	(451,237)
Other production expenses	**(380,963)**	(256,053)
	(895,198)	(954,615)

The production expenses include staff costs of US$ 607,043 ('000) and US$ 617,525 ('000) for the years ended 31 December 2021 and 2020, respectively (Refer Note 10). Crude oil inventory movement, including under-liftings between EDO and the MoEM's share in other Blocks, amounting to US$ 164,943 and US$ (9,310) ('000) for the years ended 31 December 2021 and 2020, respectively are included in well production expenses.

8. Royalty expenses

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Royalty expense on crude oil	**(2,335,763)**	-
Royalty expense on condensate	**(745,106)**	-
	(3,080,869)	-

9. Selling, distribution and general management expenses

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Basic salaries and allowances (Refer note 10)	**(1,788)**	(1,373)
Transportation costs	**(74,106)**	(204,637)
Additions to ECL provisions (Refer Note 17 and 21)	**2,338**	(1,795)
	(73,556)	(207,805)

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

10. Staff cost

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Basic salaries and allowances	**(503,613)**	(506,832)
Retirement benefit costs	**(4,699)**	(5,019)
Staff pension scheme	**(140,559)**	(132,211)
Other associated costs	**(55,840)**	(52,037)
	(704,711)	(696,099)

During the years ended 31 December 2021 and 2020, staff costs of US$ 95,880 (‘000) and US$ 77,201 (‘000) respectively, were capitalised in “Production wells & production facilities” and “Work in progress”.

Staff costs of US$ 607,043 (‘000) and US$ 617,525 (‘000) for the years ended 31 December 2021 and 2020, respectively, are included within production expenses. (Refer Note 7)

Staff costs of US$ 1,788 (‘000) and US$ 1,373 (‘000) for the years ended 31 December 2021 and 2020, respectively, are included within selling, distribution and general management expenses. (Refer Note 9)

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

11.a Property, plant, and equipment

	Production wells & production facilities	*Concession & preliminary expenses*	*Building, repair shop, airport, and instrumentation*	*Movables, vehicle, software, computing & communication*	*Main Oil/ Gas line, line fill & other facilities*	*Exploration and evaluation assets*	*Work in progress*	*Abandonment assets*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*
Cost									
At 1 January 2021	**48,148,675**	**4,620**	**1,496,134**	**771,818**	**629,465**	**172,770**	**4,451,881**[2]	**1,413,568**	**57,088,931**
Additions	**1,232,590**	**-**	**32,297**	**37,495**	**3,209**	**169,025**	**1,758,087**[2]	**289,690**	**3,522,393**
Change in estimates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**222,618**	**222,618**
Transfer within assets classes/ to other assets	**2,716,774**	**-**	**86,982**	**-**	**27,186**	**(95,749)**	**(2,735,193)**	**-**	**-**
Assets written-off and/ or disposed	**(19,073)**	**-**	**(383)**	**(1,512)**	**(967)**	**(26,547)**	**-**	**(35,952)**	**(84,434)** [1]
At 31 December 2021	**52,078,966**	**4,620**	**1,615,030**	**807,801**	**658,893**	**219,499**	**3,474,775**	**1,889,924**	**60,749,508**
Depreciation									
At 1 January 2021	**(31,805,604)**	**(4,620)**	**(717,225)**	**(688,581)**	**(421,278)**	**-**	**(846)**	**(638,674)**	**(34,276,828)**
Charge for the year	**(2,936,314)**	**-**	**(61,981)**	**(41,321)**	**(13,450)**	**-**	**-**	**(80,185)**	**(3,133,251)**
Assets written-off and/ or disposed	**16,231**	**-**	**383**	**1,511**	**966**	**-**	**-**	**-**	**19,091**[1]
At 31 December 2021	**(34,725,687)**	**(4,620)**	**(778,823)**	**(728,391)**	**(433,762)**	**-**	**(846)**	**(718,859)**	**(37,390,988)**
Net book value at 31 December 2021	**17,353,279**	**-**	**836,207**	**79,410**	**225,131**	**219,499**	**3,473,929**	**1,171,065**	**23,358,520**

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

11.a Property, plant, and equipment (continued)

1. The net book value of Assets written-off and/ or disposed (excluding abandonment assets) for the year ended 31 December 2021 amounting to 29,391 (‘000) has been charged to the ‘other operating expenses’ in the statement of profit or loss and other comprehensive income. The gain/loss on disposals of property, plant and equipment is charged to ‘other operating income’ in the statement of profit or loss and other comprehensive income.

2. Work in progress includes borrowing costs relating to utilisation of loan proceeds from the Omani Pension Fund amounting to US$ 64,055 (‘000) in the development of a project in Ras Al Hamra (“RAH”) which includes additions of US$ 3,066 (‘000) during the year ended 31 December 2021.

   Work-in-progress also includes non-cash additions of depreciation expenses relating to right-of-use assets that were capitalised amounting to US$ 119,820 (‘000). (Refer note 11b)

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

11.a Property, plant, and equipment (continued)

	Production wells & production facilities US$ 000	*Concession & preliminary expenses US$ 000*	*Building, repair shop, airport and instrumentation US$ 000*	*Movables, vehicle, software, computing & communication US$ 000*	*Main Oil/ Gas line, line fill & other facilities US$ 000*	*Exploration and evaluation assets US$ 000*	*Work in progress US$ 000*	*Abandonment assets US$ 000*	*Total US$ 000*
Cost									
At 1 January 2020	43,947,298	4,620	1,294,134	742,341	619,970	160,186	5,987,334[2]	912,144	53,668,027
Additions	1,183,310	-	104,258	31,116	9,709	138,351	1,676 ,933[2]	183,502	3,327,179
Change in estimates	-	-	-	-	-	-	-	352,163	352,163
Transfer within assets classes	3,043,390	-	97,999	103	-	(110,574)	(3,030,918)	-	-
Transfer to other asset classes							(179,973)	-	(179,973)
Assets written-off and/ or disposed	(25,323)	-	(257)	(1,742)	(214)	(15,193)	(1,495)	(34,241)[1]	(78,465)[1]
At 31 December 2020	48,148,675	4,620	1,496,134	771,818	629,465	172,770	4,451,881	1,413,568	57,088,931
Depreciation									
At 1 January 2020	(29,124,040)	(4,620)	(662,208)	(649,820)	(408,146)	-	(846)	(520,091)	(31,369,771)
Charge for the year	(2,706,222)	-	(55,169)	(40,329)	(13,346)	-	-	(118,583)	(2,933,649)
Assets written-off and/ or disposed	24,658	-	152	1,568	214	-	-	-	26,592[1]
At 31 December 2020	(31,805,604)	(4,620)	(717,225)	(688,581)	(421,278)	-	(846)	(638,674)	(34,276,828)
Net book value at 31 December 2020	16,343,071	-	778,909	83,237	208,187	172,770	4,451,035	774,894	22,812,103

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

11.a Property, plant, and equipment (continued)

1. The net book value of Assets written-off and/ or disposed (excluding abandonment assets) for the year amounting to US$ 17,632 (‘000) has been charged to the ‘other operating expenses’. The gain/loss on disposals of property, plant and equipment is charged to ‘other operating income’.

2. Work in progress includes borrowing costs relating to utilisation of loan proceeds from the Omani Pension Fund amounting to US$ 60,989 (‘000) in the development of a project in Ras Al Hamra (“RAH”) which includes additions of US$ 20,520 (‘000) during the year 31 December 2020.

   Work-in-progress also includes non-cash additions of depreciation expenses relating to right-of-use assets that were capitalised amounting to US$ 127,304 (‘000) (Refer note 11b)

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

11.b Right-of-use assets

	Production wells & production facilities US$ 000	Movables, vehicles, software, computing & communication US$ 000	Total US$ 000
Cost			
At 1 January 2021	**1,604,239**	**111,064**	**1,715,303**
Modification adjustment	**28,952**	**10,870**	**39,822**
Additions	**149,961**	**-**	**149,961**
Disposals	**(51,472)**	**-**	**(51,472)**
At 31 December 2021	**1,731,680**	**121,934**	**1,853,614**
Accumulated Depreciation			
At 1 January 2021	**(514,665)**	**(64,413)**	**(579,078)**
Charge for the year	**(183,270)**	**(20,925)**	**(204,195)**
Disposals	**20,479**	**-**	**20,479**
At 31 December 2021	**(677,456)**	**(85,338)**	**(762,794)**
Net book value at 31 December 2021	**1,054,224**	**36,596**	**1,090,820**

Depreciation for the year was reported as follows:	**US$ 000**
Depreciation expense charged to statement of profit or loss (Refer Note 6)	84,375
Depreciation expense capitalised as part of property, plant and equipment (Refer Note 11a)	119,820
	204,195

Modifications to a lease agreement beyond the original terms and conditions are accounted for as a re-measurement of the lease liability with a corresponding adjustment to the right of use assets.

<u>31 December 2020</u>

	Production wells & production facilities	Movables, vehicles, software, computing & communication	Total
Cost	**US$ 000**	**US$ 000**	**US$ 000**
At 1 January 2020	1,405,856	84,098	1,489,954
Modification adjustment[1]	91,693	27,087	118,780
Additions	111,500	-	111,500
Disposals	(4,810)	(121)	(4,931)
At 31 December 2020	1,604,239	111,064	1,715,303
Accumulated Depreciation			
At 1 January 2020	(326,888)	(42,591)	(369,479)
Charge for the year	(191,650)	(21,858)	(213,508)
Disposals	3,873	36	3,909
At 31 December 2020	(514,665)	(64,413)	(579,078)
Net book value at 31 December 2020	1,089,574	46,651	1,136,225

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

11.b Right-of-use assets (continued)

Depreciation for the year was reported as follows:	**US$ 000**
Depreciation expense charged to profit or loss	86,204
Depreciation expense capitalised as part of property, plant and equipment (Note 11a)	127,304
	213,508

[1]Modifications to a lease agreement beyond the original terms and conditions are accounted for as a re-measurement of the lease liability with a corresponding adjustment to the right of use assets.

12. Cash and bank balances

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Cash at bank	**340,688**	1,176
Cash in hand	**92**	92
	340,780	1,268

For EDO, cash equivalents comprise of cash at bank (in current accounts). These balances do not earn any interest and can be withdrawn on demand. Considering the macroeconomic factors, the management has not assumed any probability of default relating to these financial assets.

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Bank name		
National Bank of Oman	**835**	1,028
HSBC Bank Middle East	**36,774**	148
JP Morgan	**182,784**	
Bank Muscat	**120,295**	
	340,688	1,176

The credit risk rating for National Bank of Oman was Ba2 as at 31 December 2021 (31 December 2020: Ba3). The credit risk rating for HSBC Bank Middle East was A3 as at 31 December 2021 (31 December 2020: A3).

The credit risk rating for JP Morgan was A2 and for Bank Muscat was Ba3 as at 31 December 2021. These are based on Moody's ratings.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

13. Issued capital and reserves

Authorised shares

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Ordinary shares of OMR 1 each	**1,300**	-
	1,300	-

Ordinary shares issued and fully paid

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Issued on 06 December 2020	**1,300**	-
	1,300	-

OCI items, net of tax:
The disaggregation of OCI in retained earnings is shown below:

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Re-measurement of pension fund obligation	**(39,633)**	207,177
Deferred tax related to items recognised in OCI during the year	**(115,771)**	-
	(155,404)	207,177

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

14. Housing loans

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Current	**2,116**	114,513
Non-current	**10,678**	18,553
	12,794	133,066

Housing loans comprise loans disbursed by PDO to Omani staff for the purchase or construction of accommodation under PDO's Housing Loan Scheme. The loans are secured by a mortgage over the title deeds of the accommodation purchased or constructed. The loans are non-interest bearing and have a term ranging from 18 to 20 years.

In December 2020, a Sub-participation facility agreement was executed between PDO LLC and Bank Muscat SAOG under which Bank Muscat agreed to participate in PDO's housing loan portfolio. Under this agreement housing loan portfolio of US$ 126,414 ('000) was sold to Bank Muscat SAOG in December 2020. Consequently, the housing loan portfolio of US$ 126,414 ('000) was derecognised from EDO's financial statements.

PDO's housing loan receivables balances were neither past due nor impaired as of the reporting date.

Expected credit loss for housing loans receivables

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
At 1 January	**690**	895
Provision written-off	-	(205)
At 31 December	**690**	690

15. Disclosure segment information

EDO are a combination of the following three components:

- the cost of exploration and production of crude oil from PDO,
- the cost of exploration and production of NAG and condensate from the Gas operations, and
- the sales & marketing of the crude oil, NAG and condensate undertaken by the MoEM.

For the purpose of the financial statements, the operating segment is organised into business units based on the types of products and thus has two reportable segments, as follows:

- Crude oil segment - includes all activities related to the crude oil exploration, production, sales and marketing. This segment is further split into export and domestic sales categories.
- NAG & Condensate segment - includes activities related to:
    - the non-associated gas reserves that are developed; and
    - the condensate exploration, production, sales and marketing, which is blended with crude oil and sold at the same price.

The information for the above segments is presented as if they were operating for the year ended 31 December 2020. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the financial statements.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

15. Disclosure segment information (continued)

Adjustments and eliminations

Finance income, finance costs and capital expenditures are allocated to individual segments to which the expenditure is attributable to. Finance income relates to interest income accrued on low-interest loans and deferred payments. Finance cost relates to the interest component for the lease liabilities and abandonment provisions. Capital expenditure consists of additions to property, plant and equipment.

NAG consumed by the crude oil segment has been eliminated from the NAG & condensate revenue and the related costs have been deducted from the crude oil segments. Such inter-segment revenue and related costs are reflected in the 'adjustments and elimination' column. In addition, there are certain corporate costs incurred in the management of corporate or functional activities that are undertaken centrally to attain efficiency and standardisation. These costs are allocated to NAG & condensate. The NAG overhead costs incurred by PDO (crude oil segment) are allocated to the NAG & condensate segment. The amount of reallocated costs from the crude oil segment to the NAG & condensate segment are US$ 227,900 ('000) in 2021 (2020 US$ 270,900 ('000)).

EDO's organisational structure reflects the various activities in which the Block 6 is engaged. At 31 December 2021, EDO had three reportable segments: crude oil, NAG & Condensate and corporate & others.

The following table represents the information on the segments noted above:

2021	Crude oil US$'000	NAG & Condensate US$'000	Adjustments & eliminations US$'000	Corporates & others US$'000	Total US$'000
External customers - Crude Oil	**6696,629**	**-**	**-**	**-**	**6,696,629**
External customers - NAG	**-**	**2,259,084**	**-**	**-**	**2,259,084**
External customers - Condensate	**-**	**2,576,585**	**-**	**-**	**2,576,585**
Inter Segment	**-**	**65,323**	**(65,323)**	**-**	**-**
Total revenue from contracts with customers	**6696,629**	**4,900,992**	**(65,323)**	**-**	**11,532,298**
Depreciation and amortisation	**1,971,643**	**1,161,608**	**-**	**-**	**3,133,251**
Depreciation right-of-use assets	**67,496**	**16,879**	**-**	**-**	**84,375**
Interest revenue	**(39)**	**(7,428)**	**-**	**(345)**	**(7,812)**
Interest expense on lease liabilities	**35,298**	**7,710**		**-**	**43,008**
Inter-segment	**202,127**	**-**	**(65,323)**	**-**	**136,804**
Profit for the year	**780,582**	**3,318,424**	**-**	**(39,234)**	**4,059,772**
Segment Assets	**15,538,747**	**12,327,041**	**(7,521)**	**302,782**	**28,161,049**
Segment Liabilities	**4,319,678**	**2,606,735**	**(7,521)**	**2,482,948**	**9,401,840**
<u>Other disclosures</u>					
Capital expenditure	**2,264,662**	**968,041**	**-**	**-**	**3,232,703**

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

15. Disclosure segment information (continued)

2020	Crude oil US$'000	NAG & Condensate US$'000	Adjustments & eliminations US$'000	Corporates & others US$'000	Total US$'000
External customers - Crude Oil	5,837,773	-	-	-	5,837,773
External customers - NAG	-	2,599,550	-	-	2,599,550
External customers - Condensate	-	1,724,500		-	1,724,500
Inter Segment	-	238,031	(238,031)	-	-
Total revenue from contracts with customers	5,837,773	4,562,081	(238,031)	-	10,161,823
Depreciation and amortisation	1,803,002	1,130,647	-	-	2,933,649
Depreciation right-of-use assets	68,963	17,241	-	-	86,204
Interest revenue	(679)	(21,517)	-	-	(22,196)
Interest expense on lease liabilities	30,704	7,317	-	-	38,021
Inter-segment	238,031	-	(238,031)	-	-
Profit for the year	2,900,375	2,981,573	-	-	5,881,948
Segment Assets	15,092,036	12,105,748	(43,523)	-	27,154,261
Segment Liabilities	3,550,072	1,577,109	(43,523)	-	5,083,658
<u>Other disclosures</u>					
Capital expenditure	2,264,662	1,230,368	-	-	3,495,030

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

16. Inventories

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Material stock	**211,493**	226,248
Project bulk material stock (flowlines and hook-up)	**83,812**	83,411
Crude oil inventory	**174,144**	9,201
Consignment stock	**8,575**	7,168
Well advance stock	**6,630**	7,248
	484,654	333,276

The below table presents the movement in provision for obsolete stock.

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
At 1 January	**37,042**	47,576
Additions to provisions (recognised in statement of profit or loss and other comprehensive income)	**6,000**	-
Write-offs	**(11,064)**	(10,534)
At 31 December	**31,978**	37,042

17. Receivables and prepayments

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Trade receivables	**18,285**	813,782
Prepayments	**65,792**	15,497
Other receivables	**76,542**	35,499
	160,619	864,778
Less: non-current portion of receivables and prepayments	**21,517**	21,001
Current portion of receivables and prepayments	**139,102**	843,777

Trade receivables are non-interest bearing and are normally settled within 30-60-day terms.

Expected credit loss for trade receivables

	31 Dec 2021	**31 Dec 2020**
	US$ 000	US$ 000
At 1 January	**12,120**	11,082
(Reversals)/additions to provisions	**(1,717)**	1,038
At 31 December	**10,403**	12,120

EDO applies a simplified approach to calculate ECLs. EDO considers the receivables in default when contractual payments are 90 days past due. EDO has established default rates that is based on its historical credit loss experience and the probability of default associated with Oman Government, adjusted for forward-looking factors specific to the customers

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

18. Computation of distributed to the Government

	31 Dec 2021 US$ 000 (Up to Fiscal Protocol)	31 Dec 2020 US$ 000
Total revenue from the sale of crude oil, NAG and condensate (including other operating income and finance income)	**2,638,748**	10,419,294
Add: Outstanding receivables as of 31 December 2020 / 31 December 2019	**1,599,179**	1,447,024
Less: Outstanding receivables as of 24 February 2021 for Oil and 5 May 2021 for NAG and condensate (comparative period: 31 December 2020)	**(1,652,129)**	(2,302,038)
Less: Expenses incurred during the year (Residue reinjection, transportation costs and other overheads)	**(23,505)**	(141,737)
Less: Outstanding Payables on expenses incurred for the previous year (Residue reinjection and transportation costs)	**(64,319)**	(82,429)
Add: Adjustment of advances received to the related party	-	(137,723)
Less: Cash call payments made by the MoEM to PDO (60%) and Gas operations (100%)	**(1,027,508)**	(4,443,715)
Total cash distributed on retained earnings	**1,470,466**	4,758,676
Distribution of assets in specie*	**7,027**	35,915
Total surplus distributed to the Government	**1,477,493**	4,794,591

Distribution of assets in specie*

During the period from 1 January 2021 to 23 February 2021, out of the total MoEM's share of oil production, EDO transferred production volumes of 270 ('000) barrels in 2021 and 1,830 ('000) barrels in 2020 to the Government. This arrangement is considered as an equity transaction and accounted for as a distribution of asset in specie to the Government. Therefore, EDO has recognised the cost of these barrels amounting to US$ 7,027 ('000) for the period from 1 January 2021 to 23 February 2021 and US$ 35,915 ('000) for the year ended 31 December 2020 in the invested capital. (Refer Note 21).

19. Payables and accruals

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Trade payables		
Foreign	***5,732***	*14,325*
Domestic	***300,958***	*384,427*
	306,690	398,752
Accrued expenses	**585,354**	520,990
Deferred income	**2,305**	2,305
Other payables and provisions	**98,985**	122,463
Royalty payables	**544,575**	-
	1,537,909	1,044,510

Trade payables and other payables are non-interest bearing and are normally settled within a 30–45-day term. For details of EDO's liquidity risk management processes, refer Note 29.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

20. Term Loan

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Outstanding Term Loan		
USD 2.5 billion term loan	**2,500,000**	-
Less: Upfront charges capitalised	**(31,546)**	
	2,468,454	-

This loan is repayable in equal instalments of US$ 85,526 (‘000) from twenty-seven months after the date of the facility agreement dated 11 August 2021. The instalments will be paid once every three months up to 81 months from the date of the facility agreement, aggregating nineteen instalments. This loan is repayable in full in 2028 with a final instalment of US$ 875,000 (‘000). The rate of interest on each instalment is the aggregate of the margin (2.95% per annum) and applicable LIBOR.

21. Related party transactions

EDO is ultimately held and controlled by the Government of the Sultanate of Oman. EDO operates in an economic environment dominated by entities directly or indirectly controlled by the Government of the Sultanate of Oman through its government authorities, agencies, affiliations, and other organisations, collectively referred to as government-related entities.

EDO has elected to take the exemption available under IAS 24 Related Party Disclosures, to disclose only the key transactions and outstanding balances, including commitments, with the Government of the Sultanate of Oman and any other entity that is considered to be a related party because the same government has control, joint control or significant influence over itself and the other entity.

EDO has transactions with other government-related entities, including but not limited to sales and purchases of goods, rendering and receiving services, and use of public utilities. These transactions are conducted in the ordinary course of EDO on terms comparable to those with other entities that are not government related.

The nature of the related party transaction with the Government entities that are considered to be significant transactions and that have significant balances outstanding as at the end of the reporting periods are detailed below:

Revenue

Prior to the application of fiscal protocol, NAG revenue from Government entities is approximately 81.87% (31 December 2020: 81.87%). Under the fiscal protocol, NAG revenue from Government entities is 100% of the total NAG revenue. The NAG revenue from government entities during the year ended December 2021 amounts to US$ 2,090,315 (‘000), (31 December 2020: US$ 2,128,149 (‘000)) with corresponding receivables of US$ 367,132 (‘000) as at 31 December 2021 (31 December 2020: US$ 373,278 (‘000)).

With respect to crude oil revenue, prior to the application of the fiscal protocol, domestic crude oil revenue from Government is 100%. Under the fiscal protocol 100% crude oil revenue is from Government amounting to US$ 6,238,559 (‘000) during the year ended 31 December 2021 (31 December 2020: US$ 2,293,638 (‘000)) with a corresponding receivable of US$ 745,903(‘000) as at 31 December 2021(31 December 2020: US$ 428,091 (‘000)).

With respect to condensate revenue, 100% revenue is from Government amounting to US$ 2,576,585 (‘000) during the year ended 31 December 2021 with a corresponding receivable of US$ 455,094 (‘000) as at 31 December 2021 (31 December 2020: US$ Nil).

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

21. Related party transactions (continued)

Other operating income

Other operating income comprises EDO's share of compensation received from a related Government entity for the lower grade of crude oil and condensate of US$ 22,607 ('000) during the year ended 31 December 2021 (31 December 2020: US$ 19,440 ('000)) with corresponding receivables of US$ 15,193 ('000) as at 31 December 2021 and with a corresponding payable of US$ 1,159 ('000) as at 31 December 2020.

Trade receivable and finance income

The gas sales agreement between the MoEM and a related Government entity was amended in 2016, under which the related Government entity was required to make an additional payment, as the MoEM supplied a certain threshold of gas from the year 1996-2016. The payments are deferred for more than a year and demonstrate an extended credit term, and hence it includes significant elements of financing. The difference between the total of the outstanding receivables due in 2016 and the present value of the variable amount received over subsequent years is recognised as interest income to the statement of profit or loss and other comprehensive income over time. The outstanding receivables amounting to NIL as at 31 December 2021 (31 December 2020: US$ 273,270 ('000)) and the related finance income amounting to US$ 7,428 ('000) for the year ended 31 December 2021 (31 December 2020: US$ 21,517 ('000)) is allocated to EDO.

Transportation cost

The transportation cost related to the supply of NAG is paid to a related Government entity. The cost allocated to EDO amounts to US$ 74,106 ('000) during the year ended 31 December 2021 (31 December 2020: US$ 204,637 ('000)) with NIL corresponding payables as at 31 December 2021 (31 December 2020: US$ 64,319 ('000)).

Royalty

The Royalty paid by EDO to the government on its weekly revenue amounts to US$ 3,080,869 ('000) for the year ended 31 December 2021 with a corresponding payable of US$ 544,575 ('000) as of 31 December 2021.

Purchase cost

The purchase of residue reinjected by a related Government entity amounts to US$ 28,511 ('000) for the year ended 31 December 2021(31 December 2020: US$ 46 ('000)) with corresponding payables of US$ 28,511 ('000) as of 31 December 2021 and no corresponding payables as of 31 December 2020.

Distribution of assets in specie

During the year ended on 31 December 2021, out of the total EDO's share of oil production, EDO transferred production volumes of 1,825 ('000) barrels (31 December 2020: 1,830 ('000)) to the Government. This arrangement amounting to US$ 39,500 ('000) is considered as an equity transaction and accounted for as a distribution of asset in specie to the Government for the year ended 31 December 2021. The cost of the barrels amounting to US$ 7,027 ('000) that related to the period prior to the application of Royal Decree and Fiscal Protocol, is recognized in the invested capital of EDO. The cost of the barrels amounting to US$ 32,473 ('000) (31 December 2020: US$ 35,915 ('000) that related to period post the application of Royal Decree and Fiscal Protocol, is recognized in the retained earnings.

Supply of crude oil barrels to the Government

Production expenses and depreciation, depletion and amortisation include the cost of FSA barrels transferred to the Government for the year ended 31 December 2021 amounted to US$ 203,154 ('000) and US$ 470,141 ('000), respectively (31 December 2020: US$ Nil). The total cost of FSA barrels amounted to US$ 673,295 ('000) year ended 31 December 2021 (31 December 2020: US$ Nil).

Distribution of Dividends

Dividends on ordinary shares totaled US$ 2,410,668 ('000) in 2021, which included dividend of US$ 127,668 ('000). During the year ended on 31 December 2021, out of the total EDO's obligation under the Fiscal Protocol to transfer petroleum barrels under a Forward Sale Agreement, EDO transferred 2,906 ('000) additional barrels of crude oil to the Government (Refer note 30). The total amount net off royalty and tax, of US$ 127,668 ('000) was adjusted as Dividend to the Government.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

21. Related party transactions (continued)

Loan from the Omani Pension Fund

PDO has entered into a credit facility with the Omani Pension Fund, under which PDO has utilised the loan proceeds in the development of a project in Ras Al Hamra ("RAH"). The amount due to the Omani Pension Fund and related accrued interest amounts to US$ 64,055 ('000) for the year ended 31 December 2021 (31 December 2020: US$ 60,989 ('000)).

Transactions with Key managerial personnel ("KMP")

EDO had no transactions with key EDO managerial personnel in 2021. The amounts below reflect the transactions with PDO key managerial personnel.

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Salaries and other benefits	**20,715**	23,776

The table below shows the amounts due to related parties and due from related parties as at 31 December 2021 and 31 December 2020.

	31 Dec 2021	31 Dec 2020
	US$'000	US$'000
Due from related parties	**1,584,388**	1,072,740
Due to related parties	**95,816**	126,466

A significant portion of the above receivable balances are classified as 'current'.

Expected credit loss for related party receivables

	31 Dec 2021	31 Dec 2020
	US$'000	US$'000
At 1 January	**1,898**	**1,141**
Amount provided during the year	**-**	**757**
Amounts reversed during the year	**(536)**	**-**
At 31 December	**1,362**	**1,898**

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

22. Advances

Advance from a wholly owned Government entity

The Government has entered into an agreement with a related entity, wholly owned by the Government for an amount of US$ 1 billion which has been advanced by the related entity to the Government. As per this agreement, the Government shall adjust these advances against the future supply of crude oil, through domestic sales to a separate related Government entity. The outstanding amount was allocated to EDO based on the monthly ratio of domestic crude oil sales allocated to EDO to the total MoEM's domestic crude oil sales from all the Blocks. This amount was classified as an advance. During 2020, the entire advances were adjusted by supply of crude oil.

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Opening balance	**-**	137,723
Less: Adjusted during the year	**-**	(137,723)
	-	-

23. Lease liabilities

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Opening balance	**1,196,993**	1,153,631
Modification adjustment[1]	**36,420**	118, 780
Additions[2]	**149,961**	110,562
Accretion of interest	**64,695**	64,999
Payments	**(284,350)**	(250,979)
Total	**1,163,719**	1,196,993

1. Modifications to a lease agreement beyond the original terms and conditions are accounted for as a re-measurement of the lease liability with a corresponding adjustment to the right of use assets. This is a non-cash transaction.

2. The additions during the year amounting to US$ 149,961 ('000) for 2021 and US$ 110,562 ('000) for 2020 are non-cash transactions.

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
The maturity analysis of operating lease liabilities are as follows:		
Current	**247,526**	238,448
Non-current	**916,193**	958,545
	1,163,719	1,196,993

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

23. Lease liabilities (continued)

The following are the amounts recognised in statement of profit or loss and other comprehensive income:

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Depreciation expense on right-of-use assets classified as operating expense	**84,375**	86,204
Interest expense on lease liabilities (Refer Note 5.3)	**43,008**	38,021
Expense relating to short-term leases	**23,297**	58,120
	150,680	182,345

EDO has lease contracts that include extension and termination options. EDO may reconsider and re-evaluate whether it will exercise these extension or termination options. These options will be evaluated by management to provide flexibility in managing the leased-asset portfolio and align with the business needs. Extension and termination options that are subject to future reconsideration are not reflected as part of lease liabilities. Currently, there is no exposure to these potential additional payments in excess of the recognised lease liabilities until these decisions have been taken by EDO. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (refer Note 2).

24. National objective investment/ liability

National objective investment
PDO established the National Objective Scheme in 2011 to support the Government’s efforts in the Oil and the Gas industry. The primary mandate of this program is to create jobs for Omanis and training programs to enhance the skills and capabilities of Omanis.

Ministry of Energy and Minerals (MEM) issued an instruction in January 2020 for transfer of funds accumulated under National Objective Fund to National Training Fund (NTF). The National Training Fund (NTF) was established by Royal Decree 48/2016, which was issued on 16 October 2016 with the mandate to develop the capabilities of the Omani workforce aimed at bridging the gap between Labour market supply and demand. As per MEM instruction a total amount of US$ 65,792 (‘000) was transferred to NTF in 2020.

The balance as at 31 December 2021 amounts to 26,994 (‘000) (31 December 2020: US$ US$ 5 (‘000)) is to be utilised towards the National Objective Scheme in due course by PDO.

National objective liability
This represents the PDO's contribution of 1.2% of every contract price towards training programs for Omanis.

	31 Dec 2021	31 Dec 2020
	US$’000	US$’000
At 1 January	**4,537**	32,122
Additional contribution	**24,268**	38,207
Utilised during the year	**-**	(65,792)
At 31 December	**28,805**	4,537

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

25. Abandonment provision

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Non-current		
At 1 January	**2,198,671**	1,606,445
Additions in provision due to assets acquisition	**289,690**	183,502
Reduction in provision due to disposals	**(35,952)**	(34,241)
Remeasurements and change in estimates	**212,143**	352,163
Unwinding of interest cost	**143,854**	90,802
At 31 December	**2,808,406**	2,198,671

EDO makes full provision for the future cost of the decommissioning of oil and gas wells and production facilities on a discounted basis on the installation of those wells and infrastructure. The abandonment provision represents the present value of the abandonment costs relating to oil and gas properties, which are expected to be incurred up to 2044 for oil and gas, when the producing oil and gas properties are expected to cease operations. These provisions have been created based on EDOs internal estimates. Assumptions based on the current economic environment have been made, which management believes form a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. The movements in the abandonment provision are due to the change in inputs for the discounting factor, the estimated lifetime of clusters and the estimated cost of abandoned wells based on the average expected cost of the wells. The key movements resulting in the increase of the estimates for abandonment provision are due to the application of Gas Concession Agreement that reduced the cluster life of gas in 2021.

However, actual decommissioning costs will ultimately depend upon the future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

Abandonment cost recognised in the statement of profit or loss and other comprehensive Income:

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Abandonment asset depreciation (Refer Note 11a)	**80,185**	118,583
Impact of changes in estimate during the year	**(10,361)**	-
Unwinding of interest cost	**143,740**	90,802
Abandonment assets write off (Refer Note 11a)	**-**	-
	213,564	209,385

The abandonment provision has been estimated using existing technologies at current prices and discounted using a discount rate of 6.7% in 2021 and 7.15% in 2020.

The utilization of the provision in the next twelve months period is not expected to be significant and therefore, the entire abandonment provision is classified as non-current liabilities.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

26. Due to Omani pension scheme

PDO has a separately administered pension scheme for the benefit of its Omani staff. The Omani Staff Pension Scheme ("the pension scheme") is a defined benefit retirement scheme. The contribution by Omani staff is 7% of their basic salaries plus allowances whilst the contributions made by PDO are 29.3% of their basic salaries plus allowances. The last actuarial valuation of the Omani Staff Pension Scheme, performed as at 31 December 2021, showed the described pension scheme's position.

The following tables summarise the components of the pension expense recognised in the statement of profit or loss and other comprehensive income and the funded status and amounts recognised in the balance sheet for the pension scheme.

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Return on plan assets (other than net interest)	**97,083**	39,184
Actuarial (loss)/gain from changes in financial assumptions	**(140,278)**	169,137
Actuarial gain/ (loss) from changes in experience adjustments	**3,562**	(1,144)
Amount recognised in other comprehensive income	**(39,633)**	207,177
Deferred tax related to items recognised in OCI during the year	**(115,771)**	-
	(155,404)	207,177

Pension scheme costs

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Current service costs	**86,627**	102,439
Net interest expense	**(25,533)**	(7,113)
Total charge	**61,094**	95,326
Less: contribution paid by PDO	**(143,324)**	(132,406)
Surplus contribution to Omani staff pension scheme	**(82,230)**	(37,080)

Statement of financial position – Net retirement benefit assets/(liabilities)

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Fair value of pension scheme net assets	**2,220,932**	1,921,533
Present value of funded obligations	**(1,849,600)**	(1,592,777)
Net retirement benefit assets	**371,332**	328,756

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

26. Due to Omani pension scheme (continued)

Movement in fair value of pension scheme assets

	31 Dec 2021	31 Dec 2020
	US$'000	US$'000
Opening fair value of scheme	**1,921,533**	1,673,868
Interest income	**139,631**	122,747
Return on plan assets (other than net interest)	**97,083**	39,184
Contribution paid by PDO	**143,324**	132,406
Contribution paid by the employees	**21,503**	20,030
Benefits paid	**(102,142)**	(66,702)
Fair value of pension scheme assets	**2,220,932**	1,921,533

Movement in present value of funded obligations

	31 Dec 2021	31 Dec 2020
	US$'000	US$'000
Opening funded obligations	**1,592,777**	1,589,369
Current service costs	**86,627**	102,439
Interest costs	**114,098**	115,634
Past service	**21**	
Re-measurement loss/(gain):		
- Actuarial loss/(gain) from changes in financial assumptions	**140,278**	(169,137)
- Actuarial (gain)/loss from change in experience adjustment	**(3,562)**	1,144
Benefit paid	**(102,142)**	(66,702)
Contribution paid by the employees	**21,503**	20,030
Present value of funded obligations	**1,849,600**	1,592,777

The principal assumptions used in determining the pension scheme obligations are shown below:

	2021	2020
	%	%
Discount rate at 31 December	**6.70%**	7.15%
Inflation rate	**2.00%**	2.00%
Expected rate of return on assets	**6.70%**	7.15%
Future salary increases	**3.00%**	3.00%
Future pension increases	**0.00%**	0.00%
Mortality rate	59% of ELT13* improving to 50% in 18 years	60% of ELT13* improving to 50% in 19 years

**English Life Table No.13 ("ELT 13") reflects the assumed mortality of Omanis covered by the Public Authority of Social Insurance ("PASI").*

Salary risk
The present value of the defined benefit plan liability is calculated by reference to future salaries of the plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability. The sensitivity analyses below have been determined based on a set of reasonably possible changes of the respective assumptions occurring at the end of the reporting periods, while holding all other assumptions constant.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

26. Due to Omani pension scheme (continued)

Change in defined benefit obligation	**2021**		2020	
	Increase US$'000	**Decrease US$'000**	Increase US$'000	Decrease US$'000
Discount rate (1% movement)	**(335,200)**	**309,600**	(256,800)	292,800
Future salary growth (1% movement)	**152,400**	**(139,200)**	126,000	(115,200)

Restructuring of Oman pension and social protection system

In April 2021, Royal Decree 33/2021 was issued, in which the subject of integration of pension funds was addressed. The decree stipulated that all local pension funds be merged into two funds, one concerned with civil funds and the other with military and security funds. The PDO pension fund, in cooperation with all relevant authorities and stakeholders, is currently assessing the potential impacts of the Royal Decree on the PDO's pension fund and on the Company in general.

27. Provision for staff end-of-service and other retirement benefits

The defined contribution pension schemes to which seconded staff contribute are funded by payments to trusts, which are administered independently of PDO. PDO's obligations are limited to these contributions, which are expensed when due.

Provision for Omani end-of-service benefits represents amounts due to Omani staff who are not members of the Omani pension scheme and who have contracts that provide for the payment of end-of-service benefits upon termination or expiration of their employment contracts. Provision for non-Omani end-of-service benefits represents amounts due to non-Omani staff who are not members of any pension scheme and who have contracts that provide for the payment of end-of-service benefits upon termination or expiration of their employment contracts.

Following are the balances of Non-Omani and other staff pension provisions:

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Provision for Omani staff voluntary enhanced early retirement scheme	**13,493**	17,720
Provision for Omani staff early enhanced retirements (Not under Omani Pension Fund)	**155**	372
Provision for non-Omani staff end-of-service benefits	**2,066**	2,327
Provision for Omani staff end-of-service benefits (Not under Omani Pension Fund)	**749**	714
	16,463	21,133

PDO's obligations are limited to these contributions, which are expensed when due. The tables below provide details of the provisions created (and utilised) during the year

Provision for Omani staff voluntary enhanced early retirement scheme

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
At 1 January	**17,720**	-
Provision made during the year	**-**	17,720
Paid during the year	**(4,227)**	-
At 31 December	**13,493**	17,720

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

27. Provision for staff end-of-service and other retirement benefits (continued)

Provision for Omani staff early enhanced retirements (Not under Omani Pension Fund)

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
At 1 January	**372**	652
Provision made during the year	**23**	17
Paid during the year	**(240)**	(297)
At 31 December	**155**	372

PDO provides for employee early retirement costs based on a scheme approved by the PDO's management. A significant proportion of the provision is not expected to be utilised within the next one year.

Provision for Non-Omani staff terminal benefits

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
At 1 January	**2,327**	2,554
Provision made during the year	**3,839**	4,415
Paid during the year	**(4,100)**	(4,642)
At 31 December	**2,066**	2,327

Provision for Omani staff terminal benefits (Not under Omani Pension Fund)

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
At 1 January	**714**	657
Provision made during the year	**310**	331
Paid during the year	**(275)**	(274)
At 31 December	**749**	714

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

28. Assets held for sale

During 2019, the Gas Operations entered into a draft agreement with Shell Integrated Gas Oman BV and Total E&P Oman Development BV ("Shell & Total") wherein Shell & Total (once the agreement is signed) would be the operator of Mabrouk North East (Area 1 and Area 2) (together the 'concession area'). Shell & Total requires the Gas Operations to design, develop and execute services related to its operations in the concession area. Based on this arrangement, at reporting date, Mabrouk North East assets having value of USD 726 million (2020: USD 463 million) are recognised in accordance with IFRS 5 as Assets held for sale. The total funding of USD 726 million (2020: USD 463 million) by Shell and Total is recognised as liabilities associated with assets held for sale (Mabrouk North East).

EDO's interest and rights in the exploration and exploitation of NAG and NAG condensate in the Block 10 area will be relinquished effective from the ratification by Royal Decree of the concession agreement that was signed by the Government and Shell, along with its partners, OQ and Marsa Liquefied Natural Gas LLC (a joint venture between Total and OQ) on 21 December 2021. The related assets and liabilities will be removed from the financial statements upon ratification of the Royal Decree, which is expected to happen in 2022.

Assets held for sale (Mabrouk North East):

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Gross Block: Exploration and evaluation assets	**736,872**	499,080
Less: Accumulated depreciation	**(1,127)**	(846)
Net Block: Exploration and evaluation assets	**735,745**	498,234
Cash at bank	**38,400**	582
Well Advance Stok	**-**	2,054
Receivables	**2,513**	-
Payables	**(46,470)**	(36,571)
Due to a related party	**(5,329)**	(1,767)
	724,859	462,532

Labilities associated with assets held for sale

	31 Dec 2021 US$'000	31 Dec 2020 US$'000
Funds from Mabrouk North East participants	**725,986**	492,194
Depreciation on Mabrouk North East assets	**(1,127)**	(846)
	724,859	491,348

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

29. Financial risk management objectives and policies

EDO operates internationally but has limited exposure to financial risks. The financial risks that could adversely affect EDO's financial assets, liabilities or future cash flows are market risk (including commodity price risk, interest rate risk and foreign currency risk), credit risk, and liquidity risk.

Market risk - The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk: commodity price risk, interest rate risk and foreign currency risk.

Commodity price risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices. EDO is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of crude oil and NAG products it produces. EDO does not hedge the risk, as there is no active risk management.

Commodity price sensitivity
Based on the assumption that the crude oil price moves +/- 20% this would result in a change of US$ 13/bbl. for the year ended 31 December 2021 (31 December 2020: US$ 9/bbl.), with a consequent change in profit of US$ 218,045 ('000) for the year ended 31 December 2021 (31 December 2020: US$ 1,167,319 ('000)), where all other variables are held constant.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's term loan obligations with floating interest rates.

The sensitivity analyses below have been determined based on the exposure to interest rates for instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax for the period (through the impact on floating rate borrowings rates). There is no direct impact on the Company's equity.

31 December 2021	**Increase/Decrease in basis points**	**Effect on profit before tax US$ 000**
	+50	(1,697)
	-50	1,697

There is no effect on profit before tax for the year ended 31 December 2020, as there was no outstanding term loan as of 31 December 2020.

Foreign currency risk
Currency risk in respect of EDO is mitigated significantly via a policy of awarding contracts and purchase orders mainly in US$ or Omani Rials only. The Omani Rial is effectively pegged to the US$. Only in exceptional cases, based on a commercial evaluation, are contracts/purchase orders awarded denominated in other currencies and therefore are not considered to have significant impact on EDO.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

29. Financial risk management objectives and policies (continued)

Credit risk - Credit risk is the risk that counterparties might not fulfil their contractual payment obligations towards an entity.

EDO is exposed to credit risk in respect of its trade and other receivables, housing loans, due from related parties and bank balances. Credit risk is controlled as balances are regularly reviewed and, where necessary an appropriate recovery action is taken. The expected credit loss model is applied for recognition and measurement of impairments in financial assets measured at amortised cost. Such credit losses have historically been nominal and the loss allowance for trade and other receivables, housing loans, due from related parties is presented in Note 13, Note 16 and Note 20 respectively. Other financial assets consist of cash and cash at bank held with leading and reputed banks. (Refer Note 12).

The expected credit loss in 2021 is US$ 1,362 ('000) (2020: US$ 3,523 ('000)), which represents 0.09% (2020: 0.18%-0.23%) of all trade receivables and related parties on account of crude oil and NAG sales. The decrease compared with prior year is mainly due to changes in the macroeconomic environment.

Liquidity risk – This is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Management regularly monitors future liquidity requirements. Trade payables are normally settled within 30 to 45 days of receipt of invoice based on the contractual terms. The table below summarises the maturities of EDO's undiscounted financial liabilities at each reporting date, based on contractual payment dates.

	Up to one year US$ 000	**Total US$ 000**
31 December 2021		
Trade payables	**306,690**	**306,690**
Accrued expenses	**585,354**	**585,354**
Other payables	**645,865**	**645,865**
Due to related parties	**95,816**	**95,816**
31 December 2020		
Trade payables	398,752	398,752
Accrued expenses	520,990	520,990
Other payables	122,463	122,463
Due to related parties	126,466	126,466

Contractual maturities of financial liabilities

	Up to one year US$ 000	**1-5 years US$ 000**	**More than 5 years US$ 000**	**Total contractual cash flows US$ 000**	**Carrying amount US$ 000**
Term loan					
At 31 Dec 2021	**78,759**	**1,756,518**	**1,068,705**	**2,903,982**	**2,468,454**
At 31 Dec 2020	-	-	-	-	-
Lease liabilities					
At 31 Dec 2021	**254,522**	**730,015**	**529,862**	**1,514,399**	**1,163,719**
At 31 Dec 2020	244,822	719,729	616,747	1,581,298	1,196,993

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

30. Capital Commitments

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Future capital expenditure authorised by the Board of Directors of PDO and Gas Operations	**18,351,430**	18,203,680

Supply of crude oil barrels to the Government

The Government has raised a loan of US$ 4 billion in the form of a Pre-Export Facility (PXF) through Yibal Export B.V. The facility was structured as a pre-export financing ("PXF"). Under the Fiscal Protocol, EDO transfers to the Government such barrels of Petroleum as may be required and notified by the Government to perform its obligations under a Forward Sale Arrangement ('FSA Barrels') to satisfy the requirements under the PXF. These FSA barrels are transferred at free of charge and on a 'first priority basis', that is, from the first barrels of Petroleum. The Government has the ownership rights of these FSA Barrels and is entitled to dispose of these barrels. EDO's obligations to transfer these FSA Barrels to the Government shall at all times take priority over other obligations. (Refer Note 21)

31. Income tax

EDO's obligation to pay current tax is defined in the Fiscal Protocol and shall be recurring in nature. EDO is liable to pay tax at an amount equal to fifty-five percent (55%) of its income chargeable to tax from 24 February 2021 to 31 December 2021 for oil operations and from 06 May 2021 to 31 December 2021 for NAG & condensate operations.

Since, the taxes are applicable only from the current year there is an opening non-deductible element arising on account of difference between accounting base (IFRS) and continuing tax base (as per concession agreement) of depreciation on property, plant, and equipment. EDO has availed the initial recognition exception under IAS 12 - *'Income Taxes'*. Accordingly, going forward the effective tax rate is expected to be significantly higher than the tax rate of 55% due to non-deductible element on initial recognition

The major components of income tax expense in the statement of profit or loss:

	31 Dec 2021	31 Dec 2020
	US$ 000	US$ 000
Income taxes		
Current income tax expense	**(1,059,335)**	-
Deferred income tax expense relating to origination and reversal of temporary:		
Deferred tax asset	**2,184,667**	**-**
Deferred tax liabilities	**(2,544,225)**	**-**
Income tax expense recognised in statement of profit or loss	**(1,418,893)**	-

Tax liability amounting to US$ 82,081 ('000) is payable as of 31 December 2021 (31 December 2020: nil).

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

31. Income tax (continued)

Reconciliation of income tax expense and the accounting profit multiplied by the domestic tax rate for 2021:

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Profit before tax	**4,059,772**	-
Income tax	**2,232,876**	-
Tax impact of non-deductible expenses and tax-exempt revenue	**(1,173,541)**	-
Deferred tax liability	**359,558**	-
	1,418,893	-

Deferred tax
Deferred tax related to items recognised in OCI during in the year

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Re-measurement of pension fund obligation	**(115,771)**	-
Deferred tax liability recognised in OCI during in the year	**(115,771)**	**-**

Deferred tax
Deferred tax relates to the following:

	31 Dec 2021 US$ 000	31 Dec 2020 US$ 000
Property, plant and equipment	**(1,211,727)**	-
Abandonment asset	**(644,085)**	-
Abandonment provision	**1,544,623**	-
Right of use asset	**(599,952)**	-
Lease liability	**640,045**	-
Net retirement benefit assets	**(88,462)**	-
Net Deferred tax liability	**(359,558)**	**-**

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

32. New standards, interpretations and amendments issued but not yet effective

The new and amended standards that are issued, but not yet effective, up to the date of issuance of EDO's financial statements are disclosed below. EDO intend to adopt these new and amended standards, if applicable, when they become effective

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:
- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact of these amendments on the existing term loan arrangements.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. This amendment is not expected to have material impact on the Company's financial statements.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

32. New standards, interpretations and amendments issued but not yet effective (continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company's financial statements.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The Company is currently assessing the impact of these amendments.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company is currently assessing the impact of these amendments.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company. This amendment is not expected to have material impact on the Company's financial statements.

Notes to the financial statements of the Energy Development Oman SAOC *(continued)*

32. New standards, interpretations and amendments issued but not yet effective (continued)

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. "

Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Company is currently assessing the impact of these amendments.

The management is currently assessing the impact of adopting the above standards and amendments on the Company's financial statements in the period of their initial application. The Company intends to adopt these standards, if applicable, when they become effective.

33. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 6 March 2022 and are signed on their behalf by the Chief Executive Officer and the Chief Financial Officer of Energy Development Oman SAOC on 15 March 2022.