DNO ASA

Report

2017 Interim Results

Key figures

USD million	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Key financials				
Revenues	116.0	42.1	347.4	201.8
Gross profit	58.9	5.2	145.2	73.1
Profit/-loss from operating activities	25.7	-27.1	521.1	6.1
Net profit/-loss	30.6	-31.2	495.0	-35.3
EBITDA	61.2	15.5	735.6	95.4
Netback *	94.4	13.4	231.8	93.8
Acquisition and development costs	27.9	18.3	130.4	36.4
Exploration costs expensed	24.1	1.3	33.0	20.3
Key performance indicators				
Lifting costs (USD/boe)	3.2	4.3	3.6	2.7
Netback (USD/boe)	13.9	2.0	8.8	3.7

* See alternative performance measures for calculation of netback.

Strong operations, strong financials, strong balance sheet

- DNO operated production in Kurdistan currently averaging 113,000 barrels of oil per day (bopd), of which Tawke field 97,000 bopd and Peshkabir field 16,000 bopd
- Leading international operator in Kurdistan (in active rigs, wells drilled, production, oil reserves), contributing more than one-third of overall exports from region
- Twelve monthly Kurdistan export payments received in 2017 totaling USD 380 million net to DNO
- 2017 operating profit of USD 521 million (USD 6 million in 2016) on back of higher entitlement production and recognition of USD 556 million historical receivables settlement
- Further strengthened balance sheet by removal of certain obligations related to Tawke license
- At year-end 2017, net cash position of USD 30 million versus net debt of USD 139 million at end-2016

2017 operational highlights

- Operated production in 2017 averaged 113,500 barrels of oil equivalent per day (boepd), up from 112,600 boepd in 2016
- Of which Kurdistan represented 109,000 barrels of oil per day (bopd) and Oman 4,500 boepd
- Company Working Interest (CWI) production averaged 72,300 boepd in 2017 and entitlement production averaged 27,300 boepd
- Drilled 14 wells in 2017 across three operated fields in Kurdistan
- Fast tracked development of Peshkabir discovery
- Cumulative Tawke field production since inception approaching 230 million barrels

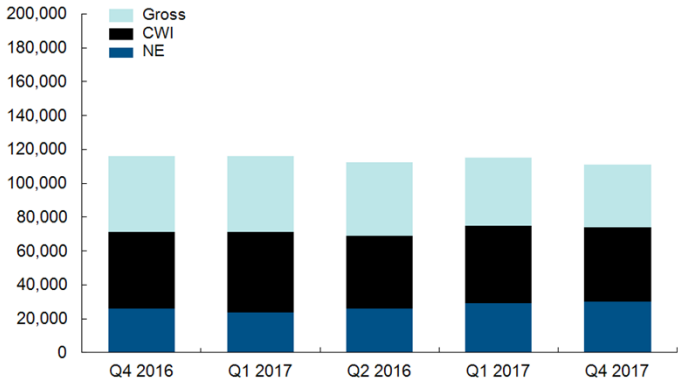
2017 financial highlights

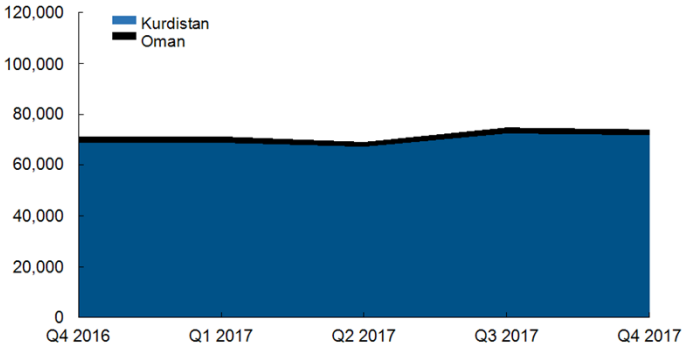
- Annual revenues of USD 347 million (USD 202 million in 2016)
- Received Kurdistan export payments net to DNO totaling USD 380 million in 2017 (USD 210 million in 2016)
- Exited the year with cash balance of USD 430 million (USD 261 million at year-end 2016) plus USD 58 million in treasury shares and marketable securities (USD 22 million at year-end 2016)
- Outstanding bond debt of USD 400 million

Operational review

Production

Quarterly production (boepd)





The Company's gross production averaged 113,530 boepd during 2017, of which 109,047 bopd was in Kurdistan and 4,484 boepd in Oman.

Company Working Interest (CWI) production in 2017 stood at 72,328 boepd, up from 69,188 boepd during 2016. In Kurdistan, CWI production averaged 70,085 bopd, up from 66,525 bopd during 2016. In Oman, CWI production averaged 2,243 boepd, down from 2,663 boepd during 2016.

The Company's entitlement production averaged 27,305 boepd during 2017.

Gross production

	Quarter		Full year	
boepd	Q4 2017	Q4 2016	2017	2016
Kurdistan	106,336	111,229	109,047	107,299
Oman	4,512	4,818	4,484	5,325
Total	**110,848**	**116,047**	**113,530**	**112,624**

Company Working Interest (CWI) production

	Quarter		Full year	
boepd	Q4 2017	Q4 2016	2017	2016
Kurdistan	71,777	68,963	70,085	66,525
Oman	2,256	2,411	2,243	2,663
Total	**74,033**	**71,373**	**72,328**	**69,188**

Entitlement production

	Quarter		Full year	
boepd	Q4 2017	Q4 2016	2017	2016
Kurdistan	28,482	23,804	25,629	25,746
Oman	1,751	2,096	1,675	1,630
Total	**30,233**	**25,899**	**27,305**	**27,376**

Activity overview

Appraisal and field development

Kurdistan region of Iraq

Tawke license
Gross production from the Tawke license averaged 109,047 barrels of oil per day (bopd) during 2017, of which 108,245 bopd was delivered for pipeline export through Turkey and the balance was processed in the Tawke refinery.

The Company has fast tracked the development of the Peshkabir field, bringing the Peshkabir Cretaceous discovery on production in less than six months and tripling to 15,000 bopd in late 2017. Output has been steady from Peshkabir-2 (5,600 bopd) and Peshkabir-3 (10,000 bopd) for cumulative production of 2 million barrels to date. A total of six Peshkabir wells will be drilled this year with field production expected to reach 30,000 bopd by summer and continue to ramp up in the second half of the year.

At the Tawke field, plans are being finalized to drill four wells in 2018, in addition to the currently drilling Tawke-48 well slated for completion by end-February. The Company is initiating engineering studies for injection of Peshkabir gas for enhanced oil recovery at Tawke.

Erbil license
The Company re-entered and sidetracked the Hawler-1 well to appraise the Benenan heavy oil field in the Erbil license, achieving a technical milestone with the first ever multilateral well and first dual completion in Kurdistan. Testing will commence shortly, and if successful, this will be followed by additional drilling activity at the license. Estimates of oil-in-place at Benenan stand at more than two billion barrels.

Oman

Offshore at Block 8, the Bukha and West Bukha fields produced an average of 4,484 boepd during 2017.

Yemen

Production start-up at the Yaalen field at Block 47, currently under force majeure, remains on hold.

Exploration

Tunisia

The company's exploration and appraisal program is continuing in Tunisia, with plans to drill a well at the Sfax Offshore Exploration Permit during the first half of 2018.

Norway

The Company's wholly-owned subsidiary DNO Norge AS has been awarded participation in 10 exploration licenses under Norway's Awards in Predefined Areas (APA) 2017 licensing round. Of the 10 licenses, seven are in the North Sea, one in the Norwegian Sea and two in the Barents Sea.

United Kingdom

The Val d'Isere prospect on the UK Continental Shelf (22.5 percent working interest) was drilled to 3,638 meters by operator Apache, but the well encountered no hydrocarbons and has been plugged and abandoned.

Somaliland

At Block SL 18 onshore Somaliland, a field geological survey and an environmental impact assessment have been conducted, in addition to a gravity-magnetic survey.

Financial review

Revenues, profits and cash flow

Revenues in the fourth quarter stood at USD 116.0 million, compared to USD 73.0 million in the previous quarter.

Kurdistan contributed revenues of USD 112.0 million, with Oman contributing USD 4.0 million. DNO reported an operating profit of USD 25.7 million during the fourth quarter, down from an operating profit of USD 468.8 million in the previous quarter. The decrease in operating profit is mainly due to a recognition of USD 556.0 million other income from past oil sales related to the Kurdistan receivable settlement made in third quarter (see Note 12).

The company ended the quarter with USD 430.2 million in cash and USD 58.0 million in market value of treasury shares and marketable securities. This was up from USD 261.1 million in cash and USD 21.2 million in market value of treasury shares and marketable securities at end-2016.

Cost of goods sold

In the fourth quarter, the cost of goods sold was USD 57.1 million, compared to USD 79.4 million in the previous quarter.

Lifting costs

Lifting costs stood at USD 21.6 million in the fourth quarter, down from USD 45.6 million in the previous quarter. In Kurdistan, the average lifting cost during the fourth quarter stood at USD 2.4 per barrel of oil equivalent (boe). In Oman, the average lifting cost during the fourth quarter stood at USD 27.0 per boe.

Lifting costs

	Quarter		Full year	
USD million	Q4 2017	Q4 2016	2017	2016
Kurdistan	16.0	24.7	72.4	59.1
Oman	5.6	2.5	23.7	8.6
Other	-	0.3	0.0	1.0
Total	**21.6**	**27.5**	**96.1**	**68.6**

	Quarter		Full year	
(USD/boe)	Q4 2017	Q4 2016	2017	2016
Kurdistan	2.4	3.9	2.8	2.4
Oman	27.0	11.4	29.0	8.8
Other	-	-	-	-
Average	**3.2**	**4.2**	**3.6**	**2.7**

Depreciation, depletion and amortization (DD&A)

DD&A for assets in operation amounted to USD 34.9 million in the fourth quarter compared to USD 32.9 million in the previous quarter.

DD&A

	Quarter		Full year	
USD million	Q4 2017	Q4 2016	2017	2016
Kurdistan	34.9	8.3	102.9	55.8
Oman	-	-	-	-
Total	**34.9**	**8.3**	**102.9**	**55.8**

	Quarter		Full year	
(USD/boe)	Q4 2017	Q4 2016	2017	2016
Kurdistan	13.3	3.8	11.0	5.9
Oman	-	-	-	-
Average	**13.0**	**3.6**	**10.7**	**5.7**

Exploration costs expensed

Expensed exploration costs of USD 24.1 million in the fourth quarter were mainly related to activities in Norway and Tunisia.

Exploration costs expensed

	Quarter		Full year	
USD million	Q4 2017	Q4 2016	2017	2016
Oman	-0.2	-1.1	-0.4	10.7
UAE	-0.0	0.3	0.2	0.8
Tunisia	2.9	2.7	5.5	7.4
Norway	17.8	-	22.9	-
Other	3.7	-0.7	4.8	1.4
Total	**24.1**	**1.3**	**33.0**	**20.3**

Acquisition and development costs

(including intangible assets)

Capital expenditures through 2017 was USD 130.4 million, of which USD 27.9 million was spent in the fourth quarter. This is up from USD 36.4 million spent during the full-year 2016.

Acquisition and development costs

	Quarter		Full year	
USD million	Q4 2017	Q4 2016	2017	2016
Kurdistan	28.2	15.8	87.3	33.3
Oman	-	2.4	41.8	2.4
Norway	0.1	-	-0.1	-
Other	-0.3	0.1	1.4	0.8
Total	**27.9**	**18.3**	**130.4**	**36.4**

Consolidated statements of comprehensive income

(unaudited, in USD million)	Note	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Revenues	2,3	116.0	42.1	347.4	201.8
Cost of goods sold	4	-57.1	-36.9	-202.2	-128.7
Gross profit		**58.9**	**5.2**	**145.2**	**73.1**
Other operating income	13	-	13.5	1.5	18.9
Other income past oil sales	12	-	-	556.0	-
Administrative expenses		-9.3	-9.4	-33.2	-31.0
Other operating expenses		0.2	-2.0	-7.0	-5.4
Impairment oil and gas assets	7	-	-33.2	-108.4	-29.2
Exploration costs expensed	5	-24.1	-1.3	-33.0	-20.3
Profit/-loss from operating activities		**25.7**	**-27.1**	**521.1**	**6.1**
Financial income		2.3	15.7	11.8	17.4
Financial expenses		-13.1	-20.3	-57.9	-56.8
Profit/-loss before income tax		**14.9**	**-31.7**	**475.1**	**-33.3**
Income tax expenses	6	15.7	0.5	20.0	-2.1
Net profit/-loss		**30.6**	**-31.2**	**495.0**	**-35.3**
Other comprehensive income					
Currency conversion differences		-0.9	-	-0.4	-
Revaluation/Reversal of impairment in available-for-sale financial assets	8	-2.3	-0.7	3.4	3.2
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		**-3.2**	**-0.7**	**3.0**	**3.2**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**-**	**-**	**-**	**-**
Total other comprehensive income, net of tax	**8**	**-3.2**	**-0.7**	**3.0**	**3.2**
Total comprehensive income, net of tax		**27.4**	**-31.9**	**498.0**	**-32.1**
Net profit/-loss attributable to:					
Equity holders of the parent		30.6	-31.2	495.0	-35.3
Total comprehensive income attributable to:					
Equity holders of the parent		27.4	-31.9	498.0	-32.1
Earnings per share, basic		0.03	-0.03	0.46	-0.03
Earnings per share, diluted		0.03	-0.03	0.46	-0.03

Consolidated statements of financial position

ASSETS (unaudited, USD million)	Note	At 31 Dec 2017	2016
Non-current assets			
Deferred tax asset	6	3.5	-
Other intangible assets	7	31.4	86.5
Property, plant and equipment	7	863.3	403.1
Available-for-sale investments	8	17.4	14.0
Other non-current assets	9	0.5	30.3
Total non-current assets		**916.0**	**533.9**
Current assets			
Inventories	4	7.4	57.3
Trade and other receivables	9	27.8	117.4
Tax receivables	6	33.7	-
Cash and cash equivalents		430.2	261.1
Total current assets		**499.1**	**435.9**
TOTAL ASSETS		**1,415.1**	**969.8**

EQUITY AND LIABILITIES (unaudited, USD million)	Note	At 31 Dec 2017	2016
Equity			
Share capital		35.0	35.8
Other reserves		262.7	286.4
Retained earnings		578.2	79.8
Total equity		**875.9**	**401.9**
Non-current liabilities			
Interest-bearing liabilities	10	372.8	361.7
Provisions for other liabilities and charges	11	45.7	167.3
Total non-current liabilities		**418.5**	**529.0**
Current liabilities			
Trade and other payables		99.6	33.1
Income taxes payable	6	0.7	0.4
Current interest-bearing liabilities	10	17.6	-
Provisions for other liabilities and charges	11, 13	2.7	5.3
Total current liabilities		**120.7**	**38.8**
TOTAL EQUITY AND LIABILITIES		**1,415.1**	**969.8**

Consolidated cash flow statements

(unaudited, in USD million)	Note	Quarter Q4 2017	Quarter Q4 2016	Full Year 2017	Full Year 2016
Operating activities					
Profit/-loss before income tax		14.9	-31.7	475.1	-33.3
Adjustments to add (deduct) non-cash items:				-	
+/- Net interest expense (-income)*		-	-	-	-
Previously capitalized exploration and evaluation expenses	5	-	-	-	-
Depreciation of PP&E and Other intangible assets	4	35.5	9.4	106.1	60.1
Impairment loss on oil and gas assets	7	-	33.2	108.4	29.2
Non-cash KRG receivable settlement	12	-	-	-556.0	-
Other*		19.0	-3.2	64.4	24.5
Changes in working capital:				-	
- Inventories		1.3	9.5	5.9	10.1
- Trade and other receivables		12.0	2.1	72.4	13.6
- Trade and other payables		-7.5	4.4	54.1	-19.4
- Provisions for other liabilities and charges		-6.1	6.5	8.4	13.9
Cash generated from operations		69.3	30.1	338.8	98.7
Income taxes paid during the period		-	0.5	-2.4	-2.1
Tax refund during the period		33.2	-	33.2	-
Net interest paid		-14.8	-17.8	-32.3	-35.4
Net cash from/- used in operating activities		**87.7**	**12.8**	**337.4**	**61.2**
Investing activities					
Purchases of intangible assets	7	-	-8.4	-1.3	-9.4
Purchases of tangible assets	7	-27.9	-9.9	-129.1	-27.0
Acquistion of Origo net of cash acquired	13	-	-	2.6	-
Interest received		-	0.4	-	0.8
Net cash from/- used in investing activities		**-27.9**	**-17.9**	**-127.8**	**-35.6**
Financing activities					
Proceeds from borrowing		2.3	-	14.5	-
Repayment of borrowings		-30.9	-	-30.9	-
Purchase of treasury shares, including options		-	-	-24.1	-2.1
Proceeds from sale of treasury shares		-	-	-	-
Proceeds from issuance of shares, net		-	-	-	-
Net cash from/- used in financing activities		**-28.6**	**-**	**-40.5**	**-2.1**
Net increase/-decrease in cash and cash equivalents		31.2	-5.2	169.1	23.5
Cash and cash equivalents at beginning of the period		399.0	266.3	261.1	237.6
Exchange gain/-losses on cash and cash equivalents		-	-	-	-0.1
Cash and cash equivalents at the end of the period		**430.2**	**261.1**	**430.2**	**261.1**
Of which restricted cash		3.9	2.9	3.9	2.9

*Net interest expense (-income) is from 1 January 2017 included in the line "Other" under cash generated from operations. "Other" includes also provision for obsolescence on inventory in Q3 2017.

Consolidated statement of changes in equity

(unaudited, in USD million)	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2016	**35.9**	**288.4**	**111.8**	**436.2**
Fair value gains, net of tax:				
- available-for-sale financial assets	-	-	3.2	3.2
Currency translation differences	-	-	-	-
Other comprehensive income/-loss	-	-	3.2	3.2
Profit/-Loss for the period	-	-	-35.3	-35.3
Total comprehensive income	-	-	-32.1	-32.1
Issue of share capital	-	-	-	-
Purchase of treasury shares	-0.1	-2.0	-	-2.1
Sale of treasury shares	-	-	-	-
	-0.1	-2.0	-	-2.1
Balance at 31 December 2016	**35.8**	**286.4**	**79.8**	**401.9**

(unaudited, in USD million)	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2017	**35.8**	**286.4**	**79.8**	**401.9**
Fair value gains, net of tax:				
- available-for-sale financial assets	-	-	3.4	3.4
Currency translation differences	-	-0.4	-	-0.4
Other comprehensive income/-loss	-	-0.4	3.4	3.0
Profit/-Loss for the period	-	-	495.0	495.0
Total comprehensive income	-	-0.4	498.4	498.0
Issue of share capital	-	-	-	-
Purchase of treasury shares	-0.8	-23.3	-	-24.1
Sale of treasury shares	-	-	-	-
	-0.8	-23.3	-	-24.1
Balance at 31 December 2017	**35.0**	**262.7**	**578.2**	**875.9**

During 2017 DNO ASA has purchased 27,300,000 own shares at an average price of NOK 7.5061 per share. Following the transactions in 2017, DNO ASA held 35,000,000 own shares at 31 December 2017.

The purchases are part of the share buyback program approved at the AGM in 2016 and 2017. For further details, refer to Note 14 in the 2016 Annual Report.

Notes to the interim consolidated financial accounts

Note 1 | Basis of preparation and accounting policies

The interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and IFRS standards issued and effective at date of reporting as adopted by the EU. The interim report has also been prepared in accordance with Oslo Stock Exchange regulations.

The interim consolidated financial statements do not include all of the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as of 31 December 2016. The interim financial information for 2017 and 2016 is unaudited.

The interim consolidated financial statements have been prepared on a historical cost basis, with the following exception:

Financial assets and liabilities held for trading, liabilities related to share-based payments and financial assets classified as available-for-sale are recognized at fair value.

A detailed description of the accounting policies applied is included in the DNO annual financial statements for 2016. The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ending on 31 December 2016.

For accounting treatment of Kurdistan receivable settlement, see Note 12.

Note 2 | Segment information

From the second quarter of 2017 DNO is reporting six operating segments: Kurdistan (KUR), Oman (OMAN), Yemen (YEM), Ras Al Khaimah (UAE), Tunisia (TUN) and Norway (NOR). The operating segments are the same as the reportable segments.

Three months ending 31 December 2017 USD million	Note	KUR	OMAN	YEM	UAE	TUN	NOR	Other	Total reporting segment	Un-allocated/ eliminated	GROUP
Income statement information											
External sales	3	112.0	4.0	-	-	-	-	-	116.0	-	**116.0**
Inter-segment sales		-	-	-	-	-	-	0.2	0.2	-0.2	**-**
Cost of goods sold	4	-51.1	-5.6	-	-	-0.1	-	-	-56.8	-0.3	**-57.1**
Gross profit		**60.9**	**-1.6**	**-**	**-**	**-0.1**	**-**	**0.2**	**59.5**	**-0.6**	**58.9**
								-			
Segment operating result		**58.4**	**1.3**	**-1.5**	**-**	**-2.9**	**-20.8**	**-4.4**	**30.0**	**-4.3**	**25.7**
Financial - net											**-10.8**
Income tax expense		-	-0.3	-	-	-	16.0	-	15.7	-	**15.7**
Net profit/-loss											**30.6**
Segment assets		**922.7**	**24.9**	**0.2**	**0.0**	**3.4**	**43.1**	**53.1**	**1,047.5**	**367.6**	**1,415.1**

Note 2 | Segment information (continued)

Three months ending 31 December 2016 USD million	Note	KUR	OMAN	YEM	UAE	TUN	NOR	Other	Total reporting segment	Un-allocated/ eliminated	GROUP
Income statement information											
External sales	3	35.8	6.3	-	-	-	-	-	42.1	-	**42.1**
Inter-segment sales		-	0.6	-	-	-	-	-	0.6	-0.6	**-**
Cost of goods sold	4	-33.0	-2.6	-0.0	-0.3	-0.1	-	-	-36.0	-0.9	**-36.9**
Gross profit		**2.8**	**4.3**	**-0.0**	**-0.3**	**-0.1**	**-**	**-**	**6.7**	**-1.5**	**5.2**
Segment operating result		**-25.3**	**12.5**	**0.4**	**-1.3**	**-2.8**	**-**	**0.7**	**-15.7**	**-11.5**	**-27.1**
Financial - net											**-4.5**
Income tax expense		-	1.0	-0.5	-	-	-	-	0.5	-	**0.5**
Net profit/-loss											**-31.2**
Segment assets		**625.7**	**38.2**	**1.1**	**0.2**	**20.0**	**-**	**1.0**	**686.1**	**283.7**	**969.8**

Twelve months ending 31 December 2017 USD million	Note	KUR	OMAN	YEM	UAE	TUN	NOR	Other	Total reporting segment	Un-allocated/ eliminated	GROUP
Income statement information											
External sales	3	331.0	16.3	-	-	-	-	-	347.4	-	**347.4**
Inter-segment sales		-	-	-	-	-	-0.2	0.6	0.5	-0.5	**-**
Cost of goods sold	4	-175.4	-23.8	-	-	-0.2	-0.1	-	-199.6	-2.6	**-202.2**
Gross profit		**155.6**	**-7.5**	**-**	**-**	**-0.2**	**-0.2**	**0.6**	**148.3**	**-3.1**	**145.2**
Segment operating result*		**646.8**	**-54.1**	**-4.5**	**-0.3**	**-7.0**	**-26.4**	**-5.7**	**545.0**	**-23.8**	**521.1**
Financial - net											**-46.1**
Income tax expense		-	-1.8	-	-	-	22.0	-	20.2	-0.2	**20.0**
Net profit/-loss											**495.0**
Segment assets		**922.7**	**24.9**	**0.2**	**0.0**	**3.4**	**43.1**	**53.1**	**1,047.5**	**367.6**	**1,415.1**

Twelve months ending 31 December 2016 USD million	Note	KUR	OMAN	YEM	UAE	TUN	NOR	Other	Total reporting segment	Un-allocated/ eliminated	GROUP
Income statement information											
External sales	3	183.9	17.9	-	-	-	-	-	201.8	-	**201.8**
Inter-segment sales		-	0.6	-	-	-	-	-	0.6	-	**-**
Cost of goods sold	4	-114.9	-8.7	-	-1.0	-0.2	-	-	-124.8	-3.9	**-128.7**
Gross profit		**68.9**	**9.8**	**-**	**-1.0**	**-0.2**	**-**	**-**	**77.5**	**-3.9**	**73.1**
Segment operating result		**46.5**	**4.2**	**-2.6**	**-4.6**	**-7.8**	**-**	**-1.4**	**34.3**	**-28.2**	**6.1**
Financial - net											**-39.4**
Income tax expense		-	-1.6	-0.5	-	-	-	-	-2.1	-	**-2.1**
Net profit/-loss											**-35.3**
Segment assets		**625.7**	**38.2**	**1.1**	**0.2**	**20.0**	**-**	**1.0**	**686.1**	**283.7**	**969.8**

For the segment operating result in 2017, see Note 12.

Note 3 | Revenues

DNO presents its operations governed by PSCs according to the entitlement method when there are observable market prices and the risk related to sale and distribution is minimal. To the extent that the entitlement method cannot be applied, revenue is recognized when the sale criteria in IAS 18 are fulfilled. Kurdistan export sales and local sales are recognized as revenue upon cash receipt.

USD million	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Sale of petroleum products	116.0	42.1	347.4	201.8
Total revenues	**116.0**	**42.1**	**347.4**	**201.8**

During the fourth quarter of 2017, DNO received three payments from the Kurdistan Regional Government for Tawke deliveries totalling USD 140.4 million, of which USD 99.1 million was net to DNO recognized as revenue.

In addition, DNO received three separate payments of three percent of gross Tawke license revenues totalling USD 12.7 million, as provided for under last August's receivables settlement agreement.

For other income past oil sales see Note 12.

Note 4 | Cost of goods sold/ inventory

USD million	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Lifting costs*	-21.6	-27.5	-96.1	-68.6
Depreciation, depletion and amortization	-35.5	-9.4	-106.1	-60.1
Total cost of goods sold	**-57.1**	**-36.9**	**-202.2**	**-128.7**

* Lifting costs consist of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention workover activities and insurances. The lifting costs 2017 include a provision for obsolete inventory of USD 19 million related to Kurdistan.

USD million	At 31 Dec 2017	At 31 Dec 2016
Spare parts	7.4	54.8
Other inventory	-	2.5
Total inventory	**7.4**	**57.3**

Of the total inventory of USD 7.4 million, USD 5.9 million is related to Kurdistan and USD 1.5 million is related to Tunisia. In fourth quarter major spareparts of USD 19.6 million have been reclassified to Property, Plant and Equipment (PP&E) in Kurdistan.

Note 5 | Exploration expenses

USD million	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Exploration expenses (G&G and field surveys)	-1.3	-0.8	-3.1	-5.5
Seismic costs	-17.2	-	-19.7	-
Exploration costs capitalized this year carried to cost	-3.0	2.1	-3.6	-7.6
Other exploration cost expensed	-2.7	-2.6	-6.6	-7.3
Total exploration cost expensed*	**-24.1**	**-1.3**	**-33.0**	**-20.3**

*For details on geographic spread of exploration costs expensed, see the Financial review section.

Note 6 | Income taxes

USD million	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Income tax expenses				
Change deferred taxes	-0.5	-	-	-
Income tax expense	16.2	0.5	20.0	-2.1
Total income tax expense	**15.7**	**0.5**	**20.0**	**-2.1**
Income tax receivable/ payable				
Exploration tax refund NCS (non-current asset)	-	-	-	-
Exploration tax refund NCS (current asset)	33.8	-	33.7	-
Income taxes payable (current liability)	-0.7	-0.4	-0.7	-
Total tax receivable(+)/ Income taxes payable (-)	**33.1**	**-0.4**	**33.1**	**-**
Deferred tax liability/ asset				
Deferred tax asset on losses carried forward NCS	3.5	-	3.5	-
Total deferred tax liability / asset	**3.5**	**-**	**3.5**	**-**

The income tax expense, tax receivable and deferred tax asset mainly relate to activity on the Norwegian Continental Shelf (NCS) subject to Norwegian Petroleum Taxation Act. DNO Norge AS is not yet in a tax payable position and can claim a 78 percent refund of the exploration costs limited to taxable losses for the year. The refund is usually paid out in November-December in the subsequent year.

Under the terms of PSCs in Kurdistan region of Iraq (KRI), the Company is not required to pay any cash taxes and any corporation tax due on petroleum sales is deemed to have been paid on behalf of the Company by the government from the government's share of revenues. No tax has been presented in relation to operations in KRI as it is considered there is currently no established tax regime for oil companies.

From 2013, Norway introduced new rules for upstream petroleum activities abroad which exempt Norwegian entities conducting such activities abroad from taxation except for financial items which will still be taxable in accordance with the ordinary tax rules.

There are no tax consequences attached to items recorded in other comprehensive income.

Note 7 | Property, plant and equipment/ Other intangible assets

USD million	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Acquisitions of PP&E *	34.8	27.5	593.8	44.8
Acquisitions of Intangible assets **	-0.2	8.4	1.1	9.2
Net book amount PP&E at end of reporting date	**863.3**	**403.1**	**863.3**	**403.1**
Net book amount Intangible assets at end of reporting date	**31.4**	**86.5**	**31.4**	**86.5**
Impairment of PP&E and inventory (YTD)	**-**	**-33.2**	**-108.4**	**-29.2**

*Acquisitions related to development assets, assets in operation and other PP&E. For acquisition in 2017, see also Note 12.
**Acquisitions related to capitalized exploration costs and license interests.

In 2017, the book value of USD 49.0 million related to Peshkabir was reclassified from exploration asset (intangible asset) to assets in production.

In 2017, the total impairment charge of USD 108.4 million was related to operations in Oman (Block 8 license USD 47.8 million), Kurdistan (Erbil license USD 59.1 million) and Tunisia (Sfax Offshore Exploration Permit USD 1.6 million).

In 2016, the total impairment charge of USD 29.2 million was related to operations in Kurdistan (USD 26.7 million), Oman (USD 5.8 million) and the United Arab Emirates (USD 2.8 million). A reversal of impairment (USD 6.0 million) recognized in the same year was related to equipment and spare parts booked under the Dohuk license in Kurdistan.

Note 7 | Property, plant and equipment/ Other intangible assets (continued)

Impairments

Impairment tests of individual cash-generating units are performed when impairment triggers are identified. During the three first quarters of 2017, a total impairment loss of USD 108.4 million was recognized. A total of USD 47.8 million was recognized for the Oman Block 8 asset due to negative development in the production profile. A negative revision of the oil price discount in the Erbil license triggered an impairment test and the updated calculations showed a lower recoverable amount than the carrying amount and an impairment loss of USD 59.1 million was recognized in third quarter.

USD million	Full year 2017 Impairment/ reversal	At 31 Dec 2017 Recoverable/ carrying amount	Full year 2016 Impairment/ reversal	At 31 Dec 2016 Recoverable/ carrying amount
Erbil, Kurdistan	-59.1	20.7	-26.7	74.7
Dohuk, Kurdistan	-	-	6.0	-
Block 8, Oman	-47.8	-	-	4.9
Oman Ltd, Oman	-	0.1	-1.2	0.1
Block 36, Oman	-	-	-4.4	-
Block, 47 Oman	-	-	-0.2	-
Sfax Offshore Exploration Permit, Tunisia	-1.6	1.5	-	3.6
Assets in United Arab Emirates	-	-	-2.8	-
Total	**-108.4**	**22.3**	**-29.2**	**83.3**

The table shows the recoverable/carrying amount for the cash generating units which have been impaired in 2016 and 2017. Of the total impairment charge of USD 108.4 million in 2017, USD 102.1 million was recognized on PP&E and USD 6.3 million was recognized on inventories.

Note 8 | Available-for-sale financial assets

Available-for-sale financial assets are recorded at fair value (market price, where available) at the end of each period. Changes in fair value are included in other comprehensive income and are presented as valuation reserve under equity. Impairments will be charged to profit or loss, while reversal of impairments will be taken through other comprehensive income.

USD million	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Beginning of the period	19.7	14.7	14.0	10.8
Revaluation transferred to other comprehensive income	-2.3	-0.7	-	-
Reversal/- impairment of available-for-sale assets	-	-	3.4	3.2
End of the period [1)]	**17.4**	**14.0**	**17.4**	**14.0**
Non-current portion	17.4	14.0	17.4	14.0
Current portion	-	-	-	-

[1)] Available-for-sale financial assets include the following:

USD million	At 31 Dec 2017	At 31 Dec 2016
Listed securities:		
- RAK Petroleum plc	17.4	14.0
Total available-for-sale financial assets	**17.4**	**14.0**

DNO has a total of 15,849,737 shares in RAK Petroleum plc. All shares have been acquired in open market transactions.
RAK Petroleum plc is listed on the Oslo Stock Exchange.

Note 9 | Trade and other short-term receivables

USD million	At 31 Dec 2017	2016
Underlift, entitlement method	7.8	66.5
Other short-term receivables	20.0	50.9
Total trade and other short-term receivables	**27.8**	**117.4**

During 2017, DNO received USD 49.0 million from the Kurdistan Regional Government toward the booked underlift receivable. The remaining underlift receivable was settled through the Kurdistan receivables settlement in August 2017 (see Note 12).

The outstanding underlift receivable as per 31 December is related to Block 8 in Oman.

Other short-term receivables include mainly working capital balances in oil and gas licenses.

Note 10 | Interest-bearing liabilities

USD million	At 31 Dec 2017	2016
Non-current		
Bonds	400.0	400.0
Capitalized borrowing issue costs (bonds)	-27.2	-38.3
Exploration financing facility (long term portion)	-	-
Total non-current interest-bearing liabilities	**372.8**	**361.7**
Current		
Exploration financing facility (current portion)	17.6	-
Total current interest-bearing liabilities	**17.6**	**-**
Total interest-bearing liabilities	**390.4**	**361.7**

Interest-bearing liabilities:

USD million	Facility currency	Facility amount	Interest	Maturity	At 31 Dec 2017	2016
Non-current						
Bond loan (ISIN NO0010606197)	USD	400.0	8.75%	18.06.20	400.0	400.0
Borrowing issue costs related to bonds					-27.2	-38.3
Exploration financing facility*	NOK	500.0	see below	see below	17.6	-
Total interest-bearing liabilities					**390.4**	**361.7**

Note 10 | Interest-bearing liabilities (continued)

Security and pledges

USD million	At 31 Dec 2017	2016
Exploration tax refund	33.7	-
Restricted cash	0.7	-
Total book value of assets pledged	**34.4**	**-**

* DNO Norge AS has available a revolving exploration facility in an aggregate amount of NOK 500 million (facility amount).
Utilization requests need to be delivered for each proposed loan. The aggregate of the proposed loan shall not exceed 95 percent of the tax value of eligible costs which have not already been refunded by the tax authorities. The company shall repay each loan when the tax refunds have been received.
The interest rate equals 3 months NIBOR plus a 1.2 percent margin. Exploration tax refund will be received by the end of 2018.

Note 11 | Provisions for other liabilities and charges

USD million	At 31 Dec 2017	2016
Non-current		
Asset retirement obligations	31.9	23.2
Other long-term provisions and charges	13.8	144.1
Total non-current provisions for other liabilities and charges	**45.7**	**167.3**
Current		
Other provisions and charges	2.7	5.3
Total current provisions for other liabilities and charges	**2.7**	**5.3**
Total provisions for other liabilities and charges	**48.5**	**172.6**

Provisions for a water purification project in the Kurdistan region of Iraq and provision for production bonuses for the Tawke license previously included in other long-term and charges are derecognised as part of the Kurdistan receivables settlement (see Note 12).

Note 12 | Kurdistan receivables settlement

On 24 August 2017, DNO and the Kurdistan Regional Government completed a settlement of outstanding receivables owed to the Company for past crude oil deliveries. The settlement had an effective date of 1 August 2017. Under the settlement agreement, DNO was assigned the 20 percent interest in the Tawke license previously held by the Government, bringing DNO's operated stake to 75 percent. In addition to the 20 percent interest, the Company will receive three percent of gross license revenues each month from the Government over a five-year period. The Government also discharged DNO from certain payment obligations, including those for production bonuses, license fees and a water purification project. In addition, the Government has exercised its Tawke license audit rights to its satisfaction for the period up to the effective date and has no adjustment claims.

Payments toward crude oil deliveries from the Tawke license during June and July 2017, together amounting to USD 74.25 million, were not part of the settlement and were paid in September and October 2017, respectively.

In addition to internal assessments, DNO engaged an external valuation advisor to prepare a fair value assessment of the 20 percent assigned interest and the three percent of gross license revenue it received under the settlement agreement. This was used as the basis for the accounting of the settlement in the Q3 financial statements. The relevant discount rate (WACC) used in the valuation was 17.1 percent. The settlement resulted in a recognition of an asset (PP&E) equal to the estimated fair value of the 20 percent assigned interest and the three percent of gross license revenue. DNO is of the opinion that the value of the settlement can be reliably measured and as such a corresponding revenue was recognized as other income in the statement of comprehensive income in the third quarter of 2017.

The removal of the liabilities resulted in a recognition of revenue equal to the book value of the liability as recognized in the financial statement per effective date. The remaining book value of the underlift receivable (see Note 9) is considered settled. The accounting effects for settlement of Kurdistan receivables are shown below:

USD million	
Property, plant and equipment	457.5
Trade and other receivables	-46.5
TOTAL ASSETS	**411.0**
Retained earnings	556.0
Provisions for other liabilities and charges	-145.0
TOTAL EQUITY AND LIABILITIES	**411.0**
Other income past oil sales	556.0
Net profit/-loss	**556.0**

Assuming for comparison purposes that the agreements had been completed in the beginning of 2017, it is estimated the revenues would have been USD 62 million higher and gross profit USD 10 million higher this year. The estimated effects are based on internal calculations and assumes cash payments from the KRG in accordance with the terms of the above mentioned agreements.

Note 13 | Business combination

On 29 June 2017, DNO finalized and completed the acquisition of 100 percent of the shares in Origo Exploration Holding AS (Origo), after obtaining approval by regulatory authorities in both Norway and the United Kingdom and the Boards of both companies. The cash consideration of USD 2.6 million (NOK 22.1 million) payable to the former shareholders of Origo is contingent on future events relating to drilling operations.

The acquisition was part of DNO's plan to return to the North Sea and gave DNO stakes in 11 exploration and appraisal licenses, of which seven are on the Norwegian Continental Shelf and four on the UK Continental Shelf.

The acquisition is regarded as a business combination and accounted for using the acquisition method in accordance with IFRS 3. A purchase price allocation (PPA) has been performed to allocate the consideration to fair value of assets and liabilities of Origo as of the acquisition date.

Acquired assets and liabilities assumed are recognized at acquisition-date fair values and were as follows:

USD million	Fair value at acquisition-date
Deferred tax asset	3.4
Property, plant and equipment	0.2
Long term tax receivables	11.3
Short term tax receivables	32.3
Trade and other receivables	1.5
Cash and cash equivalents	2.6
Total assets	**51.3**
Interest-bearing liabilities - long term	30.6
Provisions for other liabilities and charges	0.6
Interest-bearing liabilities - short term	3.4
Trade and other payables	12.6
Total liabilities	**47.1**
Total identifiable net assets at fair value	4.2
Consideration payable on acquisition	2.6
Gain from a bargain purchase arising on acquisition	**-1.5**

The consideration payable is included in *Provisions for other liabilities and charges* under C*urrent liabilities* in the DNO consolidated balance sheet.
The main reason why the transaction resulted in a gain of USD 1.5 million is due to application of the measurement requirements of IFRS 3 to the transaction and the circumstances the acquiree was in when the agreement to sell was entered into. The gain from a bargain purchase is included in "Other operating income".

Note 14 | Events after the reporting period

Export payments from Kurdistan
The company reported on 22 January 2018 receipt of USD 53.71 million from the Kurdistan Regional Government as payment towards October 2017 crude oil deliveries to the export market from the Tawke license. The funds will be shared by DNO and partner Genel Energy plc pro-rata to the companies' interests in the license.

DNO Receives 10 Awards in Norway's APA Licensing Round
The company announced on 16 January 2018 that its wholly-owned subsidiary DNO Norge AS has been awarded participation in 10 exploration licenses under Norway's Awards in Predefined Areas (APA) 2017 licensing round. Of the 10 licenses, seven are in the North Sea, one in the Norwegian Sea and two in the Barents Sea.

Update on the Val d'Isere prospect
The Val d'Isere prospect on the UK Continental Shelf (22.5 percent working interest) was drilled to 3,638 meters by operator Apache, but the well encountered no hydrocarbons and has been plugged and abandoned.

Alternative performance measures

DNO ASA discloses alternative performance measures as a supplement to the financial statements prepared in accordance with IFRS. Such performance measures are frequently used by securities analysts, investors and other interested parties and are meant to provide insight into the operation, financing and future prospects of the company.

EBITDA

	Quarter		Full year	
USD million	**Q4 2017**	**Q4 2016**	**2017**	**2016**
Revenues	116.0	42.1	347.4	201.8
Lifting costs	-21.6	-27.5	-96.1	-68.6
Exploration expenses	-24.1	-1.3	-33.0	-20.3
Administrative expenses	-9.3	-9.4	-33.2	-31.0
Other income past oil sales	-	-	556.0	-
Other operating income/expenses	0.2	11.5	-5.4	13.6
EBITDA	**61.2**	**15.5**	**735.6**	**95.4**

Netback

USD million	**Q4 2017**	**Q4 2016**	**2017**	**2016**
EBITDA	61.2	15.5	735.6	95.4
Provision for obsolete inventory	-	-	19.0	-
Other income past oil sales	-	-	-556.0	-
Income tax received (+)/ paid (-)	33.2	-2.1	33.2	-1.7
Netback	**94.4**	**13.4**	**231.8**	**93.8**

	Q4 2017	**Q4 2016**	**2017**	**2016**
Netback (USD million)	94.4	13.4	231.8	93.8
Company Working Interest production (MMboe)	6.8	6.5	26.4	25.3
Netback (USD/boe)	**13.9**	**2.0**	**8.8**	**3.7**

Lifting costs

	Q4 2017	**Q4 2016**	**2017**	**2016**
Lifting costs (USD million)	-21.6	-27.5	-96.1	-68.6
Company Working Interest production (MMboe)	6.8	6.5	26.4	25.3
Lifting costs (USD/boe)	**3.2**	**4.3**	**3.6**	**2.7**

Operational spend

USD million	**Q4 2017**	**Q4 2016**	**2017**	**2016**
Lifting costs	-21.6	-27.5	-96.1	-68.6
Exploration expenses	-24.1	-1.3	-33.0	-20.3
Capital expenditures	-27.9	-18.3	-130.4	-36.4
Operational spend	**-73.5**	**-47.1**	**-259.5**	**-125.4**

Equity ratio

USD	**Q4 2017**	**Q4 2016**	**2017**	**2016**
Equity	875.9	401.9	875.9	401.9
Total assets	1,415.1	969.8	1,415.1	969.8
Equity ratio	**61.9%**	**41.4%**	**61.9%**	**41.4%**

Free cash flow

USD million	Quarter Q4 2017	Quarter Q4 2016	Full year 2017	Full year 2016
Cash generated from operations	69.3	30.1	338.8	98.7
Purchases of intangible assets	-	-8.4	-1.3	-9.4
Purchases of tangible assets	-27.9	-9.9	-129.1	-27.0
Free cash flow	**41.4**	**11.8**	**208.4**	**62.3**

Net debt

USD million	Q4 2017	Q4 2016	2017	2016
Cash and cash equivalents	430.2	261.1	430.2	261.1
Bond loan	400.0	400.0	400.0	400.0
Net cash(+)/ debt(-)*	**30.2**	**-138.9**	**30.2**	**-138.9**

*Exploration financing facility has been excluded as it is covered by the exploration tax refund booked as an asset in the balance sheet. See Note 6 and Note 10.

NOTES

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