

ANNUAL STATEMENT OF RESERVES 2015 DNO ASA



Bjørn Dale
Managing Director

Oslo, 17 March 2016

ANNUAL STATEMENT OF RESERVES 2015 – DNO ASA

Table of contents:

1	<i>Introduction and summary</i>	3
1.1	Introduction	3
1.2	Summary	3
2	<i>Operational highlights 2015</i>	3
2.1	Kurdistan region of Iraq	3
2.2	Yemen	4
2.3	Oman	4
2.4	United Arab Emirates.....	4
2.5	Tunisia.....	4
3	<i>MD&A</i>	5
3.1	Disclaimer.....	5
3.2	Assumptions and methodology	5
3.3	Oil price	6
3.4	Ownership.....	6
3.5	Independent expert assessment of reserves	7
4	<i>Reserves by field</i>	7
4.1	Kurdistan region of Iraq	7
4.2	Yemen	8
4.3	Oman	8
5	<i>Contingent resources</i>	8
6	<i>Annex</i>	9
	Table 1 – Remaining reserves at end-2015 (Gross and CWI)	9
	Table 2 – 2P reserves and 2C contingent resources at end-2015 (Gross and CWI)	10
	Table 3 – Remaining reserves at end-2015 (Gross and net entitlement)	11
	Table 4 – Reserves development (CWI)	12

1 Introduction and summary

1.1 Introduction

This reserves and resource evaluation report has been prepared in accordance with Oslo Stock Exchange listing and disclosure requirements, Circular No. 1/2013.

The report provides the status of hydrocarbon reserves and contingent resources as of 31 December 2015 for the license portfolio of DNO ASA ("DNO"). International petroleum consultants DeGolyer and MacNaughton (D&M) have carried out the annual independent assessment of the Tawke field in the Kurdistan region of Iraq. The company has internally assessed the remaining assets.

1.2 Summary

As of 31 December 2015, DNO's Company Working Interest (CWI) proven and probable reserves (2P) and contingent resources (2C) were estimated at 523.1 million barrels of oil equivalent (MMboe), down from 590.3 MMboe at year-end 2014. CWI 2P reserves were estimated at 391.5 MMboe, down from 483.6 MMboe at year-end 2014 after adjusting for CWI production of 32.3 MMboe during the year, a re-categorization of 53.9 MMboe from CWI 2P reserves to CWI 2C contingent resources and other technical revisions of 5.9 MMboe. CWI 2C contingent resources were estimated at 131.6 MMboe, up from 106.7 MMboe at year-end 2014.

DNO's year-end 2015 Reserve Life Index (R/P) stood at 12.2 years on a 2P reserves basis and 16.3 years on a 2P reserves and 2C contingent resources basis.

At Tawke, gross 2P reserves and 2C contingent resources stood at 643.2 MMbbls (398.8 MMbbls on a CWI basis), down from 698.0 MMbbls at year-end 2014. Gross 2P reserves dropped to 543.0 MMbbls from 680.3 MMbbls at year-end 2014 after adjusting for a record 49.3 MMbbls produced during the year, a re-categorization of 82.5 MMbbls from 2P reserves to 2C contingent resources pending a review of enhanced oil recovery options at Tawke and a decision to commit funds towards a field-wide redevelopment program, and other technical revisions of 5.5 MMbbls. During 2015, investments at Tawke were significantly curtailed due to lower oil prices and irregular payments by the Kurdistan Regional Government (KRG) for exports. Notwithstanding, Tawke gross proven (1P) reserves increased to 387.0 MMbbls from 319.9 MMbbls at year-end 2014 with improved confidence about primary recovery rates at the field.

Reported 1P reserves fall within class 1-2 of the Norwegian Petroleum Directorate (NPD) classification, 2P reserves fall within class 1-3 of the NPD classification and 2C contingent resources fall within class 4-7 of the NPD classification.

Additional information about gross and CWI reserves on a field-by-field basis is available below in Section 4 and in the attached Annex tables.

2 Operational highlights 2015

DNO reported record levels of operated production in 2015, up 23 percent to 144,492 barrels of oil equivalent per day (boepd). DNO's CWI production increased 28 percent year-on-year to 88,411 boepd in 2015, up from 68,958 boepd in 2014. Production growth was driven primarily by output in Kurdistan, which grew to 83,928 boepd on a CWI basis, while Oman and Yemen CWI production stood at 4,096 boepd and 387 boepd, respectively.

2.1 Kurdistan region of Iraq

Gross production from Tawke averaged 135,173 barrels of oil per day (bopd) in 2015 (83,806 bopd on a CWI basis), up 48 percent from 2014 output of 91,255 bopd. In 2015, an average of 114,078 bopd was delivered for pipeline export through Turkey, with an additional 16,735 bopd sold into the Kurdistan local market and the balance processed in the Tawke refinery.

In early 2015, DNO hit a key milestone of 200,000 bopd of wellhead, processing and pipeline capacity at Tawke. The company doubled capacity with 10 new horizontal wells; the installation of a 44-kilometer, 24-inch pipeline and the construction of two new early production facilities with combined capacity of 80,000 bopd, supplementing the existing central processing facility capacity of 120,000 bopd. Since inception, the Tawke field development program has included drilling 30 wells, installation of 200,000 bopd of processing capacity, construction of two pipelines with combined capacity in excess of 300,000 bopd, construction of a major export hub at Fish Khabur and development of 125,000 bopd of road tanker loading capacity as an alternative to pipeline exports. Tawke-30, the last well in the expansion campaign, was completed in March 2015.

New investments are currently planned at Tawke to reverse production decline with new wells and water handling facilities. Tawke production is expected to climb from 120,000 bopd to 135,000 bopd by mid-year, with further increases to follow as additional investments are made. The company also plans to drill the Peshkabir-2 well to appraise the previous Jurassic discovery and explore the Cretaceous zone. If successful, the Peshkabir field can be quickly tied back to existing infrastructure at Fish Khabur only 10 kilometers away.

At the Dohuk license, DNO started up production at the Summail gas field in 2014, but deliverability was significantly lower than expected and the field was shut in during 2015.

At the Erbil license, testing has shown higher volumes of oil-in-place for the Benenan heavy oil field, currently estimated to hold more than two billion barrels. An appraisal of commercialization of the field is ongoing.

2.2 Yemen

Production in Yemen, which averaged 883 bopd (387 bopd on a CWI basis), was suspended in early 2015 due to the country's deteriorating security conditions and remains under force majeure. Also in early 2015, DNO exited the non-operated Block 53 license.

2.3 Oman

At Block 8, DNO operates Oman's only producing offshore fields, Bukha and West Bukha, where gross production in 2015 totaled 8,193 boepd (4,096 boepd on a CWI basis), with output roughly split equally between oil and gas. An additional well remains under consideration to increase West Bukha oil and gas production.

DNO spudded the Hayah-1 exploration well at onshore Block 36 in February 2016. The Block 36 acreage is located in the prolific Rub al-Khali basin, in the southwestern part of Oman bordering Saudi Arabia and Yemen, covering a surface area of more than 18,000 square kilometers.

In 2015, DNO relinquished Block 30 and Block 31 in Oman as part of an ongoing consolidation and rationalization of the company's portfolio.

2.4 United Arab Emirates

In Ras Al Khaimah, reprocessing of existing seismic data and an associated basin study on the RAK Onshore license are ongoing. The Saleh field continues to produce small volumes of gas and liquids on an intermittent basis.

2.5 Tunisia

The company's exploration and appraisal program is proceeding in Tunisia, with 3D seismic activity planned at the Sfax Offshore Exploration Permit in preparation for drilling a well in 2017.

3 MD&A

3.1 Disclaimer

The report, including this Management's Discussion and Analysis (MD&A), contains and was prepared, *inter alia*, on the basis of forward-looking information and statements. Such information and statements are based on management's current assumptions, expectations, estimates and projections and are therefore subject to risks and uncertainties that could cause actual results, performance or events to differ materially. The company can give no assurance that those assumptions, expectations, estimates and projections will occur or be achieved and readers should not place undue reliance on forward-looking statements. Forward-looking statements are generally identifiable by their use of terms such as "expect", "believe", "estimate", "may", "plan", "could", "will", "intend", "schedule" and similar terms or expressions. There are a number of factors that could cause actual results or events to differ materially from those underlying forward-looking information and statements. These factors include, among others: technical, geological and geotechnical conditions; economic and market conditions in or affecting the geographic areas and industries that are or will be major markets for DNO; oil and gas price fluctuations; market acceptance of new products and services; changes in laws and governmental regulations; political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities; delays or advancements in the approval of projects and delays in the reimbursement for shared costs; the risk of doing business in developing countries and countries subject to international sanctions; fluctuations in interest rates or currency exchange rates; and other such factors that may be discussed from time to time in the MD&A. All forward-looking statements contained in the report, including this MD&A, are expressly qualified in their entirety by the cautionary statements contained in this disclaimer. Additionally, DNO makes no representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of these forward-looking statements and the MD&A, and neither DNO nor any of its directors, officers or employees will have any liability to the readers resulting from reliance on these forward-looking statements and this MD&A.

3.2 Assumptions and methodology

DNO's reserves updates are completed in accordance with standard guidelines advised by the Society of Petroleum Engineers (SPE)^{1,2} and comply with Oslo Stock Exchange disclosure requirements, Circular No. 1/2013.

The estimation and auditing of reserves are undertaken in accordance with generally accepted engineering and evaluation principles. It should be noted that reserves information is imprecise due to inherent uncertainties in—and the limited nature of—data upon which the reserves are predicated.

DNO has a reserves review committee consisting of competent professional geoscientists, engineers and economists to facilitate the review and reporting process and ensure compliance with standards and procedures. The committee collects and coordinates the review of all technical data and provides a full report of the company's reserves and resources to the Managing Director for review and approval.

Economically recoverable reserves have been calculated based on input for the technical reserves and economic parameters such as license terms and projected future oil prices. The reserves reported here are restricted to those volumes expected to be economically recovered prior to the expiry date of the respective licenses.

¹ For a full description of these guidelines and definitions, see www.spe.org

² http://www.spe.org/industry/reserves/docs/Reserves_Audit_Standards_2007

3.3 Oil price

The Intercontinental Exchange (ICE) forward curve for Brent crude as of 31 December 2015 (adjusted for quality differences) has been used as the basis for calculating remaining reserves.

For fields in the decline phase with limited remaining volumes, fluctuations in oil prices will have a significant impact on the profitability and hence the economic cut-off for production.

3.4 Ownership

DNO's interest in most licenses is governed by a Production Sharing Contract (PSC), which sets out the manner in which oil and gas produced in the license is to be shared between the government and the holders of that license. Under such an agreement, the ownership of unexploited resources remains with the government whereas exploration and production activities are to be carried out by the license holders.

DNO and its joint venture partners, if any, typically bear all risks and costs of exploration, development and production in these licenses. In return, if exploration is successful, DNO recovers its share of investments and operating costs from what is referred to as "cost oil", being a percentage of oil and gas produced and sold after deduction of the government's royalty (if any). In addition to cost oil, DNO is entitled to receive a share of the remaining production, after payment of the royalty and deduction of cost oil, which is referred to as "profit oil". Profit oil is shared among the government, DNO and its joint venture partners in accordance with the percentage(s) set out in the PSC.

DNO's total entitlement is equal to the sum of its entitlements to cost oil and profit oil and takes into account DNO's share of any cost oil attributable to joint venture partners whose costs have been carried or advanced by DNO.

The government is sometimes entitled to receive a share of oil and gas production as a royalty payment in addition to a percentage of profit oil. In certain cases, the government may also have a participating interest in the license itself through a government-controlled enterprise. If so, the government will receive a corresponding share of cost oil (unless the government's share of costs are advanced or carried by the other joint venture partners) and profit oil through the government-controlled enterprise.

In Kurdistan, DNO's participating interest in the Tawke PSC is 55 percent. DNO also funds a carried government interest of 20 percent in the license. DNO's share of cost oil is therefore 75 percent, while its share of the profit oil is 55 percent.

Article 26.4 of the Tawke PSC provides that the R-factor applied to determine the contractor's entitlement to profit oil shall be based on revenues actually received by the contractor. Accordingly, DNO has applied this principle to calculate its net entitlement reserves and has used an R-factor based on actual payments received by the contractor for oil delivered from the Tawke field. The net entitlement reserves are further based on an assumption of full entitlement payment under the PSC for future production through the license period.

DNO's CWI share of production varies in each period, depending on cost oil received during that period. In tables 1, 2 and 4 below, the CWI estimates for licenses in Kurdistan, Oman and Yemen reflect carried interests in the relevant licenses (if any) and DNO's additional share of cost oil resulting from funding such carried interests.

The volumes of net entitlement in table 3 are based on economic evaluations of the license agreements and include a volume representing the notional tax paid by the governments on behalf of the contractors.

In Ras Al Khaimah, the fiscal structure for DNO's licenses is a tax/royalty regime. No taxes and royalties are paid until the development costs have been recovered, making the threshold field size for commerciality small and enhancing the economics of a field development. DNO's entitlement share under this structure is equal to its participating share.

DNO believes that reporting CWI volumes facilitates the comparison of reserves across countries and regions that have different tax regulations or tax regimes. The volumes shown in table 1, 2 and 4 are therefore based on DNO's CWI.

Net entitlement volumes are based on estimates related to future costs and oil prices. The net entitlement volumes may therefore fluctuate over time, even if there are no changes in the underlying reserves figures.

3.5 Independent expert assessment of reserves

D&M has carried out the annual independent assessment of Tawke, the largest asset in DNO's portfolio. DNO has evaluated the remaining assets. Class 1-3 2P reserves are estimated based on production profiles applying assumptions defined by DNO.

4 Reserves by field

Volumes classified as reserves are those quantities of oil and gas anticipated to be commercially recovered from known accumulations from a given date to the end of the field life and within the license period. In the attached Annex, table 1 shows a summary of remaining 2P reserves per field on a gross and CWI basis as of 31 December 2015. Table 2 shows 2P reserves and 2C contingent resources on a gross and CWI basis. Table 3 shows a summary of remaining 2P reserves per field on a gross and net entitlement basis. Table 4 shows a reconciliation of the changes in CWI reserves from 31 December 2014 with all working interest and net entitlement volumes stated net of royalty.

4.1 Kurdistan region of Iraq

4.1.1 Tawke PSC

As of 31 December 2015, CWI 2P reserves and 2C contingent resources in the company's three Kurdistan licenses totaled 495.5 MMboe, down from 541.2 MMboe at year-end 2014.

At Tawke, gross 2P reserves and 2C contingent resources stood at 643.2 MMbbls (398.8 MMbbls on a CWI basis), down from 698.0 MMbbls (432.8 MMbbls on a CWI basis) at year-end 2014. Gross 2P reserves dropped to 543.0 MMbbls (336.6 MMbbls on a CWI basis) from 680.3 MMbbls (421.8 MMbbls on a CWI basis) at year-end 2014 after adjusting for a record 49.3 MMbbls (30.6 MMbbls on a CWI basis) produced during the year, a re-categorization of 82.5 MMbbls (51.1 MMbbls on a CWI basis) from 2P reserves to 2C contingent resources pending a review of enhanced oil recovery options at Tawke and a decision to commit funds towards a field-wide redevelopment program, and other technical revisions of 5.5 MMbbls (3.4 MMbbls on a CWI basis). During 2015, investments at Tawke were significantly curtailed due to lower oil prices and irregular payments by the KRG for exports. Notwithstanding, Tawke gross proven (1P) reserves increased to 387.0 MMbbls (239.9 MMbbls on a CWI basis) from 319.9 MMbbls (198.3 MMbbls on a CWI basis) at year-end 2014 with improved confidence about primary recovery rates after a full year of elevated production and ongoing reservoir monitoring.

At Peshkabir, gross 2P reserves stood at 32.2 MMbbls (20.0 MMbbls on a CWI basis), with 2C contingent resources estimated at 63.0 MMboe, of which 60.2 MMbbls is oil and 2.8 MMboe is gas.

4.1.2 Erbil PSC

Estimates of oil-in-place at Benenan in the Erbil license stand at more than two billion barrels, although in the absence of a comprehensive field development plan, gross 2P reserves stood at 57.8

MMbbls (26.9 MMbbls on a CWI basis). Gross 2P reserves at Bastora are estimated at 11.3 MMbbls (5.3 MMbbls on a CWI basis).

4.1.3 Dohuk PSC

Based on 2014 and early 2015 production behavior, a subsequent evaluation ahead of a decision to relinquish the license led to no remaining recognized reserves at Summail. Discussions are ongoing with the Ministry of Natural Resources in Kurdistan on the relinquishment of the Dohuk PSC.

4.2 Yemen

Due to the falling oil price and the degree of maturity of the producing fields operated by DNO in Yemen, all previously producing assets, Block 32 and Block 43, are estimated to operate below economic limits and as such hold no recognized reserves.

4.3 Oman

Gross 2P reserves at Block 8 were estimated at 4.0 MMbbls of oil, condensate and other liquids and 8.4 billion cubic feet (Bcf) of gas (1.5 MMboe), of which 2.7 MMboe is net to DNO on a CWI basis. This is down from CWI 2P reserves of 6.4 MMboe in 2014 primarily as a result of 2015 production, well failure, lower oil prices and a lack of new drilling activity. Produced volumes from Block 8 in 2015 were 3.0 MMboe (8,193 boepd), with cumulative field production at end-2015 of 86.8 MMboe.

5 Contingent resources

Contingent resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations, but not currently considered to be commercially recoverable or where a field development plan has not yet been submitted. DNO's reported contingent resources are included as resources class 4 (in the planning phase), class 5 (development likely but undecided), class 6 (development unlikely) and class 7 (not yet evaluated) under NPD's classification system.

DNO holds a total of 131.6 MMboe in 2C contingent resources, NPD class 4-7, on a CWI basis, up from 106.7 MMboe at year-end 2014. The contingent resources are well distributed across the DNO portfolio, with the largest concentration in Kurdistan. This includes contingent resources attributable to Peshkibir, Tawke Cretaceous, Tawke Euphrates, Bastora and Benenan.

6 Annex

Table 1 – Remaining reserves at end-2015 (Gross and CWI)

Region, License, Field	Proven (1P)				Proven + Probable (2P)					
	Gross liquids	Gross gas		Interest	CWI	Gross liquids	Gross gas		Interest	CWI
	(MMbbls)	(Bcf)	(MMboe)	(%)	(MMboe)	(MMbbls)	(Bcf)	(MMboe)	(%)	(MMboe)
Developed Assets										
Kurdistan, Tawke PSC, Tawke	387.0			62.0 %	239.9	543.0			62.0 %	336.6
Oman, Block 8, Bukha	0.3			50.0 %	0.2	1.2			50.0 %	0.6
Oman, Block 8, West Bukha	1.1	2.3	0.4	50.0 %	0.7	2.8	8.4	1.5	50.0 %	2.1
Total Developed					240.8					339.4
Region, License, Field	Proven (1P)				Proven + Probable (2P)					
	Gross liquids	Gross gas		Interest	CWI	Gross liquids	Gross gas		Interest	CWI
	(MMbbls)	(Bcf)	(MMboe)	(%)	(MMboe)	(MMbbls)	(Bcf)	(MMboe)	(%)	(MMboe)
Under Development Assets										
Kurdistan, Erbil PSC, Bastora	0.0			46.5 %	0.0	11.3			46.5 %	5.3
Kurdistan, Erbil PSC, Benenan	0.0			46.5 %	0.0	57.8			46.5 %	26.9
Kurdistan, Tawke PSC, Peshkabir	5.1			62.0 %	3.1	32.2			62.0 %	20.0
Total Under Development					3.1					52.1
TOTAL DNO ASA					243.9					391.5

All volumes represent pre-tax shares. Gross volumes include royalty, whereas CWI figures are net to DNO after royalty and include DNO's share of cost oil attributable to joint venture partners whose costs have been carried or advanced by DNO.

Table 2 – 2P reserves and 2C contingent resources at end-2015 (Gross and CWI)

Region	2P		2C		2P + 2C	
	Gross	CWI	Gross	CWI	Gross	CWI
	(MMboe)	(MMboe)	(MMboe)	(MMboe)	(MMboe)	(MMboe)
Kurdistan	644.3	388.7	175.1	106.7	819.4	495.5
<i>Tawke</i>	543.0	336.6	100.2	62.1	643.2	398.8
<i>Peshkibir</i>	32.2	20.0	63.0	39.1	95.2	59.0
<i>Erbil</i>	69.1	32.1	11.9	5.5	81.0	37.7
Oman	5.5	2.7	0.6	0.3	6.0	3.0
UAE	0.0	0.0	13.2	8.2	13.2	8.2
Yemen	0.0	0.0	6.2	3.0	6.2	3.0
Tunisia	0.0	0.0	33.9	13.4	33.9	13.4
TOTAL DNO ASA	649.8	391.5	228.9	131.6	878.7	523.1

Table 3 – Remaining reserves at end-2015 (Gross and net entitlement)

Region, License, Field	Proven (1P)			Proven + Probable (2P)			
	Gross liquids	Gross gas		Gross liquids	Gross gas		Net entitlement
	(MMbbls)	(Bcf)	(MMboe)	(MMbbls)	(Bcf)	(MMboe)	(MMboe)
Developed Assets							
Kurdistan, Tawke PSC, Tawke	387.0			543.0			135.3
Oman, Block 8, Bukha	0.3			1.2			0.8
Oman, Block 8, West Bukha	1.1	2.3	0.4	2.8	8.4	1.5	1.5
Total Developed			92.1				137.6
Under Development Assets	Proven (1P)			Proven + Probable (2P)			
	Gross liquids	Gross gas		Gross liquids	Gross gas		Net entitlement
	(MMbbls)	(Bcf)	(MMboe)	(MMbbls)	(Bcf)	(MMboe)	(MMboe)
Kurdistan, Erbil PSC, Bastora			0.0	11.3			3.2
Kurdistan, Erbil PSC, Benenan			0.0	57.8			16.2
Kurdistan, Tawke PSC, Peshkabir	5.1		1.9	32.2			7.5
Total Under Development			1.9				26.8
TOTAL DNO ASA			94.0				164.4

All volumes represent pre-tax shares. Gross volumes include royalty, whereas net volumes are after royalty. The net entitlement reserves in Kurdistan, Oman and Yemen are based on economic evaluation of the license agreements and include a volume related to the notional tax paid on behalf of the contractors by the government. The estimates include DNO's share of cost oil attributable to joint venture partners whose costs have been carried or advanced by DNO.

Table 4 – Reserves development (CWI)

<i>Million barrels of oil equivalent (MMboe)</i>	Developed Assets		Under Development		TOTAL	
	1P/P90	2P/P50	1P/P90	2P/P50	1P/P90	2P/P50
Balance as of 31.12.2014	203.3	428.2	15.7	55.5	219.0	483.6
Production	-32.0	-32.0			-32.0	-32.0
Acquisitions						
Divestments						
Extentions and discoveries						
New developments						
Revision of previous estimates	69.5	-56.7	-12.6	-3.4	56.9	-60.1
Balance as of 31.12.2015	240.8	339.4	3.1	52.1	243.9	391.5

The estimates represent DNO's pre-tax shares excluding royalty but including DNO's share of cost oil attributable to joint venture partners whose costs have been carried or advanced by DNO.