



Third quarter

Interim Report 2014



Q3 2014 and year-to-date highlights

- Production at Tawke field in Kurdistan continued without interruption
- DNO Q3 gross production of 124,396 barrels of oil equivalent per day (boepd) and quarterly company working interest (CWI) production of 72,609 boepd
- Stabilizing security environment allowed resumption of Tawke field expansion program with some delay
- Company-wide Q3 investments of USD 52.1 million (YTD USD 234.8 million), ending quarter with cash balance of USD 165.7 million
- Local Kurdistan sales reduced as increasing volumes directed by regional government to export through Ceyhan, Turkey
- Q3 operating revenue of USD 115.7 million (YTD USD 371.9 million) and Q3 operating cash flow of USD 25 million (YTD USD 167.1 million)
- Kurdistan has announced initial USD 75 million payment in November to DNO and other producing companies on account for exports with further payments to follow on a regular basis. With increases in production and exports, operators will receive full contractual entitlements
- Q4 focus on improving cost efficiencies and high grading portfolio
- Though our low finding, development and operating costs give DNO a significant competitive advantage in a weak oil price environment

Key figures

USD million	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Key financials						
Sales ¹⁾	115.7	135.2	371.9	369.4	503.0	524.5
Gross profit	30.8	82.2	137.0	209.5	294.7	316.1
Profit/loss from operating activities	-40.7	63.6	43.6	173.6	67.9	270.0
Net profit/loss	-41.6	47.0	26.4	125.1	27.0	198.1
EBITDA	58.1	93.8	238.2	253.2	348.1	360.8
Netback	42.4	77.2	202.8	205.9	285.9	297.0
Acquisition and development costs	52.1	73.0	234.8	218.1	288.3	197.2
Exploration costs expensed	13.9	2.0	23.1	6.4	10.3	13.4
Key performance indicators²⁾						
Lifting costs (USD/boe)	4.9	9.4	4.7	8.0	8.0	7.5
Netback (USD/boe)	6.7	21.7	11.3	19.2	20.8	23.8

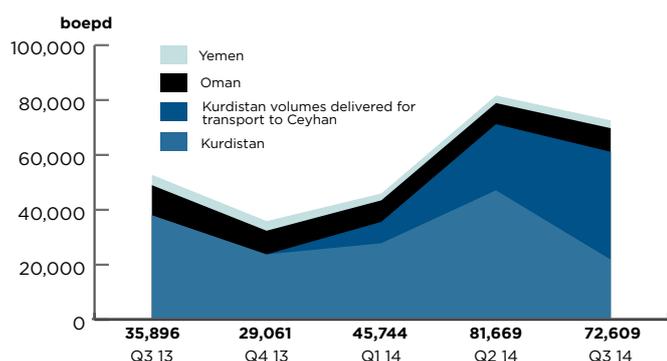
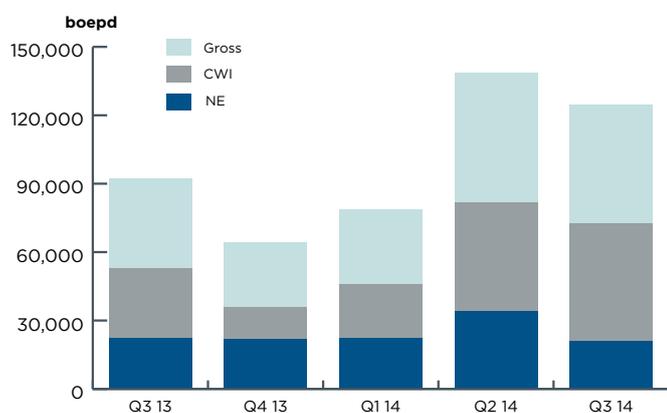
¹⁾ Sales in 2012 include USD 116 million related to export volumes from the Tawke field.

²⁾ Key performance indicators include export volumes from the Tawke field.

Operational review

Production

Quarterly production



Company working interest production (CWI) during the third quarter averaged 72,609 barrels of oil equivalent per day (boepd). The decrease in volumes compared to the previous quarter (81,669 boepd CWI) is primarily due to lower local deliveries from the Tawke field in the Kurdistan region of Iraq. Sales production during the third quarter, excluding volumes delivered to exports through Ceyhan, Turkey from the Tawke field, averaged 21,874 boepd on a CWI basis.

During the third quarter, CWI production at the Tawke field fell to 61,140 barrels of oil per day (bopd) from 71,215 bopd in the previous quarter, but volumes were up from 38,045 bopd during the corresponding period in 2013.

In Oman, CWI production from Block 8 totaled 8,605 boepd during the third quarter compared to 7,691 boepd in the previous quarter and 10,948 boepd during the corresponding period last year.

Production at the company's assets in Yemen was 2,864 bopd on a CWI basis during the quarter.

Net entitlement production totaled 33,264 boepd during the third quarter compared to 33,938 boepd in the previous quarter and 22,257 boepd during the corresponding period in 2013.

Gross production

boepd	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	100,055	61,166	91,374	39,846	39,433	45,477
Oman	17,211	21,899	15,936	22,907	21,473	11,490
Yemen	7,130	9,454	6,858	10,004	9,708	10,271
Total	124,396	92,519	114,168	72,756	70,614	67,238

The table above reflects gross production from the fields. Kurdistan figures include both local sales and exported volumes.

Company working interest (CWI) production

boepd	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	61,140	38,045	56,092	24,784	24,526	28,466
Oman	8,605	10,948	7,968	11,453	10,736	5,745
Yemen	2,864	3,786	2,712	4,037	3,907	4,143
Total	72,609	52,780	66,772	40,274	39,170	38,354

The table above reflects DNO's total working interest production including diesel. Kurdistan figures include both local sales and exported volumes.

Net entitlement production

boepd	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	27,009	14,114	23,708	11,950	12,679	14,563
Oman	4,331	5,575	4,240	6,146	5,733	3,628
Yemen	1,924	2,568	1,848	2,595	2,543	2,442
Total	33,264	22,257	29,796	20,692	20,956	20,633

The table above reflects DNO's net entitlement production including diesel. Net entitlement from past exports from Tawke has been estimated based on the PSC, but the company has not received payments for the full net entitlement production.

Appraisal and field development

Kurdistan region of Iraq

Tawke license

Drilling of the horizontal production well Tawke-25, which commenced in the second quarter, was completed in the third quarter as part of the company's ongoing development program. The well initially tested at 7,500 boepd.

Drilling of the Tawke-26 well was completed in the second quarter, and the well was initially tested at 5,000 boepd.

The Tawke-28 well was also successfully drilled and completed as a horizontal well in the Cretaceous reservoir and is currently undergoing stimulation and testing. The rig has been moved to the Tawke-27 well, which spudded in early November.

With five horizontal wells drilled in 2014, the total number of Tawke field wells will reach 28 by year-end, of which 25 are on production.

Meanwhile, the company continues to install electrical submersible pumps across the main production wells in order to maintain and better control production rates at Tawke.

Field processing capacity is expected to reach 200,000 bopd by early 2015 with delayed installation of early processing facilities.

To transport the increased field output, a new 24-inch pipeline is being installed along the same route as the existing 12-inch pipeline, which connects the central processing facility at Tawke to the Fish Khabur export facility. The new pipeline, which will also provide transportation system redundancy, is slated for completion by year-end.

Dohuk license

The Summail-2 well was completed as a gas producer in the Cretaceous reservoir, and the well is currently delivering 14 million cubic feet per day (mmcf/d) to the Dohuk power plant. The other two Summail wells are currently shut-in for pressure build-up and monitoring.

A 200-meter oil column was encountered during the drilling of the deeper Cretaceous intervals of the Summail-2 well. This discovery comes in addition to the earlier confirmed presence of heavy oil in the Jurassic interval of the Summail-1 well. The company has initiated further appraisal of these heavy oil discoveries.

Erbil license

The Benenan-4 well, located on the western Benenan anticline, tested movable Najmeh oil deeper than in any well previously drilled in the field. The well has also proved a much deeper oil water contact, indicating higher volumes of oil in place for the Benenan field. The increased in-place volumes are encouraging for further development of the field.

Further testing of the Najmeh interval is under way at the Benenan-4 and Erbil-2 wells. The company is targeting commercial production and delivery of heavy oil from the Erbil license to the local market.

Oman

Gross production from offshore Block 8 increased to 17,211 boepd in the third quarter. Reprocessing of 3D seismic data for the West Bukha field in Block 8 has been completed. The information will be used to evaluate possible new drilling targets and additional exploration opportunities in Block 8. The company is using its fractured carbonate reservoir experience from Kurdistan to refine and update the static and dynamic models for West Bukha.

Ras Al Khaimah

The Saleh-8 well continues to produce at low rates with ongoing pressure monitoring. Artificial lift studies on the partially depleted Wasia reservoir have been completed.

Yemen

The company maintained stable production in Yemen (gross production of 7,130 bopd) in the third quarter, despite challenging security conditions.

Exploration

Kurdistan region of Iraq

Tawke license

Additional 3D seismic data is being acquired at the Tawke field. In addition to further detailing the reservoir, the survey aims to obtain better coverage of the north flank as well as the Tertiary Jeribe and Euphrates reservoirs and to improve the data quality of the Tawke deep prospect levels.

At Peshkabir, the company plans to drill the Peshkabir-2 well in 2015 to appraise the Jurassic oil discovery made at Peshkabir-1 and to prove additional oil in Cretaceous. Further processing of Peshkabir 3D seismic data is under way.

The Peshkabir field is estimated to contain 225 million barrels in prospective resources.

Oman

In Block 36 onshore Oman, the acquisition of a 1,000-kilometer 2D seismic program was completed on schedule at the end of October. Technical evaluation of possible drilling targets in Block 36 is ongoing, with the first exploration well to be drilled in 2015.

Tunisia

In the Sfax permit, a 1,000-square-kilometer 3D seismic acquisition program was successfully completed and the data is currently being processed. Jawhara-3, the first of several exploration and appraisal wells, was spudded in mid-October and encountered a secondary Eocene target with indications of hydrocarbons. This intermediate section has been logged and cased and drilling operations will resume to test three deeper secondary and primary targets in Cretaceous and Turonian. Jawhara-3 is being drilled four kilometers north of the Jawhara-1 discovery well, which tested at a rate of 1,500 bopd. A second exploration well at Sfax will follow in the first half of 2015.

At the Fkirine license onshore Tunisia, the interpretation of 2D seismic and field data is ongoing.

Yemen

Due to civil unrest in Yemen, all drilling activity currently remains suspended.

Ras Al Khaimah

Following the farm down of the company's working interest in the RAK Onshore exploration license to 70 percent, a detailed technical study of the block has commenced. The study, which includes the reprocessing of 600 kilometers of vintage seismic data, a basin analysis, and the integration of aeromagnetic and gravity data, will take approximately 15 months to complete, and is designed to mature drillable prospects.

Somaliland

Block SL 18 onshore Somaliland covers a surface area of 12,000 square kilometers and adds substantial exploration acreage to the company's portfolio in a high potential area that is both prospective and undrilled. Having been active across the Gulf of Aden in Yemen since the late 1990s, the opportunity falls within the company's geographical and geological sphere of expertise. The government is in the process of implementing an Oil Protection Unit (OPU) to support seismic acquisitions by DNO and other international oil companies operating in Somaliland.

Financial review

Revenues, profits and cash flow

Sales revenue in the third quarter was USD 115.7 million compared to USD 143.4 million in the previous quarter.

A portion of the oil produced from the Tawke field in the Kurdistan region of Iraq was delivered to exports through Ceyhan, Turkey. No revenue has been recorded for these volumes, which amounted to approximately 3.6 million barrels of oil net to DNO on a CWI basis in the third quarter. However, the company continued to sell oil produced from the Tawke field into the local market throughout the quarter. Local sales contributed to revenue of USD 77.5 million in the quarter.

Revenue from oil and gas production at Block 8 offshore Oman amounted to USD 22.9 million in the third quarter, while revenue from the company's producing assets onshore Yemen totaled USD 15.3 million.

DNO reported an operating loss of USD 40.7 million during the third quarter and a net loss of USD 41.6 million. The operating loss includes a one-off cost of USD 44.4 million related to an impairment charge for RAK Saleh. Excluding the impairment, the company had an operating profit of USD 3.8 million in the third quarter. Total investments during the quarter (excluding the purchase of financial assets) amounted to USD 52.1 million.

The company continues to maintain a conservative capital structure. At the end of the third quarter, DNO's free cash position was USD 165.7 million.

Cost of goods sold

In the third quarter, the cost of goods sold was USD 84.9 million compared to USD 53.1 million in the corresponding period in 2013.

Lifting costs

Lifting costs rose to USD 30.6 million in the third quarter from USD 28.1 million in the same year-ago period due to changes in workovers and maintenance and higher cost estimates. Total and unit lifting costs per country are presented in the accompanying table.

Lifting costs

USD million	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	17.0	13.5	40.7	37.2	46.9	30.2
Oman	3.9	3.8	13.7	12.4	19.0	33.5
Yemen	9.6	10.8	29.9	35.9	44.7	38.6
Total	30.6	28.1	84.3	85.5	110.6	102.3

Including export volumes

USD/boe	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	3.2	3.9	2.7	5.5	5.3	2.9
Oman	5.5	4.0	7.0	4.2	5.2	17.3
Yemen	40.2	33.4	44.8	35.1	33.7	27.2
Average	4.9	9.4	4.7	8.0	8.0	7.5

Depreciation, depletion and amortization (DD&A)

DD&A amounted to USD 54.3 million in the third quarter compared to USD 24.9 million in the corresponding period last year. The increase is due to a combination of higher production volumes and the revision and reclassification of certain reserves following the most recent independent review by DeGolyer & MacNaughton.

DD&A

USD million	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	33.0	10.0	84.4	25.0	35.5	54.1
Oman	16.5	9.7	52.5	33.1	41.0	35.1
Yemen	4.3	4.9	12.4	15.6	20.2	16.4
Total	53.8	24.7	149.3	73.7	96.8	105.6

Including export volumes

USD/boe	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	14.7	7.7	14.1	7.7	7.7	10.3
Oman	41.5	18.9	45.4	19.7	19.6	26.0
Yemen	27.1	22.7	27.4	23.8	23.7	19.6
Average	19.0	12.2	18.5	13.2	12.8	14.9

Exploration and capital expenditure

Exploration costs expensed

Expensed exploration costs of USD 13.9 million in the third quarter were mainly related to seismic costs in Tunisia and Oman.

Exploration costs expensed

USD million	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	-	0.2	0.2	0.2	0.4	4.1
Oman	4.4	0.2	6.5	0.8	1.6	1.2
Yemen	0.4	0.2	0.3	0.5	0.6	1.1
UAE	0.2	0.1	0.5	0.3	0.4	0.4
Tunisia	10.0	1.0	15.0	3.9	6.3	6.5
Other	-1.0	0.5	0.6	0.7	0.9	-
Total	13.9	2.0	23.1	6.4	10.3	13.4

ACQUISITION AND DEVELOPMENT COSTS

(incl. intangible assets)

Capital expenditures in the third quarter totaled USD 52.1 million compared to USD 73.0 million in the corresponding period in 2013. Costs associated with development work at the Tawke license amounted to USD 41.7 million in the quarter. The corresponding amount for the Dohuk license was USD 2.0 million and for the Erbil license USD 0.8 million.

In Yemen, third-quarter capitalized costs were USD 1.7 million for Block 53, USD 0.3 million for Block 32, USD 0.2 million respectively for Block 47 and Block 72, and USD 0.1 million for Block 43. Investments related to the Sfax Offshore Exploration Permit in Tunisia amounted to USD 2.4 million during the quarter, while investments related to the RAK Saleh license in the United Arab Emirates came in at USD 0.2 million.

Acquisition and development costs

USD million	Quarter		Year-to-date		Full year	
	Q3 2014	Q3 2013	2014	2013	2013	2012
Kurdistan	44.7	27.4	200.2	108.9	167.8	103.7
Oman	-0.4	1.2	14.8	27.0	31.7	75.0
Yemen	2.5	9.8	6.8	22.3	26.7	17.0
UAE	0.2	34.0	-0.3	58.1	59.9	1.2
Tunisia	2.4	-	8.9	-	-	-
Other	2.7	0.6	4.4	1.7	2.2	0.3
Total	52.1	73.0	234.8	218.1	288.3	197.2

Consolidated statement of comprehensive income

USD million	Note	Quarter		Year-to-date		Full year
		Q3 2014	Q3 2013	2014	2013	
Sales	2, 3	115.7	135.2	371.9	369.4	503.0
Cost of goods sold	4	-84.9	-53.1	-234.9	-159.9	-208.3
Gross profit		30.8	82.2	137.0	209.5	294.7
Other operating income		-	0.1	2.6	0.3	0.3
Tariffs and transportation		-1.7	-1.2	-3.0	-3.6	-4.2
Administrative expenses/other operating expenses		-11.4	-10.1	-25.8	-20.9	-30.2
Impairment oil and gas assets	7	-44.5	-5.1	-44.5	-5.1	-182.3
Exploration costs expensed	5	-13.9	-2.0	-23.1	-6.4	-10.3
Net gain/loss from sale of PP&E	7	-	-0.1	0.4	-0.1	-0.1
Profit/loss from operating activities		-40.7	63.6	43.6	173.6	67.9
Financial income		1.6	0.4	7.9	2.4	2.6
Financial expenses		-1.1	-2.9	-18.9	-10.9	-12.3
Profit/loss before income tax		-40.2	61.1	32.6	165.1	58.2
Income tax expense	6	-1.4	-14.2	-6.1	-40.0	-31.3
Net profit/loss		-41.6	47.0	26.4	125.1	27.0
Other comprehensive income						
Currency translation differences		0.4	-0.6	0.2	9.0	-
Fair value changes available-for-sale financial assets		0.2	-	6.6	-	10.6
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		0.6	-0.6	6.8	9.0	10.6
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		-	-	-	-	-
Total other comprehensive income, net of tax	6	0.6	-0.6	6.8	9.0	10.6
Total comprehensive income, net of tax		-41.0	46.3	33.2	134.1	37.6
Net profit/loss attributable to:						
Equity holders of the parent		-41.6	47.0	26.4	125.1	27.0
Total comprehensive income attributable to:						
Equity holders of the parent		-41.0	46.3	33.2	134.1	37.6
Earnings per share, basic		-0.00	0.05	0.07	0.12	0.03
Earnings per share, diluted		-0.00	0.05	0.07	0.12	0.03

Condensed consolidated statement of financial position

ASSETS				
USD million	Note	Quarter		Full year
		Q3 2014	Q3 2013	2013
Non-current assets				
Goodwill		-	46.4	-
Deferred income tax assets	6	7.7	7.7	7.7
Other intangible assets	7	161.0	154.5	158.3
Property, plant and equipment	7	761.8	813.0	725.2
Available for sale investments	8	56.3	-	10.8
Other non-current assets		4.9	2.4	2.4
Total non-current assets		991.8	1,024.0	904.4
Current assets				
Inventories	4	71.1	38.0	50.8
Trade and other receivables		152.5	93.2	114.0
Cash and cash equivalents		165.7	262.4	265.9
Total current assets		389.2	393.6	430.7
TOTAL ASSETS		1,381.0	1,417.6	1,335.1

EQUITY AND LIABILITIES				
USD million	Note	Quarter		Full year
		Q3 2014	Q3 2013	2013
Equity				
Share capital		33.6	33.6	33.6
Other reserves		181.4	173.2	174.7
Retained earnings		576.7	648.3	550.2
Total equity		791.7	855.1	758.5
Non-current liabilities				
Interest-bearing liabilities	9	225.8	231.3	230.4
Deferred income tax liabilities	6	77.0	124.3	101.5
Provisions for other liabilities and charges	10	105.8	36.6	93.0
Total non-current liabilities		408.6	392.2	424.9
Current liabilities				
Trade and other payables		90.2	21.3	56.5
Income taxes payable	6	10.8	16.3	15.5
Provisions for other liabilities and charges	10	79.7	132.8	79.7
Total current liabilities		180.7	170.3	151.7
TOTAL EQUITY AND LIABILITIES		1,381.0	1,417.6	1,335.1

Condensed consolidated cash flow statement

USD million	Note	Quarter		Year-to-date		Full year 2013
		2014	2013	2014	2013	
Operating activities						
Profit/loss before income tax		4.2	61.1	78.0	165.1	58.2
Adjustments to add (deduct) non-cash items:						
+/- Net interest expense (income)		3.8	2.6	16.5	6.6	7.2
Previously capitalized exploration and evaluation expenses	5	-	-	-	-	-
Depreciation of PP&E	4	54.3	24.9	150.5	74.4	97.8
Impairment loss/Reversal of impairment on PP&E	7	-	5.1	-	5.1	182.3
Gain/loss on PPE	7	-	0.1	-0.4	0.1	0.1
Gain/loss on shares		-	-	-	-	-
Other *		-12.8	3.3	5.5	-6.1	52.3
Changes in working capital:						
- Inventories		-4.8	3.5	-24.8	2.9	-9.9
- Trade and other receivables		-26.3	4.7	-41.0	28.1	7.4
- Trade and other payables		27.0	-22.1	32.6	-18.8	16.5
- Provisions for other liabilities and charges		-	1.4	0.1	-6.0	-59.1
Cash generated from operations		45.4	84.8	217.0	251.4	352.8
Income taxes paid		-15.8	-16.7	-35.4	-47.3	-62.1
Interest paid		-4.6	-5.1	-14.5	-15.3	-20.3
Net cash from operating activities		25.0	63.0	167.1	188.8	270.4
Investing activities						
Purchases of intangible assets	7	-2.4	-3.0	-2.9	-30.9	-35.9
Proceeds from sale of intangible assets		-	-	0.3	-	-
Purchases of tangible assets	7	-49.7	-70.0	-227.4	-187.2	-252.5
Proceeds from sale of tangible assets		0.1	-	0.6	-	-
Purchases of available-for-sale financial assets		-2.6	-	-38.9	-	-10.8
Proceeds from sale of available-for-sale financial assets		-	-	-	0.5	0.5
Interest received		0.1	0.2	0.3	0.4	0.6
Net cash from/used in investing activities		-54.5	-72.8	-267.9	-217.2	-298.1
Financing activities						
Repayment of borrowings		-	-	-	-	-
Purchase of treasury shares, including options		-	-	-	-	-
Net cash from/used financing activities		-	-	-	-	-
Net increase/decrease in cash and cash equivalents		-29.4	-9.8	-100.8	-28.4	-27.7
Cash and cash equivalents at beginning of the period		195.1	273.4	265.9	270.9	270.9
Exchange gain/losses on cash and cash equivalents		-	-1.2	0.5	19.9	22.7
Cash and cash equivalents at end of the period		165.7	262.4	165.7	262.4	265.9

* Included in the line Other under Operating activities are foreign currency effects related to interest-bearing loans and equity, acquisition/disposals of PP&E with non-cash effect, change in accruals of long-term liabilities with non-cash effect and other non-cash items from investing and financing activities.

Condensed consolidated statement of changes in equity

USD million	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2013	33.6	164.2	523.2	721.0
<i>Fair value gains, net of tax:</i>				
- available-for-sale financial assets	-	-	-	-
Currency translation differences	-	9.0	-	9.0
Other comprehensive income/loss	-	9.0	-	9.0
Profit for the period	-	-	125.1	125.1
Total comprehensive income	-	9.0	125.1	134.1
Issue of share capital	-	-	-	-
Purchase of treasury shares	-	-	-	-
Sale of treasury shares	-	-	-	-
	-	-	-	-
Balance at 30 September 2013	33.6	173.2	648.3	855.1

USD million	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2014	33.6	174.7	550.2	758.5
<i>Fair value gains, net of tax:</i>				
- available-for-sale financial assets	-	6.6	-	6.6
Currency translation differences	-	0.2	-	0.2
Other comprehensive income/loss	-	6.7	-	6.7
Profit for the period	-	-	26.4	26.4
Total comprehensive income	-	6.7	26.4	33.2
Issue of share capital	-	-	-	-
Purchase of treasury shares	-	-	-	-
Sale of treasury shares	-	-	-	-
	-	-	-	-
Balance at 30 September 2014	33.6	181.4	576.7	791.7

Notes to the interim condensed consolidated financial accounts

Note 1 | Basis of preparation and accounting policies

The condensed 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 condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the group's annual financial statements as at 31 December 2013. The interim financial information for 2014 and 2013 is unaudited.

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

* All derivatives, all financial assets and liabilities held for trading, liabilities related to share-based payments and all financial assets that are 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 2013. 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 ended 31 December 2013. For information about the standards and interpretations effective from 1 January 2014, please refer to Note 1 in the group's annual financial statements for 2013. The group has adopted the following new standards with effect from 1 January 2014:

IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities

The implementation of these standards has no effect on the group's financial position or performance.

DNO changed the presentation currency for the consolidated accounts from NOK to USD with effect from 1 January 2014. See note 11 for restated historical figures.

Note 2 | Segment information

DNO is reporting five (5) operating segments; Kurdistan (KUR), Oman (OMAN), Yemen (YEM), Ras Al Khaimah (UAE) and Tunisia (TUN). The operating segments equal the reportable segments.

Three months ended 30 September 2014 USD million	Note	KUR	OMAN	YEM	UAE	TUN	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	77.5	22.9	15.3	-	-	-	115.7	-	115.7
Inter-segment sales		0.4	1.4	0.3	0.1	0.1	-	2.4	-2.4	-
Cost of goods sold	4	-50.1	-20.5	-13.9	-	-	-	-84.6	-0.3	-84.9
Gross profit		27.8	3.8	1.7	0.1	0.1	-	33.5	-2.7	30.8
Segment operating result		26.8	-3.7	-2.0	-44.7	-10.1	0.4	-33.3	-3.7	-37.0
Interest - net										-3.2
Gain/loss on sale of shares										-
Income tax expense		-	-1.4	-	-	-	-	-1.4	-	-1.4
Net profit/loss										-41.6
Segment assets		871.5	158.5	111.9	3.9	47.6	2.0	1,195.3	185.7	1,381.0

Note 2 | Segment information continues

Three months ended 30 September 2013 USD million	Note	KUR	OMAN	YEM	UAE	TUN	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	77.0	33.7	24.5	-	-	-	135.2	-	135.2
Inter-segment sales		0.6	0.6	0.4	0.7	0.2	0.1	2.5	-2.5	-
Cost of goods sold	4	-23.6	-13.5	-15.7	-	-	-	-52.9	-0.1	-53.1
Gross profit		54.0	20.7	9.2	0.7	0.2	0.1	84.8	-2.6	82.2
Segment operating result		52.6	13.6	6.4	-0.1	-0.8	-0.4	71.4	-7.6	63.8
Interest - net										-2.6
Gain/loss on sale of shares										-
Income tax expense		-	-11.3	-2.9	-	-	-	-14.2	-	-14.2
Net profit/loss										47.0
Segment assets		602.7	280.6	120.6	141.8	9.4	4.2	1,159.3	258.3	1,417.6

Nine months ended 30 September 2014 USD million	Note	KUR	OMAN	YEM	UAE	TUN	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	249.3	74.6	48.0	-	-	-	371.9	-	371.9
Inter-segment sales		2.2	5.7	1.0	0.3	0.4	0.3	10.0	-10.0	-
Cost of goods sold	4	-125.5	-66.4	-42.3	-	-0.1	-0.1	-234.2	-0.7	-234.9
Gross profit		126.0	14.0	6.7	0.3	0.3	0.3	147.7	-10.7	137.0
Segment operating result		119.3	0.7	-0.7	-42.8	-14.9	-2.0	59.7	-11.2	48.4
Interest - net										-15.9
Gain/loss on sale of shares										-
Income tax expense		-	-4.8	-1.3	-	-	-	-6.1	-	-6.1
Net profit/loss										26.4
Segment assets		871.5	158.5	111.9	3.9	47.6	2.0	1,195.3	185.7	1,381.0

Nine months ended 30 September 2013 USD million	Note	KUR	OMAN	YEM	UAE	TUN	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	191.5	106.6	71.3	-	-	-	369.4	-	369.4
Inter-segment sales		3.3	2.6	1.7	2.1	0.7	0.2	10.6	-10.6	-
Cost of goods sold	4	-62.4	-45.5	-51.5	-	-	-0.1	-159.6	-0.3	-159.9
Gross profit		132.4	63.6	21.4	2.1	0.7	0.1	220.4	-10.9	209.5
Segment operating result		125.0	53.8	11.6	-0.9	-3.5	0.1	186.2	-14.6	171.6
Interest - net										-6.5
Gain/loss on sale of shares										-
Income tax expense		-	-34.4	-5.6	-	-	-	-40.0	-	-40.0
Net profit/loss										125.1
Segment assets		602.7	280.6	120.6	141.8	9.4	4.2	1,159.3	258.3	1,417.6

Note 3 | Sales

DNO reports its operations governed by Production Sharing Agreements/Production Sharing Contracts (PSA/PSC) according to the net entitlement method.

USD million	Quarter		Year-to-date		Full year 2013
	Q3 2014	Q3 2013	2014	2013	
Sale of petroleum products	115.7	135.2	371.9	369.4	503.0
Total sales	115.7	135.2	371.9	369.4	503.0

There were no export sales from the Tawke field in the Kurdistan region of Iraq in Q3 2014, only local sales.

Note 4 | Cost of goods sold/inventory

USD million	Quarter		Year-to-date		Full year 2013
	Q3 2014	Q3 2013	2014	2013	
Lifting costs *	-30.6	-28.1	-84.3	-85.5	-110.6
Depreciation, depletion and amortization	-54.3	-24.9	-150.6	-74.4	-97.8
Total cost of goods sold	-84.9	-53.1	-234.9	-159.9	-208.3

* Lifting costs consist of expenses relating to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurance and costs in own organization.

USD million	Quarter		Full year 2013
	Q3 2014	Q3 2013	
Spare parts	58.9	24.0	36.9
Other inventory	12.2	14.0	14.0
Total inventory	71.1	38.0	50.8

Spare parts relate mainly to the Tawke field in the Kurdistan region of Iraq. Other inventory relates to drilling and completion materials for the offshore blocks in Oman and UAE.

Note 5 | Exploration costs

USD million	Quarter		Year-to-date		Full year 2013
	Q3 2014	Q3 2013	2014	2013	
Exploration expenses (G&G and field surveys)	-3.5	-0.4	-8.7	-1.8	-3.4
Seismic costs	-9.6	-	-9.8	-0.3	-0.4
Exploration costs capitalized this year carried to cost	-	-	0.1	-	-
Other exploration costs expensed	-0.8	-1.7	-4.7	-4.3	-6.6
Total exploration costs expensed *	-13.9	-2.0	-23.1	-6.4	-10.3

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

Seismic costs of USD 9.6 million are related to Tunisia (SFAX Offshore USD 6.6 million) and Oman (Block 36 USD 3 million).

Note 6 | Income taxes

USD million	Quarter		Year-to-date		Full year 2013
	Q3 2014	Q3 2013	2014	2013	
Deferred taxes	10.6	4.4	24.5	16.1	39.0
Income taxes payable related to Production Sharing Agreements (PSAs) in Yemen and Oman	-12.0	-18.5	-30.6	-56.1	-70.2
Total income tax expense	-1.4	-14.2	-6.1	-40.0	-31.3

Income taxes payable amounting to USD 10.8 million relates entirely to the company tax element in our Production Sharing Agreements in Yemen and Oman. The taxes payable will be settled in kind.

The interim period income tax expense relates to the Yemen and Oman operations and is calculated by applying the tax rate applicable to the expected total annual earnings. According to the net entitlement method, income taxes payable related to PSAs consist of the corporate tax rate applicable under the agreements. No tax is applicable to the operations in the Kurdistan region of Iraq as there is currently no established tax regime.

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

Note 7 | Property, plant and equipment/intangible assets

USD million	Quarter		Year-to-date		Full year 2013
	Q3 2014	Q3 2013	2014	2013	
Acquisitions of PP&E *	49.7	70.0	227.4	187.2	252.5
Acquisitions of intangible assets **	2.4	3.0	7.4	30.9	35.9
Net book amount PP&E	761.8	813.0	761.8	813.0	725.2
Net book amount intangible assets	161.0	154.5	161.0	154.5	158.3
<i>Sale of PP&E</i>					
Proceeds	-	0.7	0.8	0.7	0.7
Carrying value	-	0.8	0.4	0.8	0.8
Net gain/loss	-	-0.1	0.4	-	-0.1
Impairment of PP&E	44.4	5.1	44.4	5.1	182.3

* Acquisitions related to development assets, assets in operation and other PP&E

** Acquisitions related to capitalized exploration costs and license interests

Impairment charge of USD 182.3 million in 2013 was related to the assets in UAE (Saleh and RAK B) and Block 8 and Block 31 in Oman. Impairment charge of USD 44.4 million in Q3 2014 was related to the assets in UAE Saleh.

Note 8 | Available-for-sale financial assets

Available-for-sale financial assets are revalued at fair value (market price, where available) at the end of each period, with changes charged to other comprehensive income. Impairment will be charged to profit or loss, while reversal of impairment will be taken through other comprehensive income.

USD million	Quarter		Year-to-date		Full year 2013
	Q3 2014	Q3 2013	2014	2013	
Beginning of the period	53.5	-	10.8	-	0.5
Additions	2.6	-	38.9	-	10.9
Sales	-	-	-	-	-0.5
Revaluation surplus/deficit transfer to equity	0.2	-	6.6	-	-
Impairment	-	-	-	-	-
Exchange differences	-	-	-	-	-0.1
End of the period ¹⁾	56.3	-	56.3	-	10.8
Non-current portion	56.3	-	56.3	-	10.8
Current portion	-	-	-	-	-

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

USD million	Quarter		Full year 2013
	Q3 2014	Q3 2013	
Listed securities:			
- Other securities	-	-	-
Unlisted securities:			
- RAK Petroleum PCL	56.3	-	10.8
¹⁾ Total available-for-sale financial assets	56.3	-	10.8

In the fourth quarter of 2013, DNO acquired 39,996,708 shares in RAK Petroleum PCL. Year-to-date 2014, DNO acquired an additional 118,500,665 shares (of which 7,345,833 shares acquired in Q3) and now has a total of 158,497,373 shares (4.9 percent of outstanding shares). All shares have been acquired in open market transactions. A new UK company, RAK Petroleum plc, succeeded to substantially all the assets, liabilities and business of RAK Petroleum PCL and was listed on the Oslo Stock Exchange on 7 November, 2014.

Note 9 | Interest-bearing liabilities

USD million	Quarter		Year-to-date		Full year
	Q3 2014	Q3 2013	2014	2013	
Non-current					
Bonds	225.8	231.3	225.8	231.3	230.4
Total non-current interest-bearing liabilities	225.8	231.3	225.8	231.3	230.4
Current					
Current portion of bonds	-	-	-	-	-
Total current interest-bearing liabilities	-	-	-	-	-
Total interest-bearing liabilities	225.8	231.3	225.8	231.3	230.4

USD million	Currency	Amount	Interest	Maturity	Balance	
					Q3 2014	Q2 2014
Non-current						
Bond loan (ISIN NO0010606197)	NOK	560.0	Nibor + 7.5%	11/04/2016	86.8	91.0
Bond loan (ISIN NO0010606189)	USD	140.0	Libor + 7.5%	11/04/2016	140.0	140.0
Borrowing issue costs					-1.0	-1.3
Total interest-bearing liabilities					225.8	229.7

Note 10 | Provisions for other liabilities and charges

USD million	Quarter		Year-to-date		Full year
	Q3 2014	Q3 2013	2014	2013	
Non-current					
Decommissioning provision	1.6	-	-	-	-
Asset retirement obligations	2.1	3.5	2.1	3.5	3.6
Other long-term obligations	102.2	33.1	102.2	33.1	89.5
Total non-current provisions for other liabilities and charges	105.8	36.6	105.8	36.6	93.0
Current					
Other provisions and charges	79.7	132.8	79.7	132.8	79.7
Total current provisions for other liabilities and charges	79.7	132.8	79.7	132.8	79.7
Total provisions for other liabilities and charges	185.6	169.4	185.6	169.4	172.7

Included in provision for other liabilities and charges is provision for the Water Purification Project (WPP) in the Kurdistan region of Iraq. The WPP was capitalized in 2009 and is depreciated over the period of production. The WPP liability will not be payable until a payment mechanism is in place and proceeds from export sales are received on a regular basis. The monthly installments are contingent on defined gross revenue levels and will be fully recovered through cost oil. The WPP liability is recorded at net present value, where the unwinding of interest is charged to profit or loss. Part of the WPP liability has been classified as short-term at 30 September 2014 and included in other provisions and charges (current).

Provision for production bonuses for the Tawke and Erbil licenses in the Kurdistan region of Iraq is also included in provision for other liabilities and charges. Production bonuses relate to payments based on different production levels.

Note 11 | Change of presentation currency

With effect from 1 January 2014, DNO changed its presentation currency from Norwegian kroner (NOK) to US Dollars (USD) for the consolidated financial statements. The change was made to better reflect the profile of an industry with revenues, costs and cash flows primarily generated in USD.

The tables below show restated condensed financial statements for the DNO group as if the change were effective since 1 January 2005 (IFRS transition):

Consolidated statement of comprehensive income

USD million	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Full year	
					2013	2012
Sales	133.6	135.2	130.9	103.3	503.0	524.5
Cost of goods sold	-48.4	-53.1	-57.0	-49.9	-208.3	-208.4
Gross profit	85.1	82.2	74.0	53.4	294.7	316.1
Other operating income	0.1	0.1	0.1	0.2	0.3	1.7
Tariffs and transportation	-0.6	-1.2	-1.5	-0.9	-4.2	-2.7
Administrative expense/Other operating expenses	-9.3	-10.1	-7.2	-3.6	-30.2	-27.0
Impairment/Reversal of impairment oil and gas assets	-177.2	-5.1	-	-	-182.3	-
Exploration cost expensed	-3.9	-2.0	-2.4	-1.9	-10.3	-13.4
Net gain/loss from sale of PP&E	-	-0.1	-	-	-0.1	-4.8
Profit/loss from operations	-105.7	63.6	62.9	47.1	67.9	270.0
Financial income	0.2	0.4	1.1	0.9	2.6	2.8
Financial expenses	-1.4	-2.9	-3.9	-4.1	-12.3	-24.8
Profit/loss before income tax	-106.9	61.1	60.1	43.9	58.2	248.0
Income tax expense	8.8	-14.2	-12.1	-13.8	-31.3	-49.9
Net profit/loss	-98.1	47.0	48.0	30.1	27.0	198.1
Net profit/loss attributable to:						
Equity holders of the parent	-98.1	47.0	48.0	30.1	27.0	198.1
Earnings per share	-0.10	0.05	0.05	0.03	0.03	0.20

Note 11 | Change of presentation currency continues

Condensed consolidated statement of financial position

ASSETS		
USD million	2013	2012
Non-current assets		
Goodwill	-	46.4
Deferred income tax assets	7.7	7.7
Other intangible assets	158.3	130.9
Property, plant and equipment	725.2	698.1
Available for sale investments	10.8	0.4
Other non-current assets	2.4	-
Total non-current assets	904.4	883.6
Current assets		
Inventories	50.8	40.9
Trade and other receivables	114.0	123.7
Cash and cash equivalents	265.9	270.9
Total current assets	430.7	435.6
TOTAL ASSETS	1,335.1	1,319.2

EQUITY AND LIABILITIES		
USD million	2013	2012
Equity		
Share capital	33.6	33.6
Other reserves	174.7	164.2
Retained earnings	550.2	523.2
Total equity	758.5	721.0
Non-current liabilities		
Interest-bearing liabilities	230.4	238.0
Deferred income tax liabilities	101.5	140.4
Retirement benefit obligations	0.5	0.5
Provisions for other liabilities and charges	92.5	33.1
Total non-current liabilities	424.9	412.0
Current liabilities		
Trade and other payables	56.5	40.0
Income taxes payable	15.5	7.4
Provisions for other liabilities and charges	79.7	138.7
Total current liabilities	151.7	186.2
TOTAL EQUITY AND LIABILITIES	1,335.1	1,319.2

Note 11 | Change of presentation currency continues

Condensed consolidated cash flow statement

USD million	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Full year 2013
Operating activities					
Profit/loss before income tax	-106.9	61.1	60.1	43.9	58.2
Adjustments to add (deduct) non-cash items:					
+/- Net interest expense (income)	0.6	2.6	1.6	2.3	7.2
Previously capitalized exploration and evaluation expenses	-	-	-	-	-
Depreciation of PP&E	23.4	24.9	25.0	24.5	97.8
Impairment loss/Reversal of impairment on PP&E	177.2	5.1	-	-	182.3
Gain/loss on PPE	-	0.1	-	-	0.1
Gain/loss on shares	-	-	-	-	-
Other	58.4	3.3	-1.5	-7.9	52.3
<i>Changes in working capital:</i>					
- Inventories	-12.8	3.5	-1.8	1.2	-9.9
- Trade and other receivables	-20.8	4.7	-26.0	49.4	7.4
- Trade and other payables	35.3	-22.1	9.2	-5.8	16.5
- Provisions for other liabilities and charges	-53.1	1.4	-5.8	-1.6	-59.1
Cash generated from operations	101.3	84.8	60.8	105.8	352.8
Income taxes paid	-14.8	-16.7	-14.1	-16.5	-62.1
Interest paid	-5.0	-5.1	-5.0	-5.2	-20.3
Net cash from operating activities	81.5	63.0	41.7	84.1	270.4
Investing activities					
Purchases of intangible assets	-4.9	-3.0	-14.2	-13.7	-35.9
Proceeds from sale of intangible assets	-	-	-	-	-
Purchases of tangible assets	-65.2	-70.0	-65.7	-51.5	-252.5
Proceeds from sale of tangible assets	-	-	-	-	-
Purchases of available-for-sale financial assets	-10.8	-	-	-	-10.8
Proceeds from sale of available-for-sale financial assets	-	-	0.5	-	0.5
Interest received	0.2	0.2	0.1	0.1	0.6
Other investing activities	-	-	-	-	-
Net cash from/used in investing activities	-80.9	-72.8	-79.3	-65.1	-298.1
Financing activities					
Repayment of borrowings	-	-	-	-	-
Purchase of treasury shares, including options	-	-	-	-	-
Net cash from/used financing activities	-	-	-	-	-
Net increase/decrease in cash and cash equivalents	0.7	-9.8	-37.6	19.0	-27.7
Cash and cash equivalents at beginning of the period	262.4	273.4	301.3	270.9	270.9
Exchange gain/losses on cash and cash equivalents	3.0	-1.2	9.8	11.3	22.7
Cash and cash equivalents at end of the period	265.9	262.4	273.4	301.2	265.9

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