



Interim Report

Second Quarter 2016



Key figures

USD million	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Key financials						
Revenues	61.2	54.8	110.8	80.8	187.4	452.0
Gross profit	29.2	-10.9	48.1	-46.7	-9.5	135.5
Profit/-loss from operating activities	16.2	-23.3	24.1	-92.5	-174.0	-243.2
Net profit/-loss	4.0	-39.9	-0.9	-114.1	-212.3	-226.1
EBITDA	29.5	12.3	53.1	-20.1	29.4	254.1
Netback	26.1	10.1	50.6	-26.8	22.2	203.6
Acquisition and development costs	-0.3	13.3	5.3	48.6	50.7	297.3
Exploration costs expensed	16.1	7.8	19.6	14.7	23.5	50.6
Key performance indicators ¹⁾						
Lifting costs (USD/boe)	1.9	3.4	2.3	4.4	2.7	4.8
Netback (USD/boe)	3.8	1.1	4.3	-1.7	0.7	8.3

¹⁾ Key performance indicators include exports from the Tawke field.

Corporate overview

- Second consecutive quarter of operating profits on back of higher revenues and lower costs
- Commencing active drilling program following completion of workover campaign at flagship Tawke field in Kurdistan
- Five Tawke production wells planned in second half of 2016 to boost capacity from current 120,000 barrels of oil per day (bopd) to 135,000 bopd
- Resumption of regular export payments underpin new investments at Tawke
- In expectation of sustained Kurdistan payments to all operators, launched conditional offer to acquire Gulf Keystone Petroleum
- Taking further steps to rationalize and high grade portfolio and pursue growth opportunities, including outside of Kurdistan

Q2 2016 operational highlights

- Operated production in Q2 2016 climbed 27 percent to 122,900 barrels of oil equivalent per day (boepd), up from 97,000 boepd in Q1 2016
- Of which Tawke represented 117,000 bopd (115,400 bopd delivered for pipeline export through Turkey)
- Exports continue to be impacted by periodic pipeline closures in Turkey, including in June, July and August
- Average sales price of Tawke exports of USD 34 per barrel in Q2 2016, up from USD 21 in previous quarter
- Five workover wells completed at Tawke in Q2 2016 (three in Q1 2016) to reverse natural field decline and sustain production
- Oman production averaged 5,900 boepd during Q2 2016

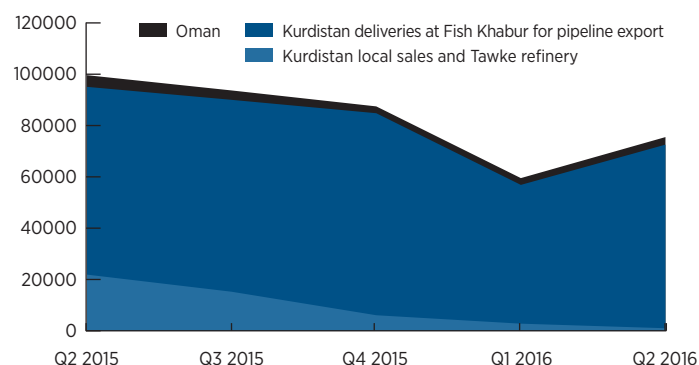
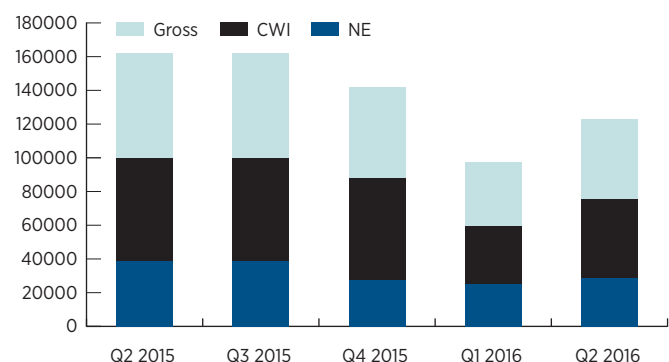
Q2 2016 financial highlights

- Q2 2016 revenues of USD 61 million, of which Kurdistan share was USD 56 million
- Fifth consecutive quarter in which DNO revenues totaled USD 50 million or higher
- Q2 2016 operating profit of USD 16 million, up from USD 8 million in Q1 2016
- Projected 2016 capital investments of 100 million funded by cash from operations
- Exited the quarter with cash balance of USD 249 million

Operational review

Production

Quarterly production (boepd)



Company Working Interest (CWI) production during the second quarter averaged 75,497 boepd, compared to 59,508 boepd during the first quarter.

In Kurdistan, CWI production totaled 72,557 boepd during the second quarter, up from 56,863 boepd during the first quarter.

In Oman, CWI production totaled 2,940 boepd during the second quarter, compared to 2,645 in the previous quarter.

Net entitlement production totaled 33,901 boepd during the second quarter, compared to 25,139 boepd in the previous quarter.

Gross production

boepd	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	117 028	153 346	104 371	129 760	135 416	95 011
Oman	5 882	9 076	5 586	10 297	8 193	15 678
Yemen	-	-	-	1 781	883	6 793
Total	122 910	162 422	109 957	141 838	144 492	117 482

The table reflects gross production, with Kurdistan including both local sales and export volumes.

Company Working Interest (CWI) production

boepd	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	72 557	95 075	64 710	80 392	83 925	58 414
Oman	2 940	4 538	2 794	5 149	4 139	7 839
Yemen	-	-	-	781	304	2 705
Total	75 497	99 613	67 504	86 322	88 369	68 958

The table reflects DNO's total working interest production, including quantities consumed in operations.

Net entitlement production

boepd	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	32 260	36 693	27 300	29 855	28 147	23 746
Oman	1 641	2 312	1 521	2 780	2 190	4 160
Yemen	-	-	-	460	228	1 876
Total	33 901	39 006	28 821	33 095	30 566	29 782

The table reflects DNO's net entitlement production, including quantities consumed in operations. Net entitlement from the exported Tawke crude volumes has been estimated based on the PSC, but the company has not received payments for the full NE production.

Activity overview

Appraisal and field development

Kurdistan region of Iraq

Tawke license

Gross production from the Tawke field averaged 117,000 bopd during the second quarter of 2016, of which 115,400 bopd was delivered for pipeline export through Turkey. This was up from 91,700 bopd during the first quarter, of which 87,200 bopd was exported.

Five workover wells were completed at Tawke during the second quarter (three during the first quarter) to reverse natural field decline and sustain production. Following the completion of the workover campaign, the company is resuming its active drilling program. Five Tawke production wells, including three deep Cretaceous and two shallow Jeribe wells, are planned in the second half of 2016 to boost capacity from 120,000 bopd to 135,000 bopd.

The first Cretaceous well, Tawke-31, has been spud and is expected to be complete by end-September.

The company also plans to spud the Peshkabir-2 well in October to appraise the previous Jurassic discovery and explore the Cretaceous zone.

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 is ongoing.

Oman

Offshore at Block 8, the Bukha and West Bukha fields produced an average of 5,900 boepd during the second quarter of 2016, of which output was roughly split equally between oil and gas. The company plans to re-drill and restore oil production at the West Bukha-5 well in December.

Yemen

Production from Block 32 and Block 43 remains suspended due to the continuing deterioration in security conditions.

Exploration

Oman

The Hayah-1 exploration well in Oman's onshore Block 36 failed to encounter hydrocarbons other than minor gas shows and will be plugged and abandoned. The well, drilled in the Rub al-Khali basin in the southwestern part of the country, reached a total depth of 3,010 meters and penetrated the three target reservoirs, of which two had good reservoir quality.

Tunisia

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

United Arab Emirates

The company continues work on reprocessing existing seismic data and an associated basin study on the RAK Onshore license.

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. The government is in the process of creating an oil security force to support seismic acquisitions.

Financial review

Revenues, profits and cash flow

Revenues in the second quarter amounted to USD 61.2 million compared to USD 49.6 million in the previous quarter.

Kurdistan contributed revenues of USD 56.2 million, with Oman contributing USD 5.0 million. DNO reported an operating profit of USD 16.2 million during the second quarter, up from USD 8.0 million in the first quarter.

The company ended the quarter with USD 249.0 million in cash and USD 24.8 million in marketable securities. This was up from USD 237.6 million in cash and USD 13.5 million in marketable securities at end-2015.

Cost of goods sold

In the second quarter, the costs of goods sold was USD 32.0 million compared to USD 30.7 million in the previous quarter.

Lifting costs

Lifting costs were down to USD 12.6 million in the first quarter from USD 30.1 million in the same period in 2015. In Kurdistan, the average lifting cost during the second quarter stood at USD 1.7 per boe, down from USD 2.4 per boe during the same period in 2015. In Oman, the average lifting cost during the second quarter stood at USD 4.9 per boe, down from USD 9.8 per boe during the same period in 2015.

Lifting costs

USD million	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	11.3	20.8	24.4	46.3	69.5	66.5
Oman	1.1	3.4	3.2	8.2	13.9	14.2
Yemen	-0.1	5.9	-	13.7	2.6	37.2
Total	12.6	30.1	27.7	68.2	86.3	117.9

Including export volumes

(USD/boe)	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	1.7	2.4	2.1	3.2	2.3	3.1
Oman	4.9	9.8	8.0	10.4	11.3	5.5
Yemen	-	-	-	137.6	26.1	42.0
Average	1.9	3.4	2.3	4.4	2.7	4.8

Depreciation, depletion and amortization (DD&A)

DD&A amounted to USD 18.5 million in the second quarter compared to USD 14.2 million in the previous quarter. The depreciation method for the Tawke PSC was changed from a proven and probable reserves (2P) basis to a proven reserves (1P) basis from January 2016.

DD&A

USD million	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	18.5	30.6	32.7	48.5	93.2	112.7
Oman	-	3.4	-	8.1	13.5	67.3
Yemen	-	-	-	0.3	0.3	16.6
Total	18.5	34.0	32.7	56.8	107.0	196.5

Including export volumes

(USD/boe)	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	6.5	9.2	6.7	9.0	9.2	13.9
Oman	-	16.1	-	16.1	16.9	44.3
Yemen	-	-	-	3.6	3.6	27.2
Average	6.1	9.6	6.3	9.6	9.7	18.2

Exploration costs expensed

Expensed exploration costs of USD 16.1 million in the second quarter were mainly related to expensed dry well in Block 36 in Oman.

Exploration costs expensed

USD million	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	-	-	-	-	-	0.2
Oman	13.7	1.3	14.2	2.8	5.9	14.6
Yemen	-	0.2	-	5.3	5.4	6.4
UAE	0.2	0.3	0.5	0.5	1.0	0.7
Tunisia	1.6	5.9	3.4	5.9	10.7	28.0
Other	0.6	0.1	1.6	0.2	0.5	0.6
Total	16.1	7.8	19.6	14.7	23.5	50.6

Acquisition and development costs

(including intangible assets)

Capital expenditures were USD -0.3 million in the second quarter compared to USD 5.6 million in previous quarter. The negative capex in the quarter is due to the expensed dry well in Oman.

Acquisition and development costs

USD million	Quarter		Year to date		Full year	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015	2014
Kurdistan	1.9	12.3	5.1	45.4	46.5	254.6
Oman	-2.5	0.4	-	0.4	0.4	18.6
Yemen	-	-	-	0.5	0.5	7.8
UAE	-	0.2	-	0.4	-	-0.3
Tunisia	-	0.1	-	0.1	0.1	7.0
Other	0.3	0.3	0.2	1.9	3.1	9.6
Total	-0.3	13.3	5.3	48.6	50.7	297.3

Responsibility statement

We confirm to the best of our knowledge that the condensed set of financial statements for the period 1 January to 30 June 2016 has been prepared in accordance with IAS 34 Interim Financial Reporting and gives a fair view of DNO's and the Group's assets, liabilities, financial position and result for the period viewed in their entirety,

and that the interim management report includes a fair review of any significant events that arose during the six-month period and their effect on the half-yearly financial report, any significant related-party transactions, and a description of the significant risks and uncertainties for the remaining six months of the year.

Oslo, 18 August 2016

Bijan Mossavar-Rahmani
Executive Chairman

Lars A. Takla
Deputy Chairman

Elin Karfjell
Director

Gunnar Hirsti
Director

Shelley Watson
Director

Bjørn Dale
Managing Director

Consolidated statements of comprehensive income

USD million	Note	Quarter		Year to date		Full year 2015
		Q2 2016	Q2 2015	Q2 2016	Q2 2015	
Revenues	2, 3	61.2	54.8	110.8	80.8	187.4
Cost of goods sold	4	-32.0	-65.7	-62.7	-127.5	-197.0
Gross profit		29.2	-10.9	48.1	-46.7	-9.5
Other operating income		5.4	0.8	5.4	0.9	2.0
Tariffs and transportation		-	-0.1	-	-0.7	-1.8
Administrative expenses		-7.9	-4.7	-14.7	-9.0	-19.0
Other operating expenses		-0.5	-0.6	-1.0	-9.2	-29.3
Impairment oil and gas assets	7	6.0	-	6.0	-13.2	-92.9
Exploration costs expensed	5	-16.1	-7.8	-19.6	-14.7	-23.5
Net gain/-loss from sale of PP&E	7	-	-	-	-	-0.0
Profit/-loss from operating activities		16.2	-23.3	24.1	-92.5	-174.0
Financial income		0.8	4.1	1.2	8.8	15.8
Financial expenses		-11.9	-20.0	-24.6	-28.6	-78.3
Profit/-loss before income tax		5.1	-39.2	0.8	-112.4	-236.5
Income tax expenses	6	-1.0	-0.7	-1.7	-1.7	24.1
Net profit/-loss		4.0	-39.9	-0.9	-114.1	-212.3
Other comprehensive income						
Currency conversion differences		-	-0.8	-	-0.5	0.3
Reversal of impairment in available-for-sale financial assets		3.1	-	5.6	-	-
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		3.1	-0.8	5.6	-0.5	0.3
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		-	-	-	-	-
Total other comprehensive income, net of tax	6	3.1	-0.8	5.6	-0.5	0.3
Total comprehensive income, net of tax		7.1	-40.7	4.7	-114.6	-212.0
Net profit/-loss attributable to:						
Equity holders of the parent		4.0	-39.9	-0.9	-114.1	-212.3
Total comprehensive income attributable to:						
Equity holders of the parent		7.1	-40.7	4.7	-114.6	-212.0
Earnings per share, basic		0.00	-0.04	0.00	-0.11	-0.20
Earnings per share, diluted		0.00	-0.04	0.00	-0.11	-0.20

Condensed consolidated statements of financial position

ASSETS				
USD million	Note	Quarter		Full year
		Q2 2016	Q2 2015	2015
Non-current assets				
Deferred income tax assets	6	-	-	-
Other intangible assets	7	83.5	141.8	133.2
Property, plant and equipment	7	412.4	510.6	396.6
Available-for-sale investments	8	16.4	22.2	10.8
Other non-current assets		-	4.6	-
Total non-current assets		512.3	679.2	540.6
Current assets				
Inventories	4	72.8	69.0	62.0
Trade and other receivables		158.2	188.2	168.0
Cash and cash equivalents		249.0	450.2	237.6
Total current assets		480.1	707.4	467.6
TOTAL ASSETS		992.3	1,386.6	1,008.2

EQUITY AND LIABILITIES				
USD million	Note	Quarter		Full year
		Q2 2016	Q2 2015	2015
Equity				
Share capital		35.8	36.0	35.9
Other reserves		286.4	290.5	288.4
Retained earnings		116.6	209.8	111.9
Total equity		438.8	536.3	436.2
Non-current liabilities				
Interest-bearing liabilities	9	356.2	344.7	350.7
Deferred income tax liabilities	6	-	27.8	-
Provisions for other liabilities and charges	10	97.6	98.1	97.1
Total non-current liabilities		453.8	470.6	447.8
Current liabilities				
Trade and other payables		30.5	121.0	52.5
Income taxes payable		0.9	0.3	1.7
Current interest-bearing liabilities	9	-	180.9	-
Provisions for other liabilities and charges	10	68.2	77.4	70.0
Total current liabilities		99.7	379.6	124.2
TOTAL EQUITY AND LIABILITIES		992.3	1,386.6	1,008.2

Condensed consolidated cash flow statements

USD million	Note	Quarter		Year to date		Full year 2015
		Q2 2016	Q2 2015	Q2 2016	Q2 2015	
Operating activities						
Profit/-loss before income tax		5.1	-39.2	-4.6	-112.4	-236.5
Adjustments to add (deduct) non-cash items:						
+/- Net interest expense (-income)		16.4	6.1	16.4	6.8	28.4
Previously capitalized exploration and evaluation expenses	5	-	-	2.5	5.1	5.1
	4	19.4	35.6	35.0	59.3	110.5
Depreciation of PP&E	7	-6.0	-0.0	-6.0	13.2	92.9
Impairment loss on oil and gas assets	7	-	-	-	-	0.2
Loss/-gain on PP&E		-	-	-	-	-
Impairment/reversal of impairment of financial assets		-	5.6	-	12.8	34.1
Other *		-0.1	3.1	-0.1	-1.3	-18.0
Changes in working capital:						
- Inventories		-0.4	-5.2	-0.4	6.8	13.8
- Trade and other receivables		-2.6	-12.9	15.1	-0.6	14.3
- Trade and other payables		-18.7	-35.9	-22.0	-18.7	-87.2
- Provisions for other liabilities and charges		-5.4	-1.7	4.9	-0.2	7.1
Cash generated from operations		7.7	-44.5	40.9	-29.2	-35.4
Income taxes paid		-3.5	-2.2	-2.5	-6.7	-7.2
Interest paid		-17.5	-5.2	-17.5	-9.6	-31.6
Net cash from/- used in operating activities		-13.3	-52.0	20.9	-45.5	-74.1
Investing activities						
Purchases of intangible assets	7	2.3	-	-	0.1	-0.1
Proceeds from sale of intangible assets		-	-	-	-	-
Purchases of tangible assets	7	-2.0	-13.3	-5.3	-48.7	-50.6
Proceeds from sale of tangible assets		-	-	-	-	-
Purchases of available-for-sale financial assets		-	-	-	-	-
Proceeds from sale of available-for-sale financial assets		-	-	-	-	-
Interest received		0.2	0.6	0.4	0.8	1.1
Net cash from/- used in investing activities		0.6	-12.7	-4.9	-47.8	-49.5
Financing activities						
Proceeds from borrowings	9	-	344.4	-	344.4	344.8
Repayment of borrowings		-	-33.4	-	-33.4	-211.4
Purchase of treasury shares, including options		-	-	-2.1	-	-3.0
Proceeds from sale of treasury shares		-	-	-	21.4	21.4
Proceeds from issuance of shares, net		-	-	-	96.9	96.9
Net cash from/- used in financing activities		-	311.0	-2.1	429.3	248.8
Net increase/-decrease in cash and cash equivalents		-12.8	246.3	11.4	335.8	124.9
Cash and cash equivalents at beginning of the period		261.8	203.6	237.6	113.8	113.8
Exchange gain/-losses on cash and cash equivalents		-	0.4	0.1	0.7	-1.1
Cash and cash equivalents at end of the period		249.0	450.3	249.0	450.2	237.6

* Included in the line "Other" under "Operating activities" are foreign currency effects related to other non-cash items.

Condensed consolidated statement of changes in equity

USD million	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2015	33.6	175.1	324.2	532.8
<i>Fair value gains, net of tax:</i>				
- available-for-sale financial assets	-	-	-	-
Currency translation differences	-	-0.5	-	-0.5
Other comprehensive income/-loss	-	-0.5	-	-0.5
Loss for the period	-	-	-114.1	-114.1
Total comprehensive income	-	-0.5	-114.1	-114.6
Issue of share capital	1.9	95.0	-	96.9
Purchase of treasury shares	-	-	-	-
Sale of treasury shares	0.6	20.8	-	21.4
	2.4	115.8	-	118.2
Balance at 30 June 2015	36.0	290.4	210.0	536.4

USD million	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2016	35.9	288.3	111.8	436.2
<i>Fair value gains, net of tax:</i>				
- available-for-sale financial assets	-	-	5.6	5.6
Currency translation differences	-	-	-	-
Other comprehensive income/-loss	-	-	5.6	5.6
Loss for the period	-	-	-0.9	-0.9
Total comprehensive income	-	-	4.7	4.7
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 30 June 2016	35.8	286.4	116.6	438.8

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 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 2015. The interim financial information for 2016 and 2015 is unaudited.

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

* All 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 2015. 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 2015.

Note 2 | Segment information

DNO is reporting five operating segments: Kurdistan (KUR), Oman (OMAN), Yemen (YEM), Ras Al Khaimah (UAE) and Tunisia (TUN). The operating segments are the same as the reportable segments.

Three months ending 30 June 2016 USD million	Note	KUR	OMAN	YEM	UAE	TUN	Other	Total reporting segment	Unallocated/ eliminated	GROUP
Income statement information										
External sales	3	56.2	5.0	-	-	-	-	61.2	-	61.2
Inter-segment sales		-0.4	-0.9	-	-	-0.1	-	-1.4	1.4	-
Cost of goods sold	4	-29.9	-1.1	0.1	-0.3	-0.1	-	-31.2	-0.8	-32.0
Gross profit		26.0	3.0	-	-0.3	-0.1	-	28.6	0.6	29.2
Segment operating result		31.3	-6.4	-	-0.5	-1.7	-0.6	22.1	-5.9	16.2
Financial - net										-11.1
Gain/-loss on sale of shares										-
Income tax expense		-	-1.0	-	-	-	-	-1.0	-	-1.0
Net profit/-loss										4.0
Segment assets		661.3	28.6	2.0	2.5	25.9	0.7	721.0	271.3	992.3

Note 2 | Segment information continues

Three months ending 30 June 2015 USD million	Note	KUR	OMAN	YEM	UAE	TUN	OTHER	Total reporting segment	Unallocated/eliminated	GROUP
Income statement information										
External sales	3	46.8	8.0	-	-	-	-0.0	54.8	-	54.8
Inter-segment sales		0.5	1.6	0.3	0.1	0.3	0.0	2.7	-2.7	-
Cost of goods sold	4	-51.5	-6.8	-5.9	-0.0	-0.1	-0.0	-64.3	-1.4	-65.7
Gross profit		-4.3	2.9	-5.6	0.1	0.3	-0.0	-6.8	-4.1	-10.9
Segment operating result		-4.4	-0.5	-6.8	-0.3	-5.6	-0.1	-17.7	-15.5	-33.2
Financial - net										-6.1
Gain/-loss on sale of shares										-
Income tax expense		-	-0.7	-	-	-	-	-0.7	-	-0.7
Net profit/-loss										-39.9
Segment assets		780.6	176.4	7.4	4.0	83.6	1.0	1,052.9	333.7	1,386.6
Six months ending 30 June 2016										
Income statement information										
External sales	3	102.6	8.2	-	-	-0.1	0.8	111.6	-0.8	110.8
Inter-segment sales		-	-	-	-	-	-0.8	-0.8	0.8	-
Cost of goods sold	4	-57.1	-3.2	-	-0.2	-0.1	-	-60.6	-2.1	-62.7
Gross profit		45.5	5.0	-	-0.2	-0.1	-	50.2	-2.1	48.1
Segment operating result		51.3	-5.2	-1.2	-0.7	-3.5	-1.6	39.2	-15.0	24.1
Financial - net										-23.4
Gain/-loss on sale of shares										-
Income tax expense		-	-1.0	-	-	-	-	-1.0	-	-1.7
Net profit/-loss										-0.9
Segment assets		661.3	28.6	2.0	2.5	25.9	0.7	721.0	271.3	992.3
Six months ending 30 June 2015										
Income statement information										
External sales	3	60.3	17.4	3.2	-	-	-	80.8	-	80.8
Inter-segment sales		1.4	3.9	0.7	0.1	0.3	-	6.3	-6.3	-
Cost of goods sold	4	-95.1	-16.4	-13.9	-	-0.1	-	-125.5	-2.0	-127.5
Gross profit		-33.4	4.9	-10.1	0.1	0.2	-	-38.3	-8.3	-46.7
Segment operating result		-34.8	-1.9	-38.7	-0.5	-5.8	-0.2	-82.0	-23.6	-105.6
Financial - net										-6.8
Gain/-loss on sale of shares										-
Income tax expense		-	-0.6	-1.2	-	-	-	-1.7	-	-1.7
Net profit/-loss										-114.1
Segment assets		780.6	176.4	7.4	4.0	83.6	1.0	1,052.9	333.7	1,386.6

Note 3 | Sales

DNO presents its operations governed by PSCs according to the net entitlement method, except for the export sales for Kurdistan (see below).

USD million	Quarter		Year to date		Full year
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015
Sale of petroleum products	61.2	54.8	110.8	80.8	187.4
Total sales	61.2	54.8	110.8	80.8	187.4

During Q2 2016, DNO received three payments from the Kurdistan Regional Government for Tawke deliveries to the domestic and export market totaling USD 91.7 million, of which USD 64.6 million was net to DNO. The amount of USD 10.2 million was booked against the historical receivable and USD 54.4 million was booked as revenues. In addition, DNO booked USD 1.8 million for local sales revenues in Kurdistan.

Note 4 | Cost of goods sold/inventory

USD million	Quarter		Year to date		Full year
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015
Lifting costs*	-12.6	-30.1	-27.7	-68.2	-86.3
Depreciation, depletion and amortization**	-19.4	-35.6	-35.0	-59.3	-110.7
Other cost of goods sold	-	-	-	-	-
Total cost of goods sold	-32.0	-65.7	-62.7	-127.5	-197.0

*Lifting costs consist of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurance, CO2 taxes, royalties to the state and internal costs.

**Depreciation method for Tawke PSC changed from 2P to 1P from January 2016, which resulted in reduced depreciation.

USD million	Quarter		Full year
	Q2 2016	Q2 2015	2015
Spare parts	65.8	56.8	55.2
Other inventory	7.0	12.2	6.8
Total inventory	72.8	69.0	62.0

Of the total inventory of USD 72.8 million, USD 62.5 million is related to Kurdistan, USD 4.7 million is related to Oman, USD 2.3 million is related to Ras Al Khaimah and USD 3.3 million is related to Tunisia.

Note 5 | Exploration expenses

USD million	Quarter		Year to date		Full year
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015
Exploration expenses (G&G and field surveys)	-2.6	-2.3	-4.8	-4.2	-8.4
Seismic costs	-	-0.0	-	-0.5	-0.5
Exploration costs capitalized in previous years carried to cost	-	-	-	-5.1	-5.1
Exploration costs capitalized this year carried to cost	-11.8	-3.7	-11.8	-1.9	-3.8
Other exploration cost expensed	-1.8	-1.8	-3.1	-3.0	-5.7
Total exploration cost expensed*	-16.1	-7.8	-19.6	-14.7	-23.5

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

Note 6 | Income taxes

USD million	Quarter		Year to date		Full year
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015
Deferred taxes	-	1.7	-	3.4	31.1
Income taxes payable related to PSCs in Yemen and Oman	-1.0	-2.5	-1.7	-5.1	-7.0
Total income tax expense	-1.0	-0.7	-1.7	-1.7	24.1

The interim period income tax expense relates to 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 PSCs 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
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015
Acquisitions of PP&E *	2.0	13.3	5.3	48.7	50.6
Acquisitions of Intangible assets **	-2.5	-	-	-0.1	0.1
Net book amount PP&E	412.4	510.6	412.4	510.6	396.6
Net book amount Intangible assets	83.5	141.8	83.5	141.8	133.2
<i>Sale of PP&E</i>					
Proceeds	-	-	-	-	-
Carrying value	-	-	-	-	-
Net gain/-loss	-	-	-	-	-
Impairment of PP&E	6.0	-	6.0	-13.2	-92.9

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

** Acquisitions related to capitalized exploration costs and license interests. Q2 2016 negative cost represents previously capitalized exploration costs carried to cost for exploration well in Block 36 in Oman.

The USD 6 million impairment reversal relates to spare material booked under the Dohuk PSC. The value of this material was impaired in 2014; however, the material can be used at the Tawke field and was transferred to the Tawke PSC at cost in Q2 2016, leading to a reversal of the impairment.

In 2015, the impairment charge of USD 92.9 million was related to operations in Oman (USD 42.3 million), Kurdistan (USD 29.3 million), Yemen (USD 13.2 million), Tunisia (USD 6.0 million) and UAE (2.1 million).

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		Year to date		Full year
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	2015
Beginning of the period	13.4	27.8	10.8	35.0	35.0
Additions	-	-	-	-	-
Sales	-	-	-	-	-
Revaluation surplus/deficit transfer to equity	-	-	-	-	-
Impairment	-	-5.6	-	-12.8	-24.2
Reversal of impairment of available-for-sale assets	3.1	-	5.7	-	-
Exchange differences	-	-	-	-	-
End of the period ¹⁾	16.4	22.2	16.4	22.2	10.8
Non-current portion	16.4	22.2	16.4	22.2	10.8
Current portion	-	-	-	-	-

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

USD million	Quarter		Full year
	Q2 2016	Q2 2015	2015
Listed securities:			
- RAK Petroleum plc	16.4	22.2	10.8
Total available-for-sale financial assets	16.4	22.2	10.8

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 | Interest-bearing liabilities

USD million	Quarter		Full year
	Q2 2016	Q2 2015	2015
Non-current			
Bonds	400.0	400.0	400.0
Capitalized borrowing issue costs	-43.8	-55.3	-49.3
Total non-current interest-bearing liabilities	356.2	344.7	350.7
Current			
Current portion of bonds	-	180.9	-
Total current interest-bearing liabilities	-	180.9	-
Total interest-bearing liabilities	356.2	525.6	350.7

Interest-bearing liabilities:

USD million	Currency	Amount	Interest	Maturity	Balance	
					Q2 2016	Q1 2016
Non-current						
Bond loan (ISIN NO0010740392)	USD	400.0	8.75%	18.06.20	400.0	400.0
Borrowing issue costs					-43.8	-46.6
Total interest-bearing liabilities					356.2	353.4

Note 10 | Provisions for other liabilities and charges

USD million	Quarter		Full year
	Q2 2016	Q2 2015	2015
Non-current			
Asset retirement obligations	4.7	4.8	4.5
Other long-term provision and changes	93.0	93.4	92.6
Total non-current provisions for other liabilities and charges	97.6	98.1	97.1
Current			
Other provisions and charges	68.2	77.4	70.0
Total current provisions for other liabilities and charges	68.2	77.4	70.0
Total provisions for other liabilities and charges	165.9	175.6	167.1

Provisions for a water purification capacity building project in the Kurdistan region of Iraq are included in other long-term obligations and other provisions and charges for the Tawke license. The water purification project (WPP) is capitalized and depreciated over the life of the Tawke field. The WPP liability is not currently payable and eventual payments will be contingent on defined gross revenue levels and will be fully recoverable through cost oil.

Changes in the timing of these payments may change the net present value of the liability and the calculated interest. 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 as of 30 June 2016 and included in other provisions and charges (current).

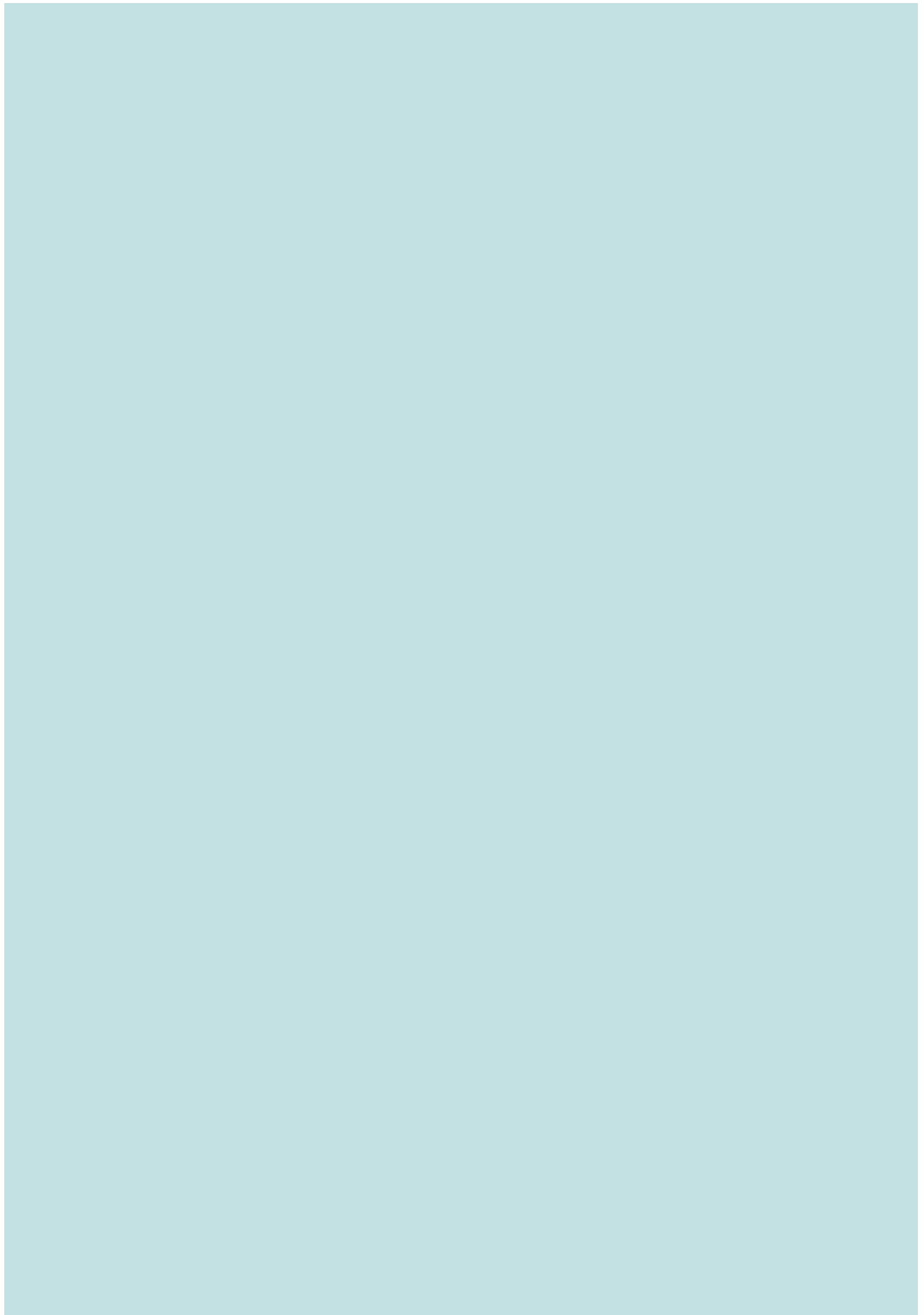
Provision for production bonuses for the Tawke and Erbil licenses in the Kurdistan region of Iraq is also included in provision for other liabilities and charges. Production bonuses relate to payments based on different production levels.

Note 11 | Events after the balance sheet date

On 29 July 2016 DNO ASA unveiled a proposal to acquire for USD 300 million all of the enlarged share capital in Gulf Keystone Petroleum Ltd following the latter's contemplated financial restructuring announced earlier in July.

The terms of the DNO proposal, which would comprise cash and shares, reflect a 20 percent premium to the share price of USD 0.0109 at which, on 14 July 2016, Gulf Keystone issued shares representing 5.6 percent of its share capital, and also reflect a 20 percent premium to the price at which Gulf Keystone intends to issue further shares in its restructuring. In addition, for the Gulf Keystone guaranteed noteholders the DNO terms reflect 111 percent of par value compared to 99 percent under the contemplated restructuring, and for the convertible bondholders the DNO terms reflect 18 percent of par value compared to 15 percent under the contemplated restructuring.

By offering USD 120 million in cash (approximately 40 percent of the consideration), DNO would provide an early exit for those noteholders and bondholders who may be unable or unwilling to hold equity for an extended period. The additional offer of 170 million DNO shares (approximately 13.6 percent of the post transaction DNO share capital) would provide Gulf Keystone investors with continued exposure to the Shaikan field in addition to DNO's wider portfolio of assets, significantly larger market capitalization, more robust cash flow, stronger balance sheet and proven operating and management capabilities.



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