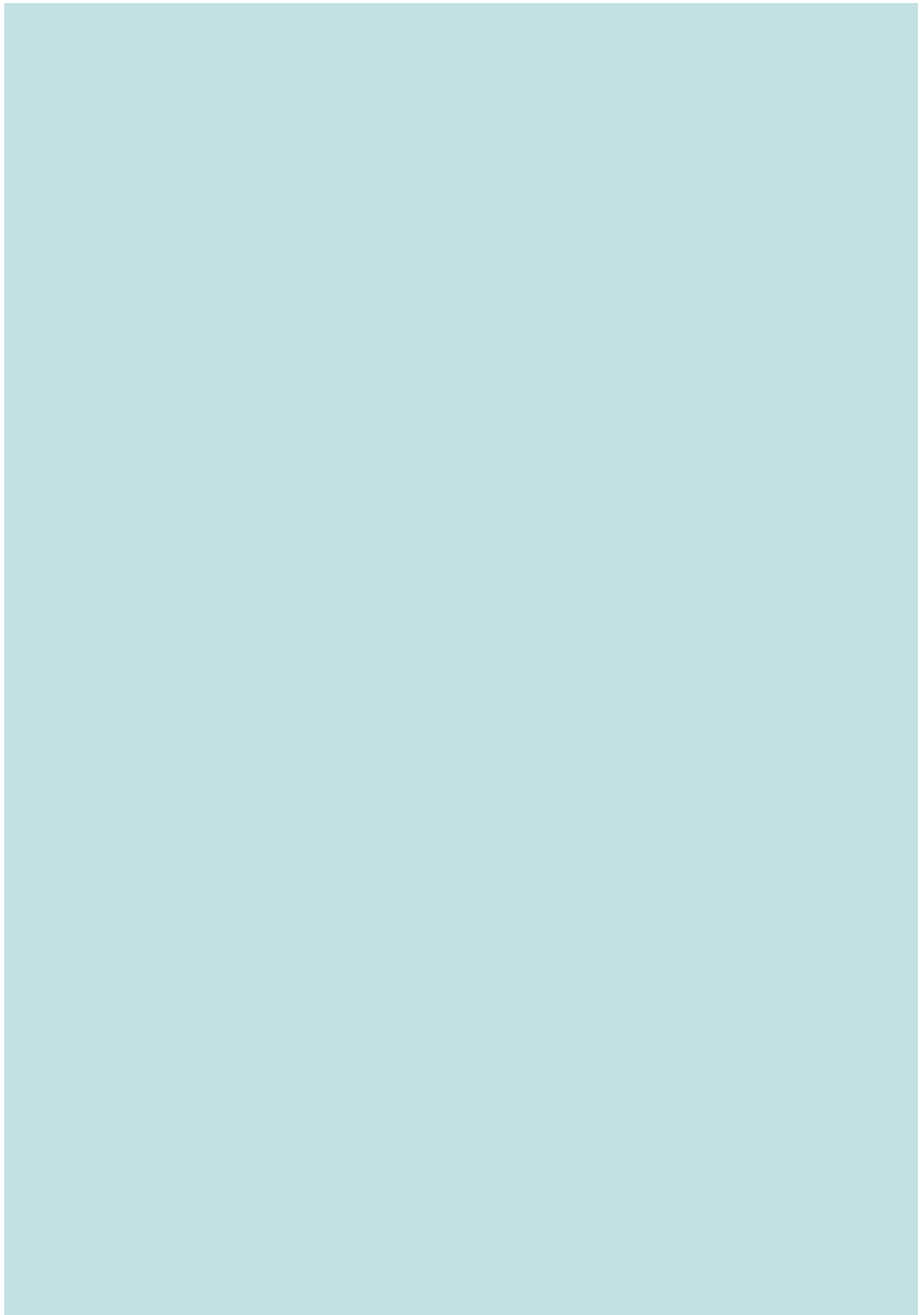




Interim Report

# First Quarter 2016





## Key figures

| USD million                              | Quarter |         | Full year |        |
|--|---------|---------|-----------|--------|
|  | Q1 2016 | Q1 2015 | 2015      | 2014   |
| <b>Key financials</b>                    |         |         |           |        |
| Revenues                                 | 49.6    | 26.0    | 187.4     | 452.0  |
| Gross profit                             | 18.9    | -35.8   | -9.5      | 135.5  |
| Profit/-loss from operating activities   | 8.0     | -69.2   | -174.0    | -243.2 |
| Net profit/-loss                         | -4.9    | -74.2   | -212.3    | -226.1 |
| EBITDA                                   | 23.6    | -32.4   | 29.4      | 254.1  |
| Netback                                  | 24.5    | -36.9   | 22.2      | 203.6  |
| Acquisition and development costs        | 5.6     | 35.3    | 50.7      | 297.3  |
| Exploration costs expensed               | 3.5     | 7.0     | 23.5      | 50.6   |
| Key performance indicators <sup>1)</sup> |         |         |           |        |
| Lifting costs (USD/boe)                  | 2.8     | 6.0     | 2.7       | 4.8    |
| Netback (USD/boe)                        | 4.6     | -5.8    | 0.7       | 8.2    |

<sup>1)</sup> Key performance indicators include exports from the Tawke field.

## Corporate overview

- On track to profitability in 2016
- Financial performance bolstered by higher oil prices and seven consecutive monthly payments for oil produced in Kurdistan, the last three in line with contractual entitlements
- Normalization of payments has led to stepped up investments at the Tawke field, with production to continue to climb in 2016 following drilling of five new production wells and work-over of ten existing ones
- Among three key foreign operators in Kurdistan, DNO solidifies lead as first in oil production (50 percent), oil exports (60 percent) and proven oil reserves (50 percent)
- Tawke proven oil reserves increased 21 percent last year to 387 million barrels on improved confidence about primary recovery, though probable reserves declined with partial re-categorization to contingent resources
- Continue to rationalize company portfolio to focus on core assets while evaluating growth opportunities, including new country entries

## **Q1 2016 operational highlights**

- Total DNO operated production in Q1 2016 of 97,000 barrels of oil equivalent per day (boepd)
- Of which Tawke represented 91,700 bopd (87,200 bopd delivered for pipeline export through Turkey)
- Kurdistan production impacted by extended closure of the Turkish portion of export pipeline during second half of February and first half of March
- Once normal pipeline operations restored and following successful completion of first set of well workovers at the field, Tawke production climbed to 118,900 bopd in April (117,800 bopd delivered for export)
- Oman production averaged 5,300 boepd during Q1 2016

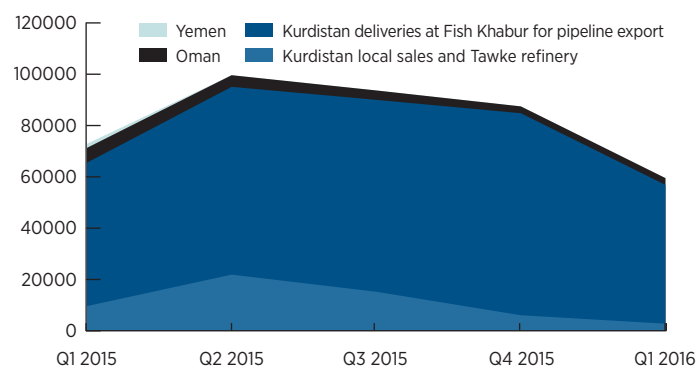
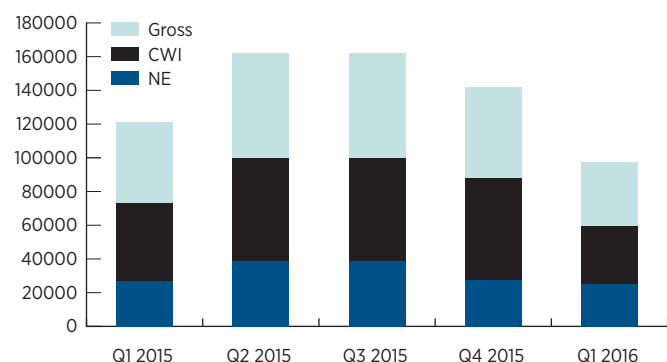
## **Q1 2016 financial highlights**

- Q1 revenues of USD 50 million, of which Kurdistan share was USD 47 million
- Fourth consecutive quarter in which DNO revenues totaled USD 50 million or higher
- Planned capital investments totaling USD 100 million in 2016 funded by cash from operations
- Continue to strengthen our balance sheet
- Exited Q1 with cash balance of USD 262 million, up from USD 238 million at end-2015

# Operational review

## Production

### Quarterly production (boepd)



Company working interest production (CWI) during the first quarter averaged 59,508 boepd, compared to 87,463 boepd during the fourth quarter of 2015.

In Kurdistan, CWI production totaled 56,863 boepd during the first quarter, down from 84,801 boepd during the fourth quarter. Kurdistan production was impacted by the extended closure of the Turkish portion of the export pipeline during the second half of February and first half of March.

In Oman, CWI production totaled 2,645 boepd during the first quarter compared to 2,662 boepd in the previous quarter.

Net entitlement production totaled 25,139 boepd during the first quarter compared to 27,542 boepd in the previous quarter.

### Gross production

| boepd                           | Quarter       |                | Full year      |                |
|---------------------------------|---------------|----------------|----------------|----------------|
|                                 | Q1 2016       | Q1 2015        | 2015           | 2014           |
| Kurdistan                       | 91,715        | 105,912        | 135,416        | 95,011         |
| Oman                            | 5,291         | 11,532         | 8,193          | 15,678         |
| Yemen                           | -             | 3,582          | 883            | 6,793          |
| <b>Total production (boepd)</b> | <b>97,006</b> | <b>121,026</b> | <b>144,492</b> | <b>117,482</b> |

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

### Company Working Interest (CWI) production

| boepd                           | Quarter       |               | Full year     |               |
|---------------------------------|---------------|---------------|---------------|---------------|
|                                 | Q1 2016       | Q1 2015       | 2015          | 2014          |
| Kurdistan                       | 56,863        | 65,536        | 83,928        | 58,414        |
| Oman                            | 2,645         | 5,766         | 4,096         | 7,839         |
| Yemen                           | -             | 1,571         | 387           | 2,705         |
| <b>Total production (boepd)</b> | <b>59,508</b> | <b>72,873</b> | <b>88,411</b> | <b>68,958</b> |

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

### Net entitlement production

| boepd                           | Quarter       |               | Full year     |               |
|---------------------------------|---------------|---------------|---------------|---------------|
|                                 | Q1 2016       | Q1 2015       | 2015          | 2014          |
| Kurdistan                       | 23,738        | 22,954        | 28,147        | 23,746        |
| Oman                            | 1,401         | 3,253         | 2,190         | 4,160         |
| Yemen                           | -             | 926           | 228           | 1,876         |
| <b>Total production (boepd)</b> | <b>25,139</b> | <b>27,133</b> | <b>30,566</b> | <b>29,782</b> |

The table above reflects the company'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 entitlement production.

# Activity overview

## Appraisal and field development

### Kurdistan region of Iraq

#### Tawke license

Gross production from the Tawke field averaged 91,700 bopd during the first quarter of 2016, of which 87,200 bopd was delivered for pipeline export through Turkey. Production was impacted by the extended closure of the Turkish portion of the export pipeline during the second half of February and first half of March. Once normal pipeline operations were restored and following successful completion of the first set of workover wells at the field, Tawke production climbed to 118,900 bopd in April, of which 117,800 bopd was delivered for export.

New investments are expected to increase Tawke production from around 120,000 bopd currently to 135,000 bopd. The company completed workovers of three wells during the first quarter, reversing declines and adding 10,000 bopd in incremental production in 30 days and at a cost of USD 1.5 million. Five workover wells are planned during the second quarter with another two during the fourth quarter. The Tawke 2016 drilling program includes five new production wells, including three Cretaceous and two Jeribe, as well as one water disposal well.

The company also plans to spud the Peshkabir-2 well during the third quarter to appraise the previous Jurassic discovery and explore the Cretaceous zone. Drilling is to be completed by year-end and if successful, the Peshkabir field can be quickly brought on production using existing infrastructure.

#### 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 5,300 boepd during the first quarter of 2016, of which output was roughly split equally between oil and gas. An additional well remains under consideration to increase West Bukha oil and gas output.

### United Arab Emirates

Saleh field continues to produce small volumes of gas and liquids on an intermittent basis.

### Yemen

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

## Exploration

### Oman

The company spud the Hayah-1 exploration well at the onshore Block 36 in February 2016 and expects to reach target depth of 2,700 meters by the end of May. The 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.

### 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. A gravity-magnetic survey was successfully completed at the block in December 2015. 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 first quarter amounted to USD 49.6 million compared to USD 54.5 million in the previous quarter.

Kurdistan contributed revenues of USD 46.4 million, with Oman contributing USD 3.3 million. DNO reported an operating profit of USD 8.0 million during the first quarter.

The company ended the quarter with USD 261.8 million in cash and USD 19.6 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 first quarter, the cost of goods sold was USD 30.7 million compared to USD 26.7 million in the previous quarter.

## Lifting costs

Lifting costs were down to USD 15.2 million in the first quarter from USD 38.2 million in the same period in 2015. Total and unit lifting costs per country are presented in the accompanying table.

### Lifting costs

| USD million                | Quarter     |             | Full year   |              |
|----------------------------|-------------|-------------|-------------|--------------|
|                            | Q1 2016     | Q1 2015     | 2015        | 2014         |
| Kurdistan                  | 13.0        | 25.5        | 69.5        | 66.5         |
| Oman                       | 2.2         | 4.9         | 13.9        | 14.2         |
| Yemen                      | -           | 7.8         | 2.6         | 37.2         |
| <b>Total lifting costs</b> | <b>15.2</b> | <b>38.2</b> | <b>86.3</b> | <b>117.9</b> |

Including export volumes

| (USD/boe)                              | Quarter    |            | Full year  |            |
|--|------------|------------|------------|------------|
|  | Q1 2016    | Q1 2015    | 2015       | 2014       |
| Kurdistan                              | 2.5        | 4.4        | 2.3        | 2.4        |
| Oman                                   | 11.5       | 10.8       | 11.3       | 5.5        |
| Yemen                                  | -          | 78.2       | 26.1       | 42.0       |
| <b>Average lifting costs (USD/boe)</b> | <b>2.8</b> | <b>5.9</b> | <b>2.7</b> | <b>3.6</b> |

## Depreciation, depletion and amortization (DD&A)

DD&A amounted to USD 14.2 million in the first quarter compared to USD 24.6 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     |             | Full year    |              |
|-----------------------|-------------|-------------|--------------|--------------|
|                       | Q1 2016     | Q1 2015     | 2015         | 2014         |
| Kurdistan             | 14.2        | 17.9        | 93.2         | 112.7        |
| Oman                  | -           | 4.7         | 13.5         | 67.3         |
| Yemen                 | -           | 0.3         | 0.3          | 16.6         |
| <b>Total DD&amp;A</b> | <b>14.2</b> | <b>22.8</b> | <b>107.0</b> | <b>196.5</b> |

Including export volumes

| (USD/boe)                         | Quarter    |             | Full year  |             |
|-----------------------------------|------------|-------------|------------|-------------|
|                                   | Q1 2016    | Q1 2015     | 2015       | 2014        |
| Kurdistan                         | 6.6        | 8.8         | 9.2        | 13.9        |
| Oman                              | -          | 16.1        | 16.9       | 44.3        |
| Yemen                             | -          | 3.7         | 3.6        | 27.2        |
| <b>Average DD&amp;A (USD/boe)</b> | <b>6.2</b> | <b>9.57</b> | <b>9.7</b> | <b>19.1</b> |

## Exploration costs expensed

Expensed exploration costs of USD 3.5 million in the first quarter were mainly related to activities in Tunisia.

### Exploration costs expensed

| USD million                             | Quarter    |            | Full year   |             |
|---|------------|------------|-------------|-------------|
|   | Q1 2016    | Q1 2015    | 2015        | 2014        |
| Kurdistan                               | -          | -          | -           | 0.2         |
| Oman                                    | 0.4        | 1.4        | 5.9         | 14.6        |
| Yemen                                   | -          | 5.2        | 5.4         | 6.4         |
| UAE                                     | 0.3        | 0.3        | 1.0         | 0.7         |
| Tunisia                                 | 1.8        | -          | 10.7        | 28.0        |
| Other                                   | 1.1        | 0.1        | 0.5         | 0.5         |
| <b>Total exploration costs expensed</b> | <b>3.5</b> | <b>7.0</b> | <b>23.5</b> | <b>50.6</b> |

## Acquisition and development costs

(including intangible assets)

Capital expenditures of USD 5.6 million in the first quarter compared to USD 0.8 million in previous quarter.

### Acquisition and development costs

| USD million                                    | Quarter    |             | Full year   |              |
|--|------------|-------------|-------------|--------------|
|  | Q1 2016    | Q1 2015     | 2015        | 2014         |
| Kurdistan                                      | 3.2        | 33.1        | 46.5        | 254.6        |
| Oman   | 2.5        | -           | 0.4         | 18.6         |
| Yemen  | -          | 0.5         | 0.5         | 7.8          |
| UAE  | -          | 0.2         | -           | -0.3         |
| Tunisia  | -          | -           | 0.1         | 7.0          |
| Other  | -0.1       | 1.5         | 3.1         | 9.6          |
| <b>Total acquisition and development costs</b> | <b>5.6</b> | <b>35.3</b> | <b>50.7</b> | <b>297.3</b> |

## Consolidated statements of comprehensive income

| USD million   | Note     | Quarter     |              | Full year     |
|---|----------|-------------|--------------|---------------|
|   |          | Q1 2016     | Q1 2015      | 2015          |
| Revenues  | 2. 3     | 49.6        | 26.0         | 187.4         |
| Cost of goods sold  | 4        | -30.7       | -61.8        | -197.0        |
| <b>Gross profit</b>   |          | <b>18.9</b> | <b>-35.8</b> | <b>-9.5</b>   |
| Other operating income  |          | -           | -            | 2.0           |
| Tariffs and transportation  |          | -           | -0.6         | -1.8          |
| Administrative expenses   |          | -6.8        | -4.3         | -19.0         |
| Other operating expenses  |          | -0.6        | -8.5         | -29.3         |
| Impairment oil and gas assets   | 7        | -           | -13.2        | -92.9         |
| Exploration costs expensed  | 5        | -3.5        | -7.0         | -23.5         |
| Net gain/-loss from sale of PP&E  | 7        | -           | -            | -             |
| <b>Profit/-loss from operating activities</b>   |          | <b>8.0</b>  | <b>-69.2</b> | <b>-174.0</b> |
| Financial income  |          | 0.5         | 7.8          | 15.8          |
| Financial expenses  |          | -12.7       | -11.7        | -78.3         |
| Profit/-loss before income tax  |          | -4.3        | -73.2        | -236.5        |
| Income tax expenses   | 6        | -0.7        | -1.0         | 24.1          |
| <b>Net profit/-loss</b>   |          | <b>-4.9</b> | <b>-74.2</b> | <b>-212.3</b> |
| <b>Other comprehensive income</b>   |          |             |              |               |
| Currency conversion differences   |          | -           | 0.3          | 0.3           |
| Reversal of impairment in available-for-sale financial assets   |          | 2.6         | -            | -             |
| <b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>      |          | <b>2.6</b>  | <b>0.3</b>   | <b>0.3</b>    |
| <b>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b> |          | <b>-</b>    | <b>-</b>     | <b>-</b>      |
| <b>Total other comprehensive income, net of tax</b>   | <b>6</b> | <b>2.6</b>  | <b>0.3</b>   | <b>0.3</b>    |
| <b>Total comprehensive income, net of tax</b>   |          | <b>-2.3</b> | <b>-73.9</b> | <b>-212.0</b> |
| Net profit/-loss attributable to:   |          |             |              |               |
| Equity holders of the parent  |          | -4.9        | -74.2        | -212.3        |
| Total comprehensive income attributable to:   |          |             |              |               |
| Equity holders of the parent  |          | -2.3        | -73.9        | -212.0        |
| Earnings per share, basic   |          | 0.00        | -0.07        | -0.20         |
| Earnings per share, diluted   |          | 0.00        | -0.07        | -0.20         |



## Condensed consolidated statements of financial position

| <b>ASSETS</b>                                |      |                |                |                |
|--|------|----------------|----------------|----------------|
| USD million                                  | Note | Quarter        |                | Full year      |
|  |      | Q1 2016        | Q1 2015        | 2015           |
| <b>Non-current assets</b>                    |      |                |                |                |
| Other intangible assets                      | 7    | 88.8           | 143.8          | 133.2          |
| Property, plant and equipment                | 7    | 431.0          | 530.9          | 396.6          |
| Available-for-sale investments               | 8    | 13.4           | 27.8           | 10.8           |
| Other non-current assets                     |      | -              | 4.7            | 12.5           |
| <b>Total non-current assets</b>              |      | <b>533.2</b>   | <b>707.2</b>   | <b>553.1</b>   |
| <b>Current assets</b>                        |      |                |                |                |
| Inventories                                  | 4    | 61.8           | 63.4           | 62.0           |
| Trade and other receivables                  |      | 155.8          | 175.2          | 155.5          |
| Cash and cash equivalents                    |      | 261.8          | 203.6          | 237.6          |
| <b>Total current assets</b>                  |      | <b>479.5</b>   | <b>442.2</b>   | <b>455.1</b>   |
| <b>TOTAL ASSETS</b>                          |      | <b>1,012.6</b> | <b>1,149.3</b> | <b>1,008.2</b> |
| <b>EQUITY AND LIABILITIES</b>                |      |                |                |                |
| USD million                                  | Note | Quarter        |                | Full year      |
|  |      | Q1 2016        | Q1 2015        | 2015           |
| <b>Equity</b>                                |      |                |                |                |
| Share capital                                |      | 35.8           | 36.0           | 35.9           |
| Other reserves                               |      | 286.5          | 291.3          | 288.4          |
| Retained earnings                            |      | 109.5          | 250.0          | 111.8          |
| <b>Total equity</b>                          |      | <b>431.8</b>   | <b>577.2</b>   | <b>436.2</b>   |
| <b>Non-current liabilities</b>               |      |                |                |                |
| Interest-bearing liabilities                 | 9    | 353.4          | 208.7          | 350.7          |
| Deferred income tax liabilities              | 6    | -              | 29.5           | -              |
| Provisions for other liabilities and charges | 10   | 97.4           | 97.7           | 97.1           |
| <b>Total non-current liabilities</b>         |      | <b>450.8</b>   | <b>336.0</b>   | <b>447.8</b>   |
| <b>Current liabilities</b>                   |      |                |                |                |
| Trade and other payables                     |      | 49.2           | 156.9          | 52.5           |
| Income taxes payable                         |      | 3.4            | 0.1            | 1.7            |
| Provisions for other liabilities and charges | 10   | 77.4           | 79.2           | 70.0           |
| <b>Total current liabilities</b>             |      | <b>130.0</b>   | <b>236.2</b>   | <b>124.2</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>          |      | <b>1,012.6</b> | <b>1,149.3</b> | <b>1,008.2</b> |

## Condensed consolidated cash flow statements

| USD million  | Note | Quarter      |              | Full year    |
|--|------|--------------|--------------|--------------|
|  |      | Q1 2016      | Q1 2015      | 2015         |
| <b>Operating activities</b>                                |      |              |              |              |
| Profit/-loss before income tax                             |      | -4.3         | -73.2        | -236.5       |
| <b>Adjustments to add (deduct) non-cash items:</b>         |      |              |              |              |
| +/- Net interest expense (-income)                         |      | -            | 0.8          | 28.4         |
| Previously capitalized exploration and evaluation expenses | 5    | -            | 5.1          | 5.1          |
| Depreciation of PP&E                                       | 4    | 15.6         | 23.6         | 110.5        |
| Impairment loss on oil and gas assets                      | 7    | -            | 13.2         | 92.9         |
| Loss/-gain on PP&E   | 7    | -            | -            | 0.2          |
| Impairment/reversal of impairment of financial assets      |      | -            | 7.1          | 34.1         |
| Other *  |      | 0.1          | -4.4         | -18.0        |
| <b>Changes in working capital:</b>                         |      |              |              |              |
| - Inventories  |      | -            | 12.0         | 13.8         |
| - Trade and other receivables                              |      | 12.3         | 12.2         | 14.3         |
| - Trade and other payables                                 |      | -3.3         | 17.2         | -87.2        |
| - Provisions for other liabilities and charges             |      | 10.3         | 1.5          | 7.1          |
| Cash generated from operations                             |      | 30.8         | 15.3         | -35.4        |
| Income taxes paid  |      | 0.9          | -4.5         | -7.2         |
| Interest paid  |      | -            | -4.4         | -31.6        |
| <b>Net cash from/- used in operating activities</b>        |      | <b>31.7</b>  | <b>6.4</b>   | <b>-74.1</b> |
| <b>Investing activities</b>                                |      |              |              |              |
| Purchases of intangible assets                             | 7    | -2.3         | 0.1          | -0.1         |
| Proceeds from sale of intangible assets                    |      | -            | -            | -            |
| Purchases of tangible assets                               | 7    | -3.3         | -35.4        | -50.6        |
| Interest received  |      | 0.1          | 0.2          | 1.1          |
| <b>Net cash from/- used in investing activities</b>        |      | <b>-5.5</b>  | <b>-35.1</b> | <b>-49.5</b> |
| <b>Financing activities</b>                                |      |              |              |              |
| Proceeds from borrowings                                   | 9    | -            | -            | 344.8        |
| Repayment of borrowings                                    |      | -            | -            | -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         |
| <b>Net cash from/- used in financing activities</b>        |      | <b>-2.1</b>  | <b>118.2</b> | <b>248.8</b> |
| <b>Net increase/-decrease in cash and cash equivalents</b> |      | <b>24.1</b>  | <b>89.5</b>  | <b>124.9</b> |
| Cash and cash equivalents at beginning of the period       |      | 237.6        | 113.8        | 113.8        |
| Exchange gain/-losses on cash and cash equivalents         |      | 0.1          | 0.3          | -1.1         |
| <b>Cash and cash equivalents at end of the period</b>      |      | <b>261.8</b> | <b>203.6</b> | <b>237.6</b> |

\* 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 |
|---------------------------------------|---------------|----------------|-------------------|--------------|
| <b>Balance at 1 January 2015</b>      | <b>33.6</b>   | <b>175.1</b>   | <b>324.1</b>      | <b>532.8</b> |
| <i>Fair value gains, net of tax:</i>  |               |                |                   |              |
| - available-for-sale financial assets | -             | -              | -                 | -            |
| Currency translation differences      | -             | 0.3            | -                 | 0.3          |
| Other comprehensive income/-loss      | -             | 0.3            | -                 | 0.3          |
| Loss for the period                   | -             | -              | -74.2             | -74.2        |
| Total comprehensive income            | -             | 0.3            | -74.2             | -73.9        |
| 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        |
| <b>Balance at 31 March 2015</b>       | <b>36.0</b>   | <b>291.3</b>   | <b>250.0</b>      | <b>577.2</b> |

| USD million                           | Share capital | Other reserves | Retained earnings | Total equity |
|---------------------------------------|---------------|----------------|-------------------|--------------|
| <b>Balance at 1 January 2016</b>      | <b>35.9</b>   | <b>288.3</b>   | <b>111.8</b>      | <b>436.2</b> |
| <i>Fair value gains, net of tax:</i>  |               |                |                   |              |
| - available-for-sale financial assets | -             | -              | 2.6               | 2.6          |
| Currency translation differences      | -             | -              | -                 | -            |
| Other comprehensive income/-loss      | -             | -              | 2.6               | 2.6          |
| Loss for the period                   | -             | -              | -4.9              | -4.9         |
| Total comprehensive income            | -             | -              | -2.3              | -2.3         |
| Issue of share capital                | -             | -              | -                 | -            |
| Purchase of treasury shares           | -0.1          | -2.0           | -                 | -2.1         |
| Sale of treasury shares               | -             | -              | -                 | -            |
|                                       | -0.1          | -2.0           | -                 | -2.1         |
| <b>Balance at 31 March 2016</b>       | <b>35.8</b>   | <b>286.4</b>   | <b>109.6</b>      | <b>431.8</b> |

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

A detailed description of the accounting policies applied is included in the DNO annual financial statements for 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 31 March 2016<br>USD million | Note | KUR          | OMAN        | YEM         | UAE         | TUN         | Other       | Total reporting segment | Unallocated/eliminated | GROUP          |
|--|------|--------------|-------------|-------------|-------------|-------------|-------------|-------------------------|------------------------|----------------|
| <b>Income statement information</b>              |      |              |             |             |             |             |             |                         |                        |                |
| External sales                                   | 3    | 46.4         | 3.3         | -           | -           | -0.1        | 0.8         | 50.5                    | -0.8                   | 49.6           |
| Inter-segment sales                              |      | 0.4          | 0.9         | -           | -           | 0.1         | -0.8        | 0.6                     | -0.6                   | -              |
| Cost of goods sold                               | 4    | -27.3        | -2.2        | -           | 0.1         | -0.1        | -           | -29.2                   | -1.2                   | -30.7          |
| <b>Gross profit</b>                              |      | <b>19.5</b>  | <b>1.9</b>  | <b>-</b>    | <b>0.1</b>  | <b>-</b>    | <b>-</b>    | <b>21.6</b>             | <b>-2.6</b>            | <b>18.9</b>    |
| <b>Segment operating result</b>                  |      | <b>20.0</b>  | <b>1.2</b>  | <b>-1.1</b> | <b>-0.2</b> | <b>-1.8</b> | <b>-1.0</b> | <b>17.0</b>             | <b>-9.1</b>            | <b>8.0</b>     |
| Financial - net                                  |      |              |             |             |             |             |             |                         |                        | -12.2          |
| Gain/-loss on sale of shares                     |      |              |             |             |             |             |             |                         |                        | -              |
| Income tax expense                               |      | -            | -0.7        | -           | -           | -           | -           | -0.7                    | -                      | -0.7           |
| <b>Net profit/-loss</b>                          |      |              |             |             |             |             |             |                         |                        | <b>-4.9</b>    |
| <b>Segment assets</b>                            |      | <b>677.8</b> | <b>23.0</b> | <b>2.0</b>  | <b>2.4</b>  | <b>25.4</b> | <b>0.7</b>  | <b>731.3</b>            | <b>281.4</b>           | <b>1,012.6</b> |

## Note 2 | Segment information continues

| Three months ending 31 March 2015<br>USD million | Note | KUR          | OMAN        | YEM          | UAE         | TUN         | OTHER       | Total reporting segment | Unallocated/eliminated | GROUP          |
|--|------|--------------|-------------|--------------|-------------|-------------|-------------|-------------------------|------------------------|----------------|
| <b>Income statement information</b>              |      |              |             |              |             |             |             |                         |                        |                |
| External sales                                   | 3    | 13.5         | 9.4         | 3.2          | -           | -           | -           | 26.0                    | -                      | <b>26.0</b>    |
| Inter-segment sales                              |      | 0.9          | 2.2         | 0.4          | 0.1         | -           | -           | 3.6                     | -3.6                   | -              |
| Cost of goods sold                               | 4    | -43.5        | -9.6        | -8.1         | -           | -0.1        | -0.1        | -61.3                   | -0.6                   | <b>-61.8</b>   |
| <b>Gross profit</b>                              |      | <b>-29.1</b> | <b>2.0</b>  | <b>-4.5</b>  | <b>0.1</b>  | -           | -           | <b>-31.6</b>            | <b>-4.2</b>            | <b>-35.8</b>   |
| <b>Segment operating result</b>                  |      | <b>-29.9</b> | <b>-1.1</b> | <b>-31.2</b> | <b>-0.2</b> | -           | <b>-0.2</b> | <b>-62.6</b>            | <b>-6.6</b>            | <b>-69.2</b>   |
| Financial - net                                  |      |              |             |              |             |             |             |                         |                        | <b>-3.9</b>    |
| Gain/-loss on sale of shares                     |      |              |             |              |             |             |             |                         |                        | -              |
| Income tax expense                               |      | -            | 0.1         | -1.2         | -           | -           | -           | -1.0                    | -                      | <b>-1.0</b>    |
| <b>Net profit/-loss</b>                          |      |              |             |              |             |             |             |                         |                        | <b>-74.2</b>   |
| <b>Segment assets</b>                            |      | <b>782.4</b> | <b>65.2</b> | <b>7.2</b>   | <b>3.9</b>  | <b>47.9</b> | <b>1.1</b>  | <b>907.8</b>            | <b>241.5</b>           | <b>1,149.3</b> |

| Twelve months ending 31 December 2015<br>USD million | Note | KUR          | OMAN         | YEM          | UAE         | TUN          | OTHER       | Total reporting segment | Unallocated/eliminated | GROUP          |
|--|------|--------------|--------------|--------------|-------------|--------------|-------------|-------------------------|------------------------|----------------|
| <b>Income statement information</b>                  |      |              |              |              |             |              |             |                         |                        |                |
| External sales                                       | 3    | 157.4        | 26.8         | 3.2          | -           | -            | -           | 187.4                   | -                      | <b>187.4</b>   |
| Inter-segment sales                                  |      | -            | -            | -            | -           | -            | -           | -                       | -                      | -              |
| Cost of goods sold                                   | 4    | -163.2       | -27.6        | -2.9         | -0.3        | -0.2         | -           | -194.2                  | -2.8                   | <b>-197.0</b>  |
| <b>Gross profit</b>                                  |      | <b>-5.7</b>  | <b>-0.8</b>  | <b>0.3</b>   | <b>-0.3</b> | <b>-0.2</b>  | -           | <b>-6.7</b>             | <b>-2.8</b>            | <b>-9.5</b>    |
| <b>Segment operating result</b>                      |      | <b>-40.6</b> | <b>-47.5</b> | <b>-41.4</b> | <b>-3.3</b> | <b>-16.6</b> | <b>-0.5</b> | <b>-149.9</b>           | <b>-24.1</b>           | <b>-174.0</b>  |
| Financial - net                                      |      |              |              |              |             |              |             |                         |                        | <b>-62.5</b>   |
| Gain/-loss on sale of shares                         |      |              |              |              |             |              |             |                         |                        | -              |
| Income tax expense                                   |      | -            | 25.3         | -1.2         | -           | -            | -           | 24.1                    | -                      | <b>24.1</b>    |
| <b>Net profit/-loss</b>                              |      |              |              |              |             |              |             |                         |                        | <b>-212.3</b>  |
| <b>Segment assets</b>                                |      | <b>691.7</b> | <b>20.1</b>  | <b>1.9</b>   | <b>2.3</b>  | <b>31.8</b>  | <b>1.0</b>  | <b>748.9</b>            | <b>259.3</b>           | <b>1,008.2</b> |

## Note 3 | Revenues

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     |             | Full year 2015 |
|----------------------------|-------------|-------------|----------------|
|                            | Q1 2016     | Q1 2015     |                |
| Sale of petroleum products | 49.6        | 26.0        | 187.4          |
| <b>Total sales</b>         | <b>49.6</b> | <b>26.0</b> | <b>187.4</b>   |

During the first quarter of 2016, DNO received three payments from the Kurdistan Regional Government for Tawke deliveries to the domestic and export market totaling USD 64.9 million, of which USD 47.9 million was net to DNO.

## Note 4 | Cost of goods sold/inventory

| USD million                                | Quarter      |              | Full year<br>2015 |
|--|--------------|--------------|-------------------|
|  | Q1 2016      | Q1 2015      |                   |
| Lifting costs*                             | -15.2        | -38.2        | -86.3             |
| Depreciation, depletion and amortization** | -15.6        | -23.6        | -110.7            |
| Other cost of goods sold                   | -            | -            | -                 |
| <b>Total cost of goods sold</b>            | <b>-30.7</b> | <b>-61.8</b> | <b>-197.0</b>     |

\* Lifting costs consist of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurances, CO<sub>2</sub> taxes, royalties to the state and internal costs.

\*\* Depreciation method for Tawke PSC changed from 2P to 1P from January 2016.

| USD million            | Quarter     |             | Full year<br>2015 |
|------------------------|-------------|-------------|-------------------|
|                        | Q1 2016     | Q1 2015     |                   |
| Spare parts            | 54.8        | 51.2        | 55.2              |
| Other inventory        | 7.0         | 12.2        | 6.8               |
| <b>Total inventory</b> | <b>61.8</b> | <b>63.4</b> | <b>62.0</b>       |

Of the total inventory of USD 61.8 million, USD 51.4 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 3.4 is related to Tunisia.

## Note 5 | Exploration expenses

| USD million   | Quarter     |             | Full year<br>2015 |
|---|-------------|-------------|-------------------|
|   | Q1 2016     | Q1 2015     |                   |
| Exploration expenses (G&G and field surveys)                    | -2.2        | -2.0        | -8.4              |
| Seismic costs   | -           | -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         | -           | 1.8         | -3.8              |
| Other exploration cost expensed                                 | -1.3        | -1.2        | -5.7              |
| <b>Total exploration cost expensed*</b>                         | <b>-3.5</b> | <b>-7.0</b> | <b>-23.5</b>      |

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

## Note 6 | Income taxes

| USD million   | Quarter     |             | Full year<br>2015 |
|---|-------------|-------------|-------------------|
|   | Q1 2016     | Q1 2015     |                   |
| Deferred taxes  | -           | 1.6         | 31.1              |
| Income taxes payable related to Production Sharing Contracts (PSCs) in Yemen and Oman | -0.7        | -2.7        | -7.0              |
| <b>Total income tax expense</b>   | <b>-0.7</b> | <b>-1.0</b> | <b>24.1</b>       |

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 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      |              | Full year<br>2015 |
|--|--------------|--------------|-------------------|
|  | Q1 2016      | Q1 2015      |                   |
| Acquisitions of PP&E *                   | 3.3          | 35.4         | 50.6              |
| Acquisitions of Intangible assets **     | 2.3          | -0.1         | 0.1               |
| <b>Net book amount PP&amp;E</b>          | <b>431.0</b> | <b>530.9</b> | <b>396.6</b>      |
| <b>Net book amount Intangible assets</b> | <b>88.8</b>  | <b>143.8</b> | <b>133.2</b>      |
| <i>Sale of PP&amp;E</i>                  |              |              |                   |
| Proceeds                                 | -            | -            | -                 |
| Carrying value                           | -            | -            | -                 |
| Net gain/-loss                           | -            | -            | -                 |
| Impairment of PP&E                       | -            | 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

In 2015, the impairment charge of USD 92.9 million was related to operations in Yemen (USD 13.2 million), Oman (USD 42.3 million), Kurdistan (USD 29.3 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     |             | Full year<br>2015 |
|---|-------------|-------------|-------------------|
|   | Q1 2016     | Q1 2015     |                   |
| Beginning of the period                             | 10.8        | 35.0        | 35.0              |
| Additions   | -           | -           | -                 |
| Sales   | -           | -           | -                 |
| Revaluation surplus/deficit transfer to equity      | -           | -           | -                 |
| Impairment  | -           | -7.1        | -24.2             |
| Reversal of impairment of available-for-sale assets | 2.6         | -           | -                 |
| Exchange differences                                | -           | -           | -                 |
| <b>End of the period <sup>1)</sup></b>              | <b>13.4</b> | <b>27.8</b> | <b>10.8</b>       |
| Non-current portion                                 | 13.4        | 27.8        | 10.8              |
| Current portion                                     | -           | -           | -                 |

<sup>1)</sup> Available-for-sale financial assets include the following:

| USD million                                      | Quarter     |             | Full year<br>2015 |
|--|-------------|-------------|-------------------|
|  | Q1 2016     | Q1 2015     |                   |
| <b>Listed securities:</b>                        |             |             |                   |
| - RAK Petroleum plc                              | 13.4        | 27.8        | 10.8              |
| <b>Total available-for-sale financial assets</b> | <b>13.4</b> | <b>27.8</b> | <b>10.8</b>       |

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 was listed on the Oslo Stock Exchange.

## Note 9 | Interest-bearing liabilities

| USD million   | Quarter      |              | Full year<br>2015 |
|---|--------------|--------------|-------------------|
|   | Q1 2016      | Q1 2015      |                   |
| <b>Non-current</b>                                    |              |              |                   |
| Bonds   | 400.0        | 209.2        | 400.0             |
| Capitalized borrowing issue costs                     | -46.6        | -0.5         | -49.3             |
| <b>Total non-current interest-bearing liabilities</b> | <b>353.4</b> | <b>208.7</b> | <b>350.7</b>      |
| <b>Current</b>  |              |              |                   |
| Current portion of bonds                              | -            | -            | -                 |
| <b>Total current interest-bearing liabilities</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>          |
| <b>Total interest-bearing liabilities</b>             | <b>353.4</b> | <b>208.7</b> | <b>350.7</b>      |

### Interest-bearing liabilities:

| USD million                               | Currency | Amount | Interest | Maturity | Balance      |              |
|---|----------|--------|----------|----------|--------------|--------------|
|   |          |        |          |          | Q1 2016      | Q4 2015      |
| <b>Non-current</b>                        |          |        |          |          |              |              |
| Bond loan (ISIN NO0010740392)             | USD      | 400.0  | 8.75%    | 18.06.20 | 400.0        | 400.0        |
| Borrowing issue costs                     |          |        |          |          | -46.6        | -49.3        |
| <b>Total interest-bearing liabilities</b> |          |        |          |          | <b>353.4</b> | <b>350.7</b> |

## Note 10 | Provisions for other liabilities and charges

| USD million   | Quarter      |              | Full year<br>2015 |
|---|--------------|--------------|-------------------|
|   | Q1 2016      | Q1 2015      |                   |
| <b>Non-current</b>  |              |              |                   |
| Asset retirement obligations  | 4.6          | 4.6          | 4.5               |
| Other long-term provision and changes                                 | 92.8         | 93.2         | 92.6              |
| <b>Total non-current provisions for other liabilities and charges</b> | <b>97.4</b>  | <b>97.7</b>  | <b>97.1</b>       |
| <b>Current</b>  |              |              |                   |
| Other provisions and charges  | 77.4         | 79.2         | 70.0              |
| <b>Total current provisions for other liabilities and charges</b>     | <b>77.4</b>  | <b>79.2</b>  | <b>70.0</b>       |
| <b>Total provisions for other liabilities and charges</b>             | <b>174.9</b> | <b>176.9</b> | <b>167.1</b>      |

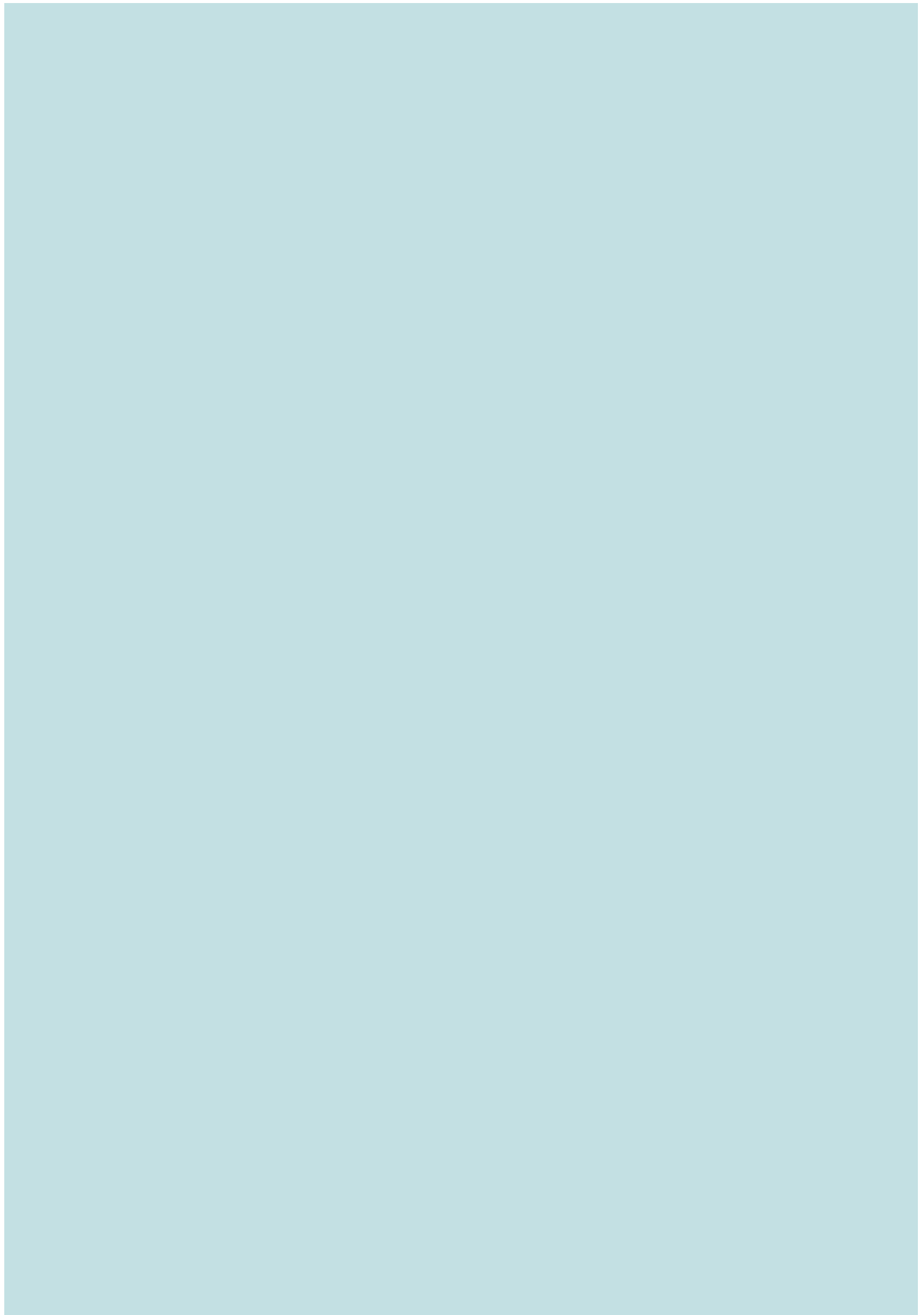
Provisions for a water purification capacity building project in the Kurdistan region of Iraq are included in other long-term obligations and other provisions and charges for the Tawke license. The water purification project (WPP) is capitalized and depreciated over the life of the Tawke field. The WPP 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 31 March 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.









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