



ANNUAL STATEMENT OF RESERVES 2009 DNO INTERNATIONAL ASA

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1 Introduction and summary

1.1 Introduction

This report has been prepared in accordance with the Oslo Stock Exchange listing and disclosure requirements, circular no. 9/2009. The report provides the status of hydrocarbon reserves and contingent resources as of 31.12.2009 for DNO International ASA's ("DNO") license portfolio.

1.2 Summary

As outlined in table 1, the reported 2P/P50 reserves for DNO as of 31.12.2009 are 149,4 million barrels of oil equivalents.

The total P50 reserves and contingent resources, corresponding to class 1-5 (Norwegian Petroleum Directorate classification) are 155,3 million barrels, on a working interest basis.

2 Operational highlights 2009

DNO's business model and strategies stand firm with our main objective to increase production from a strong reserve base. In addition, the Company will continue to target new reserves and resources through exploration efforts in selected areas.

Field development Kurdistan region of Iraq

In Kurdistan, all remaining work related to the tie-in of the Tawke field to Iraq's Northern pipeline system was completed in the first quarter of 2009. During the export period, the Tawke production and export increased in line with the plan agreed with the KRG, and the facilities were successfully tested at design capacity. Work to connect remaining wells to the Central Processing Facility (CPF) continued throughout the year. Flow lines to the remaining wells will be installed once export recommences and a payment mechanism is in place.

There has been no change in the estimates for the initial gross recoverable volumes in the Tawke field as of 31.12.2009, i.e 230 million barrels. The produced volumes in 2009 were 5,6 million and accumulated production is 9,2 million. Remaining gross reserves (ex. royalty) are consequently 198,7 million, with DNO's share being calculated to 70,2% and 139,5 million barrels. The average life-of-field working interest share for DNO has been changed since last year's report due to the fact that this will vary over time as the ratio of cost oil and profit oil is not constant (DNO has 75% of cost oil and 68,75 % of profit oil).

Field development Yemen

In Yemen, the development of permanent remote process and export facilities at the Bayoot field in Block 53 was completed during 2009. Additional wells are planned to be drilled in the Bayoot field during 2010. Infill drilling at the Tasour field in Block 32 recommenced during 2009, and in Block 43 drilling of the combined exploration and production well Nabrajah #10S/2S started in the end of November. The results from this well are still being evaluated.

Exploration

In line with the Company's plans, the exploration drilling activity was lower in 2009 than the previous years.

Towards the end of the year, the Sindi rig was moved to the Erbil PSC contract area in Kurdistan in order to test the Erbil#2 well on the Benenan structure. This prospect was discovered by the Hawler#1 well drilled in 2008, and extensive geophysical, geological and reservoir modelling has been carried out during 2009 together with preparations for testing of the Erbil#2 well. This well test has been performed during the first quarter 2010. We have included the preliminary volumes in Benenan as contingent resources (class 7).

Furthermore technical studies related to maturing the Peshkhabir lead in the Tawke PSC and the Summail prospect in the Dohuk PSC were undertaken during the year, with planned drilling in 2010 as part of the commitment work program within the licenses.

In Block 47 in Yemen a re-evaluation of the Sharnah and Yaalen discovery in Block 47 was undertaken during the year, leading to a decision to drill an appraisal well to the Yaalen#1 discovery in 2010.

3 MD&A

3.1 Disclaimer

This Management's Discussion and Analysis ("MD&A") includes and is based, inter alia, on forward-looking information and statements that are subject to risks and uncertainties. We wish to caution that this information and these statements and estimates are only predictions and that actual events or results may differ materially. These statements and this MD&A are based on current expectations, estimates, and projections about technical, geological, geotechnical and economic assumptions on which the reserve and resource estimates are made as well as global economic conditions, the economic conditions of the regions and industries that are major markets for DNO (including subsidiaries and affiliates) and its lines of business. These expectations, estimates and projections are generally identifiable by statements containing words such as "expects", "believes", "estimates" or similar expressions. Important factors that could cause actual results to differ materially from those expectations include, among others, technical, geological and geotechnical conditions, economic and market conditions in the geographic areas and industries that are or will be major markets for DNO's businesses, oil prices, market acceptance of new products and services, changes in governmental regulations, interest rates, fluctuations in currency exchange rates and such other factors as may be discussed from time to time in the MD&A. Although DNO believes that its expectations and this MD&A are based upon reasonable assumptions, the company can however give no assurance that those expectations will be achieved or that the actual results will be as set out in the MD&A. DNO makes no representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the MD&A, and neither DNO nor any of its directors, officers or employees will have any liability to the readers of this MD&A.

3.2 Assumptions and methodology

DNO reserve updates are done in accordance with standard guidelines advised by the Society of Petroleum Engineers (SPE)^{1, 2} and comply with the Oslo Stock Exchange disclosure requirements, circular no. 9/2009.

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

Accordingly, DNO has set up an independent Reserve Board, consisting of competent professional geoscientists, engineers and economist to facilitate the reserve process and ensure compliance with standards and procedures. The Reserve Board collects and coordinates all technical data in connection with the updates, and reports the total portfolio of reserves and resources to the Managing Director and the Board for review and approval. The procedure set forth in the estimating and auditing of the reserves are based on internal corporate procedures. The procedures describe the work process with clearly defined roles and responsibilities, including use of external auditors when deemed necessary.

In 2009, a third party evaluation has been undertaken for the Bayoot field in Yemen. The audit has been carried out by BeicipFranlab which is an independent consulting company with specialist competence in reservoirs in the Middle East region.

DNO has applied several methods to calculate the reserves. In addition to the stochastic monte carlo simulation, deterministic methods, or scenario based methods to arrive at the low case and the best estimate for reserves have been applied.

For fields with long production history, the various outcome scenarios are estimated by extrapolation of the production trends observed in the field, coupled with additional oil production from new wells budgeted for.

The best estimate (2P) of the recoverable reserves is considered to represent the most probable quantity of oil and gas that will be recovered from a reservoir given the information available at that time. The low estimate (1P, 'Proved reserves') is best represented by a 'do nothing case', which infers a 'harvest' case without any further technological application or financial investments. We have used the low value of a probabilistic determination of a "do nothing case" reserves as 1P (P90).

Thus the *proved developed* reserves calculations on the fields with long production history, the 1P case is the exponential decline curve, the 2P case is the hyperbolic decline and finally the 3P case is the harmonic decline curve giving the ultimate technical reserves within the license period. On top of this the economic parameters like PSA/PSC terms and oil price forecast is included to give economical recoverable reserves.

The reserves are restricted to those volumes that are expected to be economically recovered prior to the expiry date of the license.

We have categorized all fields in production as "developed assets". For the Yemen assets we have included short term investments in future production wells. For the Tawke field, which has an expected lifetime up to 2031, we have also made an assumption on future investments in facilities, pipelines and wells in order to recover the volumes reported.

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

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

3.3 Oil price

The forward curve for Brent blend as of 31.12.2009 adjusted for quality differences has been used for economic evaluation of the reserves, and calculation of net entitlement reserves.

For fields in the decline phase, with relatively limited remaining field life, fluctuations in the oil price could have a significant impact on the profitability and hence the economic cut-off time for production from such fields.

Oil from the Tawke field is currently being sold at a domestic market price considerably lower than the international crude price. When full scale production and export from the field recommences, oil will be delivered through the Iraqi pipeline system at international market prices less any appropriate discount.

3.4 Ownership

DNO's operations in Yemen and Kurdistan region of Iraq are regulated by the governments through Production Sharing Agreements (PSAs) and Production Sharing Contracts (PSCs) respectively. Under these agreements/contracts, the ownership to unexploited petroleum resources remains with the government, whereas exploration and production is carried out by international oil companies. The PSA/PSC typically is a contract between an oil producing company and the host government which governs the rights and duties of both parties in respect of the operations of a producing block/area, and in particular governs how the revenues from oil produced are shared between the government and the contracting oil producers.

Under the PSAs/PSCs, DNO, along with other working interest holders typically bears all risks and costs of exploration, development and production. In return, if exploration is successful, DNO recovers the investments and operating costs from the Cost Oil terms of the PSA/PSC which is a percentage of the produced and sold quantities after deduction of royalty. DNO is also entitled to receive a share of the produced quantities in addition to the Cost Oil element, which is referred to as Profit Oil or Production Sharing Oil. The sharing of Profit Oil is a direct function of the working interest of the parties to the PSA including the government.

The sum of the Cost Oil entitlement (which may be equal to DNO's working interest, but can also include working interests of other parties if such other parties have their costs carried by DNO) and the Profit Oil entitlement attributable to DNO's working interest represent the total entitlement to DNO of the oil produced under a PSA/PSC. The government typically is entitled to its share of oil produced firstly by a Royalty percentage, and then by its share of the Profit Oil after the Cost Oil entitlement to the paying partners is deducted from the produced oil. In certain cases the government may have a working interest of a PSA/PSC (typically Carried Interest) through a government controlled enterprise, and in which case the government will receive its share of the Profit Oil in line with the other interest holders of the PSA. The sum of Royalty, government share of Profit Oil, and government controlled enterprise share of Profit Oil (if any), represents the "government take" of oil produced under a PSA/PSC.

In Kurdistan, DNO's participating interest in Tawke PSC is 55% and the funding obligation includes carried interest of 20%. The paying interest share for DNO is therefore 75%. DNO's share of profit oil is 68,75%, and hence DNO's working interest share will change over time due to the variation in cost oil/profit oil ratio.

In table 1 and 3, working interest estimates for the Yemen and Kurdistan fields include DNO's share of cost oil resulting from carried interest. The net entitlement figures in table 2 are based on economic evaluations of the PSAs/PSCs regulating DNO's operations, and include a volume related to the notional tax paid on behalf of the contractors by the government.

DNO is of the opinion that working interest figures are better for comparison of hydrocarbon reserves across countries and regions which have different tax regulations or tax regimes. The reserve development figures shown in table 3 are therefore based on working interest. Net entitlement figures are based on forecasts concerning cost oil and profit oil, therefore these volumes are more impacted by estimates related to future costs and oil prices. The net entitlement figures will therefore fluctuate over time, without any changes in the underlying reserve figures (discoveries, revisions and production).

4 Reserves per field

Volumes classified as reserves are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward to the end of the field life.

A summary of the remaining proved and probable reserves per field as of 31.12.2009 is given in table 1 (working interest) and table 2 (net entitlement). Table 3 shows a reconciliation of the changes in the reserves from 31.12.2008 (working interest).

4.1 Yemen

Yemen is one of the core areas for DNO and the company currently holds interests in 7 blocks/licenses in the country, of which DNO is operator for 6. Currently, five fields in three blocks are in production. Three of the producing fields have experienced reduced production in 2009 compared to 2008. The observed decline is in accordance with expectations. The Bayoot field in Block 53 has performed better in 2009 than in 2008.

4.1.1 Block 32

Tasour

In the DNO operated block 32, the Tasour field has been producing since November 2000. Several new appraisal and development wells have been drilled over the years resulting in increased reserves and production. Gross ultimate reserves are now estimated at 38,6 million barrels of oil, with remaining economic gross reserves (ex. royalty) as of 31.12.2009 of 2,3 million barrels of oil.

During 2009 one new infill development well was drilled with spud date late September 2009 and put on production from mid November 2009.

Godah

The Godah field was discovered in the first quarter of 2006, and two appraisal wells were drilled late the same year. The field was put on production October 2006. In 2007, five more wells were drilled into the structure, and in 2008 two additional production wells were drilled. No new wells were drilled in 2009. The estimated gross ultimate recoverable reserves are 5,5 million barrels oil. The remaining economic gross reserves (ex royalty) per 31.12.2009 were 2,0 million barrels oil.

Further drilling of infill wells is planned for in 2010 based upon the dynamic behaviour of the oil production.

4.1.2 Block 43

Nabrajah

Block 43 is operated by DNO. The Nabrajah field has been in production since July 2005. Oil is produced both from the Qishn formation sandstone reservoirs and from the deeper Shuqra formation fractured carbonates and fractured basement. The well Nabrajah #5 is currently the only well producing from the deep reservoirs. During 2009 no new wells were drilled into the Qishn reservoir.

The combined exploration and production well Nabrajah#10-S/S2 was drilled as an horizontal well of about 1,000 meters in the Shuqra formation, which is believed to be the producing

formation in Nabrajah#5. The well has confirmed moveable oil 186 meters vertically deeper than Nabrajah#5, and thereby opens up for improved recovery from this formation. The well was completed as a producer with gas-lift in the beginning of 2010. Work will be undertaken to further evaluate the results from the Nabrajah#10S/S2 well and its impact on estimated reserves and production potential. DNO will continue to focus on exploring the deeper structures in Yemen, believed to have interesting potential.

The total ultimate gross reserves in the Nabrajah field are now estimated to 16,8 million barrels of which 4,8 million barrels were remaining as of 31.12.2009.

4.1.3 Block 53

Sharyoof

Block 53 is operated by Dove Energy Ltd. The Sharyoof production started December 2001. The field development plan was based on an initial gross reserve estimate of 25 million barrels of oil in the Qishn reservoir. Successful appraisal and development drilling has contributed to increased production and reserves since the start of production. No new wells were drilled at the Sharyoof field in 2009. Total gross recoverable reserves in Sharyoof are estimated at 48,5 million barrels of oil equivalents. Remaining economic gross reserves (ex. royalty) as of 31.12.2009 were 6,3 million barrels of oil.

Bayoot

South of the Sharyoof field, oil was discovered in fractured basement and Madbi sandstone and carbonate by the three exploration wells Bayoot South West #2, Hekma #1 and Bayoot South #1. Oil production commenced September 2006. Bayoot #7 was drilled during September 2009 and put on production in February 2010. Development of permanent remote processing and export facilities at the Bayoot field was finished during 2009, and oil is now piped to the export facilities at Sharyoof and produced gas is utilized for power generation. The ultimate gross reserves in Bayoot estimated by DNO are now 11,9 million barrels of oil and remaining gross reserves (ex royalty) per 31.12.2009 are 8,9 million barrels.

The third party evaluation made by BeicipFranlab concludes with similar oil in place (STOIIP) as DNO, however they have used lower recovery factor assuming less effect of downhole pumps. On the other side, the operator's estimates are higher than DNO. Consequently DNO's estimates are lower than the operator but somewhat higher than third party, the main reason being that the pumps have proven to be more efficient than BeicipFranlab anticipated.

4.2 Kurdistan region of Iraq

4.2.1 Tawke PSC

The Tawke field was discovered in early 2006 and followed by a fast track development, test production commenced in June 2007. During 2009 DNO completed the Tawke Phase 1 development and finalised the installations for full scale export. The export started in June, however it was halted in September. During this period the production exceeded 50.000 bopd and proved the capabilities of wells and surface equipment. The average production from the field was in excess of 15.000 bopd in 2009 and so far more than 9 mill bbls have been produced.

Remaining economic gross reserves excluding royalty were 198,7 million barrels as of 31.12.2009.

4.3 Northern Europe

DNO's activity in Norway was divested in 2007 and is held through an ownership share in Det norske oljeselskap ASA ("Det norske"). During 2009, DNO's shareholdings were reduced through several sales transactions. In December, Det norske merged with Aker Exploration ASA. As a consequence, DNO's shareholding was 11,66% at 31.12.2009. The investment is now classified as "available-for-sale" (AFS) in the financial accounts, and not as associated company as in the previous year. Hence no share of reserves or contingent resources have been included in this years' report

5 Contingent Resources

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

In Equatorial Guinea, DNO has an ownership share of 5 % in Block P. A plan for development and operations was filed in 2007. There has been no change in the recoverable reserves from last year, and these are estimated to a total 35 million barrels (gross) based on a P50 or best estimate basis and are classified as resources in the planning phase /class 4. DNO's working interest share is 1,5 million barrels.

The Euphrates formation at the Tawke field represents additional potential reserves to the main field, and are estimated to be gross 1,5 million barrels with 1.1 million bbls to DNO.

In Block 47, the Sharnah discovery was made in 2008 and an appraisal report was filed in June 2008. During 2009, extensive work has been undertaken to evaluate the size and structure of the field, in addition to completion of a new 3D seismic survey. The estimated gross recoverable volumes in Sharnah is now estimated to 7,5 million barrels with DNO's share 3,3 million, and is classified as contingent resources, class 5.

6 Annex

Table 1 – Remaining reserves per field as of 31.12.2009 – working interest*

Developed assets							
	1P / P90			2 P / P50			
	Oil			Oil			
	Gross (mdbl)	Interest *%	Net mdbl	Gross (mdbl)	Interest *%	Net mdbl	
Block 32 Tasour	1,5	41,00 %	0,6	2,3	41,00 %	0,9	
Block 32 Godah	1,2	41,00 %	0,5	2,0	41,00 %	0,8	
Block 43 Nabrajah	1,0	66,67 %	0,7	4,8	66,67 %	3,2	
Block 53 Sharyoof	2,9	32,60 %	0,9	6,3	32,60 %	2,1	
Block 53 Bayoot	4,3	32,60 %	1,4	8,9	32,60 %	2,9	
Tawke	120,2	*	85,5	198,7	*	139,5	
Total			89,6			149,4	
Under development							
	Oil			Oil			
	(mdbl)	mdbl	Interest %	Net mdbl	(mdbl)	Interest %	Net mdbl
Total				0			0
TOTAL							
	Oil			Oil			
	(mdbl)	mdbl	Interest %	Net mdbl	(mdbl)	Interest %	Net mdbl
All fields DNO				89,6			149,4

*All figures represent pre-tax share after royalty. Net figures to DNO include DNO's share of cost oil resulting from carried interest.

Table 2 – Remaining reserves per field as of 31.12.2009 – net entitlement

Reserves 2P (P50 estimate)					
Developed assets					
	Oil Gross (mdbl)	Gas (bcm)	Oil Gross mdbl	Interest %	Net mdbl
Block 32 Tasour	1,6	-	1,6	41,00 %	0,6
Block 32 Godah	1,4	-	1,4	41,00 %	0,6
Block 43 Nabrajah	3,3	-	3,3	66,67 %	2,2
Block 53 Sharyoof	3,5	-	3,5	32,60 %	1,1
Block 53 Bayoot	4,9	-	4,9	32,60 %	1,6
Tawke	69,5	-	69,5	*	50,3
Total					56,4
Under development					
	Oil Gross (mdbl)	Gas (bcm)	Oil Gross mdbl	Interest %	Net mdbl
Total					-
	Oil Gross (mdbl)	Gas (bcm)	Oil Gross mdbl	Interest %	Net mdbl
Total all fields					56,4

All figures represent pre-tax share excluding royalty.

The net entitlement reserves in Yemen and Kurdistan region of Iraq are based on economic evaluation of the Production Sharing Agreements/Contracts and include a volume related to the notional tax paid on behalf of the contractors by the Government. The estimates include DNO's share of cost oil resulting from carried interest.

*DNO's share is 42,7 mdbl and includes 100% cost oil to DNO until cumulative revenue from the field reach USD 484 million, thereafter standard PSC terms apply.

Table 3 – Reserve development (working interest)

Million BBL	Developed Assets		Under development (transitional assets)		TOTAL	
	1P/P90	2P/P50	1P/P90	2P/P50	1P/P90	2P/P50
Balance as of 31.12.2008	100,3	162,6	-	-	100,3	162,6
Production	- 7,9	- 7,9		-	- 7,9	- 7,9
Change in calculation of DNO's WI for Tawke	- 5,8	- 8,6			- 5,8	- 8,6
Revision of previous estimates	+ 3,0	+ 3,3		-	+ 3,0	+ 3,3
Balance as of 31.12.2009	89,6	149,4		-	89,6	149,4

Revisions have been made on all fields in Yemen. In Kurdistan region of Iraq, DNO's working interest share is recalculated (reference is made to section 2) - the impact being a decrease of 8,6 million barrels.

The estimates are DNO's share pre-tax excluding royalty, and include DNO's share of cost oil resulting from carried interest (reference is made to section 3.2 and table on page 11).