ANNUAL STATEMENT OF RESERVES 2008
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 disclosure guidelines, circular no. 2/2007. The report provides the status of hydrocarbon reserves and contingent resources as of 31.12.2008 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 31.12.2008 are 162,6 million barrels of oil equivalents, with addition of 11,1 million as associated reserves, totalling 173,7 million barrels of oil equivalents.

The total P50 reserves and contingent resources, corresponding to class 1-5 (Norwegian Petroleum Directorate classification) are 165,3 million barrels, on a working interest basis.

DNO had by 31.12.2008 an ownership share in Det norske oljeselskap ASA of 36,9 %. The associated reserves and contingent resources in Det norske oljeselskap is estimated to 26,6 million barrels of oil equivalents (36,9% share), and are added as a footnote in table 1, 2 and 3 herein. These figures are based on the ASR report from Det norske oljeselskap ASA, disclosed 23.03.2009.

DNO's total reserves and contingent resources are estimated to 191,9 million barrels of oil equivalents.

2 Operational highlights 2008

DNO's key focus is transforming resources to reserves at low costs. A key value driver for the Company is to deliver profitable long-term growth through efficient investment programs and competitive reserve economics. In line with the Company's smart exploration strategy, cash flow generated from high margin production has been reinvested in exploration aimed at increasing the reserve and resource base. DNO is now preparing for increased production at low costs from a strong reserve base.

Field development Kurdistan region of Iraq
During 2008, DNO has completed phase 1 of the development of the Tawke field as well as the initial drilling phase, which has resulted in 14 wells drilled across the field. As the initial aggregate well capacity from the field is significantly above the design capacity of the facilities, further drilling is not required on the Tawke field at this stage.

In the fourth quarter the required activities to connect the Tawke pipeline to the northern pipeline system operated by the North Oil Company (NOC), was initiated as authorized by the Kurdistan Regional Government (KRG). As operator of the pipeline system in Northern Iraq, NOC has been responsible for the construction work, in close cooperation with DNO and KRG. By the end of the first quarter in 2009, the tie-in work has been completed and the Tawke field is thus ready for full scale production into the northern pipeline system.

The Tawke field has been undergoing long term test production through 2008, with produced volumes sold in the domestic market at a relatively stable price. Reservoir information is being acquired during the test production phase providing essential information in order to optimize the production strategy and reservoir management for maximizing recovery of oil from the field.

As of 31.12.2008, the Tawke field has been estimated (and confirmed by third party) to contain ultimate gross reserves of 230 million barrels of oil, which is at the same level as last year's report.

Field development Yemen
Development of permanent remote process and export facilities at the Bayoot field in Block 53 commenced in 2008, and are planned to be completed ultimo 2009. The project includes oil being piped to the Sharyoof field for export, whereas gas will be used at both the Sharyoof and Bayoot area for power generation at the well heads.

Exploration
DNO maintained a high exploration activity throughout 2008 with sixteen exploration wells drilled and completed. Several new oil discoveries were made; however, the overall exploration results did not meet the company's expectations.

The Hawler #1 well in the Erbil license area, spudded in late 2007, made the Benenan discovery. The well encountered oil in two layers in the Jurassic. The lower formation tested 9 000 bopd of very good quality and the upper reservoir tested 1 500-2 000 bopd of heavier oil. The second well on the structure was drilled to planned depth in the Triassic, and was subsequently temporarily abandoned to allow for later re-entry and testing. 3D seismic was acquired in the second half of 2008. The preliminary evaluation of the seismic data indicates that the Benenan discovery is in a more complex structural setting than seen from the previous 2D seismic data. Geophysical, geological and reservoir modelling as well as testing of well #2, will be required to assess the volume potential of the discovery.

In Yemen, three oil discoveries were made in 2008. Sharnah#1 in Block 47 encountered oil in the Quishn sandstone and was completed as a future oil producer. In the same block, the oil discoveries in Yaleen #1 and Yaleen #2 were tested but test results are to date not conclusive.

The company released drilling rigs both in Kurdistan region of Iraq and Yemen in preparation for lower drilling activity in 2009.

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] and comply with the Oslo Stock Exchange disclosure guidelines, circular no. 2/2007.

DNO has established a Reserve Board which consists of experienced representatives from the geological, reservoir and finance departments. 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.

In 2008, a third party evaluation has been undertaken for the Tawke field and for the Godah and Bayoot fields (in block 32 and 53 respectively). The Tawke field audit has been carried out by BeicipFranlab, an independent consulting company with special competence in Natural Fractured Carbonate Reservoirs, like the reservoir in the Tawke field. The results of this audit confirm the reserves carried by DNO.

The audit for the Godah and Bayoot fields has been undertaken by RPS Energy, which has extensive expertise in assessing the oil and gas yielding potential of reserves. The audit concludes with higher volumes for the Godah field and lower volumes for the Bayoot field compared to DNO's figures.

DNO has applied several methods to calculate the reserves. In addition to 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. 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). The scenarios (i.e. low estimate and best estimate) are chosen to represent a realistic combination of the parameters used in the reserve calculations including duration of periods and minimum economic oil rate. However, it is important to stress that the uncertainty span is larger for fields/reservoirs with limited field information and production history compared to fields/reservoirs with long production history. The scenario based deterministic results has been substantiated with the results from the stochastic monte carlo simulations.

Basically the following comparison can be made:

- P90 (low estimate 1P). (There is a 90% chance that the actual result will equal or exceed this outcome).
- P50 (base estimate 2P). (There is an equal chance that the actual result will be above or below this outcome).
- P10 (high estimate 3P). (There is a 10% chance that the actual result will equal or exceed this outcome).

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

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

We have categorized all fields in production as “developed assets”. For the Yemen assets, we have included future production wells planned for 2009. 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.

3.3 Oil price

During 2008 the oil price have fluctuated significantly and declined from more than 130 USD/bbl in July to less than 40 USD/bbl in December. For fields in the decline phase, with limited remaining volumes, fluctuations in the oil price will have a relatively large impact on the profitability and hence the economic cut-off time for production from the fields. This is especially the case for Block 43 (Nabrajah field) in Yemen, where the uncertainty of the remaining reserves as of 31.12.2008 is high.

The forward curve for Brent blend as of 31.12.2008 adjusted for quality differences has been used for economic evaluation of the reserves, and calculation of net entitlement reserves.

At year end 2008, the oil from the Tawke field was sold at a lower price, as it was sold in the domestic market in limited volumes. When the full scale production from the field commences, 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 March 2008, the PSCs for the Kurdistan activities were revised and further amended in September 2008. DNO's funding obligation of the Tawke PSC includes carried interest of 20% (increased from 13,75% in previous' years report). The resulting total paying interest share for DNO is hence increased in 2009 from 68,75% to 75% (refer to table 1). 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 31.12.2008 is given in table 1 (working interest) and table 2 (net entitlement). Table 3 shows a reconciliation of the changes in the reserves from 31.12.2007 (working interest).

4.1 Yemen

Yemen is a core area for DNO and the company currently holds 8 blocks/licenses in the country, of which DNO is operator for 7. Currently, five fields in three blocks are in production. Three of the producing fields have experienced reduced production in 2008 compared to 2007. The observed decline is in accordance with expectations. Both the Godah field and the Bayoot field have performed better in 2008 than in 2007.

4.1.1 Block 32

Tasour

In the DNO operated block 32, the Tasour field has been producing since 3 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 37 million barrels of oil, with remaining economic gross reserves (ex royalty) as of 31.12.2008 of 2,4 million barrels of oil.

During 2008 one new infill development well was drilled with spud date late December 2008. The well was put on production from late January 2009.

The average well production rate from Tasour during 2008 was 4 605 bopd, which is a 36% reduction compared to the average of year 2007. This is explained by increased watercut in the producing wells. Two wells were shut in due to sub-commercial oil rate in 2008.

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 on 27 October 2006. In 2007, five more wells were drilled into the structure, and in 2008 additional two production wells were drilled. The estimated gross ultimate recoverable reserves is 3,4 million barrels oil. The remaining economic gross reserves (ex royalty) per 31.12.2008 were 1,5 million barrels oil.

The average production from wells on Godah during 2008 was 2 887 bopd, which is 41% improvement compared to the average in year 2007.

In December 2008 the Godah-1S discovery well was completed and hooked up for production. Further drilling of infill wells will be considered in 2009 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 12 July 2005. Oil is produced both from the Qishn formation sandstone reservoirs and from the deeper Shukra formation fractured carbonates and fractured basement. The well Nabrajah #5 is currently the only well producing from the deep reservoirs. During year 2008 three infill wells were drilled into the Qishn reservoir. Two of the wells were successfully completed as production wells and one as water injection well. The total ultimate gross reserves are now estimated to 16 million barrels of which 4,7 million barrels were remaining as of 31.12.2008.

The average production during year 2008 was 5 244 bopd which is ca 25% reduction compared to average production during 2007. The decline of production is due to increased watercut in the Qishn reservoir production wells and reduced pressure and increased gas oil rate in the well producing from the deeper Shukra/Basement reservoir.

4.1.3 Block 53

Sharyoof

Block 53 is operated by Dove Energy Ltd. The Sharyoof production started 15 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. Two new production wells were drilled in 2008. Total gross recoverable reserves in Sharyoof are estimated at 43,8 million barrels of oil equivalents. Remaining economic gross reserves (ex royalty) as of 31.12.2008 were 4,8 million barrels of oil.

The average production during year 2008 was 7 631 bopd which is ca 24% reduction compared to average production during 2007. The decline of production is explained by increased watercut in the wells.

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 from Bayoot SW #2 commenced 23 September 2006. In 2008, additional three wells were drilled and put on production at the Bayoot field. Produced oil is being trucked to the main facilities at Sharyoof. Development of permanent remote processing and export facilities at the Bayoot field has commenced in 2008 and is scheduled to be completed ultimo 2009. The ultimate gross reserves in Bayoot is estimated to 11,8 million barrels of oil and remaining gross reserves (ex royalty) per 31.12.2008 are 9,6 million barrels.

The average production during year 2008 was 1 657 bopd which is ca 100% improvement compared to average production during 2007.

4.2 Kurdistan region of Iraq

4.2.1 Tawke PSC

The Tawke field was discovered in early 2006 by drilling of the exploration well Tawke #1. Following a successful fast track development programme, test production commenced in June 2007. During 2008 DNO completed the Tawke Phase 1 development and commenced the remaining work to prepare for full scale production from the field. The initial cumulative well capacity from the field is now significantly in excess of the 50 000 bopd capacity of the Tawke facilities. Test production has confirmed good productivity from the wells and revealed important information about the dynamic behaviour of the reservoir. A permanent pressure gauge has been installed in well T-11 which gives continuous pressure information at the surface. By applying the collective information from the reservoir, the simulation models have been history matched and run to give production profiles and ultimate oil recovery. The technical work undertaken has confirmed the P50 gross reserve estimate of 230 mill bbls recoverable oil from the field. However it is important to stress that production from fractured carbonates is complicated and challenging, especially the matrix properties are essential for the overall field performance. The development of the field will start with production through pressure depletion followed by production with help of electrical pumps installed in the wells. This will secure production from the reservoir when the pressure has declined below hydrostatic pressure. Water is expected to be produced together with the oil soon after full scale production starts, after treatment on surface the water will be reinjected. Remaining economic gross reserves excluding royalty were 204,3 million barrels as of 31.12.2008.

4.3 Northern Europe

DNO's activity in Norway was divested in 2007 and is held through an ownership share of 36,9 % (as of 31.12.2008) in Det norske oljeselskap ASA ("Det norske"). During 2008. Det norske drilled one exploration well as operator, well 16/1-9 on the Draupne prospect in PL 001B, and discovered oil and gas. Det norske also participated in one well as partner, well 32/2-1 on the Trow prospect in PL 369, which was a dry well. Det norske was through 2008 awarded 19 new licenses in Awards in Predefined Areas (APA round), of which 12 as operator. Det norske is the second largest operator on the Norwegian Continental Shelf, with respect to operatorships. DNO's share of the reserves and resources are included in table 1, 2 and 3. In January 2009, DNO's ownership share in Det norske was reduced to 25%.

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, and the partnership is waiting for Government approval. The recoverable reserves 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. DNO's working interest share is 1,5 million barrels.

Drilling of well T-10 on the western flank of the Tawke field proved that the Euphrates formation was oil bearing in this part of the field. During well test the well flowed clean oil. however in modest rate (approximately 200 b/d). The formation will be mapped and studies undertaken to evaluate the feasibility of producing this shallow formation together with the Jeribe formation, thus potentially adding reserves to the field.

6 Annex

Table 1 – Remaining reserves per field as of 31.12.2008 – working interest*

Developed assets	1P / P90				2 P / P50		
	Oil Gross (mbbl)		Interest *%	Net mbbl	Oil Gross (mbbl)	Interest *%	Net mbbl
Block 32 Tasour	1,7		41,00 %	0,7	2,4	41,00 %	1,0
Block 32 Godah	0,9		41,00 %	0,4	1,5	41,00 %	0,6
Block 43 Nabrajah	0		66,67 %	0	4,7	66,67 %	3,1
Block 53 Sharyoof	0		32,60 %	0	4,8	32,60 %	1,6
Block 53 Bayoot	0		32,60 %	0	9,6	32,60 %	3,1
Tawke	132,3		75,00 %	99,2	204,3	75,00 %	153,2
Total				**100,3**			**162,6**

Under development							
	Oil (mbbl)	mbbl	Interest %	Net mbbl	Oil (mbbl)	Interest %	Net mbbl
Total				**0**			**0**

TOTAL							
	Oil (mbbl)	mbbl	Interest %	Net mbbl	Oil (mbbl)	Interest %	Net mbbl
All fields				**100,3**			**162,6**

Associated reserves (P50) in Det norske oljeselskap ASA (36,9%)	**11,1**

Total DNO International ASA	**173,7**

*All figures represent pre-tax share after royalty. Net figures to DNO include DNO's share of cost oil resulting from carried interest, refer to section 3.2 and table below:

	Working interest	DNO's share of carried interest	DNO share (paying interest) after carried interest (application of PSA/PSC terms)
Tawke	55,00 %	20,00%	75,00 %
Block 32	38,95 %	2,05 %	41,00 %
Block 43	56,67 %	10,0 %	66,67 %
Block 53	24,45 %	8,15 %	32,60 %

Table 2 – Remaining reserves per field as of 31.12.2008 – net entitlement

Reserves 2P (P50 estimate)					
Developed assets					
	Oil Gross (mbbl)	Gas (bcm)	Oil Gross mbbl	Interest %	Net mbbl
Block 32 Tasour	1,9	-	1,9	41,00 %	0,8
Block 32 Godah	1,1	-	1,1	41,00 %	0,4
Block 43 Nabrajah	3,3	-	3,3	66,67 %	2,2
Block 53 Sharyoof	2,9	-	2,9	32,60 %	1,0
Block 53 Bayoot	5,6	-	5,6	32,60 %	1,8
Tawke	74,9	-	74,9	75,00 %	57,6*
Total					**63,8**
Under development					
	Oil Gross (mbbl)	Gas (bcm)	Oil Gross mbbl	Interest %	Net mbbl
Total					**0**
	Oil Gross (mbbl)	Gas (bcm)	Oil Gross mbbl	Interest %	Net mbbl
Total all fields					**63,8**

Associated reserves (P50) in Det norske oljeselskap ASA (36,9%)	**11,1**
Total DNO International ASA	**74,9**

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 57,6 mbbl and includes 100% cost oil to DNO until cumulative revenue from the field reach MUSD 484, thereafter standard PSC terms apply (reference is made to Stock Exchange notice 14 March 2008).

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 31.12.2007	99,6	151,8	-	-	99,6	151,8
Production	- 5,7	- 5,7		-	- 5,7	- 5,7
Acquisition / disposals		-		-		
Extensions and discoveries		-		-		
New developments		-		-		
Revision of previous estimates	6,4	16,5		-	6,4	16,5
Balance as of 31.12.2008	**100,3**	**162,6**		**-**	**100,3**	**162,6**

Associated reserves (P50) in Det norske oljeselskap ASA (36,9%)	**11,1**

Total DNO International ASA	**173,7**

Revisions have been made on all fields in Yemen, and the Bayoot area in Block 53 has the largest increase. In Kurdistan region of Iraq, DNO's working interest share is calculated to 75% versus 68.75% last year – the impact being an increase of 13,1 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).