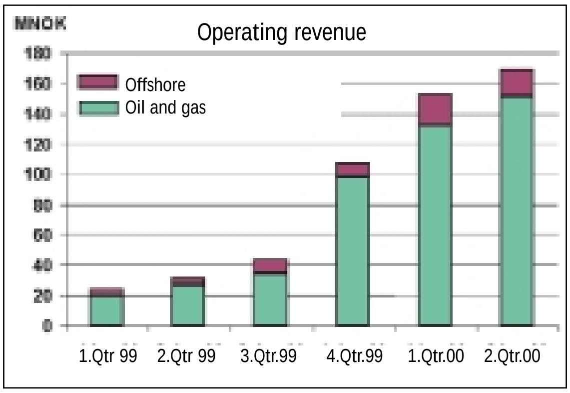
DNO

# 2000

## 2. QUARTER AND
## 1. HALF YEAR

**The very positive economic trend for the DNO Group continues.**




**SUMMARY** (1999 FIGURES IN BRACKETS)

In the 1. half of the year 2000, the DNO Group had total operating revenues of NOK 323.0 mill (NOK 55.5 mill) and an operating profit of NOK 101.2 mill (minus 19.8 mill). Profit before taxes for the 1. half year was NOK 99.6 mill (minus 28.2 mill), and estimated cash flow after deductions for operating and finance costs were NOK 132.9 mill (2.1 mill).

Drilling of a new exploration well in block 53 Yemen, in which DNO has a 24,45% interest, was completed in the 2. Quarter. Oil was found in a structure approximately 25 km from the Tasour field in block 32. The production test yielded 4,850 barrels of oil per day, and the discovery is assumed to be commercial.

New side-track production wells have been drilled in the Heather field in the 1. half of the year, which will contribute to increased oil production in the 2. half.

DNO has now strengthened its organisation in Norway. This, together with the expertise and experience available to the Group through its operatorships in the UK and Yemen, makes the Group well prepared for new challenges on the Norwegian Continental Shelf.

Neseccary debt financing has been arranged for the acquisitions and transactions completed during 1. half of 2000.

**RESULT**

**2. Quarter of 2000**

Estimated cash flow was NOK 69.5 mill (minus NOK 3.5 mill).

Total operating revenue was NOK 169.7 mill (NOK 31.2 mill), of which NOK 151.4 mill (NOK 26.5 mill) came from oil and gas activities.

After deducting NOK 16.2 mill (NOK 4.0 mill) for depreciation and provisions for future decommissioning, operating profit was NOK 58.7 mill (minus NOK 10.5 mill).

After accounting for NOK 10.6 mill for the Group's share of losses in Petrolia Drilling ASA based on the equity method and net financial costs of minus NOK 5.3 mill, profit before tax was NOK 42.8 mill (minus NOK 20.6 mill). Profit after tax was NOK 19.6 mill (minus NOK 20.8 mill).

**1. half of 2000**

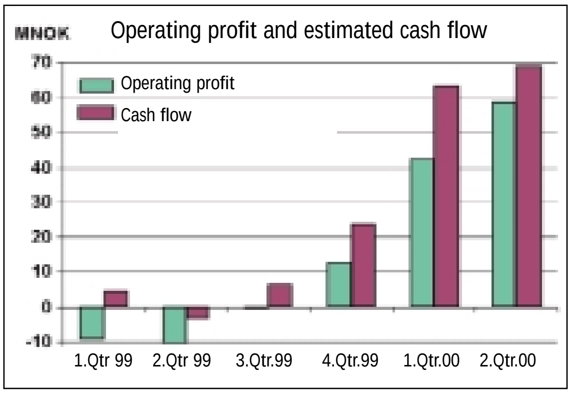
Estimated cash flow was NOK 132.9 mill (NOK 2.1 mill).

Total operating revenue was NOK 323.0 mill (NOK 55.5 mill), of which NOK 283.6 mill (NOK 46.2 mill) came from oil and gas activities.

After depreciation and provisions for future decommissioning of NOK 31.6 mill (NOK 8.8 mill), operating profit was NOK 101.2 mill (minus NOK 19.8 mill).

After accounting for NOK 1.8 mill for the Group's share of the negative result in Petrolia Drilling ASA based on the equity method and net financial costs of NOK 0.2 mill, profit before tax was NOK 99.6 mill (minus NOK 28.2 mill). Profit after tax was NOK 66.3 mill (minus NOK 28.5 mill).

Shareholders' funds as per 30.06.00 amounted to 53.4 % of the book value of total capital (51.3 %).




**Comments to the economic result**

DNO's economic result for the 1. half of 2000 also includes production from the licence shares in the Jotun and Tor fields. When the accounts for the 1. half of 2000 were submitted, DNO had not yet received formal approval from the Norwegian authorities. DNO's Board of Directors therefore submits the result based on "best estimate", as it is the Board's opinion that the formalities will be resolved in the near future and the licence shares will be formally transferred to DNO Group.

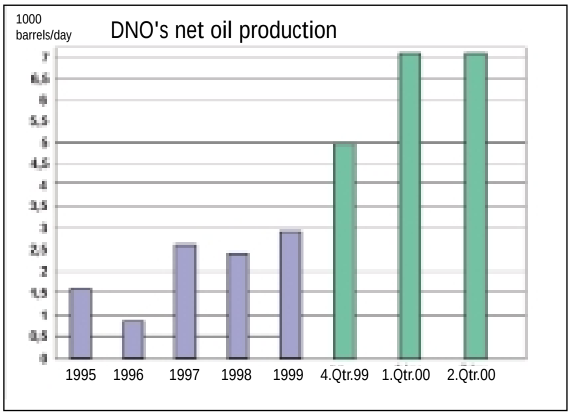
The DNO Group's operating profit includes a positive result of NOK 50.3 mill from the Norwegian licence shares, and after financial items and estimated tax costs of NOK 31.9 mill, the net contribution to profit was NOK 5.4 mill. The tax cost estimate is shown in the accounts as a set-aside, and because of the planned investments in the Glitne field, among others, the company does not expect to be in a tax position in Norway in respect of the current accounting year.

Due to the production and sale of oil not always coinciding, the accounts are based on the "production method of accounting".

## THE OIL & GAS ACTIVITY

### Oil production

The DNO Group produced a total of 643,827 barrels of oil equivalents in the 2. Quarter. This corresponds to 7,075 barrels per day. As per 30 June 2000, total production was 1,267,543 barrels of oil equivalents, corresponding to 7,003 barrels per day.




The price obtained for the produced oil depends on the individual sale contracts. DNO has a signed price agreement for a future oil production of 3,000 barrels per day in the period from 12 January 2000 to 31 December 2000. The company receives a minimum of USD 17.00 per barrel and a maximum of USD 25.82 per barrel for the mentioned oil production.

### Licences – British Continental Shelf

Oil production from the Heather field (100% and operator) was approximately 4,800 barrels per day during the 1. half of 2000. The production up time on the Heather platform was 99,9% during the 1. half of 2000.

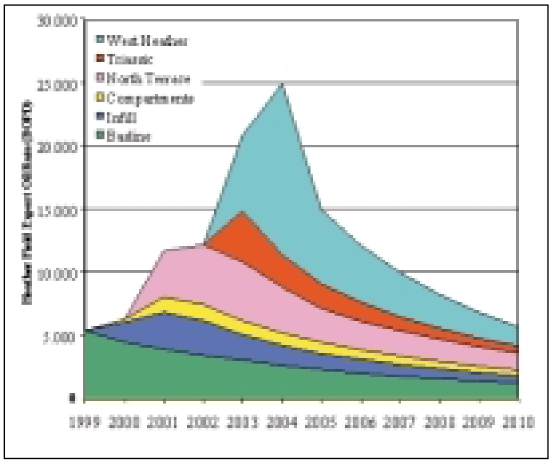
The drilling of 2 side-track wells was completed during the the 1. half of the year, and both wells yielded positive results. The first well was planned as a water injection well in the southern part of the field. However, the well showed high oil saturation levels in the lower part of the Brent reservoir, and a revised plan is now being developed in order to increase recovery of oil in this part of the field.

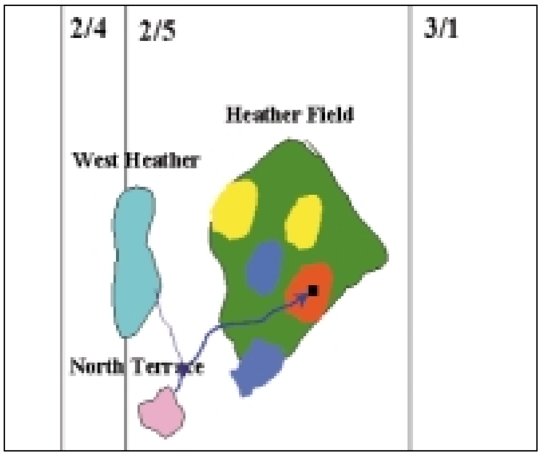
Second side-track well was drilled as a production well in a part of the field that was assumed to be untapped. The well showed high oil saturation levels under pressure in the Brent reservoir, and early analyses indicated that the well has a production potential of 1,000 - 3,000 barrels of oil per day. The well currently produces around 2,300 barrels per day of an oil and water mix, however the relative portion of oil is gradually increasing.

Drilling of the third side-track well has started and it will also be drilled as a production well. With the two new production wells in operation, production from the Heather field is expected to increase to approximately 7,000 barrels of oil per day by the end of the year. This is in line with the company's earlier forecasts. Drilling of additional side-track wells from the Heatherplatform is planned for 2001.

DNO plans a step by step development of the satellite fields around the main Heather field. This will be accomplished by drilling sub-sea completion wells that will be tied back to the platform via a new pipeline. According to the plan, the first of these wells will be started in the 1. Quarter of 2001. In connection with development of the satellite fields surrounding the Heather field and additional exploration of the Heather area, DNO is considering taking in another oil company as a partner.

### Production forecast for the Heather field




DNO has estimated total oil resources in the Heather area to be around 80 million barrels, of which around 50 million barrels will be produced in accordance with existing development plans. This implies that oil production will continue in the Heather area until 2010.

Average oil production from the Claymore field (1.0 %) was approximately 34,000 barrels per day in the 1. half of 2000, of which DNO's share was 340 barrels per day.

**Licences - Norwegian Continental Shelf**

With effect from 1 January 2000 DNO acquired the following licence shares on the Norwegian Continental Shelf:

- 1.25% in the Jotun field (in production)
- 8.737% in the Tor field (in production)
- 10.00% in the Glitne field (production start expected in the summer of 2001)

DNO has also signed a letter of intent for the acquisition of a 15 % share of licence 203 where Norsk Hydro is operator.

The transfer of licence shares on the Norwegian Continental Shelf is dependent on formal approval by the Norwegian authorities.

DNO's total production from the Jotun and Tor fields was 337,200 barrels of oil equivalents in the 1. half of 2000. This corresponds to 1,863 barrels per day.

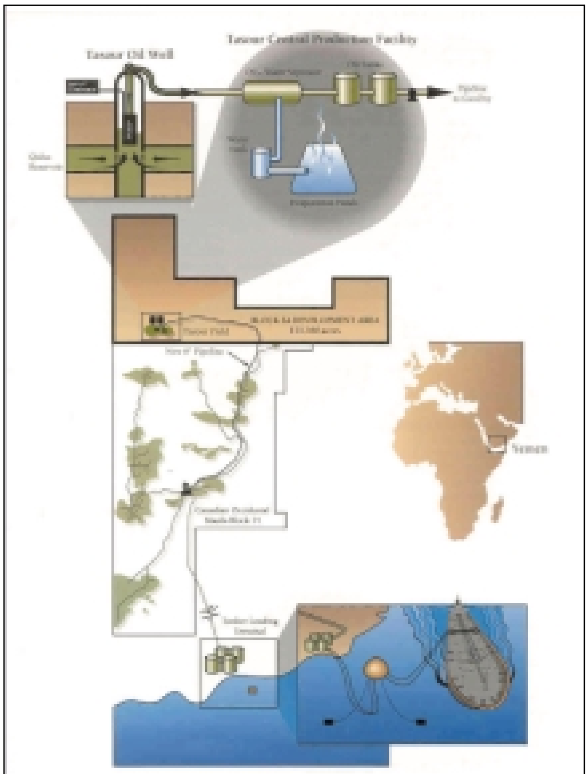
The Jotun field, operated by Esso, was put into production towards the end of 1999. The Jotun field produces from a wellhead platform connected to a production ship. Recoverable reserves in the Jotun field are estimated at approximately 200 million barrels. DNO's share of this is about 2.5 million barrels. In the 1. half of 2000 the average production from the Jotun field was 114,077 barrels of oil equivalents per day, of which DNO's share was 1,426 barrels per day. Production from the Jotun field has shown an increasing trend during the 1. half of the year, and in June the production reached 129,600 barrels of oil equivalents per day, of which DNO's share is 1,620 barrels per day.

Average production from the Tor field in the 1.half of 2000 was approximately 5,000 barrels of oil equivalents per day, of which DNO's share was 437 barrels per day.

The Glitne field, operated by Statoil, was declared commercial in June 2000, and the "Plan for Development and Operation" has been submitted to the authorities for approval. According to the plan, drilling of production wells will start during the autumn of 2000, and production is scheduled to commence in the summer of 2001. Recoverable oil reserves in the Glitne field are estimated at around 25 million barrels, of which DNO's share is 2.5 million barrels. The Glitne field will be produced by means of a production ship, and the development concept for the Glitne field may become a model for development of other minor oil fields on the Norwegian Continental Shelf.

**Licences - Yemen**

Oil production from the Tasour B field is expected to start in the 4. Quarter of 2000



Prepared by Transglobe Energy Corp.

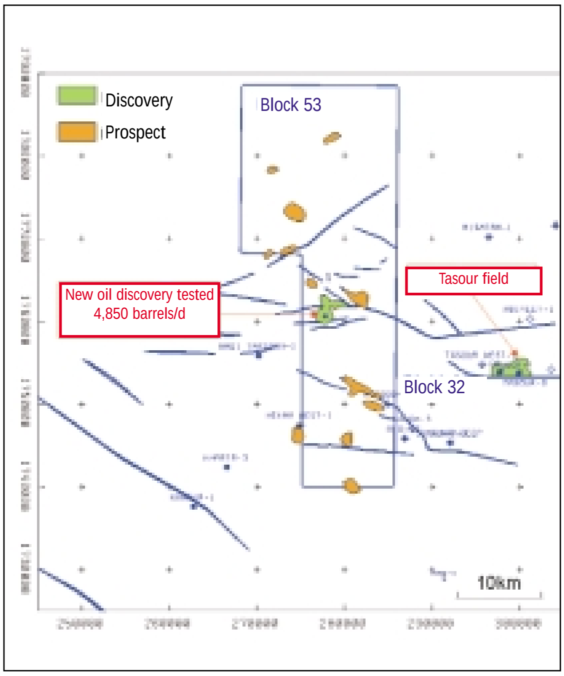
DNO has acquired all the shares in the company Norsk Hydro Yemen AS, which has a 25 % share in block 32. After this acquisition, DNO has a 45 % share in block 32.

Development of the Tasour B field is proceeding as planned, and an additional production well will be drilled on the field during the 3. Quarter of 2000. Oil production from the field may therefore approach approximately 10,000 barrels per day by the end of the year of which DNO's share is 4,500 barrels per day.

The reserves in the Tasour B field are estimated at approximately 8 million barrels, where DNO's share is 3.6 million barrels. Total development costs for the Tasour B field are estimated at around USD 17 mill, of which DNO's share is USD 7.65 mill. With an oil price of more than 20 USD per barrel, the investment will be recouped 6 months after production start up. Current plans call for a production period of 5-6 years.

Within the licence area approved for development in block 32, several structures have beenidentified that may contain oil. Drilling is planned on these structures in 2001. These wells will primarely be financed by the cash flow from the Tasour B field. Additional oil discoveries will be connected to existing infrastructure and may therefore be put into production with minor additional investments.

**Promising oil discoveries in block 53**




In block 53, where DNO has a 24.45 %  share, drilling of a new exploration well was completed in the 2. Quarter of 2000. The well found oil in a new structure in the same reservoir formation as the Tasour B field. The production test yielded 4,840 barrels of oil per day, and the oil reserves are estimated at 10 – 12 million barrels of which DNO's share is approximately 2 – 3 million barrels.

The new discovery in block 53 may be tied back to the Tasour field, and development of the field will therefore require a smaller investment compared to the development of the Tasour B field.

**Licences – Timan Pechora**

DNO is continuing the negotiations with its Russian partner JSC Arkhangelskgeoldobycha (AGD) in respect of the basic conditions for oil production from the MMT fields in Timan Pechora. However, DNO's investment in these oil licences is subject to some uncertainty, in as much as the negotiations are not finished.

During the autumn of 2000 AGD plans to export oil from some of its other oil fields through an oil terminal located approximately 25 km from the MMT fields. This may have a positive effect on the progress of the plans for the MMT fields.

A total of 23 wells have been drilled on the MMT fields, and 19 of these proved oil. The oil reserves in the MMT fields are estimated at approximately 570 million barrels on 100% basis.

**OFFSHORE & SERVICES**

Offshore & Services contributed NOK 4.1 mill to the operating profit of the DNO Group in the 1. half of 2000.

DNO's share of the result in Petrolia Drilling ASA (PDR) effected DNO's 2. Quarter accounts at minus NOK 10.6 mill based on the equity method. DNO's accounts for the 1. half year reflect an accumulated share of PDR's result of minus NOK 1.8 mill.  This has no liquidity effect for the company.

DNO controls an ownership share of approximately 35 % in PDR. The demand for drilling rigs has increased in the 1. half of 2000 and the drilling rig DS Bergen, where PDR owns 20%, is now under contract. DNO needs a drilling unit for the drilling of sub-sea production wells on satellite fields around the Heather field. The "SS Petrolia" is being considered for this work.

It is expected that the increased investment by the oil companies will result in a marked improvement in the offshore market in the years to come.

**The Board of DNO ASA**

Oslo 21 August 2000

# PROFIT AND LOSS STATEMENT AND BALANCE SHEET (MNOK)

| Profit and loss statement | 2. Quarter 2000 | 2. Quarter 1999 | 1. Half 2000 | 1. Half 1999 | 1999 |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| Oil and Gas | 151.4 | 26.5 | 283.6 | 46.2 | 179.0 |
| Offshore and Services | 18.3 | 4.7 | 39.4 | 9.3 | 27.9 |
| | **169.7** | **31.2** | **323.0** | **55.5** | **206.9** |
| **OPERATING COSTS** | | | | | |
| Operating costs Oil and Gas | (65.9) | (22.7) | (133.7) | (44.0) | (142.7) |
| Exploration costs | 0.0 | 0.0 | 0.0 | 0.0 | (6.0) |
| Operating costs Offshore and Services | (10.0) | (3.0) | (22.2) | (5.7) | (15.0) |
| Project development costs | (4.0) | (6.0) | (7.6) | (6.0) | (1.4) |
| Administration costs | (14.4) | (2.9) | (25.5) | (7.7) | (19.3) |
| Other operating costs | (0.5) | (3.1) | (1.2) | (3.1) | (13.3) |
| | **(94.8)** | **(37.7)** | **(190.2)** | **(66.5)** | **(197.7)** |
| **Operating profit before depreciation** | **74.9** | **(6.5)** | **132.8** | **(11.0)** | **9.2** |
| Depreciation of goodwill | (2.1) | 0.0 | (4.2) | 0.0 | 0.0 |
| Depreciation oil and gas | (14.1) | (4.0) | (27.4) | (8.8) | (16.8) |
| **Operating profit after depreciation** | **58.7** | **(10.5)** | **101.2** | **(19.8)** | **(7.6)** |
| Share of result in associated co. | (10.6) | (13.3) | (1.8) | (21.8) | (42.4) |
| Net financial items | (5.3) | 3.2 | 0.2 | 13.4 | 25.0 |
| **Profit before tax** | **42.8** | **(20.6)** | **99.6** | **(28.2)** | **(25.0)** |
| Tax costs | (23.2) | (0.2) | (33.3) | (0.3) | (1.3) |
| **Profit after tax** | **19.6** | **(20.8)** | **66.3** | **(28.5)** | **(26.3)** |
| **Cash flow *** | **69.5** | **(3.5)** | **132.9** | **2.1** | **32.9** |
| Profit per share(undiluted) | 0.49 | (0.65) | 1.65 | (0.89) | (0.84) |
| Cash flow per share | 1.73 | (0.11) | 3.31 | 0.07 | 1.02 |

* Profit after tax adjusted for depreciation, result in associated company and calculated tax costs

| Balance sheets | 31.06.00 | 31.06.99 | 31.12.99 |
|---|---|---|---|
| **ASSETS** | | | |
| Fixed assets | 1,088.8 | 698.8 | 750.6 |
| Current assets | 181.4 | 127.2 | 163.0 |
| **Sum assets** | **1,270.2** | **826.0** | **913.6** |
| **SHAREHOLDERS' FUNDS AND LIABILITIES** | | | |
| Shareholders' funds | 677.7 | 423.8 | 420.8 |
| Reserve and liabilities | 241.1 | 229.8 | 234.6 |
| Long term debt | 107.7 | 62.3 | 104.3 |
| Short term debt | 243.7 | 110.1 | 153.9 |
| **Sum shareholders' funds and liabilities** | **1,270.2** | **826.0** | **913.6** |

# REPORTING BY ACTIVITY AREA - (MNOK)

| 2. Quarter 2000 | Oil and Gas | Offshore and Services | TOTAL |
|---|---|---|---|
| Operating revenues | 151.4 | 18.3 | 169.7 |
| Operating profit before depr. and adm. | 81.0 | 8.3 | 89.3 |
| Depreciation | (13.2) | (3.0) | (16.2) |
| Operating profit before adm. | 67.8 | 5.3 | 73.1 |
| Administration | (11.3) | (3.1) | (14.4) |
| **Net operating profit** | **56.5** | **2.2** | **58.7** |

| 2. Quarter 1999 | Oil and Gas | Offshore and Services | TOTAL |
|---|---|---|---|
| Operating revenues | 26.5 | 4.7 | 31.2 |
| Operating profit before depr. and adm. | (5.3) | 1.7 | (3.6) |
| Depreciation | (4.0) | 0.0 | (4.0) |
| Operating profit before adm. | (9.3) | 1.7 | (7.6) |
| Administration | (2.3) | (0.6) | (2.9) |
| **Net operating profit** | **(11.6)** | **1.1** | **(10.5)** |

| 1. half 2000 | Oil and Gas | Offshore and Services | TOTAL |
|---|---|---|---|
| Operating revenues | 283.6 | 39.4 | 323.0 |
| Operating profit before depr. and adm. | 141.0 | 17.3 | 168.3 |
| Depreciation | (25.1) | (6.5) | (31.6) |
| Operating profit before adm. | 115.9 | 10.8 | 126.7 |
| Administration | (18.8) | ( 6.7) | (25.5) |
| **Net operating profit** | **97.1** | **4.1** | **101.2** |

| 1.half 1999 | Oil and Gas | Offshore and Services | TOTAL |
|---|---|---|---|
| Operating revenues | 46.2 | 9.3 | 55.5 |
| Operating profit before depr. and adm. | (6.9) | 3.6 | (3.3) |
| Depreciation | (8.8) | 0.0 | (8.8) |
| Operating profit before adm. | (15.7) | 3.6 | (12.1) |
| Administration | (6.3) | (1.4) | (7.7) |
| **Net operating profit** | **(22.0)** | **2.2** | **(19.8)** |

**DNO ASA BOARD OF DIRECTORS,** Oslo 21 August 2000

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