ANNUAL STATEMENT OF RESERVES 2016
DNO ASA

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1 Introduction and summary

1.1 Introduction

This reserves and resource evaluation report has been prepared in accordance with Oslo Stock Exchange listing and disclosure requirements, Circular No. 1/2013.

The report provides the status of hydrocarbon reserves and contingent resources as of 31 December 2016 for the license portfolio of DNO ASA ("DNO"). International petroleum consultants DeGolyer and MacNaughton (D&M) have carried out the annual independent assessment of the Tawke field in the Kurdistan region of Iraq. The company has internally assessed the remaining assets.

1.2 Summary

As of 31 December 2016, DNO's Company Working Interest (CWI) proven and probable reserves (2P) and contingent resources (2C) were estimated at 529.6 million barrels of oil equivalent (MMboe), up from 523.1 MMboe at year-end 2015. CWI 2P reserves were estimated at 368.3 MMboe, down from 391.5 MMboe at year-end 2015 after adjusting for CWI production of 25.3 MMboe during the year and a positive technical revision of 2.1 MMboe. CWI 2C resources were estimated at 161.3 MMboe, up from 131.6 MMboe at year-end 2015.

DNO's year-end 2016 Reserve Life Index (R/P) stood at 14.5 years on a CWI 2P reserves basis and 20.9 years on a CWI 2P reserves and CWI 2C resources basis.

At the Tawke field, gross 2P reserves and 2C resources stood at 604.0 MMbbls at year-end 2016, down from 643.2 MMbbls at year-end 2015. Gross proven (1P) reserves stood at 347.7 MMbbls, down from 387.0 MMbbls at year-end 2015. Gross 2P reserves stood at 503.8 MMbbls, down from 543.0 MMbbls at year-end 2015. The reduction in each category reflected total production of 39.3 MMbbls from the field during the year. New investments normally undertaken to replace reserves were curtailed in 2016 due to irregular payments by the Kurdistan Regional Government for exports.

Elsewhere within the Tawke license, the company's end-of-year Cretaceous discovery at the Peshkabir field, principally of oil, added 47.9 MMboe of gross 2C resources.

Reported 1P reserves fall within class 1-2 of the Norwegian Petroleum Directorate (NPD) classification, 2P reserves fall within class 1-3 of the NPD classification and 2C resources fall within class 4-7 of the NPD classification.

Additional information about gross and CWI reserves on a field-by-field basis is available below in Section 4 and in the attached Annex tables.

2 Operational highlights 2016

DNO's operated gross production in 2016 stood at 112,624 barrels of oil equivalent per day (boepd), down from 144,492 boepd during 2015. DNO's CWI production in 2016 was 69,188 boepd, down from 88,411 boepd in 2015. Kurdistan CWI production stood at 66,525 boepd, while Oman CWI production stood at 2,663 boepd.

2.1 Kurdistan region of Iraq

Gross production from Tawke averaged 107,299 barrels of oil per day (bopd) in 2016 (66,525 bopd on a CWI basis). In 2016, an average of 105,536 bopd was delivered for pipeline export through Turkey and the balance was sold into the local market or processed in the Tawke refinery.

Production was down from 2015 levels of 135,173 bopd (83,806 on a CWI basis) as a result of reduced drilling activity during 2015 and the early part of 2016. However, a successful workover campaign initiated during the first half of 2016 helped reverse production declines. Additionally, four new production wells were drilled at Tawke during the second half of 2016, three of which targeted the shallow Jeribe reservoir and one the deeper Cretaceous reservoir. These new wells added more than 10,000 bopd of incremental production.

In October 2016, DNO spudded the Peshkabir-2 well to appraise the Jurassic reservoir and explore the Cretaceous horizon on a previous discovery to the west of the main Tawke field. A discovery was made in the shallower Cretaceous horizon, adding 47.9 MMboe of gross 2C resources. At year-end 2016, the well was progressing towards the deeper Jurassic horizon.

2.2 Oman

At Block 8, DNO operates Oman's only producing offshore fields, Bukha and West Bukha, where gross production in 2016 totaled 5,325 boepd (2,663 boepd on a CWI basis), with output split equally between oil and gas. During the first quarter of 2017, DNO initiated a 100 percent sole risk re-drill of the West Bukha-5 well and was planning the reinstatement of the Bukha-1 well.

DNO spudded the Hayah-1 exploration well at onshore Block 36 in early 2016. The well reached a total depth of 3,010 meters but failed to encounter hydrocarbons other than minor gas shows. The well has been plugged and abandoned and the license is under relinquishment.

2.3 Yemen

Production from Block 32 and Block 43 in Yemen was suspended in early 2015 due to the country's deteriorating security conditions. The two licenses were relinquished in late 2016. Production start-up at the Yaalen field at Block 47, currently under force majeure, remains on hold.

2.4 United Arab Emirates

In Ras Al Khaimah, reprocessing of existing seismic data and an associated basin study on the RAK Onshore license was finalized during 2016. The Saleh field produced small volumes of gas and liquids on an intermittent basis before it was shut in during 2016.

2.5 Tunisia

The company's exploration and appraisal program is proceeding in Tunisia, with 3D seismic activity planned at the Sfax Offshore Exploration Permit.

3 MD&A

3.1 Disclaimer

The report, including this Management's Discussion and Analysis (MD&A), contains and was prepared, *inter alia*, on the basis of forward-looking information and statements. Such information and statements are based on management's current assumptions, expectations, estimates and projections and are therefore subject to risks and uncertainties that could cause actual results, performance or events to differ materially. The company can give no assurance that those assumptions, expectations, estimates and projections will occur or be achieved and readers should not place undue reliance on forward-looking statements. Forward-looking statements are generally identifiable by their use of terms such as "expect", "believe", "estimate", "may", "plan", "could", "will", "intend", "schedule" and similar terms or expressions. There are a number of factors that could cause actual results or events to differ materially from those underlying forward-looking information and statements. These factors include, among others: technical, geological and geotechnical conditions; economic and market conditions in or affecting the geographic areas and industries that are or will be major markets for DNO; oil and gas price fluctuations; market acceptance of new products and services; changes in laws and governmental regulations; political risks, including the risks of expropriation and renegotiation of the terms of contracts with governmental entities; delays or advancements in the approval of projects and delays in the reimbursement for shared costs; the risk of doing business in developing countries and countries subject to international sanctions; fluctuations in interest rates or currency exchange rates; and other such factors that may be discussed from time to time in the MD&A. All forward-looking statements contained in the report, including this MD&A, are expressly qualified in their entirety by the cautionary statements contained in this disclaimer. Additionally, DNO makes no representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of these forward-looking statements and the MD&A, and neither DNO nor any of its directors, officers or employees will have any liability to the readers resulting from reliance on these forward-looking statements and this MD&A.

3.2 Assumptions and methodology

DNO's reserves updates are completed in accordance with standard guidelines advised by the Society of Petroleum Engineers (SPE)[1,2] and comply with Oslo Stock Exchange disclosure requirements, Circular No. 1/2013.

The estimation and auditing of reserves are undertaken in accordance with generally accepted engineering and evaluation principles. 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.

DNO has a reserves review committee consisting of competent professional geoscientists, engineers and economists to facilitate the review and reporting process and ensure compliance with standards and procedures. The committee collects and coordinates the review of all technical data and provides a full report of the company's reserves and resources to the Managing Director for review and approval.

Economically recoverable reserves have been calculated based on input for the technical reserves and economic parameters such as license terms and projected future oil prices. The reserves reported here are restricted to those volumes expected to be economically recovered prior to the expiry date of the respective licenses.

3.3 Oil price

The Intercontinental Exchange (ICE) forward curve for Brent crude as of 31 December 2016 (adjusted for quality differences) has been used as the basis for calculating remaining reserves.

For fields in the decline phase with limited remaining volumes, fluctuations in oil prices will have a significant impact on the profitability and hence the economic cut-off for production.

3.4 Ownership

DNO's interest in most licenses is governed by a Production Sharing Contract (PSC), which sets out the manner in which oil and gas produced in the license is to be shared between the government and the holders of that license. Under such an agreement, the ownership of unexploited resources remains with the government whereas exploration and production activities are to be carried out by the license holders.

DNO and its joint venture partners, if any, typically bear all risks and costs of exploration, development and production in these licenses. In return, if exploration is successful, DNO recovers its share of investments and operating costs from what is referred to as "cost oil", being a percentage of oil and gas produced and sold after deduction of the government's royalty (if any). In addition to cost oil, DNO is entitled to receive a share of the remaining production, after payment of the royalty (if any) and deduction of cost oil, which is referred to as "profit oil". Profit oil is shared among the government, DNO and its joint venture partners in accordance with the percentage(s) set out in each PSC.

[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

DNO’s total entitlement is equal to the sum of its entitlements to cost oil and profit oil and takes into account DNO’s share of any cost oil attributable to joint venture partners whose costs have been carried or advanced by DNO.

The government is sometimes entitled to receive a share of oil and gas production as a royalty payment in addition to a percentage of profit oil. In certain cases, the government may also have a participating interest in the license itself through a government-controlled enterprise. If so, the government will receive a corresponding share of cost oil (unless the government’s share of costs are advanced or carried by the other joint venture partners) and profit oil through the government-controlled enterprise.

In Kurdistan, DNO’s participating interest in the Tawke PSC is 55 percent. DNO also funds a carried government interest of 20 percent in the license. DNO’s share of cost oil is therefore 75 percent, while its share of the profit oil is 55 percent.

Article 26.4 of the Tawke PSC provides that the R-factor applied to determine the contractor’s entitlement to profit oil shall be based on revenues actually received by the contractor. Accordingly, DNO has applied this principle to calculate its net entitlement reserves and has used an R-factor based on actual payments received by the contractor for oil delivered from the Tawke field. The net entitlement reserves are further based on an assumption of full entitlement payment under the PSC for future production through the license period.

DNO’s CWI share of production varies in each period, depending on cost oil received during that period. In tables 1 and 3 below, the CWI estimates for licenses in Kurdistan, Oman and Yemen reflect carried interests in the relevant licenses (if any) and DNO’s additional share of cost oil resulting from funding such carried interests.

The volumes of net entitlement in table 2 are based on economic evaluations of the license agreements and include a volume representing the notional tax paid by the governments on behalf of the contractors.

In Ras Al Khaimah, the fiscal structure for DNO’s licenses is a tax/royalty regime. No taxes and royalties are paid until the development costs have been recovered, making the threshold field size for commerciality small and enhancing the economics of a field development. DNO’s entitlement share under this structure is equal to its participating share.

DNO believes that reporting CWI volumes facilitates the comparison of reserves across countries and regions that have different tax regulations or tax regimes. The volumes shown in table 3 are therefore based on DNO’s CWI.

Net entitlement volumes are based on estimates related to future costs and oil prices. The net entitlement volumes may therefore fluctuate over time, even if there are no changes in the underlying reserves figures.

3.5 Independent expert assessment of reserves

D&M has carried out the annual independent assessment of Tawke, the largest asset in DNO’s portfolio. DNO has evaluated the remaining assets. Class 1-3 2P reserves are estimated based on production profiles applying assumptions defined by DNO.

4 Reserves by field

Volumes classified as reserves are those quantities of oil and gas anticipated to be commercially recovered from known accumulations from a given date to the end of the field life and within the license period. In the attached Annex, table 1 shows a summary of remaining 2P reserves per field on a gross and CWI basis as of 31 December 2016. Table 2 shows 2P reserves and 2C resources on a gross and CWI basis. Table 3 shows a summary of remaining 2P reserves per field on a gross and net entitlement basis. Table 4 shows a reconciliation of the changes in CWI reserves from 31 December 2015 with all working interest and net entitlement volumes stated net of royalty.

4.1 Kurdistan region of Iraq

As of 31 December 2016, CWI 2P reserves and 2C resources in the company's two Kurdistan licenses totaled 501.1 MMboe, up from 495.5 MMboe at year-end 2015.

4.1.1 Tawke PSC

At the Tawke field, gross 2P reserves and 2C resources stood at 604.0 MMbbls (374.5 MMbbls on a CWI basis), down from 643.2 MMbbls (398.8 MMbbls on a CWI basis) at year-end 2015. The reduction was due to 2016 field production which totaled 39.3 MMbbls, with cumulative field production through end-2016 of 185.3 MMbbls.

Gross 1P reserves for the Tawke field were reduced to 347.7 MMbbls (215.5 MMbbls on a CWI basis) from 387.0 MMbbls (239.9 MMbbls on a CWI basis) at year-end 2015 due to inventory change from production. Gross 2P reserves dropped to 503.8 MMbbls (312.4 MMbbls on a CWI basis) from 543.0 MMbbls (336.6 MMbbls on a CWI basis) at year-end 2015 after adjusting for the 39.3 MMbbls (24.3 MMbbls on a CWI basis) produced during the year.

At the Peshkabir field, gross 2P reserves stood at 32.2 MMbbls (20.0 MMbbls on a CWI basis), all of which is located in the Jurassic reservoir, discovered in 2012. Peshkabir's 2C resources are estimated at 110.9 MMboe, of which 104.0 MMbbls is oil and 6.9 MMboe is gas. At year-end 2015, Peshkabir's gross 2C resources stood at 63.0 MMboe.

4.1.2 Erbil PSC

Estimates of oil-in-place at the Benenan field in the Erbil license stand at more than two billion barrels, although in the absence of a comprehensive field development plan, gross 2P reserves stood at 58.0 MMbbls (27.0 MMbbls on a CWI basis). Gross 2P reserves at the Bastora field are estimated at 11.6 MMbbls (5.4 MMbbls on a CWI basis).

4.2 Oman

Gross 2P reserves at Block 8 were estimated at 4.1 MMboe, of which 2.6 MMbbls was oil, condensate and other liquids and 1.5 MMboe (8.9 billion cubic feet) was gas. CWI 2P reserves at Block 8 stood at 3.6 MMboe, up from 2.7 MMboe at end-2015. Produced volumes from Block 8 in 2016 were 1.9 MMboe (5,325 boepd), with cumulative field production through end-2016 of 87.9 MMboe.

4.3 Yemen

DNO no longer carries any reserves in Yemen. The Block 47 Yaalen field is classified as 2C resources due to the security conditions in the country and force majeure status of the block.

5 Contingent resources

Contingent resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations, but not currently considered to be commercially recoverable or where a field development plan has not yet been submitted. DNO's reported 2C resources are included as resources class 4 (in the planning phase), class 5 (development likely but undecided), class 6 (development unlikely) and class 7 (not yet evaluated) under NPD's classification system.

DNO holds a total of 161.3 MMboe in 2C resources, NPD class 4-7, on a CWI basis, up from 131.6 MMboe at year-end 2015. The 2C resources are distributed across DNO's portfolio, with the largest concentration in Kurdistan, including 2C resources attributable to the Jurassic and Cretaceous horizons at the Peshkabir field, the Cretaceous horizon at the Tawke field and at the undeveloped Bastora and Benenan fields.

6 Annex

Table 1 – Remaining reserves at end-2016 (Gross and CWI)

Region, License, Field	Proven (1P)					Proven + Probable (2P)				
	Gross liquids	Gross gas		Interest	CWI	Gross liquids	Gross gas		Interest	CWI
	(MMbbls)	(Bcf)	(MMboe)	(%)	(MMboe)	(MMbbls)	(Bcf)	(MMboe)	(%)	(MMboe)
Developed Assets										
Kurdistan, Tawke PSC, Tawke	247.0			62.0 %	**153.1**	357.9			62.0 %	**221.9**
Oman, Block 8, Bukha	0.3			50.0 %	**0.1**	0.3			50.0 %	**0.1**
Oman, Block 8, West Bukha	0.7			50.0 %	**0.4**	0.8			50.0 %	**0.4**
Total Developed					**153.6**					**222.4**

Region, License, Field	Proven (1P)					Proven + Probable (2P)				
	Gross liquids	Gross gas		Interest	CWI	Gross liquids	Gross gas		Interest	CWI
	(MMbbls)	(Bcf)	(MMboe)	(%)	(MMboe)	(MMbbls)	(Bcf)	(MMboe)	(%)	(MMboe)
Under Development Assets										
Kurdistan, Tawke PSC, Tawke	100.7			62.0 %	**62.4**	146.0			62.0 %	**90.5**
Kurdistan, Erbil PSC, Bastora						11.6			46.5 %	**5.4**
Kurdistan, Erbil PSC, Benenan						58.0			46.5 %	**27.0**
Kurdistan, Tawke PSC, Peshkabir	5.1			62.0 %	**3.1**	32.2			62.0 %	**20.0**
Oman, Block 8, Bukha						0.2	2.5	0.4	100.0 %	**0.7**
Oman, Block 8, West Bukha						1.3	6.4	1.1	100.0 %	**2.4**
Total Under Development					**65.6**					**145.9**
TOTAL DNO ASA					**219.2**					**368.3**

All volumes represent pre-tax shares. Gross volumes include royalty, whereas CWI figures are net to DNO after royalty and include DNO's share of cost oil attributable to joint venture partners whose costs have been carried or advanced by DNO.

Table 2 – 2P reserves and 2C resources at end-2016 (Gross and CWI)

Region	Proven + Probable (2P)		Contigent (2C)		2P + 2C	
	Gross	CWI	Gross	CWI	Gross	CWI
	(MMboe)	(MMboe)	(MMboe)	(MMboe)	(MMboe)	(MMboe)
Kurdistan	605.6	364.7	223.0	136.4	828.5	501.1
Tawke	503.8	312.4	100.2	62.1	604.0	374.5
Peshkabir	32.2	20.0	110.9	68.7	143.1	88.7
Bastora	11.6	5.4	6.5	3.0	18.1	8.4
Benenan	58.0	27.0	5.3	2.5	63.3	29.4
Oman	4.1	3.6	0.6	0.3	4.7	3.9
UAE	0.0	0.0	13.2	8.2	13.2	8.2
Yemen	0.0	0.0	6.2	3.0	6.2	3.0
Tunisia	0.0	0.0	33.9	13.4	33.9	13.4
TOTAL DNO ASA	**609.8**	**368.3**	**276.8**	**161.3**	**886.6**	**529.6**

Table 3 – Remaining reserves at end-2016 (Gross and net entitlement)

Region, License, Field	Proven (1P)				Proven + Probable (2P)			
	Gross liquids	Gross gas		Net entitlement	Gross liquids	Gross gas		Net entitlement
	(MMbbls)	(Bcf)	(MMboe)	(MMboe)	(MMbbls)	(Bcf)	(MMboe)	(MMboe)
Developed Assets								
Kurdistan, Tawke PSC, Tawke	247.0			66.1	357.9			86.5
Oman, Block 8, Bukha	0.3			0.1	0.3			0.1
Oman, Block 8, West Bukha	0.7			0.3	0.8			0.3
Total Developed				**66.5**				**86.9**
Under Development Assets	**Proven (1P)**				**Proven + Probable (2P)**			
	Gross liquids	**Gross gas**		**Net entitlement**	**Gross liquids**	**Gross gas**		**Net entitlement**
	(MMbbls)	(Bcf)	(MMboe)	(MMboe)	(MMbbls)	(Bcf)	(MMboe)	(MMboe)
Kurdistan, Tawke PSC, Tawke	100.7			30.9	146.0			35.3
Kurdistan, Erbil PSC, Bastora					11.6			3.2
Kurdistan, Erbil PSC, Benenan					58.0			16.1
Kurdistan, Tawke PSC, Peshkabir	5.1			1.7	32.2			7.3
Oman, Block 8, Bukha					0.2	2.5	0.4	0.6
Oman, Block 8, West Bukha					1.3	6.4	1.1	2.1
Total Under Development				**32.6**				**64.5**
TOTAL DNO ASA				**99.1**				**151.4**

All volumes represent pre-tax shares. Gross volumes include royalty, whereas net volumes are after royalty. The net entitlement reserves in Kurdistan, Oman and Yemen are based on economic evaluation of the license agreements 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 attributable to joint venture partners whose costs have been carried or advanced by DNO.

Table 4 – Reserves development (CWI)

Million barrels of oil equivalent (MMboe)	Developed Assets		Under Development		TOTAL	
	1P/P90	2P/P50	1P/P90	2P/P50	1P/P90	2P/P50
Balance as of 31.12.2015	**240.8**	**339.4**	**3.1**	**52.1**	**243.9**	**391.5**
Production	-25.3	-25.3			-25.3	-25.3
Acquisitions						
Divestments						
Extentions and discoveries						
New developments						
Revision of previous estimates	-61.9	-91.6	62.4	93.8	0.6	2.1
Balance as of 31.12.2016	**153.6**	**222.4**	**65.6**	**145.9**	**219.2**	**368.3**

The estimates represent DNO's pre-tax shares excluding royalty but including DNO's share of cost oil attributable to joint venture partners whose costs have been carried or advanced by DNO.