

The RAK licenses to be merged with DNO contain decommissioning liabilities from nine platforms and a failed redevelopment of the Saleh field. The liabilities are in excess of the value of RAK's assets and could run into hundreds of millions of dollars

Do not accept RAKS liabilities and Reject the merger at the EGM

In the "Prospectus Equivalent" published by DNO, pages 24 to 29 outline several "risk_factors" relating to the Combined Group of DNO/RAK. Specifically section 2.25 states that *"The Combined Group cannot accurately predict its future decommissioning liabilities"*.

DNO has NO future decommissioning liabilities as all fields are onshore. ALL decommissioning liabilities are therefore related to RAK's offshore platforms, flowlines, wells and sea bottom debris and other environmental risks. No disclosure of these costs is made in the "Prospectus Equivalent".

In addition, the failure of the Saleh 5 well and further wells to recover any oil or gas from the extremely difficult reservoirs adds drilling costs of at least USD 100 million to the "Combined Group".

With unpredictable and unquantifiable decommissioning costs, DNO experience has shown that future financing may not be possible. In particular, the present bond loan may also be at risk if the increased liabilities are absorbed into the DNO's accounts.

What can the DNO shareholders do?

The Oslo Stock Exchange confirmed that their inspection and review before publication on behalf of the Financial Supervisory Authority of Norway (the "NFSA") pursuant to Section 7-5 no 5. of the Norwegian Security Trading Act DID NOT involve reviewing facts or information in general, in particular it did not examine RAK's decommissioning liabilities or cash flows.

The "Prospectus Equivalent" information on the RAK Saleh Field does not contain any information on decommissioning liabilities, only specifying serious reservoir concerns and NO P90 proven reserves. The probability of total failure of the Saleh project is in Petrolia's opinion the most likely outcome which in turn could reduce the value of RAK's portfolio by up to USD 300 million and could result in a significant negative cash flow.

The Saleh 5 well which commenced on the 3rd of July 2011 was due to be finished by the end of September. Why have DNO and RAK refused to comment on this important well which has major implications on the value of the proposed deal?

DNO must respond to the following questions

DNO shareholders should realise that according to the "Prospectus Equivalent" all the risks and benefits from the RAK licenses are for the account of DNO shareholders from the Effective Date of the 1st of July 2011. Accordingly, DNO is obliged to respond to the following issues immediately and before the EGM 1. November:

1. What is the status of the Saleh 5 well, budgeted costs and projected costs and the projected probability of success?
2. What is the predicted cost of;
 - a) Plug and Abandonment of each offshore wells (about 9-10 wells in RAK B, Saleh and Bukha fields)
 - b) Decommissioning costs of each offshore platform
 - c) Removal of platform, flowline and all other HSE liabilities.

Petrolia Invest AS as a large shareholder and as a professional oil company has reviewed the possible costs and liabilities and the probability of Saleh/RAK field success. It predicts that the decommissioning cost is approximately USD 50 to 150 million per platform. Petrolia Invest believe that there is only a 10 per cent chance of success for the Saleh Reservoir redevelopment.

DNO without interference from the RAK Board Members are required to provide facts sufficient for the DNO shareholders to evaluate for themselves.

What are the Cash flows for the Saleh Field in the Event of Failure?

Third party analyses have been completed and in the "Prospectus Equivalent" the following reference is made to the Saleh Field on page 401

*"The most difficult part of the valuation has been related to the redevelopment of the Saleh field offshore Ras Al Khaima.
The parties considered both success and failure cash flow cases.*

Since neither cash flow cases have been made public, DNO must present such cash flow statements clearly pointing out decommission costs and failure scenario.

For example, the Saleh field history and decommissioning liabilities shown on page 80 shows that the RAK Emirate absorbed the decommissioning liabilities when Chevron in 1987 relinquished the Saleh acreage, subsequently passing them over to RAK Petroleum in the first half of 2011 while DNO and RAK were involved in merger negotiations.

The closely related parties could be passing the unpredictable and unquantifiable decommissioning liabilities to the DNO shareholders. DNO must confirm this understanding.

What are the abandonment liabilities that DNO shareholders will inherit?

In the DNO Competent Person Report by D & M on pages 25 and 26 it states that:

“Current operating expenses and operating forecast provided by RAK were used in estimating future expenses to operate the field.

Future capital expenditures and abandonment costs were estimated using current forecast provided by RAK....”

“RAK has represented that host government (RAK) will assure responsibility for abandonment upon expiration of the production licenses, so no abandonment costs are included herein.”

DNO's Board of Directors and the Management must confirm to the DNO shareholders their agreement to the RAK representations and specify the warranties that RAK provided to DNO, by the date of the EGM on the 1st of November 2011.

DNO must also provide production curves for the RAK B and Saleh fields to shareholders as well as future cash flows. The DNO presentation dated 5th of September 2011 shows 7,000 boe per day from mid-2012 from these fields, whereas in the DNO presentation dated 14th October 2011 it shows zero production in 2012.

DNO must provide representation from the RAK government guaranteeing under which circumstances the abandonment liabilities will be absorbed by the RAK Government and which liabilities it will cover.

D & M's Competent Person Report (CPR) cannot base its valuation on non-disclosed representations by RAK. DNO shareholders require DNO's representations on the unpredictable, large abandonment liabilities as soon as possible, and before the EGM.

What is the progress and ongoing cost of the Saleh-5 well to DNO shareholders?

On page 162 in the report from the Board of Directors of DNO Mena AS on the merger dated 3. September 2011 it states that;

“The most difficult part of the valuation have been related to the redevelopment of the Saleh field offshore Ras Al Khaima...”

The first step in the redevelopment program is to deepen the existing Saleh 5 well which is currently underway and the result of which is uncertain. Some difficulties have been encountered in the re-drilling which has impacted both anticipated costs and cash flows. Given the uncertainty of the success or failure of the Saleh re-development program, the value range attached to the Saleh field is difficult to predict.”



As of the 20th October 2011 the probable failure should be already be known by DNO/RAK managements. DNO have failed to report to the market any status of the Saleh 5 well, the anticipated cashflow and costs and the negative impact of a failed well. Unconfirmed reports suggest that the well was plugged and side-track drilling may have commenced. DNO must confirm the daily cash burn-rate for the jack-up operations. Petrolia anticipates negative cash flow is USD 300,000 to 500.000 per day which is for the account of DNO shareholders from the 1st of July 2011 provided a completed merger.

**REJECT THE MERGER OR RISK TAKING ON LIABILITIES THAT COULD
EXCEED SEVERAL HUNDRED MILLION DOLLARS.**